

Paying more for Less Beer

By [The Mogambo Guru](#)

12/31/07 In a rare act of generosity, The Mighty Mogambo takes a group of 'students' out for beer and pizza for a little economic demonstration. What's the lesson they end up learning? Don't trust the Mogambo.

Bob Wood of Kaizen Managed Assets asked me point blank, "Are you going to pick up the check for a change or not?" and I said, of course, "Not". We looked at each other in stony silence for awhile, like I was going to be shamed into saying something gracious, like, "Okay, I'll buy lunch this one damned time, since it is Christmas and all. So Merry Christmas, you cheap bastard!"

But I didn't. I just looked at him. Obviously sensing that this was getting us nowhere, he asked, "Okay, then what do you think will be the event that causes everyone to, at last, know 'This is it!' and realize that we are freaking doomed like you and I have been saying all these years, and then things really fall apart because the rot has been exposed?"

The fact is that I don't know, as nobody ever knows, as precipitating events are only identified in hindsight. I know that if possible, however, it will be somehow blamed on me, just because everybody blames me for everything because they hate me or because I really AM at fault, which happens a lot, for some strange reason.

But one of the "this is it" harbingers could be rising unemployment. Chillingly, the Labor Department said that the number of Americans filing for initial jobless benefits rose a greater-than-anticipated 12,000 to 346,000 last week.

Or another "this is it" telltale sign could be huge market losses, and, again chillingly, from FT.com we learn that "Lehman faces legal threat over CDO deals." It seems that Lehman sold some collateralized crap in Australia, they lost money, and now the Aussies are huffy about it.

The part that really makes me laugh is when the article says, "The losses suffered by the councils and charities are further evidence of the damaging impact of the recent global credit turmoil as it spreads from sophisticated large investors to small communities round the world, and is increasingly starting to hurt mainstream, risk-averse investors such as local governments and pension funds." Hahaha! What morons!

This "everybody takes a small hit", instead of a few people taking a large hit, is the whole freaking point behind derivatives, you ignorant morons! The stupid theory is that risk has been spread around, and now everybody suffers a little misery, instead of the scumbag banks and the Wall Street sharpies having to absorb all the losses themselves, even though it seems fair since they made all the damn money!

And don't look at me with that incredulous look on your face! I mean, the average stockholder and the average bondholder have been continuously losing money for years and years! They don't raise a stink because they don't know it, because they cannot comprehend the idea that they have lost money when the money loses buying power, even though the amount of dollars in the accounts has actually grown!

Even saying, "You invest 10 pizzas to get back 3 pizzas" doesn't make an impact with them! It's like they are drugged or something!

So, as part of an instructional fieldtrip exercise, I volunteer to take everyone out for lunch. Once there, I deliberately order one pizza and one pitcher of beer. I say, "This pitcher of beer is like new credit from the Federal Reserve showing up in the banks! The beneficiaries are the ones who are first in line to tap this credit", whereupon I grab the pitcher and chug-a-lug about a quarter of it and spill about a quarter of it down my shirt and pants, slopping onto the table and splashing onto other people.

I laugh, "Hahahaha!" as I wipe my mouth on my sleeve. "See?", I say to them. "See how I get the benefit? And see how you get a measly half pitcher of beer that costs as much as a full pitcher? This is the exact effect of inflation in prices that comes about as a result of an increase in the money supply, namely an increase in Total Fed Credit!"

I knew that I had made a mistake when they did NOT generalize the important lesson in the beer-as-new-bank-credit parable, and were grumbling about what a pig I am and how I got beer all over them and whine whine whine.

Then the pizza arrived, and it was cut into six pieces, which was pretty convenient because I could eat three pieces, and that means they could share the other three pieces among the seven of them.

But first, the Important Mogambo Lesson (IML).! I say, "Okay, here it is: You want to invest six dollars. Give me six dollars!" They thought that I was kidding until I demanded that they give me six dollars right now or I was going to give them a failing grade for this demonstration and probably kick the living hell out of at least one of them, probably a couple of the smaller girls, who promptly got out their wallets and came across with the six bucks

Money in hand, I said, "Okay, now I, as your Investment Professional, will buy six slices of a pizza as your investment. As an Investment Professional that makes more freaking money in a week than you make in your entire life, I will take, as my fee, one piece of the pizza."

I take the one slice of pizza and say, "Now, we wait as the investment grows in value!" Then I start eating the slice of pizza as the class looks on, watching me bite and chew, slobber and burp, usually making weird little farting noises and licking my disgusting fingers. Finally, after what seems an eternity, I am sure, I say to them "Okay! Investment growth period is over! Time to cash in! Whoopee!"

I turn to Tony, the proprietor of the pizza shop, and I say "Tony! How much is a medium pizza today?" and he says "For the last damned time, damn it, my name is not Tony! My name is Bob, you irritating old man! And a pizza is still 12 bucks, just like it was yesterday when you came in here with that other class and screwed them out of pitcher of beer and a pizza with that same stupid 'lesson' scam of yours!"

So I announce to the class, "Behold investment genius! You invested six dollars to buy a whole pizza consisting of 6 slices (one dollar per slice), and the pizza is now worth 12 dollars (two dollars per slice)! You have doubled your investment!"

"Now I will take another slice as my fee, and another slice as the taxes due on the capital gain, leaving you with 3 pieces of pizza worth 2 dollars each, for which you paid only a dollar each! You are investing geniuses!"

When I first thought up this scam, I thought I would have to run away because they would soon see how I really cheated them. Then I found out that they never did see how I cheated them. Then I found out that the entire retirement system of the United States is actually composed of this very thing!

Except that at the national level, there is nobody named Tony saying his name was Bob claiming that somebody owed him six more dollars for a pizza, and another four for the beer! By this time, I am gone and, like Greenspan, saying that none of it is my fault, and that there is crap in my pants because somebody else crapped in my pants!

Until next time

The Mogambo Guru
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Mogambo sez: Gold, silver and oil have been doing well for quite a long time, and gold, silver and oil are currently doing very well, and will be doing very well for a long, long time, whereas common stocks and bonds have not been doing well, nor are they doing well, nor can they in this inflationary environment, which will make gold, silver and oil do very well in the future, and do well for a long, long time, which is where we originally came in, only richer, which is the whole point of the thing!