

Extreme Umbrage

By [The Mogambo Guru](#)

02/05/07 There's a lot of money out there.

And it has to go somewhere, said one hedge fund manager last week.

Where it's not going, for sure, is into American savings accounts.

Last week, a report from the Commerce Department told us what we already knew – that Americans are saving money at a lower rate than at any time in the last 73 years. Yes, dear reader, the last time Americans stored away so little of their earnings was back in the deepest depths of the deepest depression the country ever had. That was when a quarter of the workforce was unemployed...and when most women weren't even counted in the workforce. In other words, the last time savings rates were this low it was because of a major, major financial setback. People couldn't save back then; they had no money. Now, they could save...they just don't want to.

Where the money IS going is easier to figure out.

The Dow took a small step back...more like a hesitation than a back-step...and remains in record-high territory, thanks to the U.S. Federal Reserve.

But the NY-London financial industry is not the only culprit.

Seventeen years after the collapse of the Nikkei Dow (with Japan's key lending rates still down near zero and the Nippon economy growing) the Bank of Japan splashes around credit as if it were still fighting deflation and recession. What's a hedge fund to do when it's offered all that free money? The same thing as a homeowner. Take it.

More than \$1 trillion of mortgage debt was added in the United States last year – thanks largely to low lending rates worldwide. And the carry trade – where speculators borrow yen in order to buy higher-yielding assets – has risen to an estimated \$1 trillion in naked exposure.

Where does all that money go? As our anonymous source put it, it has to go somewhere.

How do you say 'bubble' in Mandarin...or Hindi? Stocks in China, Singapore and India are all exploding to the upside. The Chinese money supply, measured by M2, is rising at a rate of 16.9%.

And for now, at least, this wash of cash and credit shows no sign of ebbing. In fact, even in the United Kingdom, New Zealand and Australia, where property prices seemed to have peaked out a year ago, consumers did not stop spending...they just kept borrowing more!

And we keep turning up our warnings:

...you can't get something for nothing...

...never was there a bubble that didn't pop...

...and the force of a correction is equal and opposite to the deception that preceded it.

But who listens? Who cares? We are in an Age of Mammon.

People want money, success, stuff...and they want it now.

And they're going to get it...as we keep saying...good and hard.

But maybe not today...or tomorrow.

More news:

Chuck Butler, reporting from the EverBank world currency trading desk in St. Louis...

“Friday’s Jobs Jamboree sure didn’t work out the way the ‘strong economy campers’ thought it would. While December’s total was revised upward to 206K, January’s total jobs created came in a paltry 111K, and the unemployment rate ticked up to 4.6%.”

For the rest of this story, and for market insights, see today’s issue of The Daily Pfennig

And more views:

*** A tortilla crisis update...

Late last week, tens of thousands marched through the streets of Mexico City to protest the 400% increase in the price of tortillas. Earlier this month, Mexico’s president, Felipe Calderon signed a pact with a number of business groups that they would cap the price of tortillas at 8.5 pesos (77 US cents) per kilogram, but many have chosen to ignore the agreement, which is not legally binding, reports the BBC.

Mexico used to get cheap corn imports from the United States, but, as ethanol is all the rage in the U.S., the price of corn keeps going up – making this staple practically unattainable to Mexico’s poorest people.

Hey, but we won't let a little thing like starving people stop us from manufacturing ethanol...even if this alternative energy does not "save" all that much oil or natural gas, and may well be a one-for-one trade in terms of net energy produced.

"The U.S. is not gaining anything by focusing on the manufacture of corn-based ethanol," says our intrepid correspondent Byron King. "By throwing resources into corn-based ethanol, the U.S. will not supplant its dependence on foreign oil, nor produce a truly viable, large-scale alternative to gasoline consumption."

*** What is the 'Age of Mammon' all about?

Elizabeth explained it the other day. People have been disappointed with ideas and 'isms.' They want things...material success...money...status. It doesn't matter to them whether their government is communist (like China), or free market (like Hong Kong), or a mixed welfare/warfare empire (like the United States), just so long as it delivers the goods.

The New York Times reports on a new book called "Money Changes Everything," an anthology edited by Elissa Schappell and Jenny Offill:

"... issues of money – and the envy it causes – [are] creating more financial and psychological distress than we can imagine, psychologists and social scientists say. We overspend to keep up with neighbors and friends; take jobs we're not happy at to keep up a lifestyle we think we should have; and compulsively watch television shows that flaunt multimillion-dollar homes and exotic vacations."

One of the results of the credit explosion is that it makes it hard to tell who is rich and who is not. People can live as though they had money, even when they have none. Which puts a strain on the whole system of envy. A man tries to keep up with the Joneses...who may be only trying to keep up with him. Neither may realize that the other has no money. Both go into debt chasing a mirage.

"'All the ready credit gives of the illusion of living the American dream,' says Ms. Schappell. 'Economists report that middle-class families are now carrying record levels of credit card debt, going without health insurance and filing for bankruptcy at several times the rate of the early 1980s.'

"Turns out those McMansions and shiny S.U.V.'s have us mortgaged up to our eyeballs, but until the wolf is truly at the door, you won't find many of us admitting it."

And get this:

"Schappell said she now believes...that the old-fashioned ideal of working hard, saving and gradually making it is a bankrupt one. Instead, the way people envision growing rich, she said, is through a windfall: 'a malpractice lawsuit, the lottery or going on a reality show – it's the new American dream.'"

What do you expect when, for more than a decade, anyone who saved was penalized with miniscule interest rates?

*** While most people rush to spend all they have...and more...a small, but perhaps growing group of 'voluntary simplifiers' is attempting to spend less. These are people with the means to spend, but the will to save. Why? Probably for a number of reasons. Many may merely desire to save more money so they will have it available later. Others, though, want to turn away from the 'Age of Mammon.'

We are trying to do so in your editor's own household. But so far, it is an uphill battle.

"How come we don't get a new car?" Edward asked on Sunday.

"We don't need one."

"But it would be nice to have a better car."

"It's not necessary...and it would cost a lot of money."

"What's the point of saving money?" the 13-year-old wanted to know.

"So, we can give it to you when you grow up," answered his mother.

"But I'll just buy a new car. What's the point? Why not buy one now so you can enjoy it?"

We wondered the same thing.

*** It is too bad the masses don't read more Xenophon, Thucydides, and Suetonius. We live under an imperial power; it might be nice to know a little about how it works.

What the classics teach – in fact, what almost all history and literature teach – is skepticism and humility. Whenever some leader sets off on a crackpot plan to improve the world, the result is almost always disaster – if not immediately, eventually.

Yes, in the interim, fortunes are made by military contractors, politicians, and military leaders themselves. Reputations are burnished, before they are ruined. Statues are chiseled. Medals are handed out. There are often short victory parades – 'Mission accomplished!' – before there are long humiliating retreats.

Besides, who are we to know God's Own Plan? Maybe, in some poetic way, the sturm and drang of it – or the tales told by dying men and the tears wept by lonely widows – are worth the expense and suffering.

And who cannot feel prouder of his entire race when he sees a genuine hero?

Suetonius admired Caesar greatly, and reported that he never lost a battle:

“Caesar was perfect in the use of arms, an accomplished rider, and able to endure fatigue beyond all belief. On a march, he used to go at the head of his troops, sometimes on horseback, but [more often] on foot, with his head bare in all kinds of weather. He would travel post in a light carriage without baggage, at the rate of a hundred miles a day; and if he was stopped by floods in the rivers, he swam across, or floated on skins inflated with wind...”

Now, there was a real war president!

The Daily Reckoning PRESENTS: To say that the Mogambo is “angry” is like saying that the sun is “a little hot.” This week, he is FURIOUS about what some people are saying about retirement. Read on to see what has caused our enraged economist’s umbrage meter to skyrocket...

EXTREME UMBRAGE

If you want a good reason why we are screwed, and you suspect that it may be because of the quality of our educational system, then perhaps nothing could be more enlightening than “A Contrarian View: Save Less, Retire With Enough” from the New York Times.

The article starts out, “A small band of economists from universities, research institutions and the government are clearly expressing the blasphemy that many Americans could be saving less than they are being told to by the financial services industry – and spending more – while they are younger. The negative savings rate, they say, is wildly distorted.”

Before I went bananas at the utter preposterousness of this, I decided to read more, so that I wouldn’t be accused of “rushing to judgment.” That is when I read, “According to them, the financial industry, with its ostensibly objective online calculators, overstates how much money someone will need in retirement.”

To give everything a kind of surreal quality, the article then goes on to say, “A study last October by another group of economists, including two working for the Federal Reserve Board, found 88 percent of retirees age 51 and older had adequate wealth.” Hahaha! This is too, too much! We are talking about \$60,000 dollars or less! You can live as a retiree, for another thirty years or so, on \$60,000? Hahaha! The Federal Reserve is saying this, too? Hahaha! Gimme a break!

They ignore my laughing and making rudely disparaging hooting noises, and blithely go on to say, “Some, in fact, contend that financial firms have a pointed interest in persuading people to save much more than they need because the companies earn fees on managing that money.” Hahaha! Of course they do, doofus! It’s true! It’s always true!

It’s the same way that roofers think you need a new roof, the same way that housepainters think you need to paint your house, the same way that decorators think that you need a whole new “look” in the living room, and it’s the same way that your wife’s hairdresser thinks that you need to pay for an expensive “Oriental rejuvenating regimen” with rare oils, emollients and scented essences so that my wife’s hair will be beautiful and youthful. Like I’ll be, I guess, I dunno,

somehow happier about her kicking me in the groin if her hair looks nice or something. Well, we'll see!

But everything's a scam in the end, anyway, in one way or the other. Or, as I have heard it said, "Ninety percent of everything is crap."

Of course, the article goes on to say, "The findings of the economists are being met as most challenges to orthodoxy are: With stony silence or extreme umbrage." She quotes Christopher Jones, the chief investment officer at Financial Engines, as saying "I count myself as deeply skeptical."

If you are one of those people who enjoys dividing people up into groups, count me in with the guys who take "extreme umbrage" at such idiocy, as this may be the most ludicrous lunacy that has ever come out of an American university or the Federal Reserve. And I can prove it by simply noting that there is not one instance in all of recorded history, where the "people" had saved enough money to live comfortably in retirement, especially in an inflationary period, doubly especially when the inflation is caused by a fiat currency, triply especially when the banks operate with a zero reserve requirement (and thus achieve the ability to infinitely multiply the level of deposits), and quadrupely especially when the whole thing is to finance a large, suffocating government that now employs, directly, one out of every seven workers, and is the sole means of support for about a third of the country! Not one time! Ever! Not even close! Never!

And not only did the "people" not save enough money to retire, but they almost uniformly ended their years in penniless poverty as a burden on somebody, as the persistent inflation cruelly destroyed the buying power of what little money they had accumulated.

But I am supposed to believe that now, for no particular reason at all, inflation will suddenly cease? Hahaha! And retirement "nest eggs" will, for the first time in all of history, maintain their purchasing power against a guaranteed rising inflation, which will last from the instant of retirement through another few decades of this monetary insanity? Hahaha! Stop it! My sides are hurting from all the laughing! Hahahaha!

Hell, today, we are at the tail end of the biggest boom in American history, financed by the biggest, most irresponsible explosion of excess money and credit, measured over whole decades, built up whole trillions of dollars for longer than most people have been alive, when money incomes rose and rose, and accrued as never before to government contractors and the holders of equities.

And yet retirees are now unable to continue in retirement, and are in need of more and more goods and services (like the expensive new Medicare Prescription Drug Coverage) on top of the years and years of receiving more and more goods and services, always with the idea of government offsetting the persistent grinding of price inflation, primarily through rising Medicare and Social Security payments!

And the retirees are being given more things, too, to offset the inflation that is eating them alive, like special exemptions on their property taxes!

And yet, rubbing my eyes in shocked disbelief upon hearing such stupidity, there are these ostensibly educated, ostensibly sane people saying that now it is possible for most people to retire in comfort? This is too, too weird!

So, yes – for the love of God, yes! – put me in the group that takes “extreme umbrage” at these university eggheads and the equally ridiculous Fed studies, and further put me in the group of the subgroup group that registers in the “Extreme, very extreme, maximum extreme” range, past redline on the Umbrage Meter, as in, “Run for the freaking hills! It’s going to blow!”

But you don’t need no stinking Umbrage Meter to know that it is a Timeless Mogambo Truism (TMT) that nobody will EVER be able to save enough money when a central bank can create excess credit, and thus create debt, and thus create excess money, and thus create monetary inflation, and thus price inflation, because they will. They always (pause for dramatic effect) do.

And what is even more (now that I am getting myself worked up) I will tell you for a Freaking Mogambo Fact (FMF) that it works out that if you want to have a month’s income in retirement, then this requires that you save, at least, the equivalent of 100% of everything you spend in a month right now, and you do this every day of your life. In short, you must save everything you make, and live on nothing.

In chow and automobile-related terms, you need to invest a cheeseburger now to have a cheeseburger in retirement, and you need to invest a new car now to have a new car in retirement.

And there is no other way to do it, net of inflation, made worse by high taxes and the constant grinding down of your assets by the financial services industry with fees and expenses and charges.

And it ain’t theory, or math, or my Loud, Penetrating Mogambo Voice (LPMV) that makes this true; this is a grim fact of history, and all you have to do is look it up and work a calculator for about two seconds to prove it to yourself.

So, you want a scam? Without a doubt, the whole “everybody gets a secure retirement by investing in the stock market” is the biggest scam of them all, judging by the sheer number of people who believe such utter, utter nonsense.

Until next week,

The Mogambo Guru
for The Daily Reckoning
February 5, 2007

**** Mogambo sez: You should be buying gold, silver and oil stocks with every downtick in those markets. If you are, you will soon be wealthy. If not, you will soon be educated, which some say is almost as good. But it ain't.