

**Where Are We Going, Where Have We Been?**

**“The bureaucracy is expanding to meet the needs of an expanding bureaucracy.”**

**Oscar Wilde**

**“The true danger is, when liberty is nibbled away, for expedients, and by parts.”**

**Edmund Burke**

**“The welfare of the people has always been the alibi of tyrants.”**

**Albert Camus**

**“Humility is the distinguishing virtue of the believer in freedom; arrogance, of the paternalist.”**

**Milton Friedman**

# Topics of Discussion

**What is different this time:**

**1780 – 1980 was an age of rising Western economic, political, technological, and military supremacy.**

**1980 – 2100 is an age of huge changes in the balance of economic, geopolitical, and military power in the world.**

**Relative to the rest of the world Western dominance and influence is declining. Previously rising standards of living, which the capitalistic system brought about for the last 200 years, are now stagnating or declining. *This is particularly true of the Millennials.***

**In emerging economies and in particular in the former socialist/communist countries there is the first generation of people who will enjoy a noticeable better life than their parents.**

**At the same time, the economic and military superiority of the West is diminishing relative to the rest of the world. Geopolitical tensions follow.**

**The transition from a unipolar to a multipolar reality has already changed many aspects of international relations.**

**In order to combat the relative decline of the advanced economies, the West and Japan have embarked on *desperate and destructive* economic, fiscal, and monetary policies.**

**Why Trump will *make emerging economies even greater***

# Median Net Wealth (25-34 Year Olds), 1989 and 2013 (adjusted to 2013 dollars)

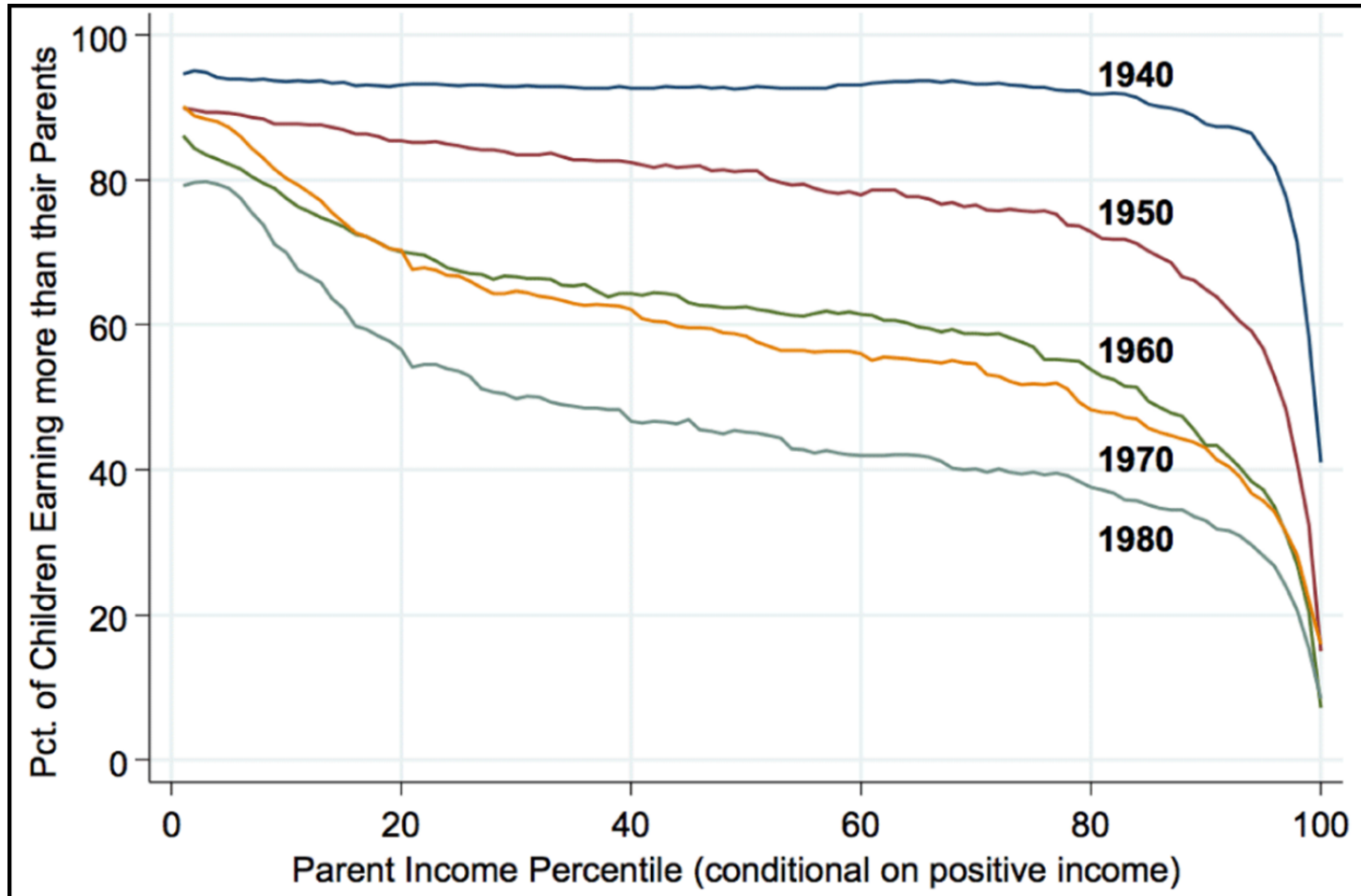
25-to-34 year-olds	Degree without Debt	Degree with Debt	No Degree
1989	\$125,572	\$86,547	\$16,322
2013	\$75,000	\$6,600	\$7,750

## Millennials earn less in real terms than Boomers

25-to-34 year-olds	1989	2013	Percent Change
All	\$50,910	\$40,581	-20%

Source: Young Invincibles, Analysis of Survey of Consumer Finances (adjusted to 2013 dollars)

# Percent of Children earning more than their Parents (By Parent Income Percentile) 1940 - 2015



Source: Raj Chetty and David Grusky, *The Fading American Dream: Trends in Absolute Income Mobility since 1940*, Andy Kiersz, Business Insider

[www.gloomboomdoom.com](http://www.gloomboomdoom.com)

# I have a new Pool



Source: Marc Faber Ltd

[www.gloomboomdoom.com](http://www.gloomboomdoom.com)

**I did not fill it with Bud Light - the Number one global Brand in 2005 (now Number 3)**



Source: Bloomberg

# Nor with Heineken, the oldest Brand in the Top Ten (now ranked Number 7)



Source: Bloomberg

**Nor with China's Snow, currently the largest selling Beer Brand in the world (in 2005 it was the 11<sup>th</sup> largest Brand)**



Source: Bloomberg

[www.gloomboomdoom.com](http://www.gloomboomdoom.com)



I filled it with Tsingtao the second largest selling Beer Brand in the World (in 2005, it was the tenth largest) <sup>9</sup>



Source: Bloomberg

# Largest Selling Beer Brands in 2014

<b>1. Snow (China)</b>	<b>2005 rank: 11, (Sales volume up 573% since 2005)</b>
<b>2. Tsingtao (China)</b>	<b>2005 rank: 10</b>
<b>3. Bud Light (U.S.)</b>	<b>2005 rank: 1, (Sales volume down 7% since 2009)</b>
<b>4. Budweiser (U.S.)</b>	<b>2005 rank: 2</b>
<b>5. Skol (Brazil)</b>	<b>2005 rank: 3 (owned by AB InBev)</b>
<b>6. Yanjing (China)</b>	<b>2005 rank: 16</b>
<b>7. Heineken</b>	<b>2005 rank: 6</b>
<b>8. Harbin (China)</b>	<b>2005 rank: 15 (owned by AB InBev)</b>
<b>9. Brahma (Brazil)</b>	<b>2005 rank: 5 (owned by AB InBev)</b>
<b>10. Coors Light (U.S.)</b>	<b>2005 rank: 7</b>

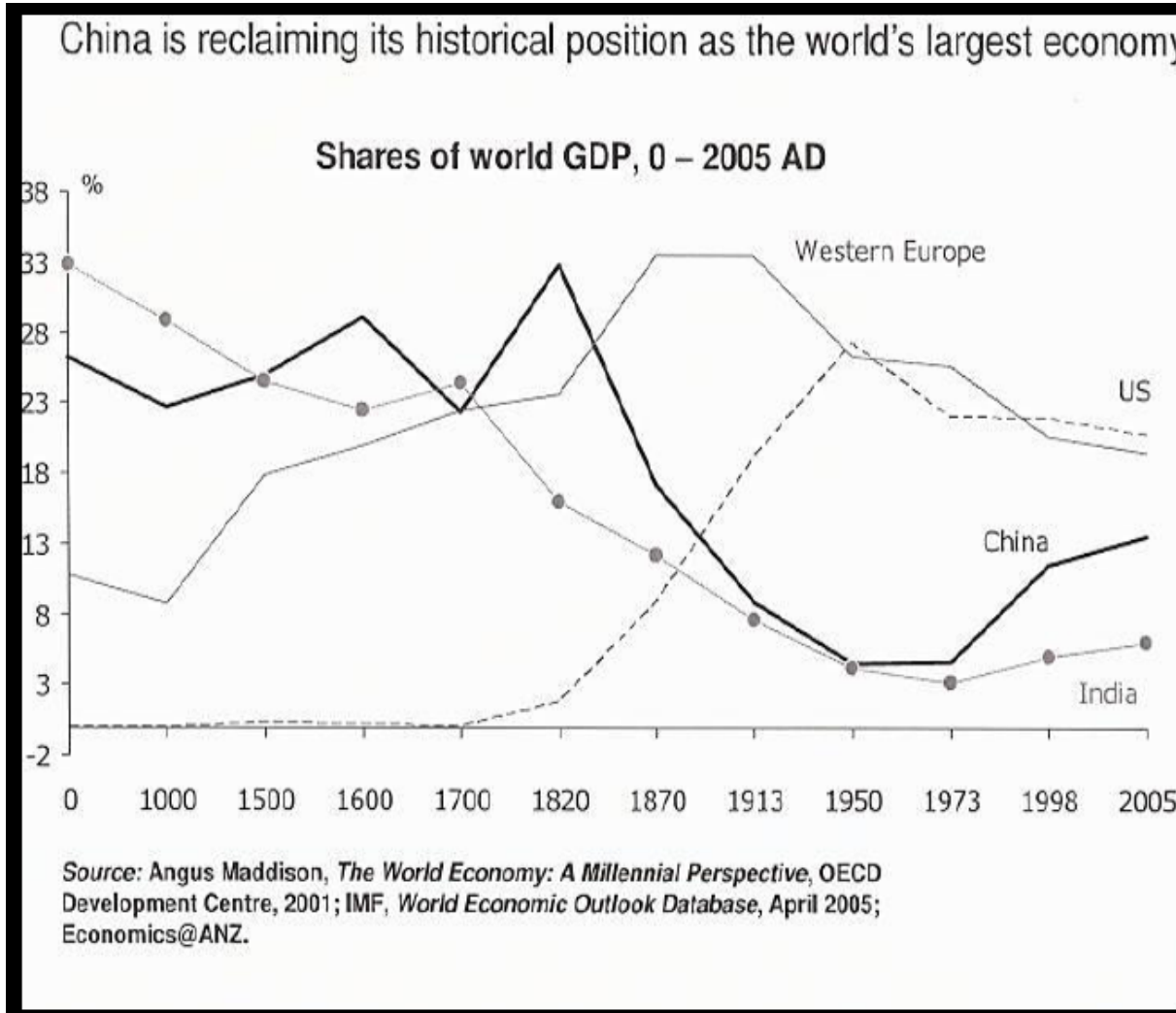
Source: Bloomberg

**My Doctor told me only one Beer a day.  
Today's Beer just arrived**



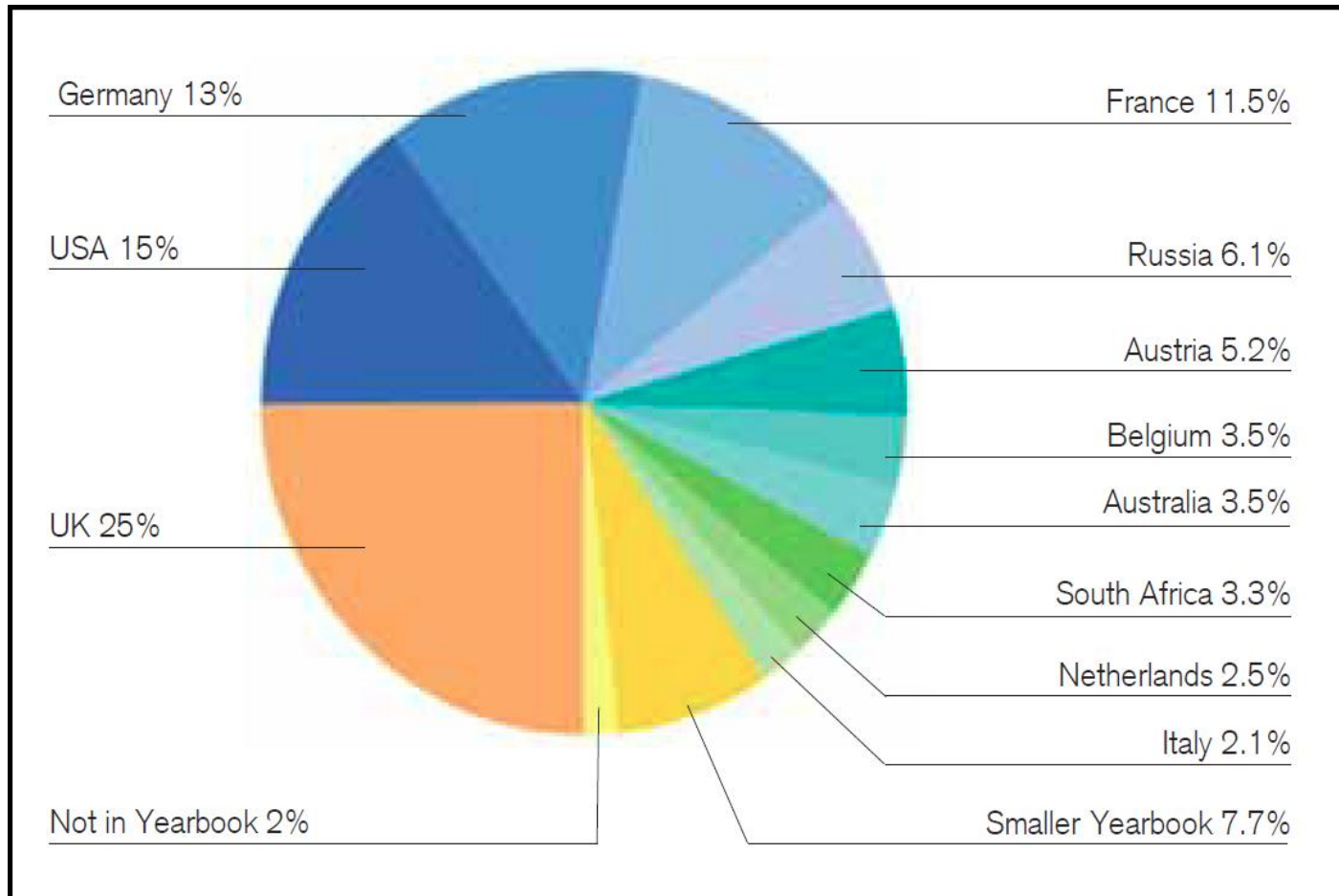
Source: Udo Hemlinger

# The End of Western Economic and Political Hegemony



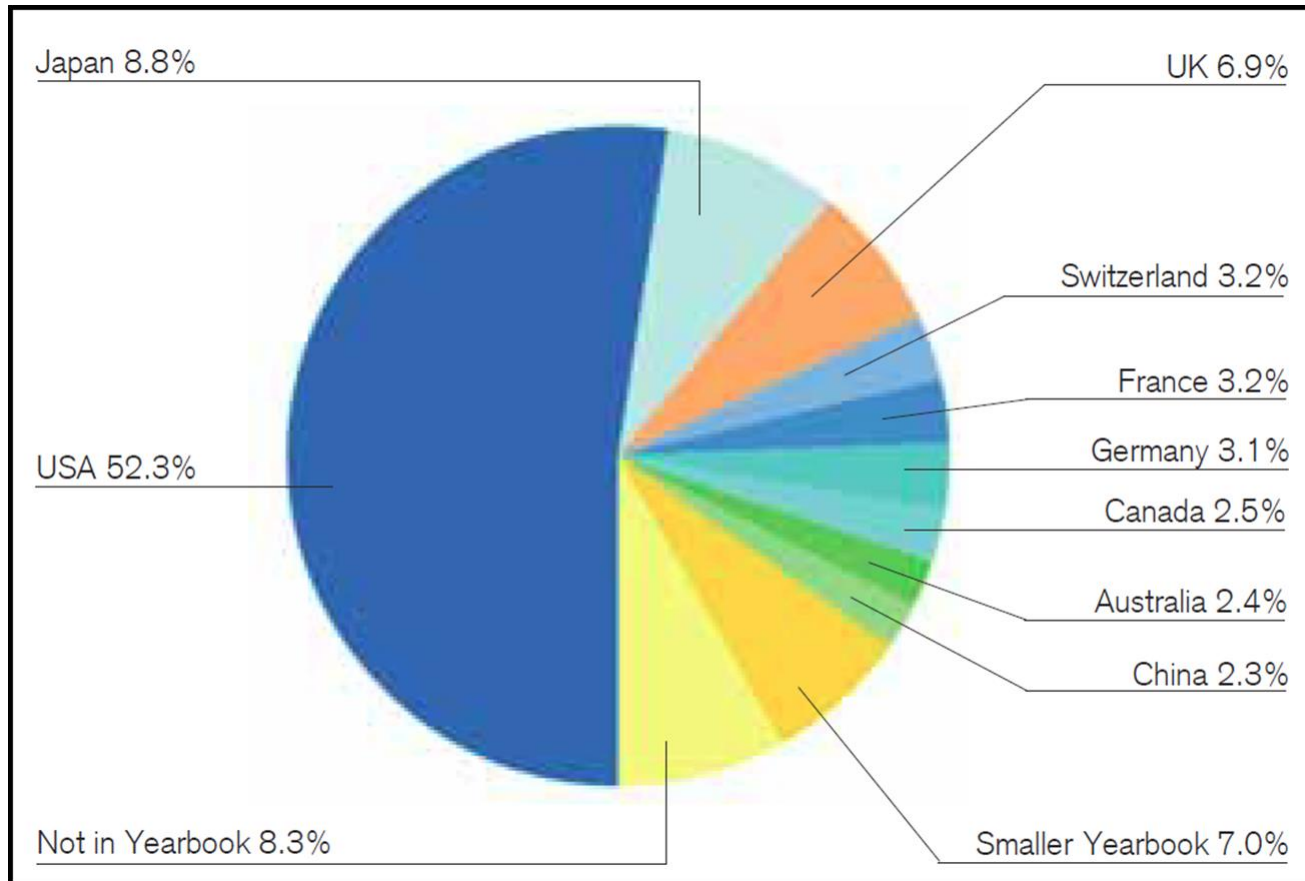
Source: Angus Madison

# Relative Sizes of World Stock Markets, end of 1899



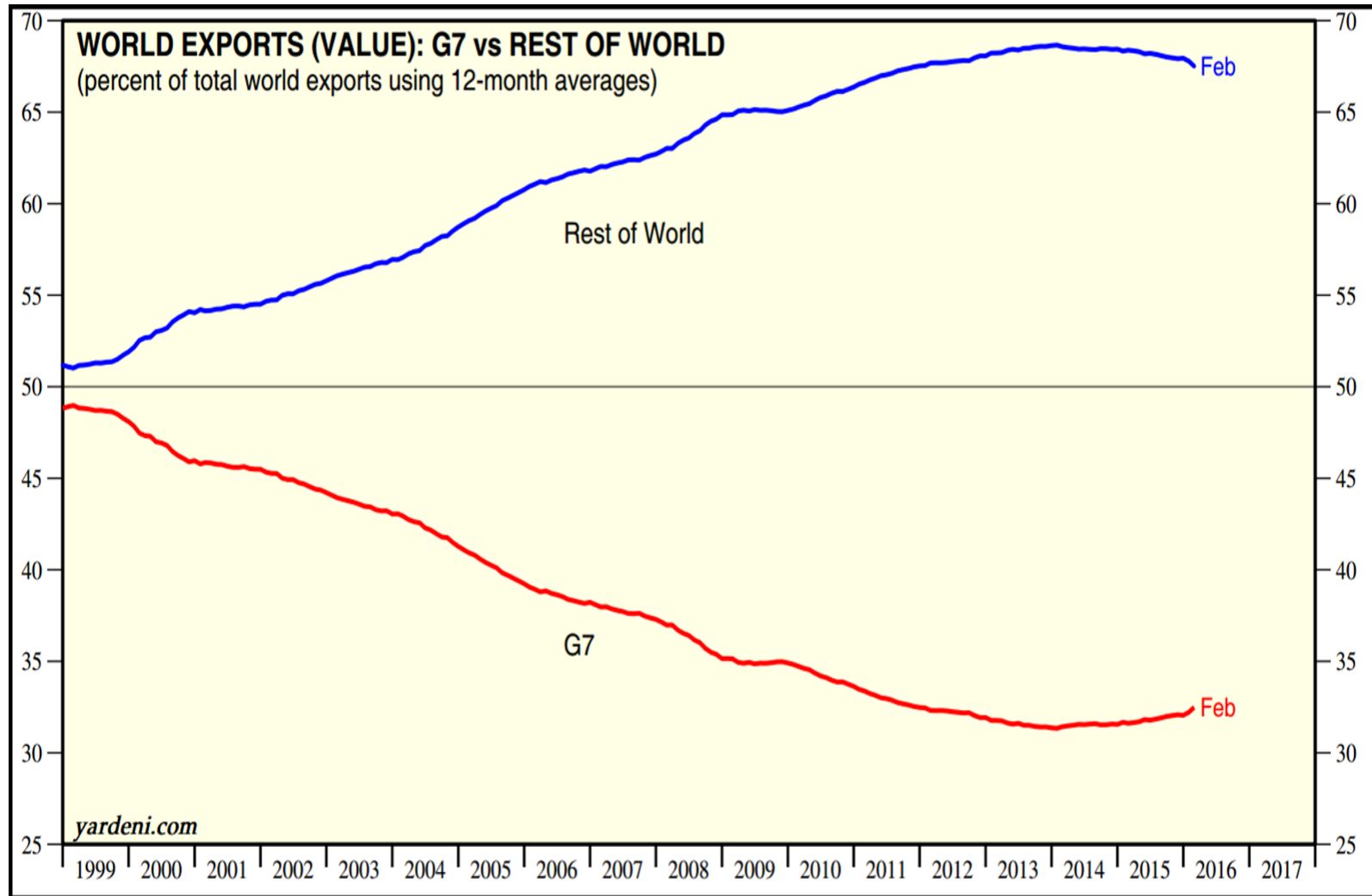
Source: Credit Suisse

# Relative Sizes of World Stock Markets, end of 2015



Source: Credit Suisse

# Emerging Economies' Share of Global Trade 15 has been rising



Source: Ed Yardeni, [www.yardeni.com](http://www.yardeni.com)

# China Commodity Consumption as Percentage of World Consumption, 1970 - 2013

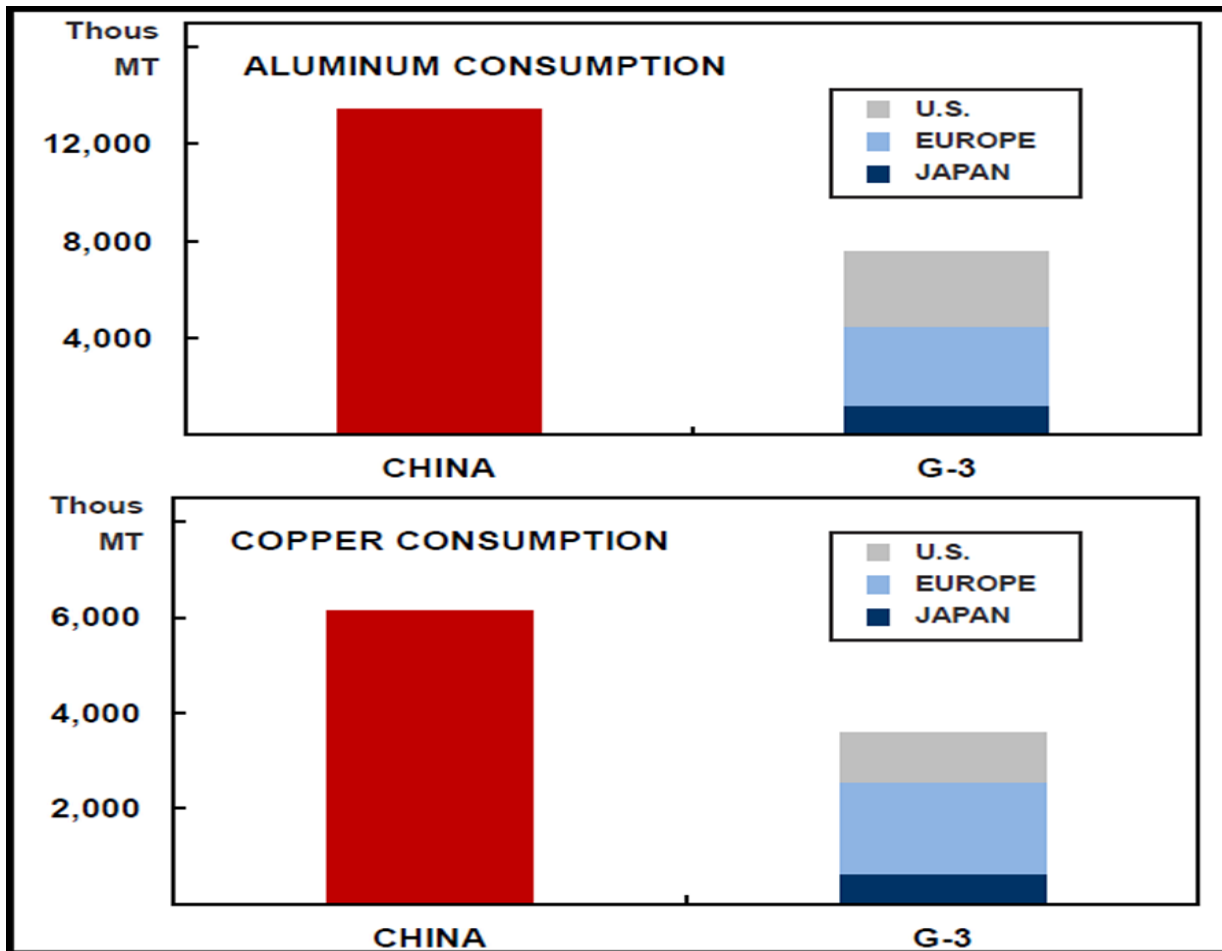
China Commodity Consumption (% World Consumption)							5yr Demand Growth (Ann)
	1970	1980	1990	2000	2010	2012	
<b>Total Consumption</b>	2%	3%	4%	10%	29%	34%	11%
<b>Metals</b>	2%	4%	5%	12%	40%	47%	10%
Tin	-	-	-	16%	41%	53%	1%
Lead	-	-	-	11%	47%	48%	8%
Nickel	0%	3%	3%	5%	34%	48%	20%
Aluminum	2%	4%	4%	13%	39%	45%	10%
Zinc	3%	3%	6%	16%	43%	44%	8%
Copper	2%	4%	5%	12%	38%	43%	12%
<b>Energy</b>							
Oil	1%	3%	3%	6%	11%	12%	7%
<b>Agriculture</b>	14%	16%	18%	21%	24%	24%	5%
Pork	-	23%	35%	47%	50%	50%	2%
Cotton	18%	23%	23%	25%	40%	34%	-4%
Rice	34%	37%	36%	34%	30%	31%	1%
Soybean	18%	10%	9%	16%	26%	29%	7%
Corn	11%	15%	17%	20%	21%	24%	5%
Wheat	10%	17%	19%	19%	17%	18%	1%
Sugar	3%	4%	7%	7%	9%	9%	0%
Coffee	-	-	-	-	0%	1%	28%

China has a much greater impact on metals than oil

Source: Bridgewater Associates

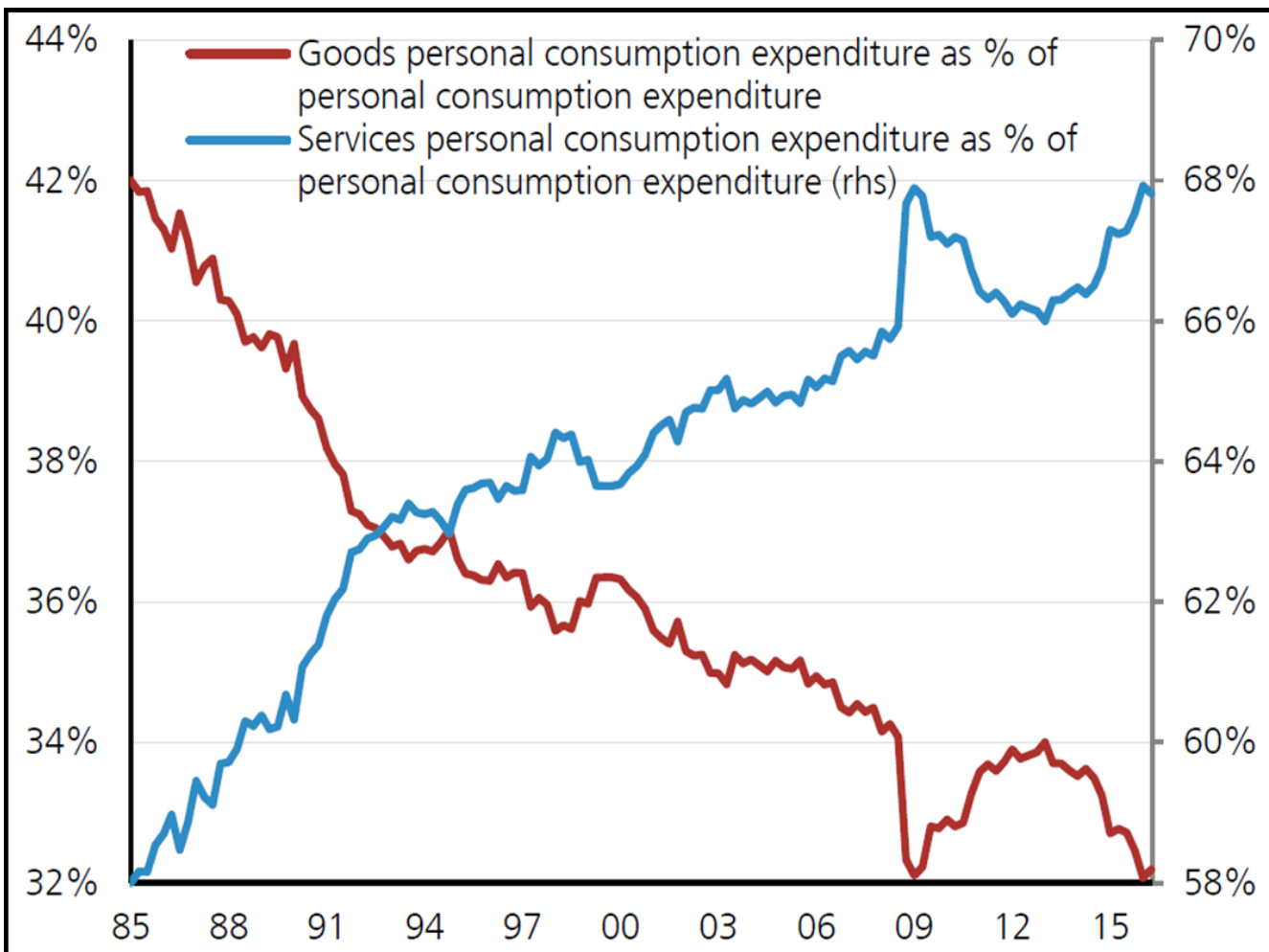


# China is the largest Player in Industrial Commodities except for Oil



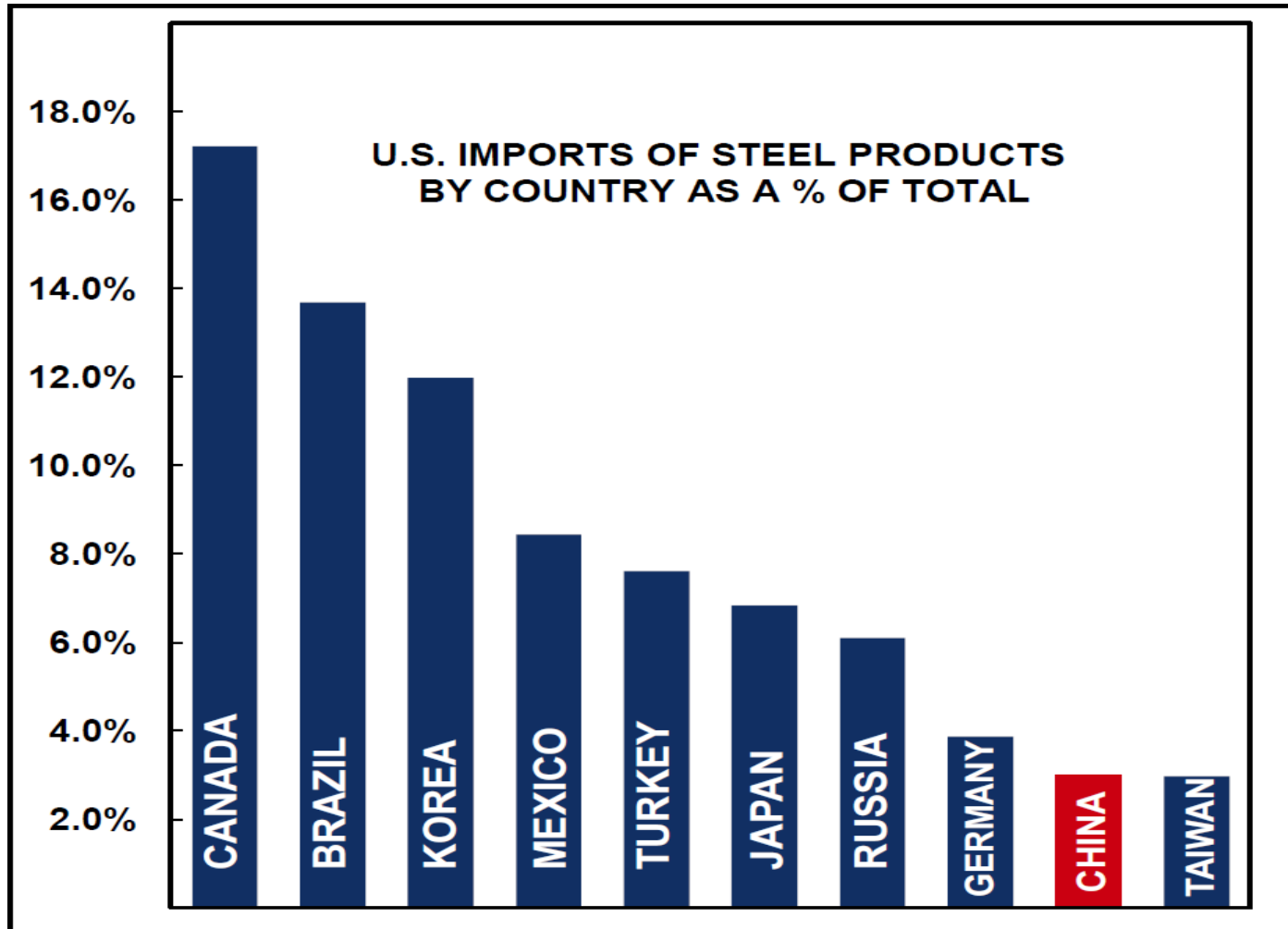
Source: Peter Berezin, The Bank Credit Analyst

# US Services Consumption as Percentage of Total Consumption, 1985 - 2015



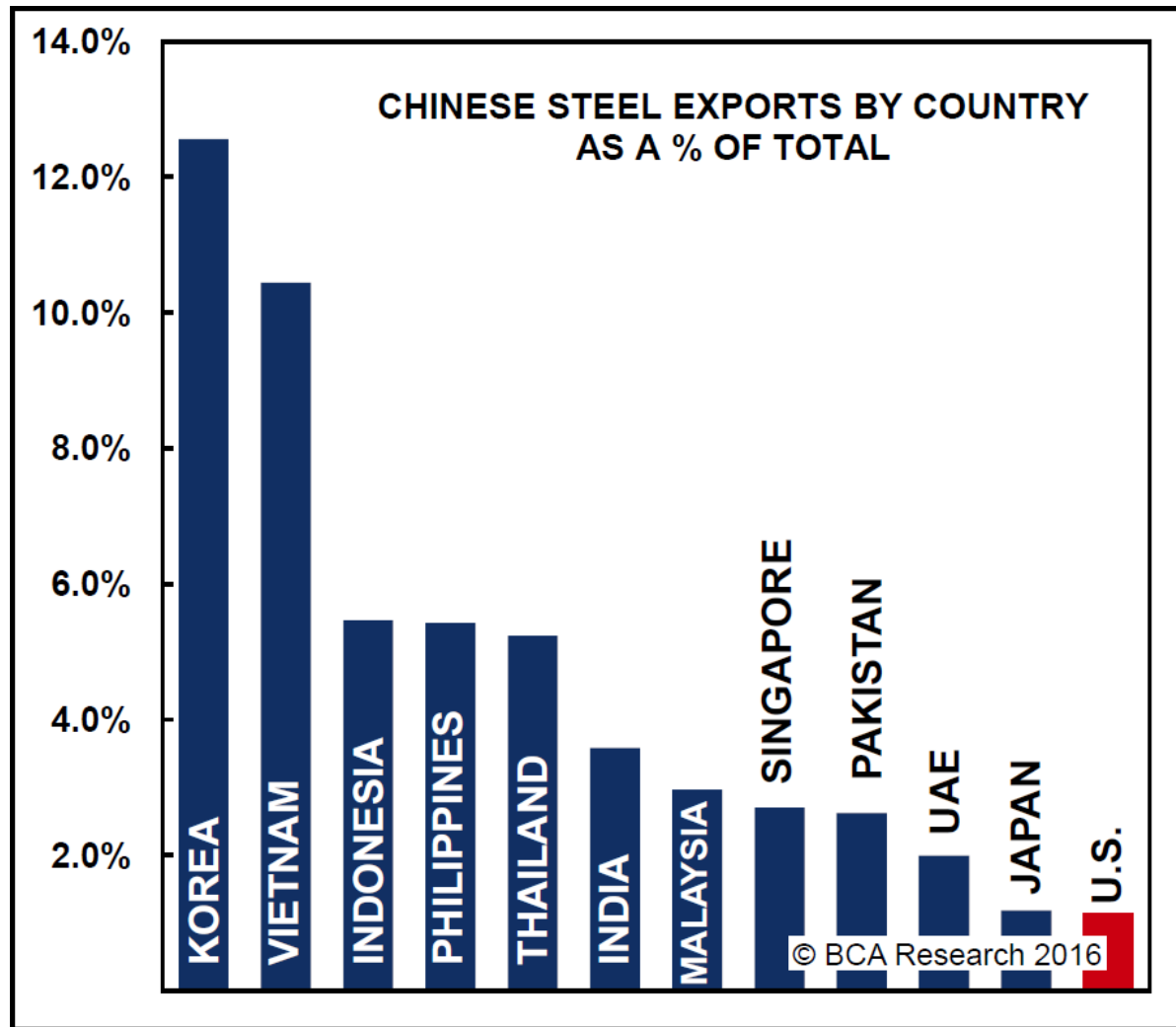
Haver Analytics, UBS

# US Imports of Steel Products by Country as a Percentage of Total



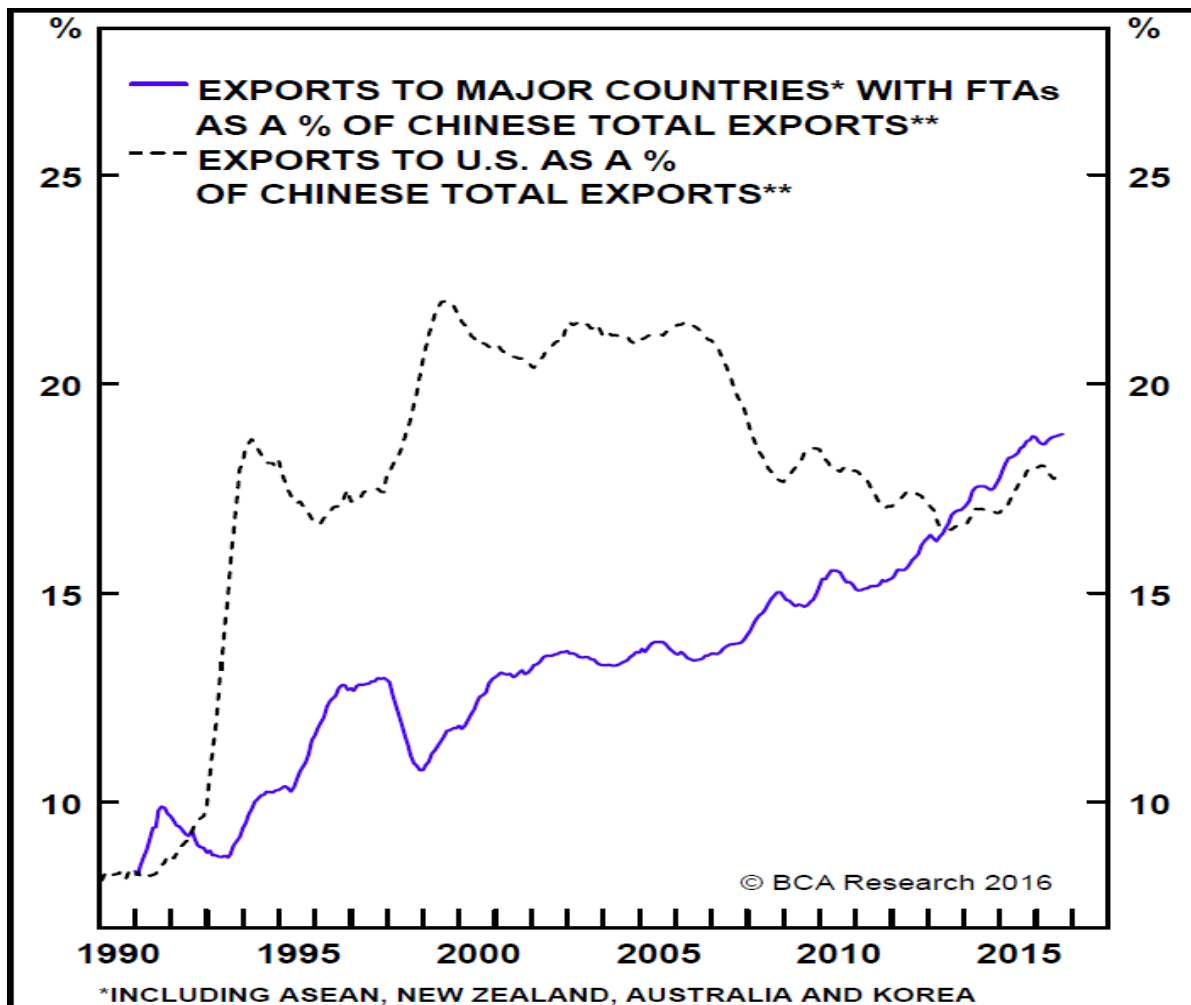
Source: Yan Wang, The Bank Credit Analyst

# Chinese Steel Exports by Country as a Percentage of Total 20



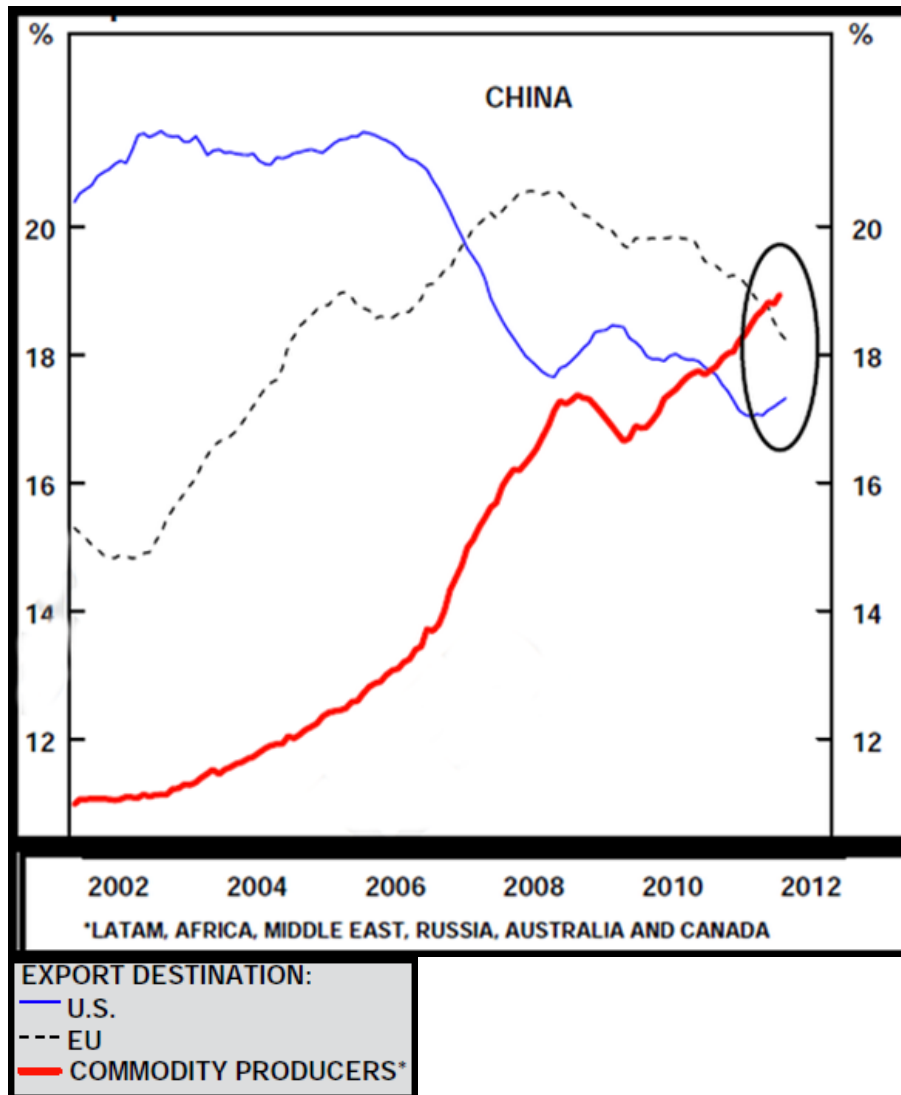
Source: Yan Wang, The Bank Credit Analyst

# Exports to major Countries with FTAs and to the US as a percentage of Chinese Total Exports, 1990 - 2016



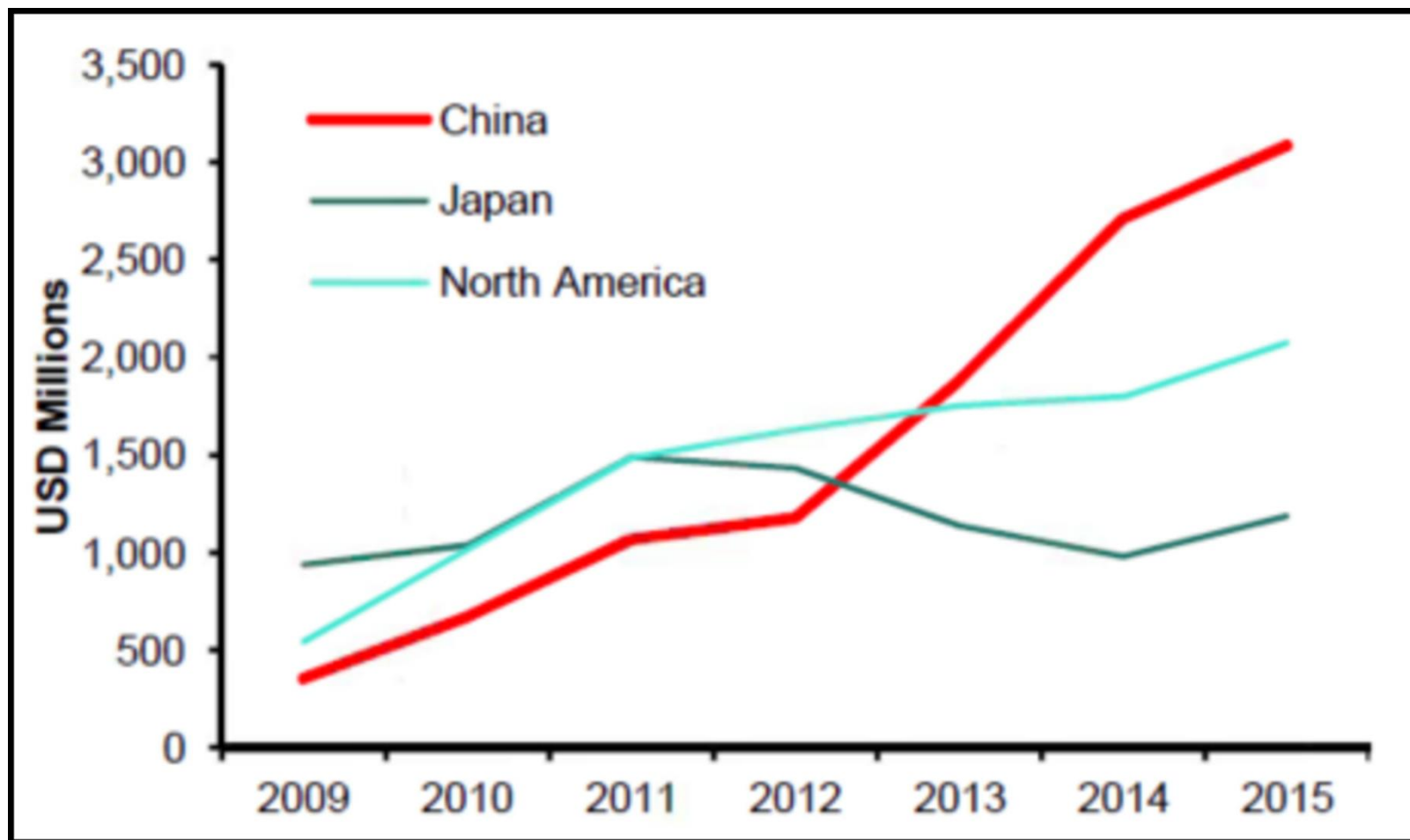
Source: Yan Wang, The Bank Credit Analyst

# China's Export Destinations, 2002 - 2012



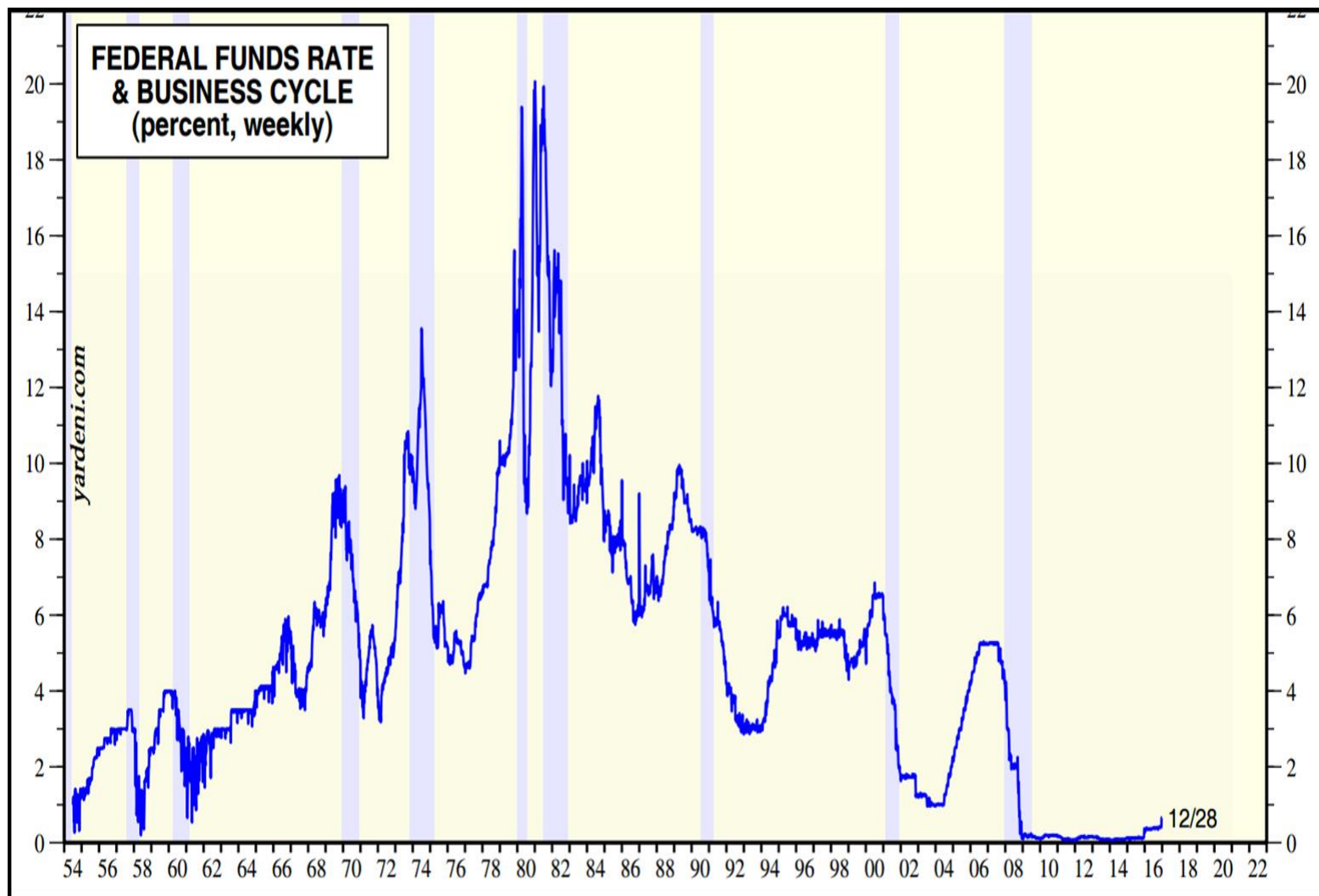
Source: The Bank Credit Analyst

# Annual Spending on Robots by Markets, 2009 – 2015



Source: RBI, Bernstein Analysis

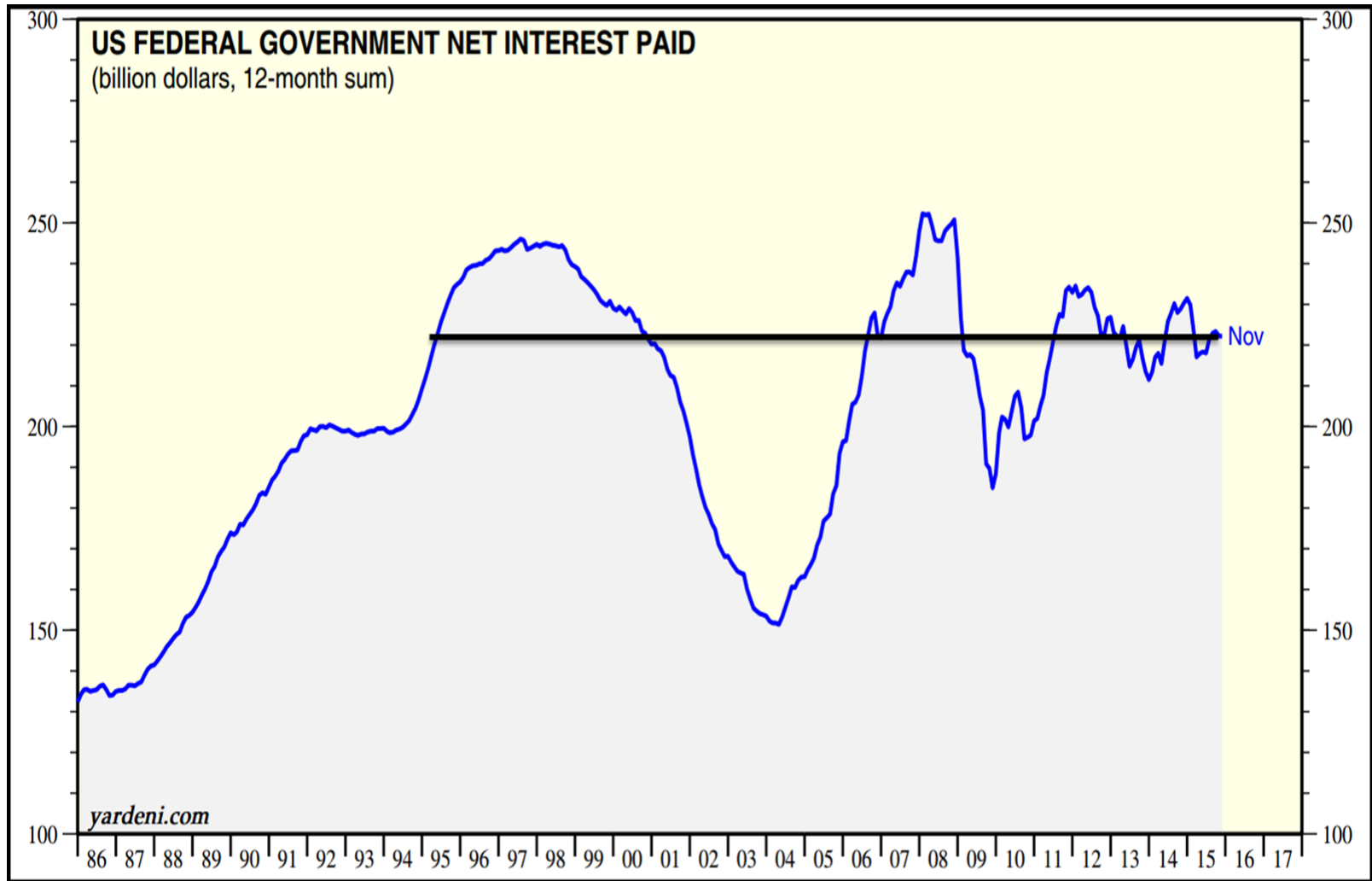
# The Problem with Zero Interest Rates



Source: Ed Yardeni, [www.yardeni.com](http://www.yardeni.com)

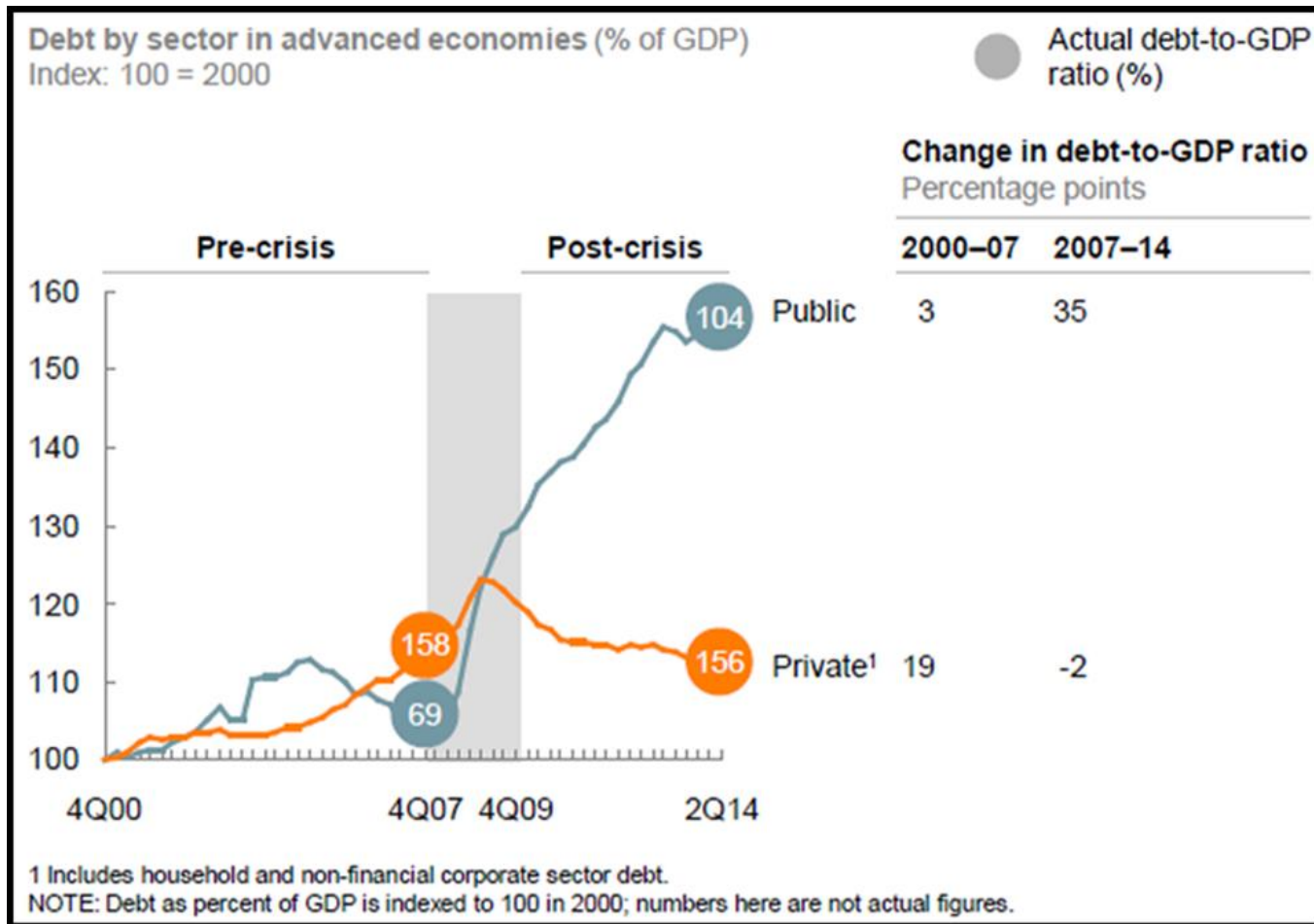


# Zero Short-Term Interest Rates have enabled 25 Governments to increase their Spending



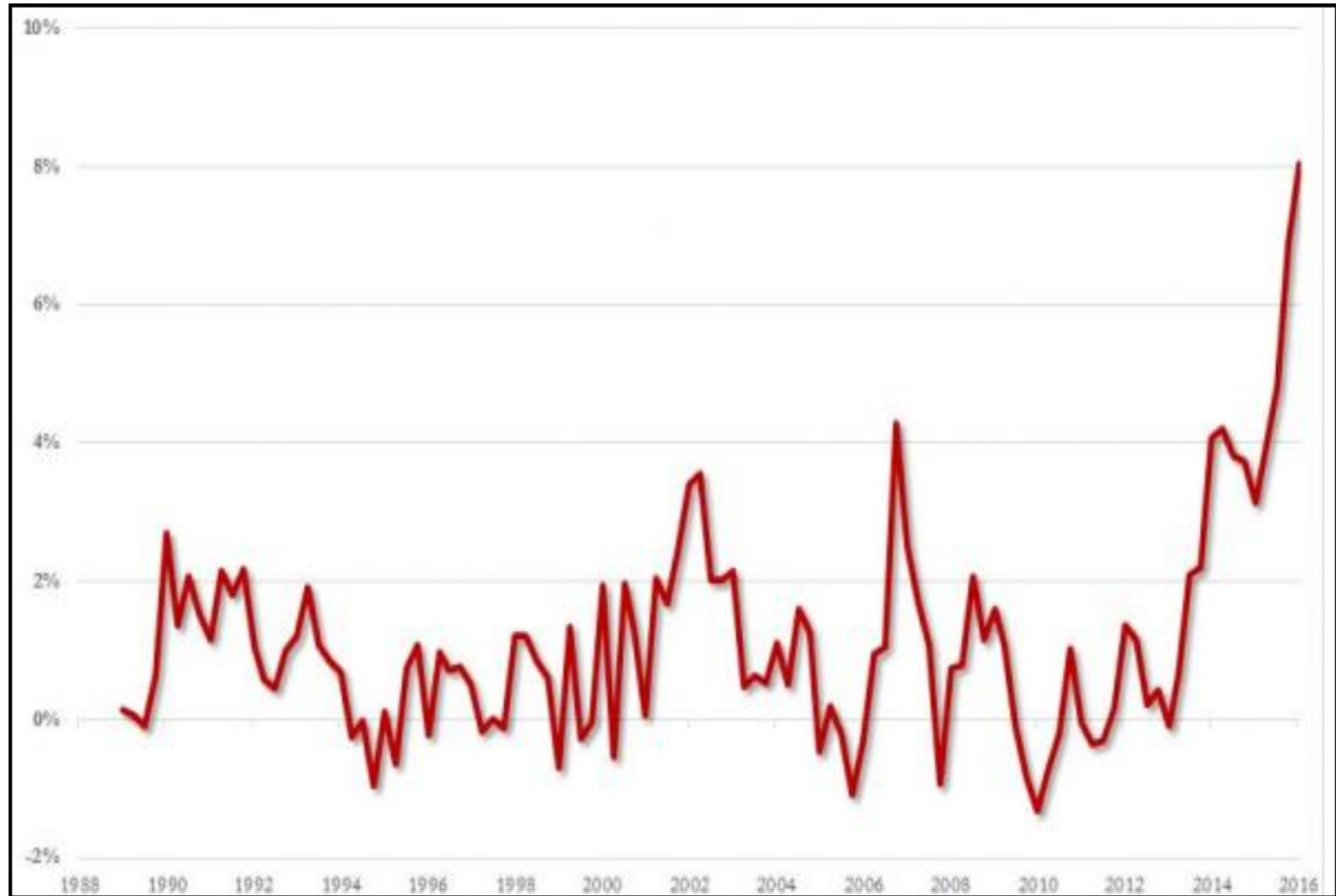
Source: Ed Yardeni, [www.yardeni.com](http://www.yardeni.com)

# Debt by Sectors in the Advanced Economies, 2000 - 2014



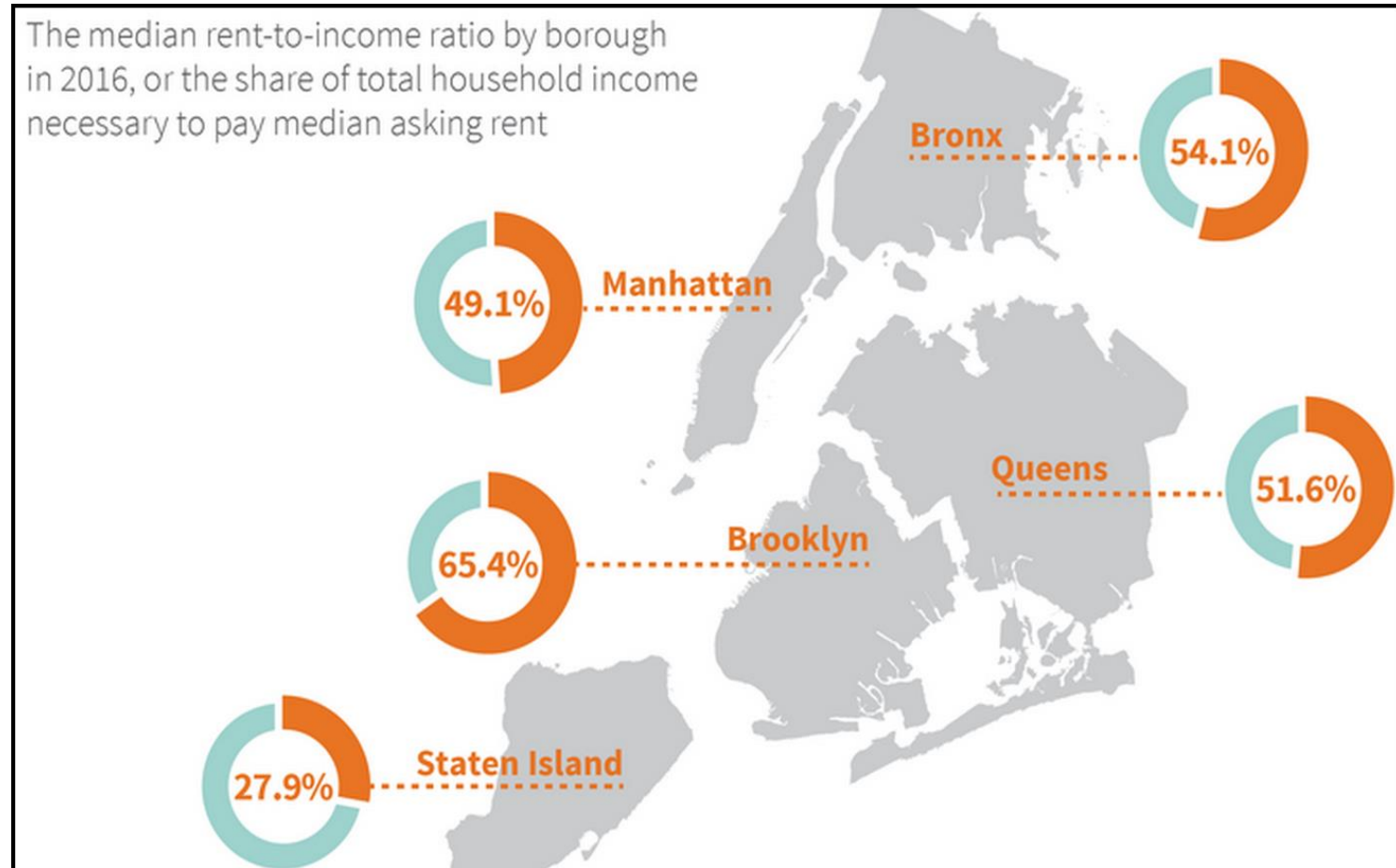
Source: McKinsey & Company

# Median Rent Inflation, Year-on-Year: 4 Quarter Blended Average, 1994 - 2016



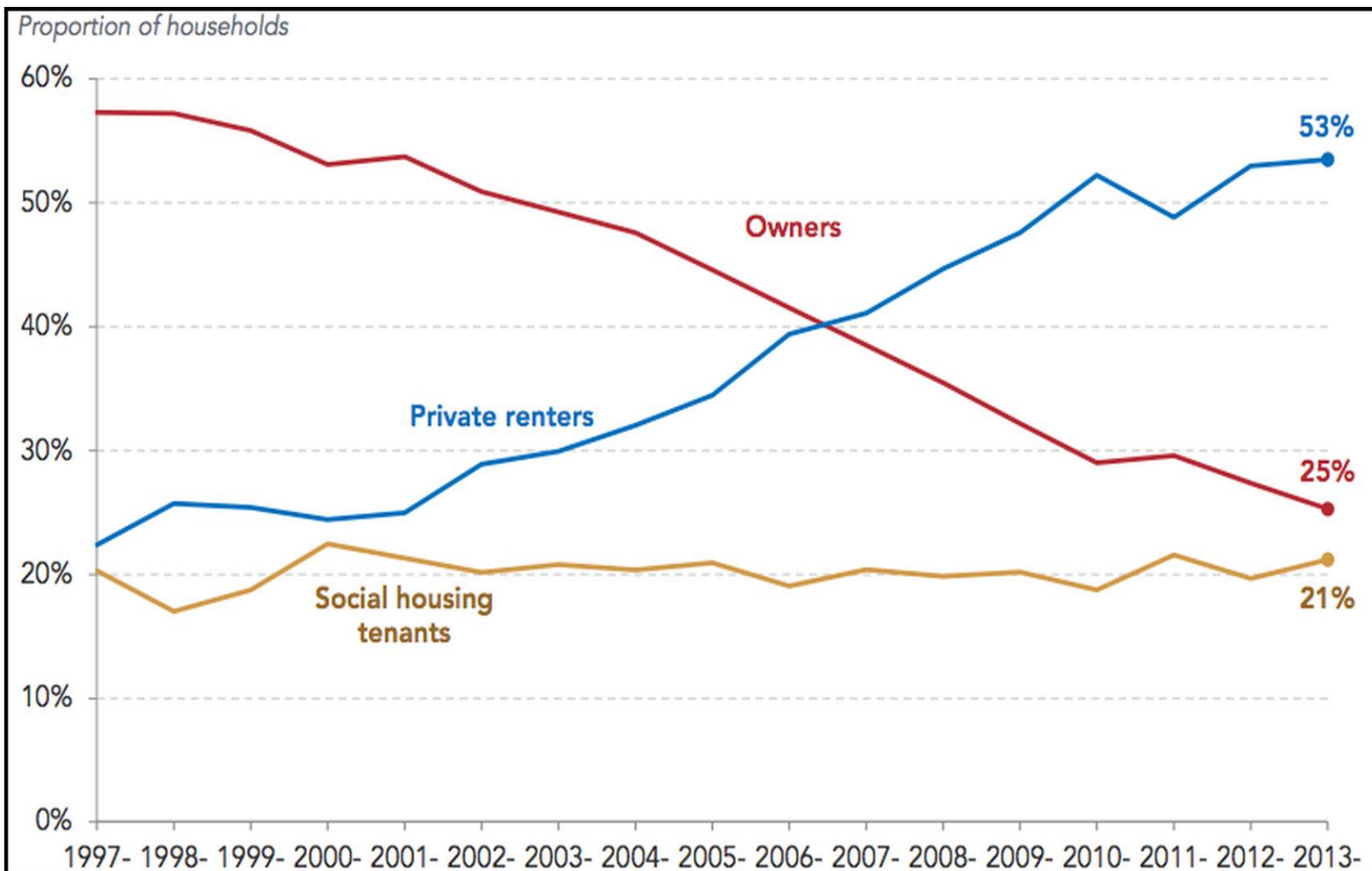
Source: Census Bureau, Zero Hedge

# Typical Rent Burden Across New York City



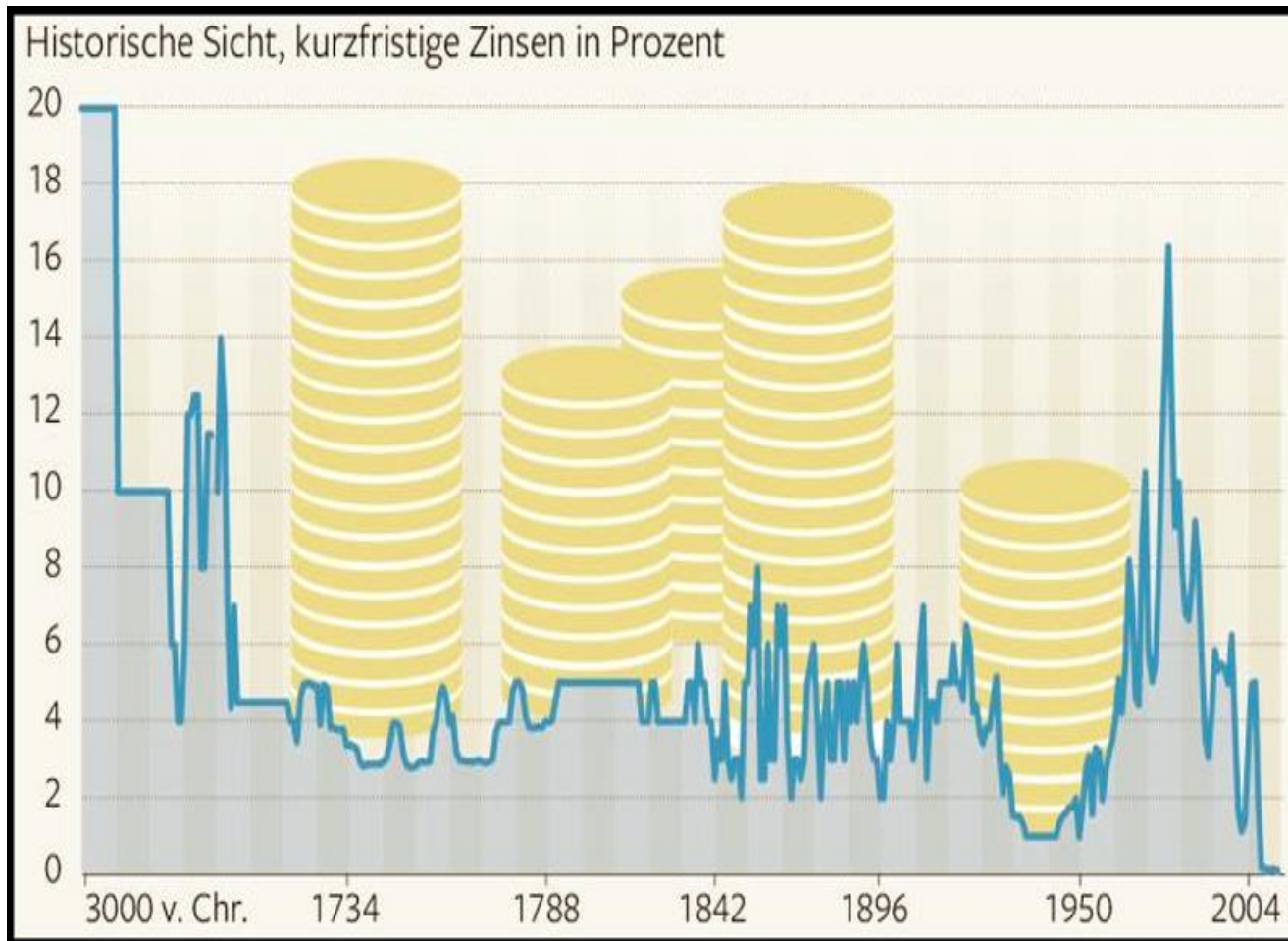
Source: StreetEasy

# Change in Tenure among low to middle UK Income Households aged under 35, 1997 - 2014



Source: RF Analysis of DWP, Family Resources Survey, 2013-14

# Zero Short-Term Interest Rates: Unprecedented in History



Source: Sydney Homer & Richard Sylla, A History of Interest Rates, Die Welt

# Map of Black Sea and Neighboring Countries



Source: [www.blackseagrains.net](http://www.blackseagrains.net)

# Map of Europe in 1900



Source: [www.euratlas.net](http://www.euratlas.net)



# China's One Belt One Road Project (OBOR)



Bloomberg

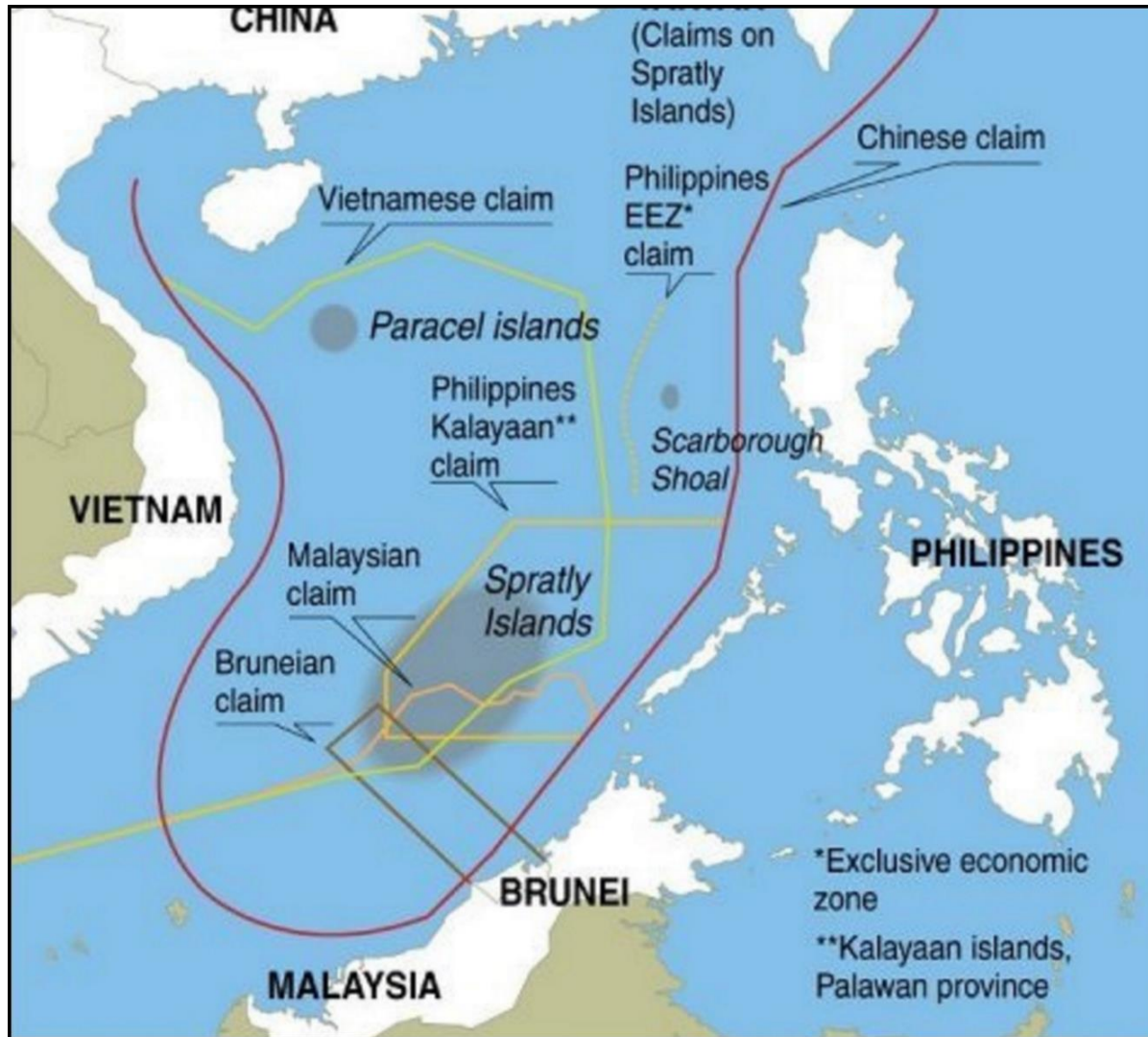
# Indochina the most promising Region

## Kunming – Singapore Railway



Source: [www.urbachina.hypotheses.org](http://www.urbachina.hypotheses.org)

# Disputed Claims in the South China Sea



Source: D. Rosenberg, Middlebury College, Harvard Asia Quarterly

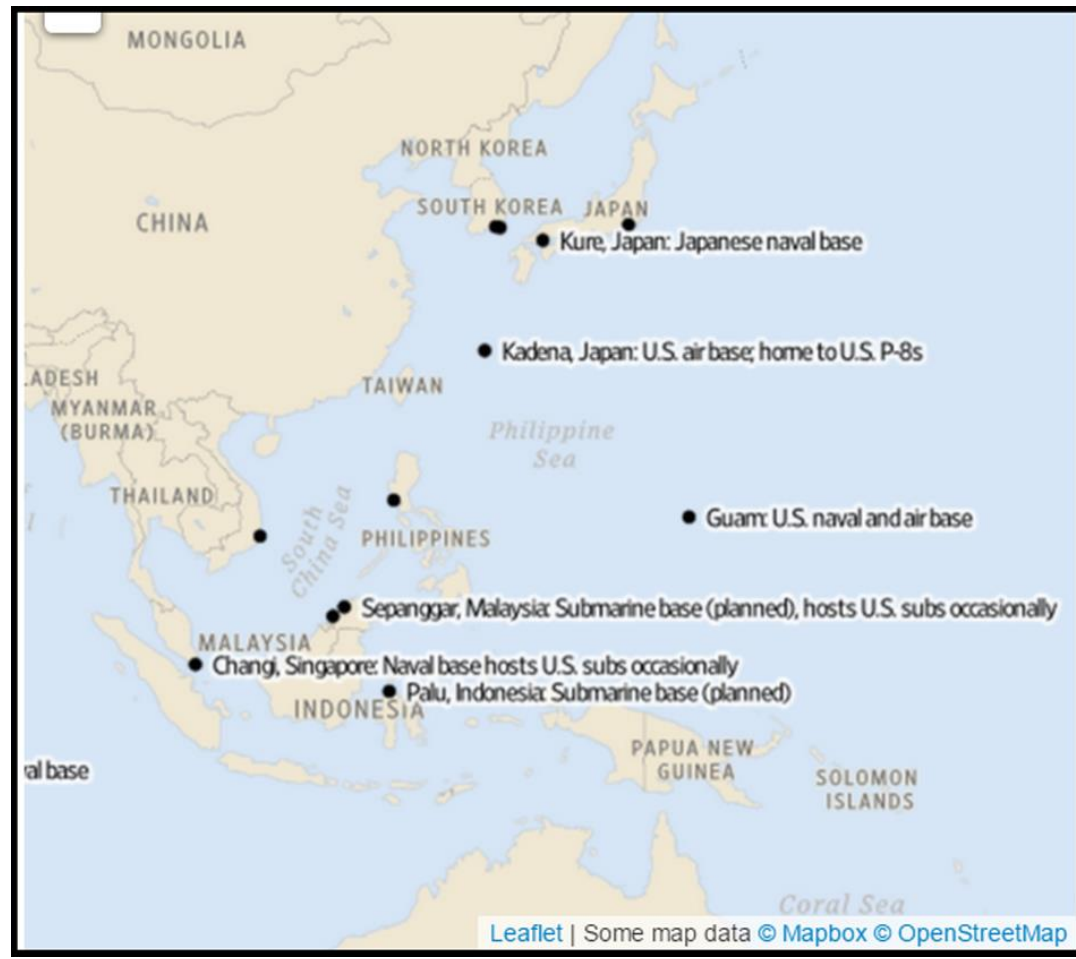
# MAP OF ASIA AND CENTRAL ASIA



Source: [www.centralasiatravel.com](http://www.centralasiatravel.com)

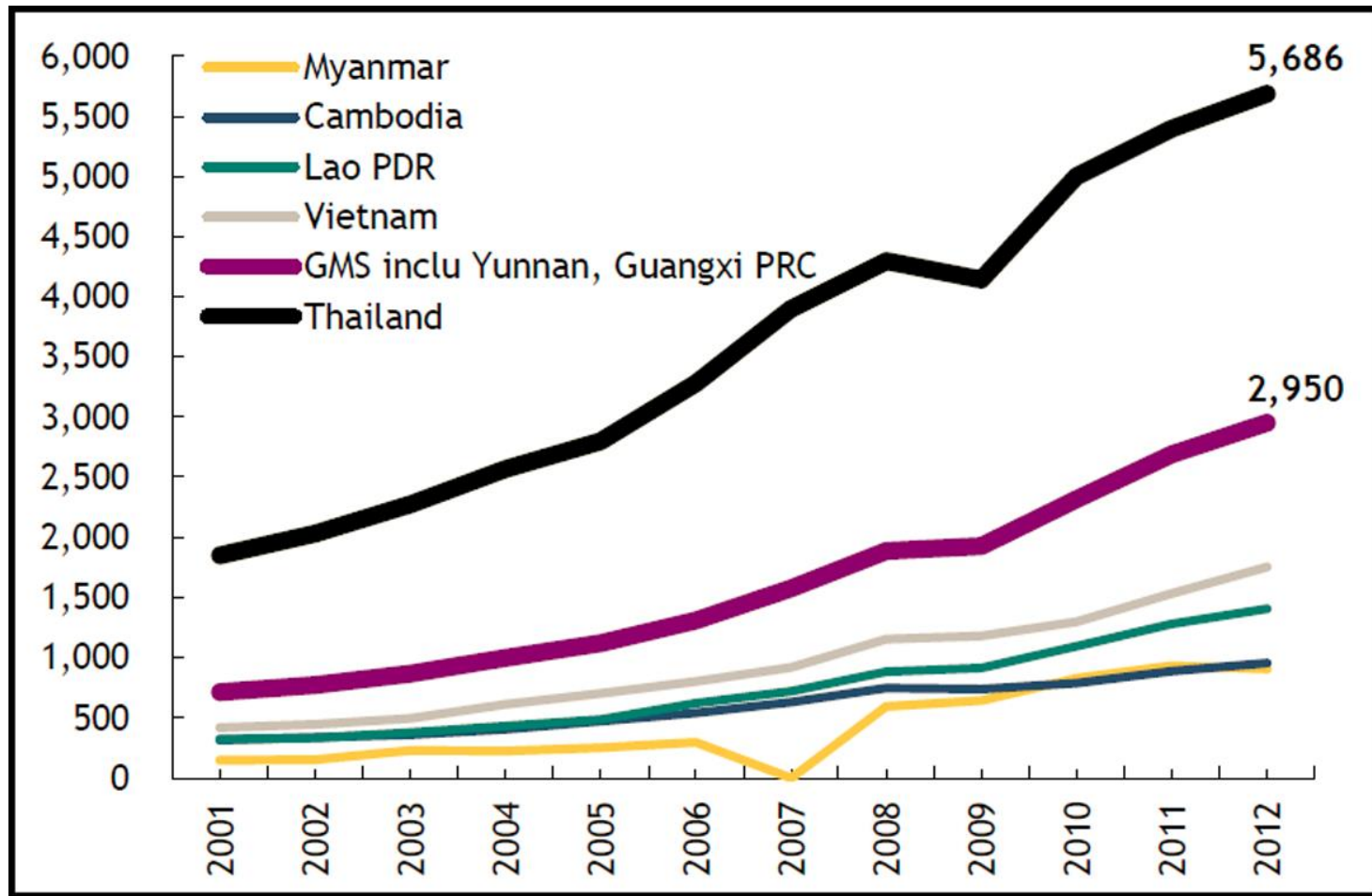
[www.gloomboomdoom.com](http://www.gloomboomdoom.com)

# US Military and Naval Bases in Asia



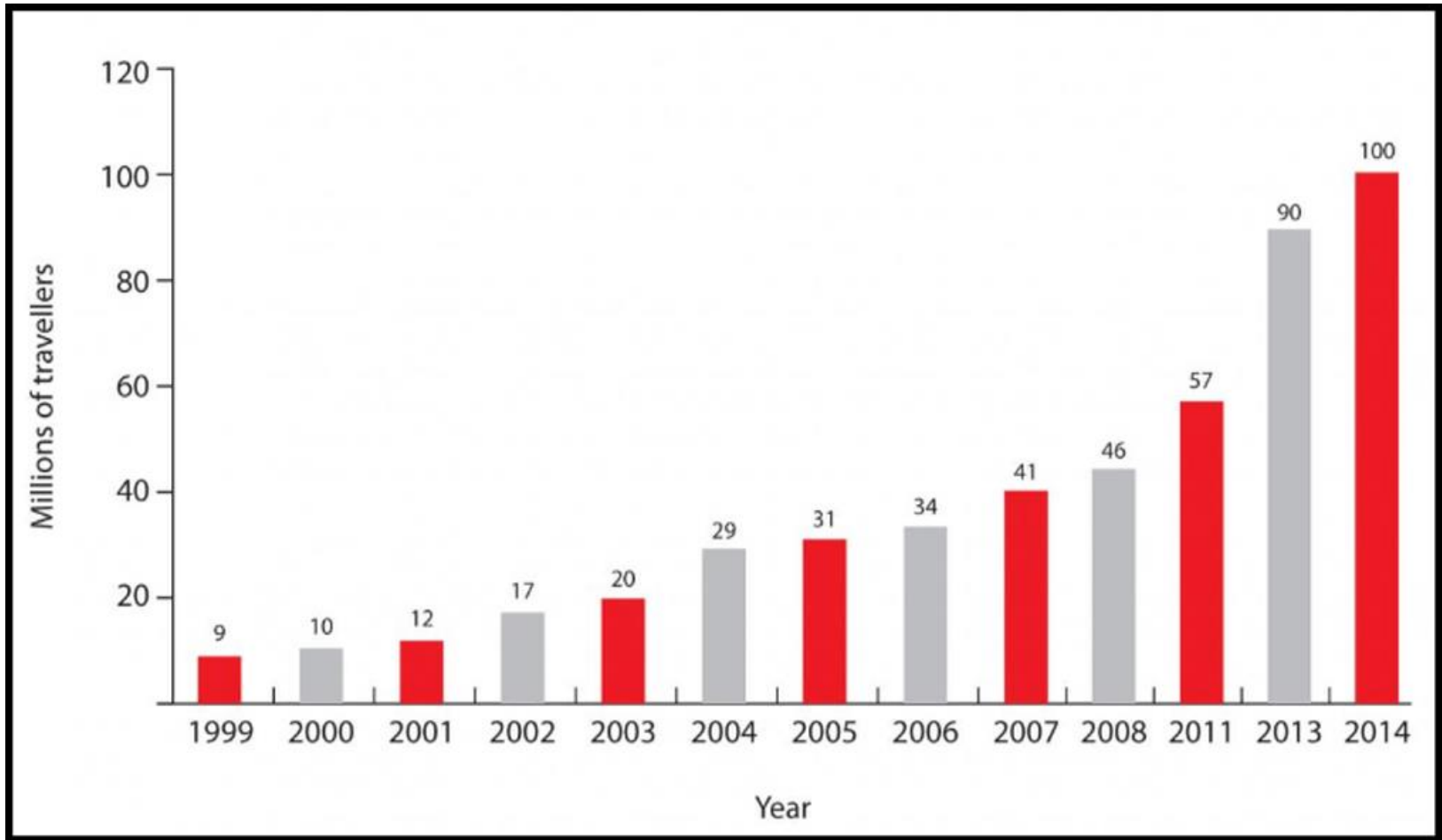
Source: [www.openstreetmap.com](http://www.openstreetmap.com)

# Indochina GDP per Capita (in USD current prices), 2013



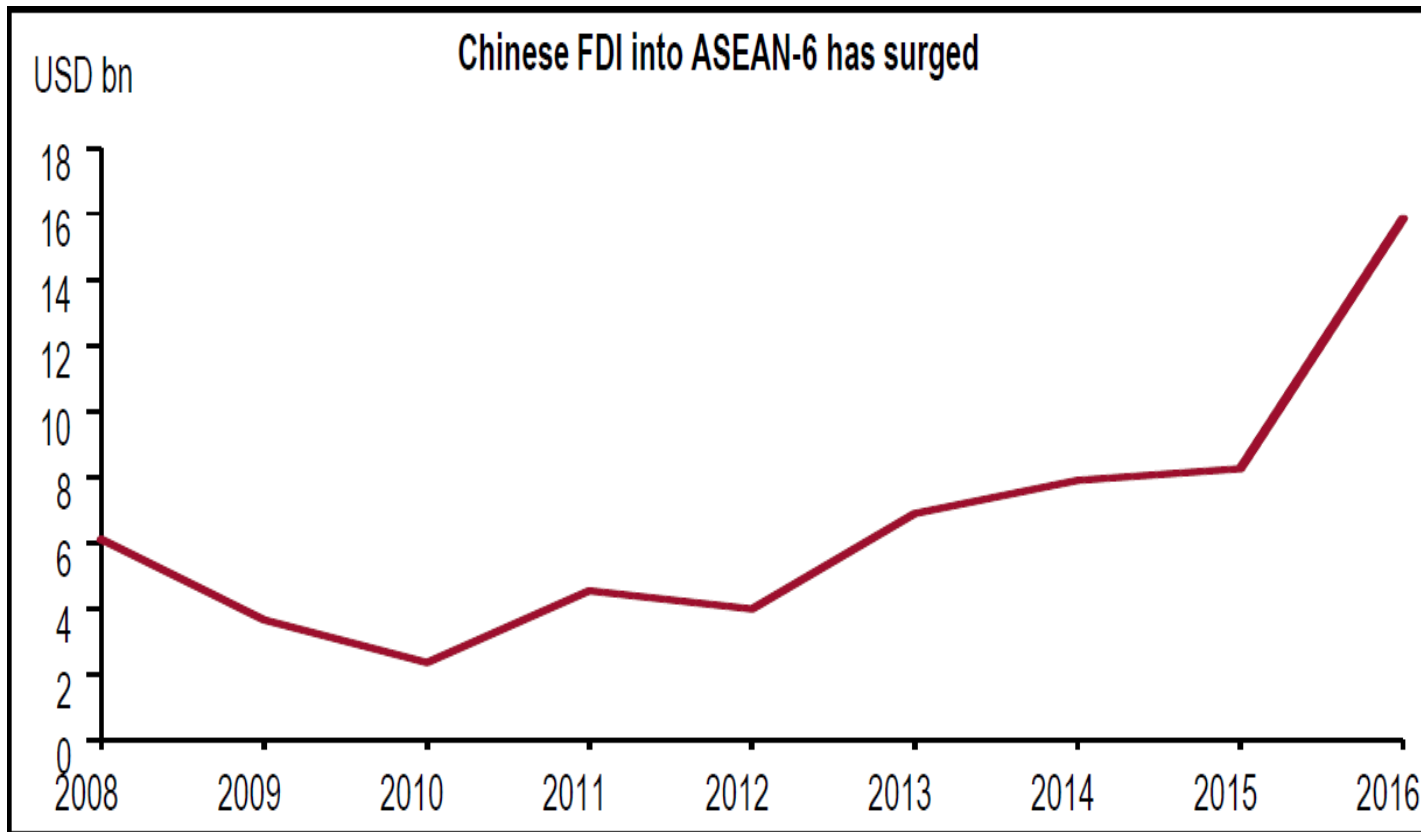
Source: Maybank, ADB

# Chinese Outbound Travel Market, 1999 – 2014



Source: [www.cottm.com](http://www.cottm.com)

# ASEAN's Pivot to China: Chinese FDI into ASEAN, 2008 - 2016



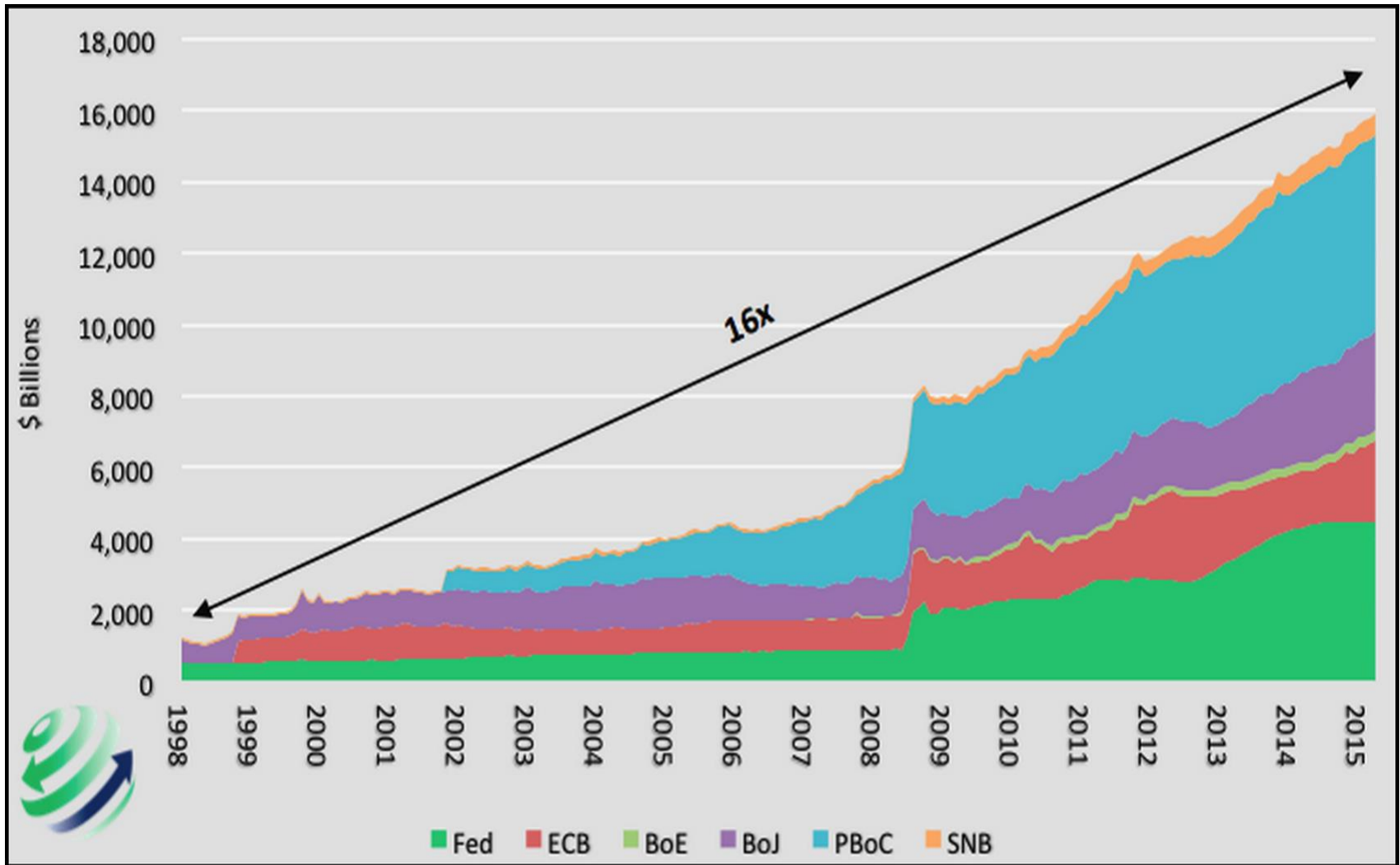
Source: Credit Suisse, American Enterprise Institute, CEIC



# What should Contrarians consider?

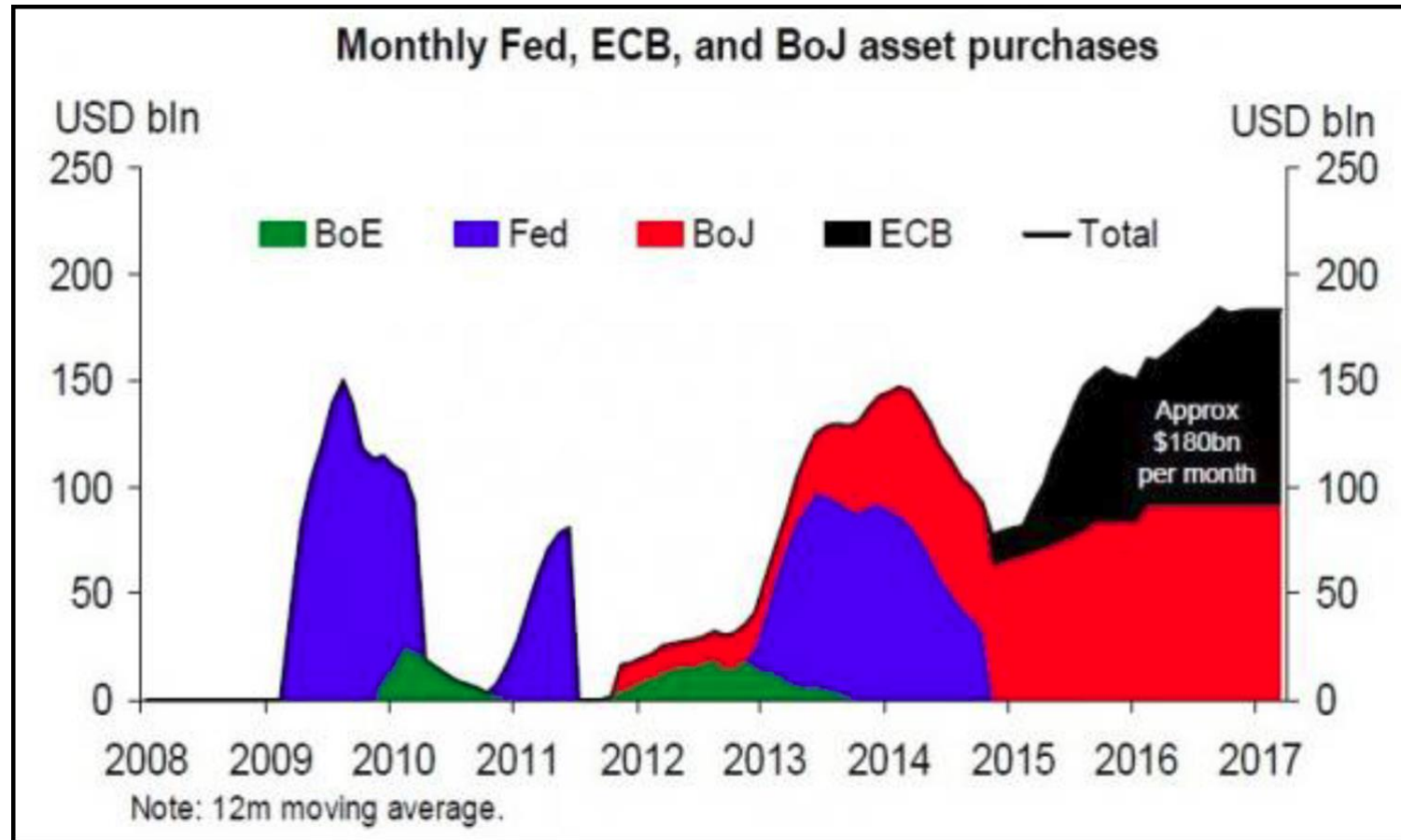
- **Asset Classes: Real Estate, Bonds and Cash, Equities, Precious Metals**
- **The return of active fund managers**
- **Short US Stocks; buy Asian emerging markets**
- **Short: Tesla, Salesforce, Netflix, and other “Bubble Stocks”**
- **Long: Infrastructure Plays (Toll Roads, Airports, etc.) Rural and Resort Properties,**
- **Short US Dollar. Long Gold, Silver, Platinum and related Shares**
- **Long Japanese Stocks**
- **Only Surprise in 2017: all Asset Classes Decline in Value**

# Growth of Central Bank Balance Sheets, 1998 - 2015



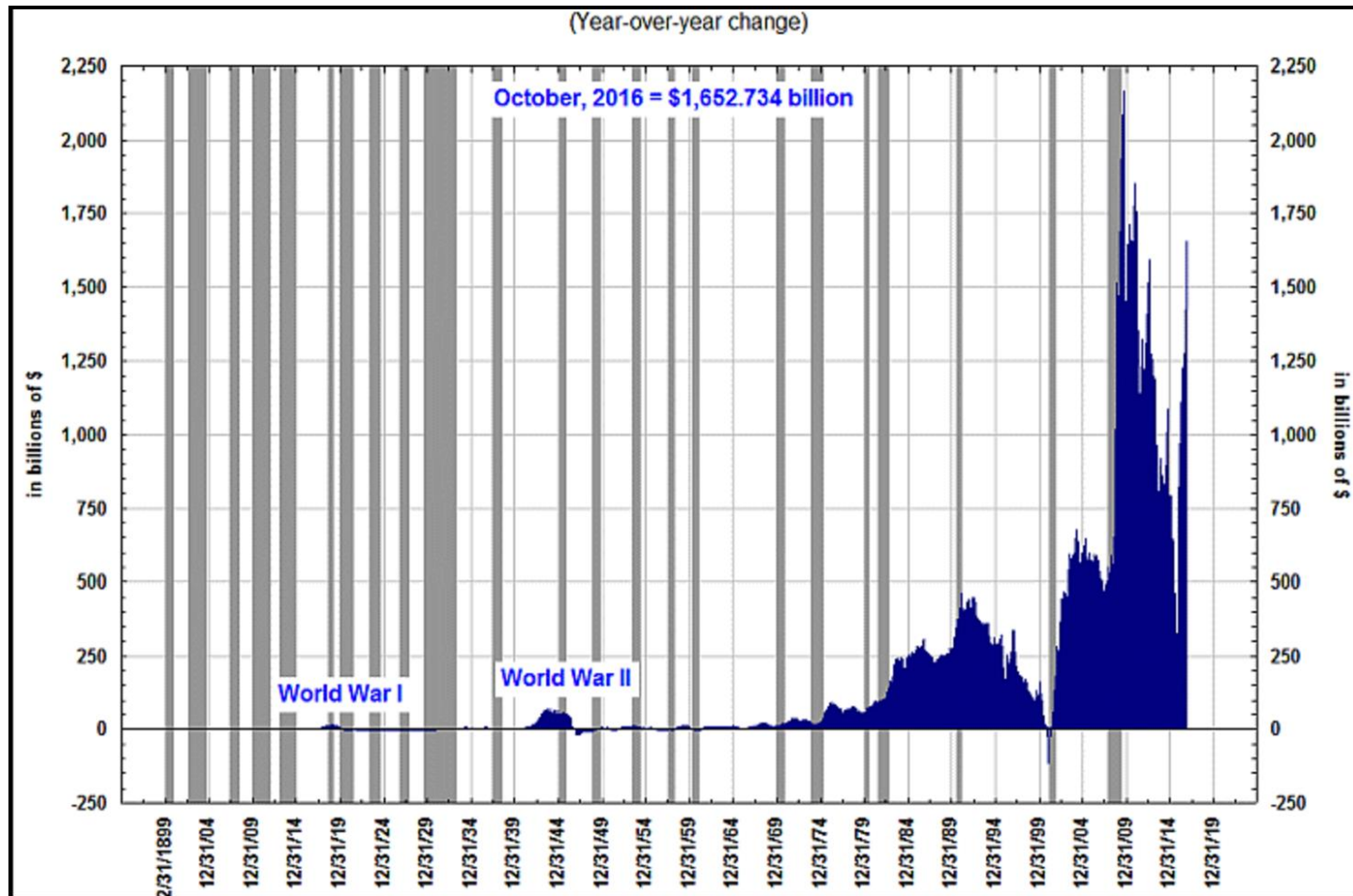
Source: Bloomberg

# ECB and BoJ are still adding approximately \$180 billion every Month to financial Markets (monthly Fed, ECB, BoE, and BoJ Asset Purchases, 2009 – 2016)



Source: Deutsche Bank Global Markets Research

# Gross Federal Debt, 1899 - 2016



Source: Ron Griess, [www.thechartstor.com](http://www.thechartstor.com)

# What Assets will the Fed buy next?



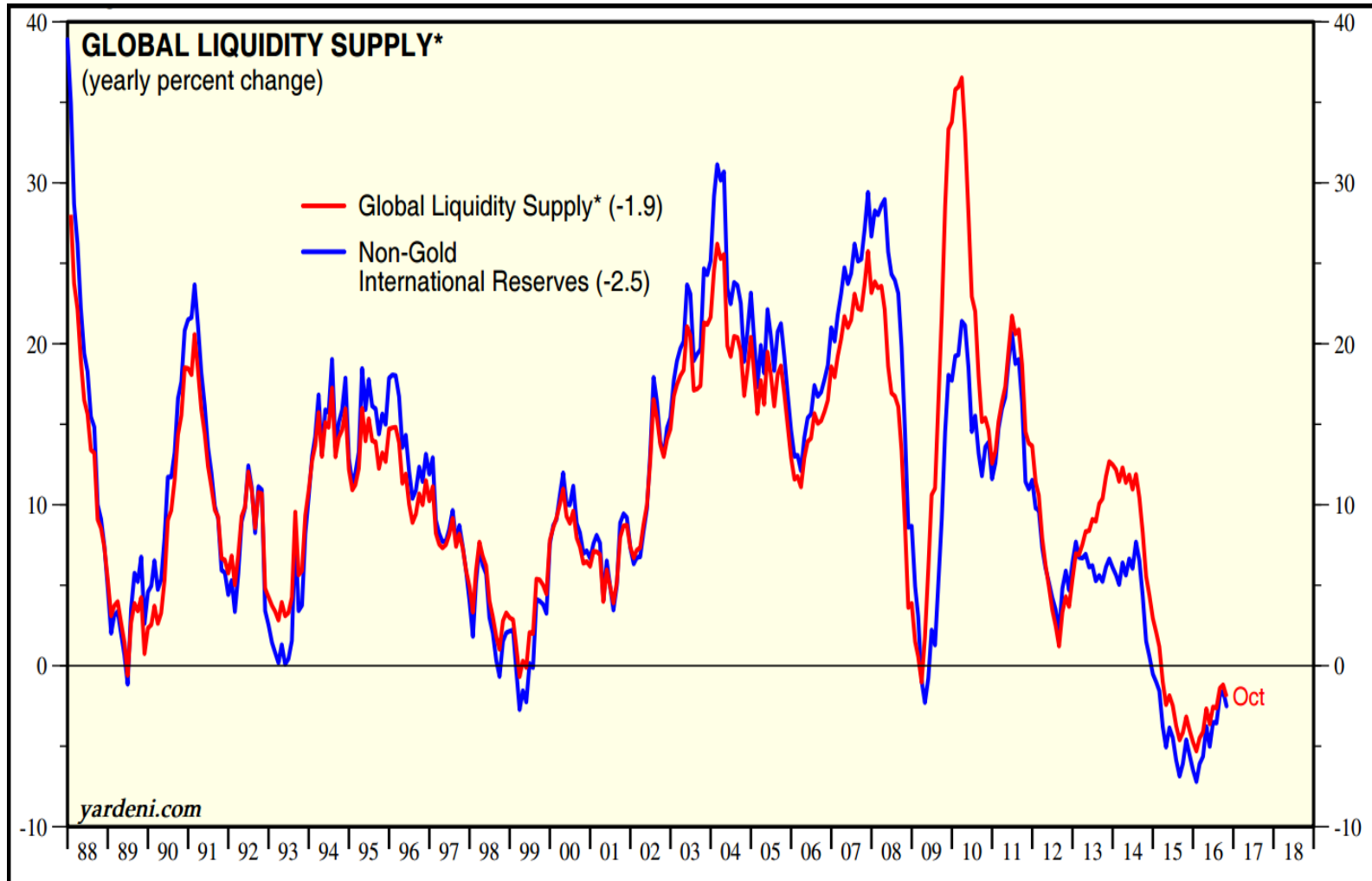
Source: N/A

# 1957 Ferrari Scaglietti



Source: Financial Times

# Global Liquidity Supply (yearly percentage change), 1988 – 2016



Source: Ed Yardeni, [www.yardeni.com](http://www.yardeni.com), IMF, Federal Reserve Board

Global Liquidity Supply: “non-gold international reserves, plus the Fed’s holding of US Treasury and Agency securities,”

# Excess Money Supply, 1996 – 2016



Source: Thomson Reuters Datastream, Tiho Birkan, [twitter.com/tihobrkan](https://twitter.com/tihobrkan)

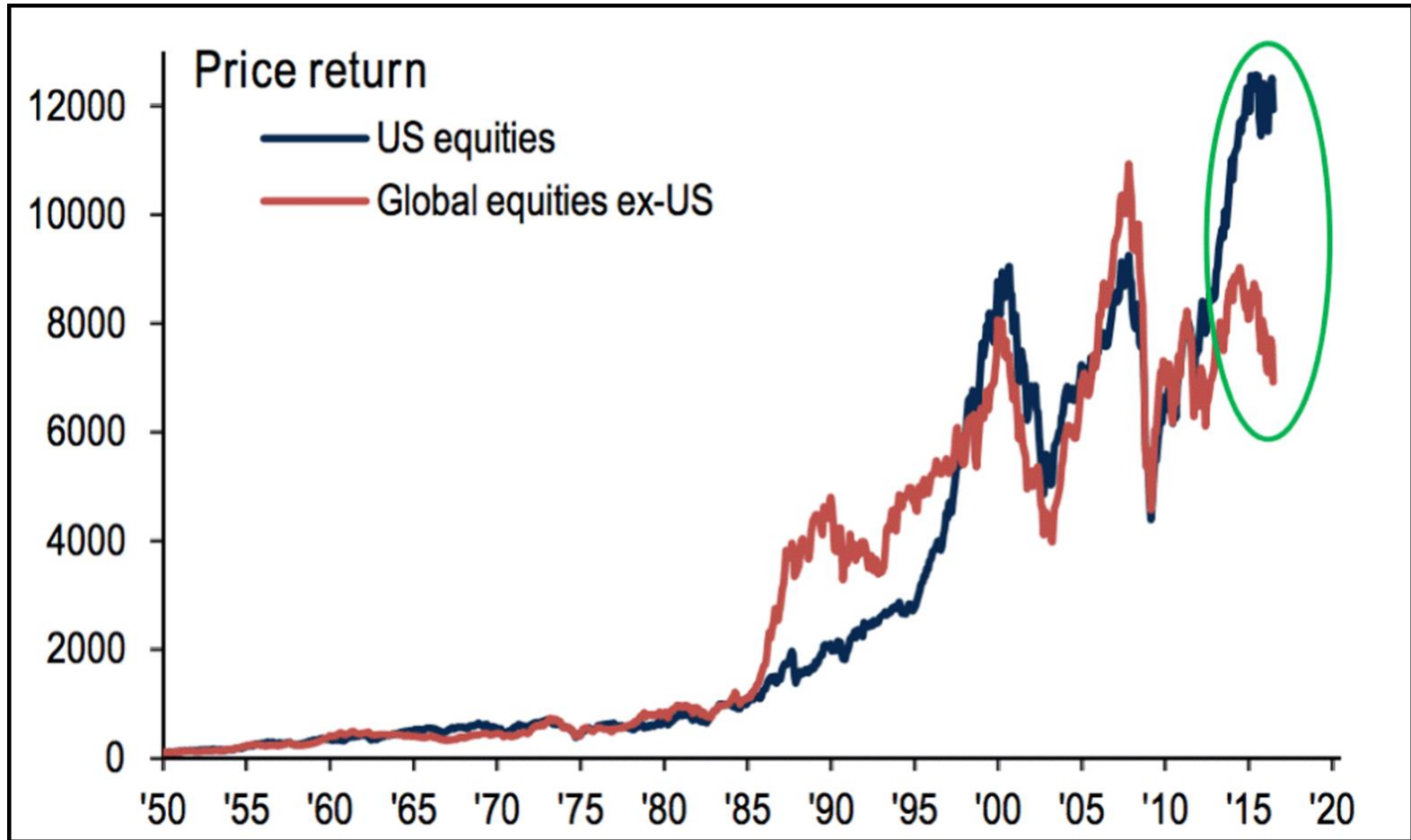


# Market Capitalization of NYSE plus NASDAQ as a Percentage of US Nominal GDP, 1924 - 2015



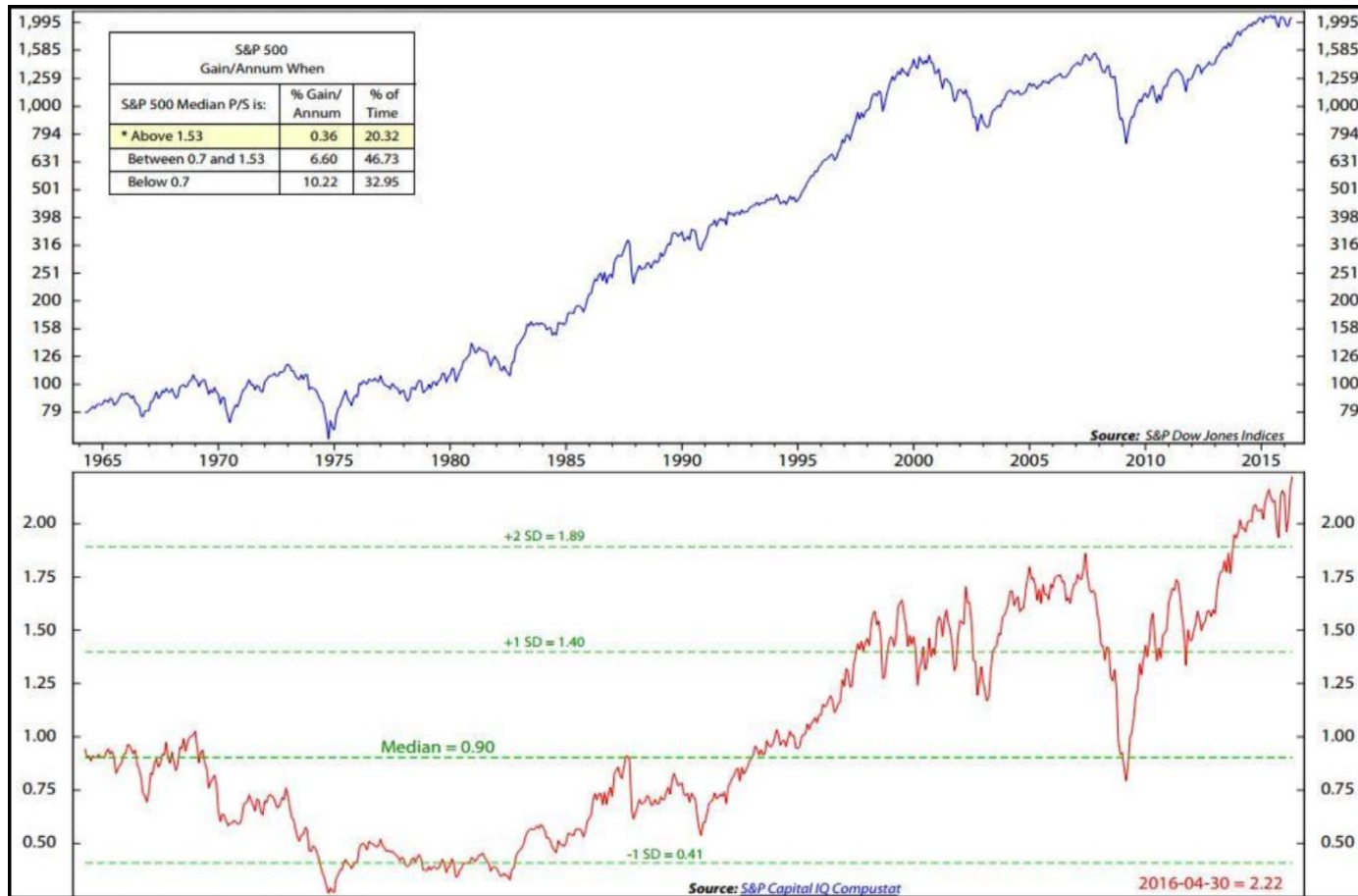
Source: Ron Griess, [www.thechartstore.com](http://www.thechartstore.com)

# US Equities compared to non-US Equities (1950 – 2016): Reversion to the Mean will follow 18



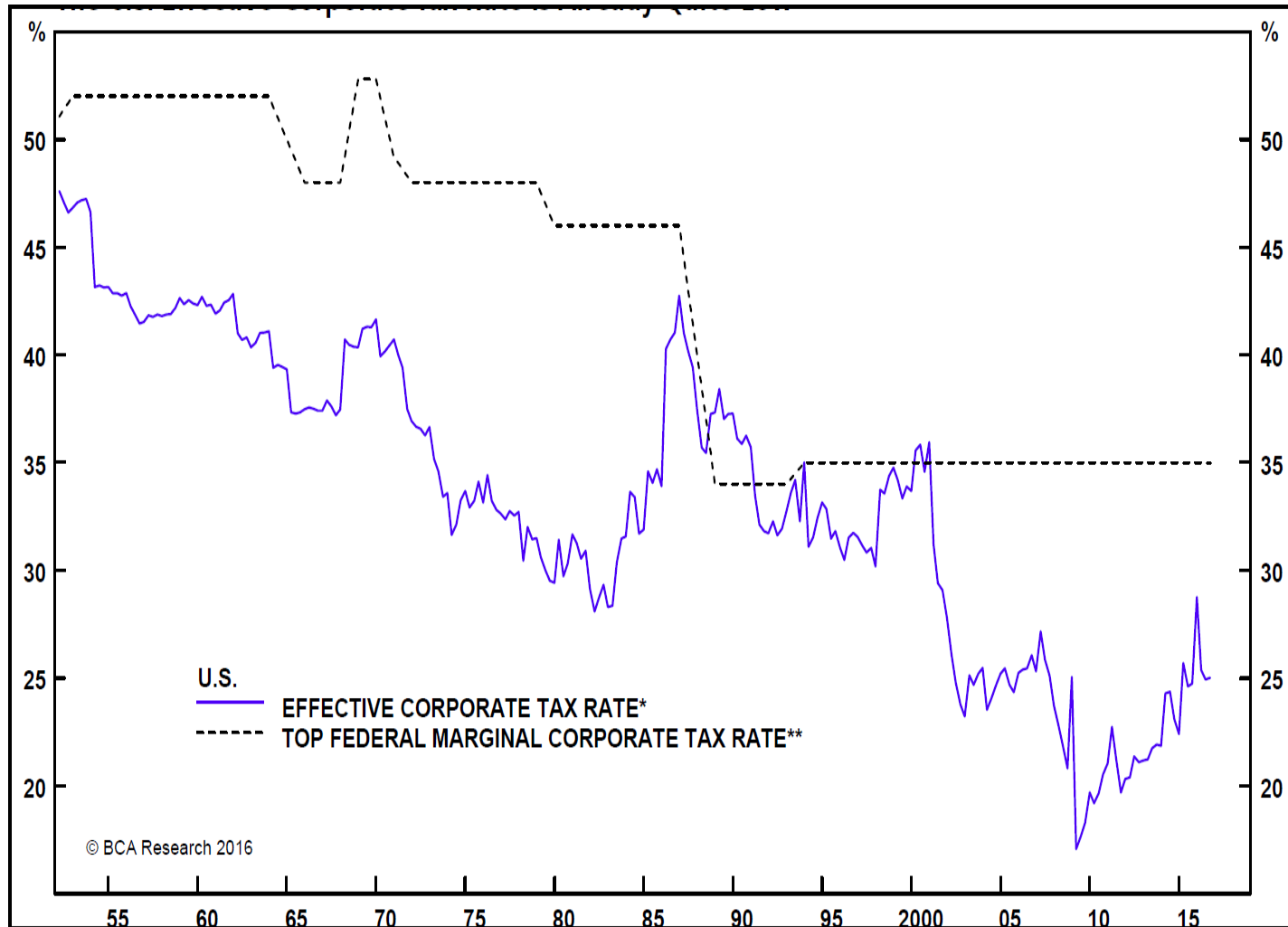
Source: BofA Merrill Lynch Global Investment Strategy, [www.businessinsider.com](http://www.businessinsider.com)

# S&P 500 Median Price-to-Sales Ratio, 1965 - 2016 <sup>19</sup>



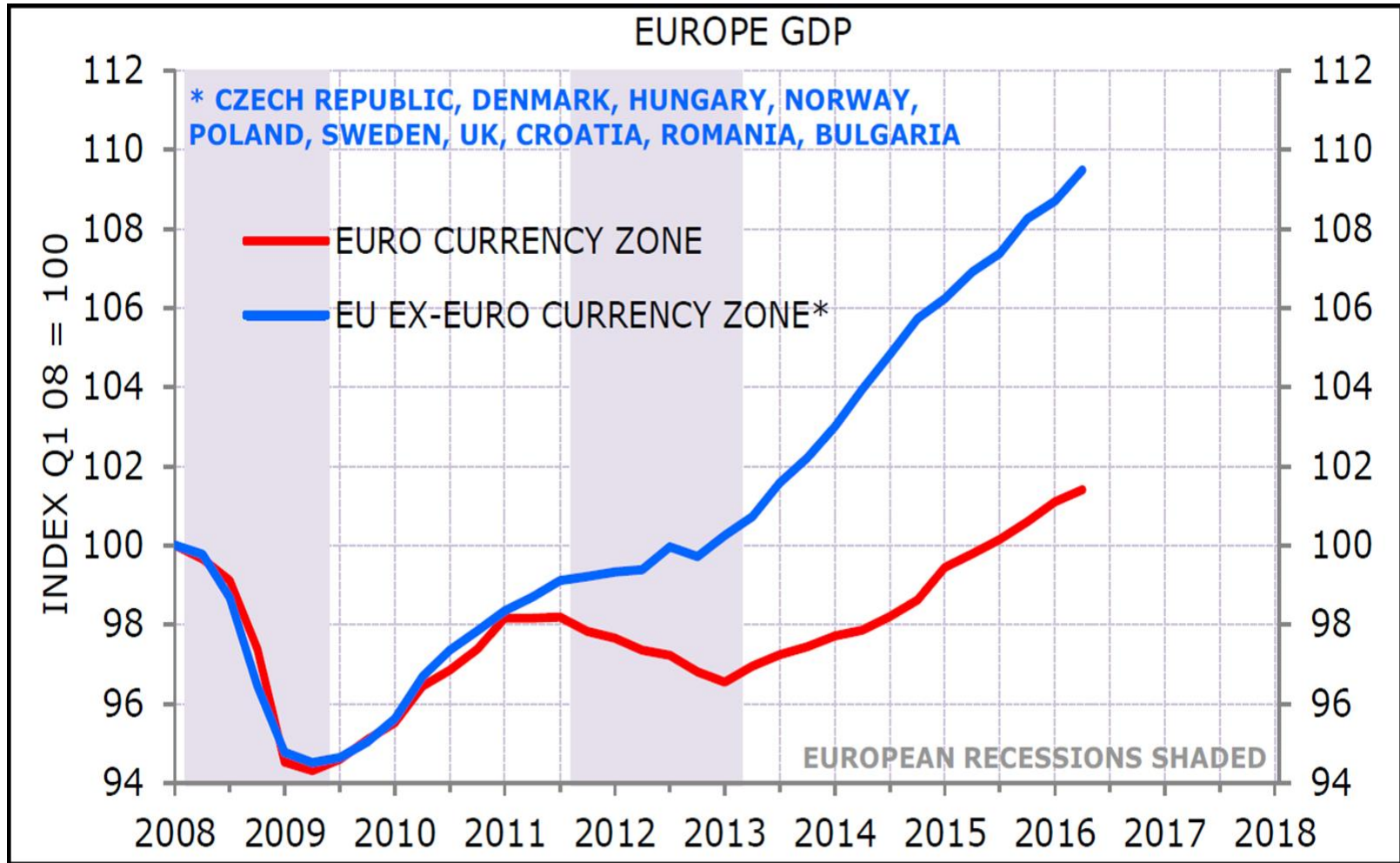
Source: Ned Davis Research, [www.marketwatch.com](http://www.marketwatch.com)

# US Effective Corporate Tax Rate and Top Federal Marginal Corporate Tax Rate, 1950 – 2016 <sup>20</sup>



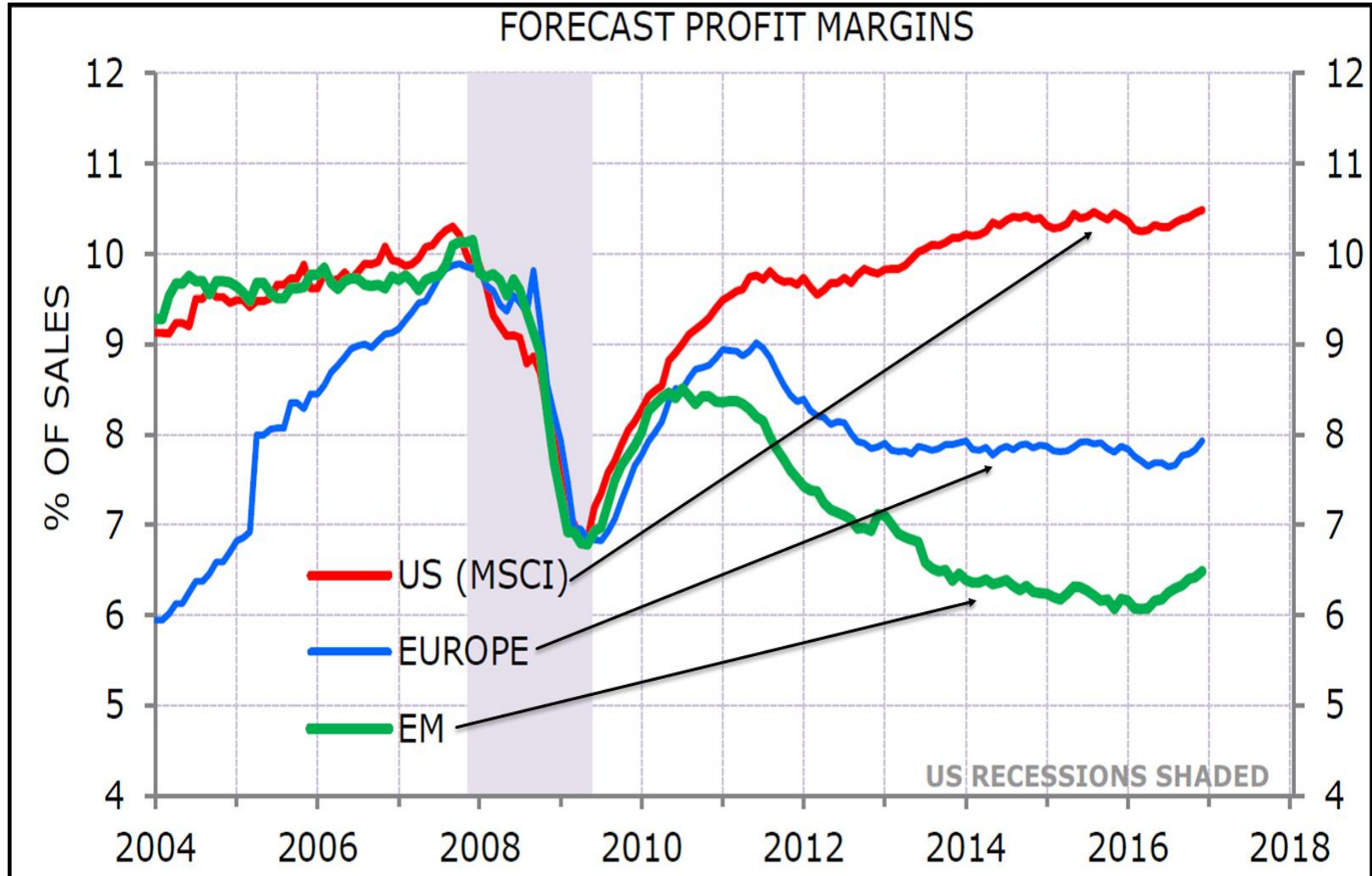
Source: The Bank Credit Analyst

# Europe without the Euro performs better: Europe GDP, 2008 - 2016



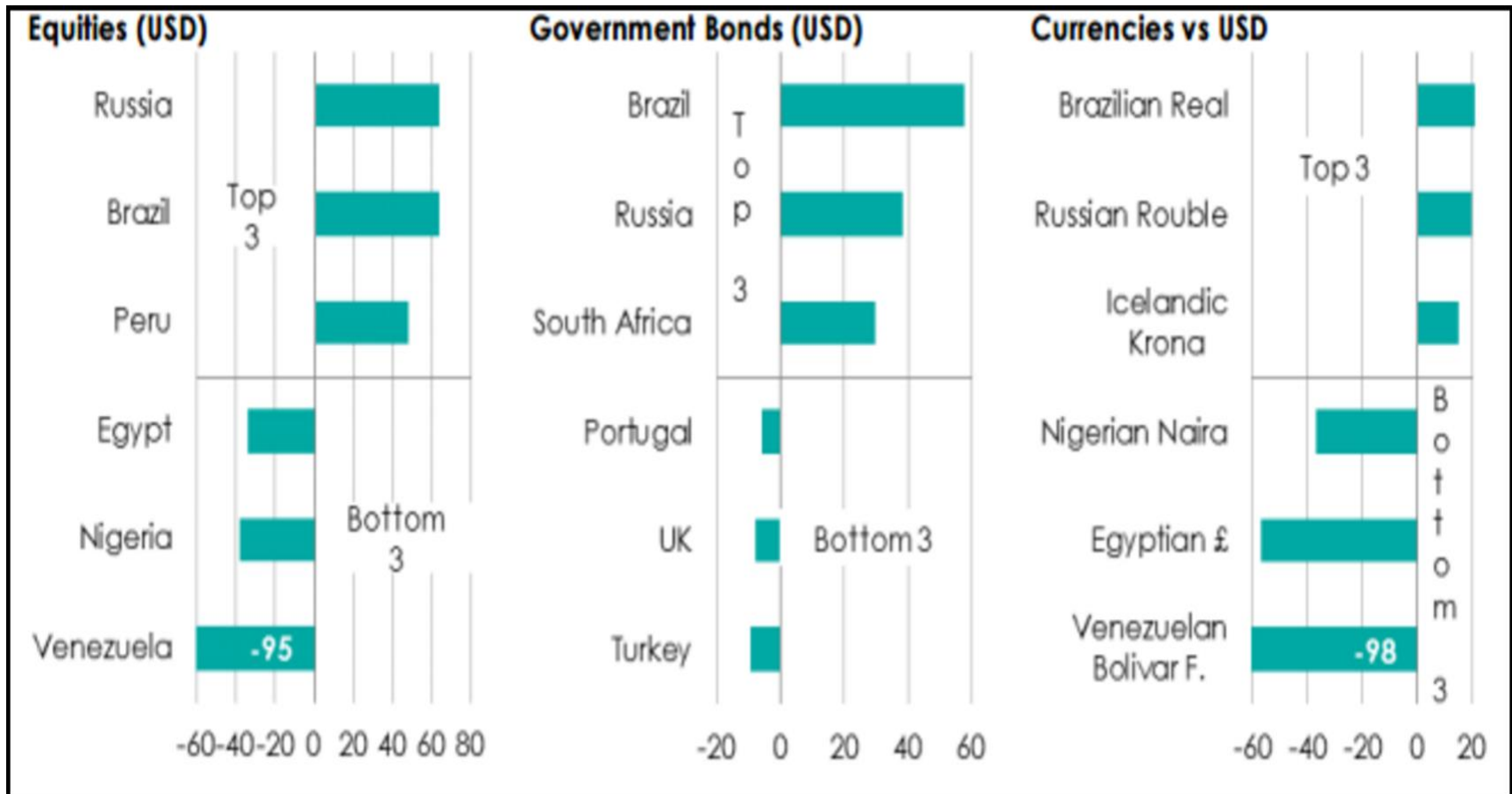
Source: Gerard Minack, Minack Advisors, [www.minackadvisors.com](http://www.minackadvisors.com)

# Corporate Profit Margins, 2004 - 2016



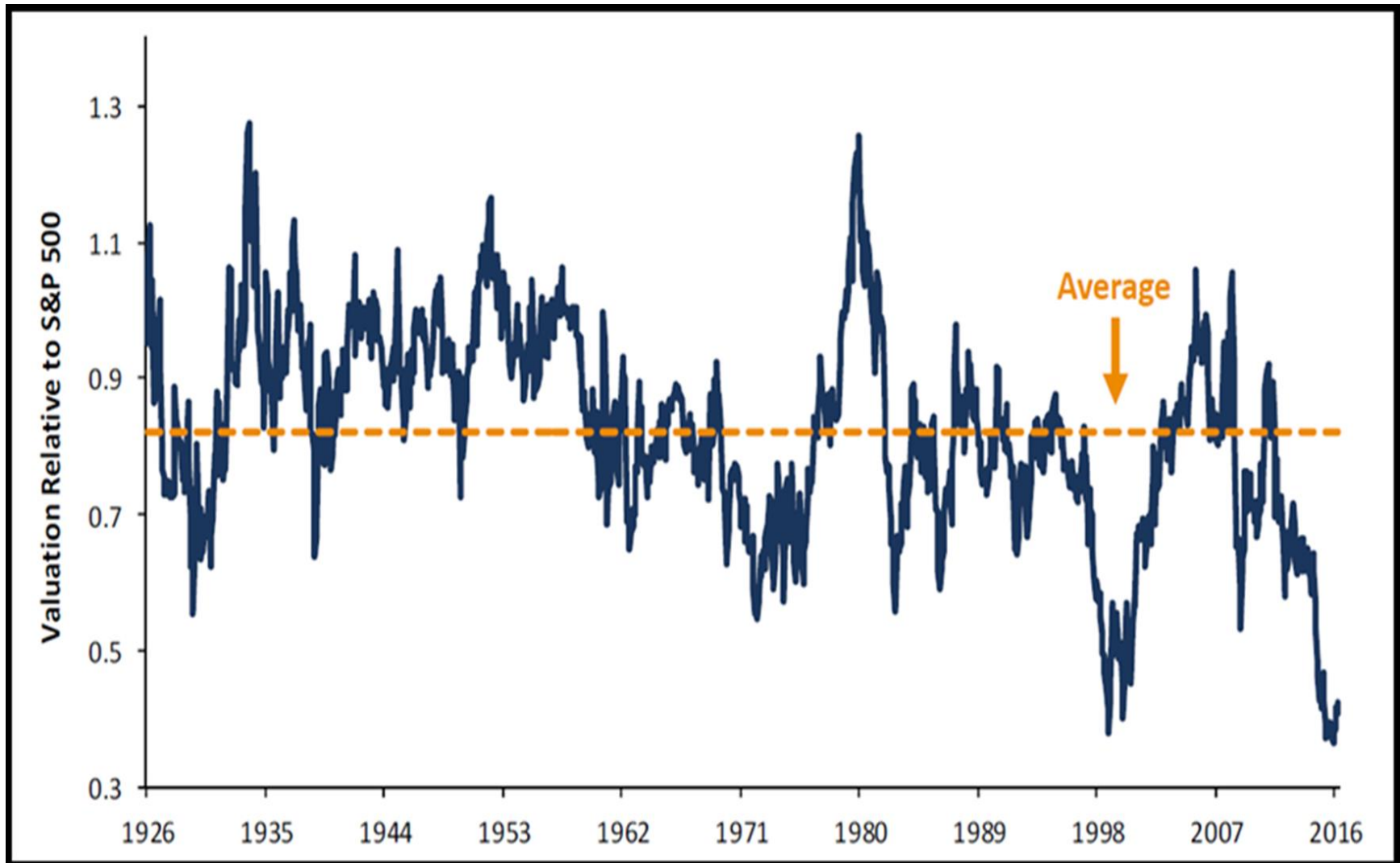
Source: Gerard Minack, Minack Advisors, [www.minackadvisors.com](http://www.minackadvisors.com)

# Top and Bottom Performers by Asset Class in 2016 (Total Return in Percentages)



Source: Bloomberg, Datastream, Rupert Hargreaves, ValueWalk

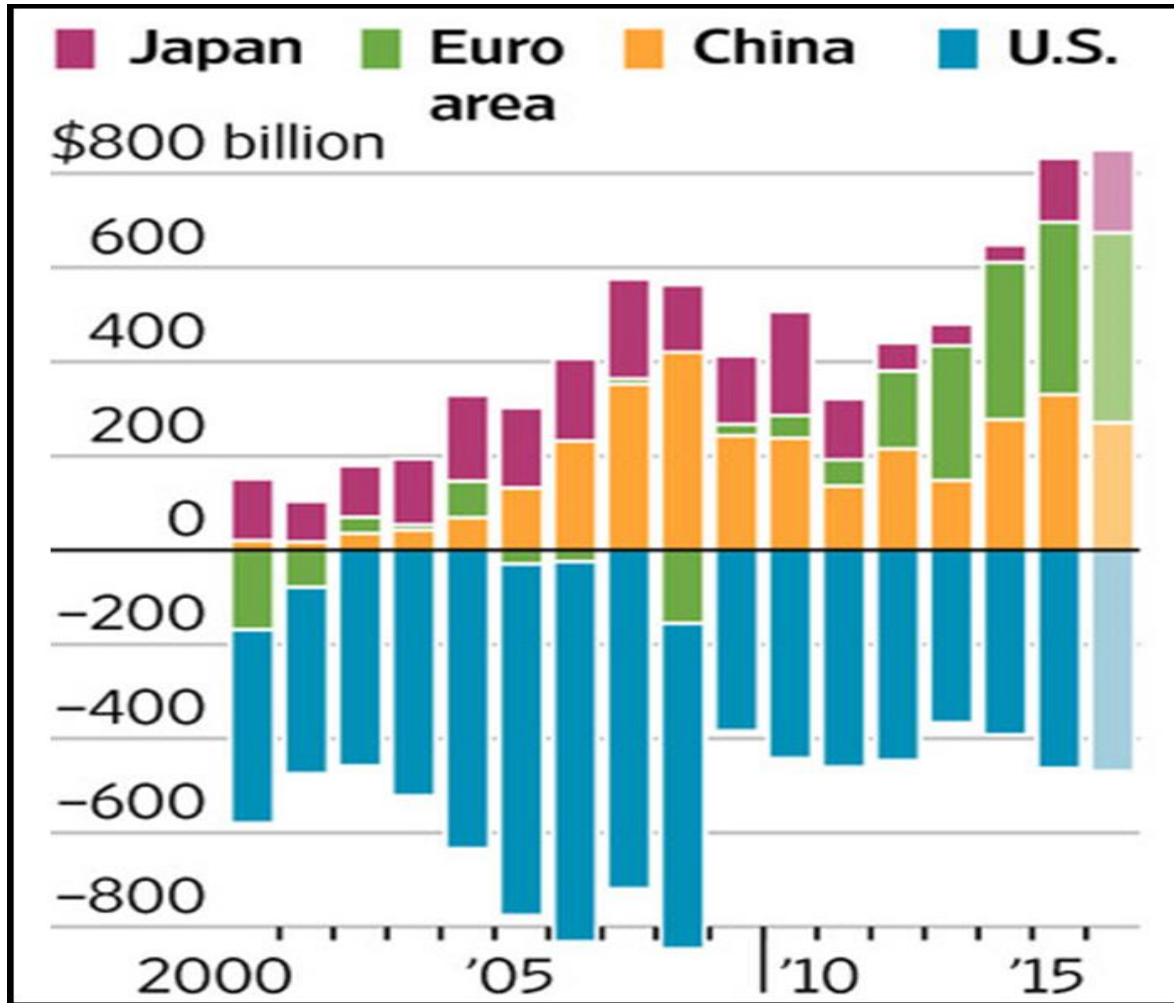
# Valuations of Energy/Metals relative to the S&P 500 (1926 – 2006) are around all-time Lows



Source: S&P, MSCI, GMO (Valuation metric is a combination of P/E (normalized historical earning), Price-to-Book Value, and Dividend Yield

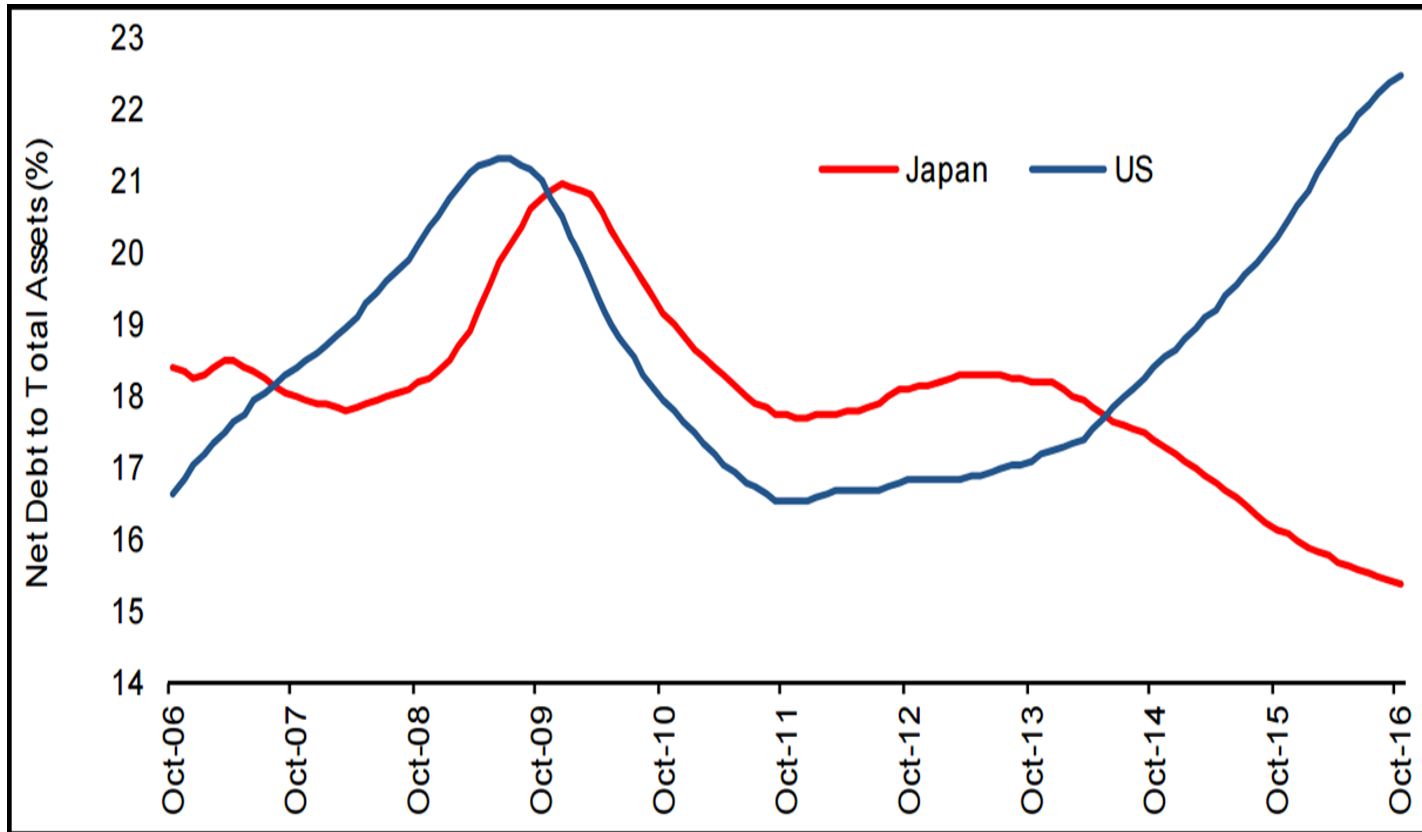


# Combined Current Account Surpluses/Deficits, 1999 – 2016 (2016 Estimates)



Source: IMF, Federal Reserve Bank of St. Louis, The Wall Street Journal

# Japan has deleveraged in Response to lower Growth; the US has done the exact Opposite (Net Corporate Debt to Total Assets in Percentage, 2006-2016)



Source: Andrew Laphorn, Societe Generale Quant

# Platinum-to Gold Ratio, 1976 - 2015



Source: Peter Rehmer, ([PeterR@Stillmont.BM](mailto:PeterR@Stillmont.BM))

# What is better than “*Too Big too Fail?*”



Source: Wasserman, The Boston Group

**Central Banks' financial Repression have forced 29  
me to buy Wine, where I get 13% for sure and  
which makes me Happy**



**Source: Thomas Caduff**

**[www.gloomboomdoom.com](http://www.gloomboomdoom.com)**

**Now, I shall go home to my Beer-Pool to  
which while speaking I added Jenny Wu**



# The Swamp is deeper than he imagined



Source: N/A