November 2024

From the front page of last weekend's WSJ:

Indexes Gain, Cap Best Month Of 2024

BY CHELSEY DULANEY AND JACK PITCHER

… The Dow and S& P 500 delivered their biggest monthly percentage gain of 2024, according to Dow Jones Market Data. The small-cap Russell 2000 climbed, lifting its monthly gains to around 11%.

Donald Trump's U.S. election victory in November ignited a market rally as investors bet proposed tax cuts and deregulation would bolster corporate profits. His pledges to impose tariffs on key trading partners have been largely brushed off by equity traders, although some areas such as auto stocks have taken a hit. …

In the bond market Friday, the 10-year Treasury yield fell to 4.192%, down slightly from its level a month ago. In the coming week, investors will have their eye on a spate of data releases, including construction spending and the November jobs report. They are also set to hear from Federal Reserve officials including Chair Jerome Powell.

Markets have been boosted by hopes that interest rate cuts will help propel both the economy and investors' risk appetite. But Fed officials more recently have signaled that they could pause rate cuts if inflation progress stalls because of the strength of the economy.

In the minutes from the Fed's most recent meeting released earlier this past week, policymakers saw the risks of a more pronounced slowdown in the labor market or the economy as having diminished since the September meeting.

On Friday, derivatives traders were pricing in a roughly two thirds chance that the Fed will cut interest rates by a quarter point again in December, according to CME Group. They then see the central bank holding rates steady at its January meeting. …

From BCA Research's Global Investment Strategy on Thursday:

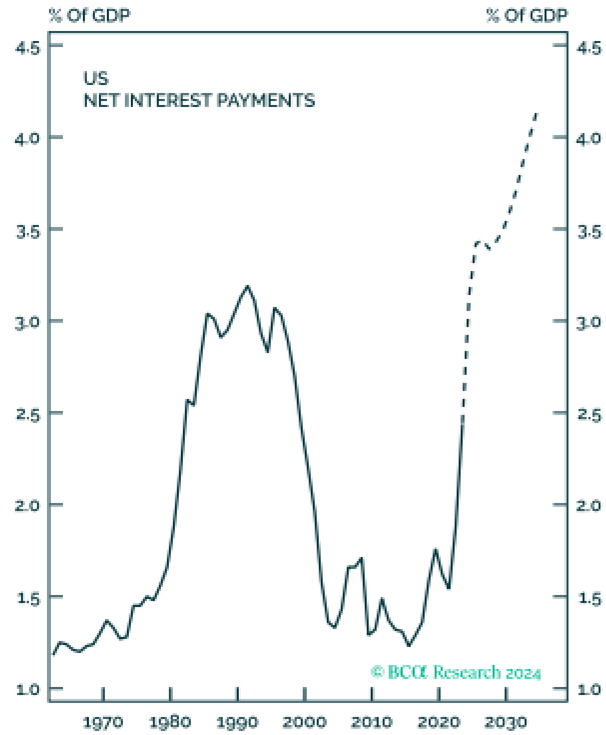
Peter Berezin's Thought Of The Day: The Most Beautiful Word In The Dictionary

On October 15, speaking at the Economic Club of Chicago, Donald Trump called tariffs "the most beautiful word in the dictionary." On Monday, he put those words into action by threatening to slap a 25% tariff on all imports from Canada and Mexico, and an additional 10% tariff on Chinese imports. Collectively, the three countries account for 45% of US imports.

Most investors I speak with think Trump is bluffing; that he will back down as soon as he receives some concessions (as he seemingly did with his post on Truth Social yesterday). However, I don't think it is as simple as that. For Trump, tariffs are not a means to an end. They are an end in itself. He wants to erect a protectionist wall around the US because he really does believe that other economies are ripping off America.

CHART 1
This Is Not 2016

CHART 2
Interest Payments On The Federal Debt Are Soaring



SOURCE: US CONGRESSIONAL BUDGET OFFICE.
NOTE: DASHED LINE DENOTES FORECASTS THAT ASSUME THE SUNSETTING OF THE TCJA ACT.

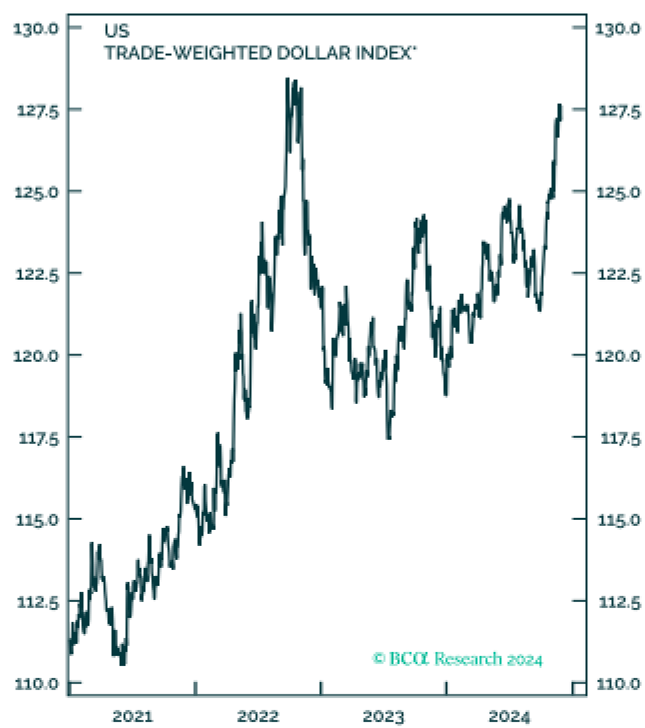
Plus, he needs the money. This is not 2016 when the 10-year TIPS yield was zero (**Chart 1**). Real yields are close to 2% and interest payments on the federal debt are soaring (**Chart 2**).

I see four main economic implications for the US economy from the coming trade war:

First, higher tariffs will raise import prices, depressing real household disposable income in the process. I realize that Trump does not think this will happen, but this is what the evidence says. A particularly clean example, so to speak, occurred in early 2018 when the Trump administration hiked tariffs on washing machines. Not only did the price of imported washing machines rise in response to the tariffs, but prices of domestically produced washing machines increased too. To boot, dryer prices also went up, even though they were not subject to tariffs.

Poorer families spend more of their income on goods than richer ones. This makes tariffs a regressive form of taxation. According to the Institute on Taxation and Economic Policy, a 60% tariff on Chinese imports coupled with a 20% tariff on all other countries will reduce real income for the bottom quintile of income earners by 5.7%, but by only 1.4% for the top 1%.

CHART 7
The Trade-Weighted Dollar Is Strengthening



* BROAD, NOMINAL. SOURCE: FEDERAL RESERVE.

Second, higher tariffs will increase business costs. More than half of global trade consists of intermediate goods, which will be subject to higher tariffs.

Uncertainty over trade policy will also depress investment spending. In fact, according to the IMF, more than half of the damage to global growth from tariffs will stem from firms deciding to sit on their hands while they ascertain the fallout from the trade war. Higher business uncertainty is one reason why manufacturing construction failed to rise during Trump's first term in office, despite lower corporate taxes.

Third, by curbing demand for imports, higher tariffs will push up the value of the US dollar. A stronger dollar, in turn, will limit exports and reduce the dollar value of overseas revenues. A standard rule of thumb is that every 1% appreciation in the trade-weighted dollar lowers S&P 500 EPS by 0.25%. The trade-weighted dollar has strengthened by 1.9% since the election and 4.8% since late September (Chart 7).

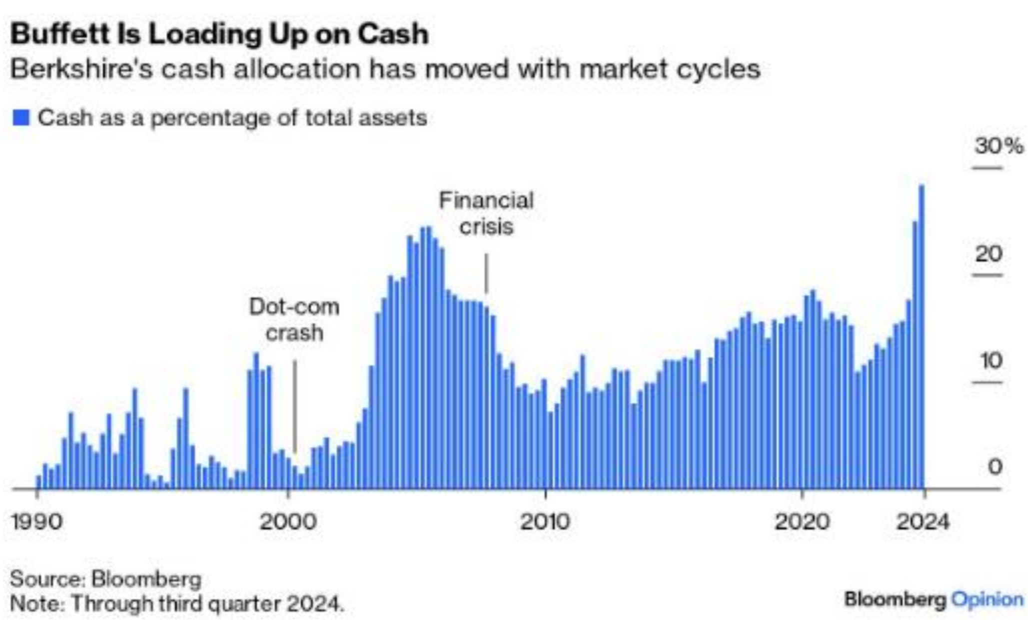
Fourth, higher tariff-induced inflation could force the Fed to curtail the pace of rate cuts and perhaps even raise rates. A scenario analysis conducted by the Fed in September 2018 implied that it should look through the impact of tariffs on prices, but only if inflation expectations remain well anchored.

Having been badly burned by the "transitory" narrative three years ago, the Fed might be reluctant to label the inflationary consequences of tariffs as transitory again. This could cause the yield curve to re-invert while weakening equity prices.

From Bloomberg's Weekend Edition – The Forecast:

"The market capitalization of US stocks is approaching $62 trillion — more than twice the size of the economy, and at a ratio that Warren Buffett explicitly warned about more than two decades ago… Buffett commented back in 2001 that 'if the percentage relationship [between market cap and GDP]… approaches 200%… you are playing with fire.'" — *Ven Ram, Macro View*

From Bloomberg's Nov. 21st Evening Briefing:



Berkshire Hathaway reported its stock holdings last week—a widely anticipated quarterly update of Warren Buffett's latest trades. But those moves have been overshadowed by Berkshire's $325 billion cash hoard, Nir Kaissar writes in *Bloomberg Opinion*, nearly double the company's cash balance at year end and the most Buffett has ever amassed. It also comes at a time when Buffett's favorite valuation gauge—a ratio of the stock market's value relative to the size of the US economy—is at a record high. ...

Follow-ups

From the WSJ:

'I Don't Know Where to Turn or What to Do.' His $763,094 Retirement Fund Is in Limbo.

Richard Whitacre transferred his entire 401(k) into an account offering a 'guaranteed' 15.25% return. Will he ever see his money again?

By Jason Zweig
Nov. 22, 2024

Richard Whitacre's life turned upside down in 2023. First the industrial mechanic in Pasadena, Md., got laid off from his longtime job. Soon after, he was diagnosed with colon cancer.

Then, out of nowhere, it seemed that a single investment would put Whitacre's life back on track. Through a friend, he heard about a firm called Yield Wealth and the "guaranteed" 15.25% return it was offering to investors on some products.

"I figured this is an amazing opportunity and I'll be set for life," recalls Whitacre, 60. He talked about it so obsessively, says his wife, Kimberly, that despite her misgivings she eventually told him, "It's your money, I have no clue, I don't care anymore, do what you gotta do."

In March, Whitacre withdrew his entire 401(k) from Fidelity—$763,094.21—and rolled it over into an individual retirement account with Yield, which was affiliated with a firm called Next Level Holdings.

Next Level is run by Paul Regan, whose history of financial infractions I detailed in columns on Aug. 30 and Sept. 20.

Now Whitacre, like hundreds of other investors who altogether put at least $50 million into these products, wonders if he'll ever see his money again. Many of these people may be in desperate tax trouble.

In early November, Next Level failed to send out monthly distributions to investors. Then, on Nov. 15, Next Level sent clients a notice that the firm would be "liquidating investments and winding up its affairs."

Whitacre and other clients were given no indication of when, or if, they would be cashed out, or how much they could expect to receive.

At the same time, American IRA, a firm that handles paperwork for investors who hold real estate, precious metals or other alternative investments in their IRAs, closed all accounts with assets at Next Level or Yield. American IRA's chief executive, Jim Hitt, says he broke things off after learning from my Aug. 30 column that in 2004 Regan had been barred for life from acting as a broker. “If we’d known that, we wouldn’t have done business with Next Level in the first place,” he says.

But American IRA’s closure of the accounts didn’t mean investors got their money back. Instead, on Nov. 18, American IRA sent out any residual cash in the accounts—at most, only a fraction of what people had invested—plus paperwork giving investors proof of title, akin to a certificate of ownership.

In theory, they can present that paper to Next Level to redeem, or cash out, their investment. But no one knows how much, if any, asset value is left to cover potential redemptions. Regan and his top lieutenants, Jonathan Guzmán and Christian Fernandez, didn’t respond to my numerous requests for comment.

Out of roughly 340 people known to have bought into Next Level and Yield, about two-thirds invested through an IRA or another retirement plan, according to people familiar with the accounts.

When you move retirement assets from one firm to another, that rollover must be accomplished within 60 days. Otherwise, the Internal Revenue Service will treat the transaction as a withdrawal, making the entire balance taxable at your ordinary income rate (unless it’s a Roth IRA). If you’re under the age of 59 ½, you also owe a 10% penalty.

But investors might not be able to roll over their Next Level or Yield holdings into another account. Several other firms have already declined to accept custody of these assets.

That could hand the Whitacres a tax bill well in excess of $100,000—without knowing whether they will have any cash from their Next Level investment to pay it with.

And if the worst comes to pass and they can’t recover any money from Next Level, the Whitacres wouldn’t be able to write the investment off on their taxes. That’s because realized losses within a retirement plan aren’t deductible even if they are the result of theft or fraud, says independent tax analyst Robert Willens.

How did investors get into this mess?

Next Level took down its website earlier this month, but pages are archived at the Internet Wayback Machine. The firm’s online marketing emphasized “iron clad guarantees” of 15% yields.

Among the investors who fell for this were many of the insurance agents and stockbrokers who sold Next Level or Yield. The agents invested several million dollars of their own money, according to people familiar with the matter.

“We all believed it was magic, the unicorn we’ve been looking for,” one insurance agent who sold Next Level tells me.

The pitch was at least as appealing to everyday investors.

“Back in 2022, I saw my stock-market portfolio drop like 40% in a very short period of time, and that didn’t make me feel happy,” says Jim Graham, 64, a retired project-management consultant in the Dallas area, who in August invested $776,000—100% of his retirement savings—in products from Next Level and Yield. One trumpeted a 10.5% annual yield; the other, 15%.

With the promise of such high income and a guarantee against loss, says Graham, “it sounded like a perfect solution.”

Now that Graham has no idea when—or if—he will get his money back, “you can imagine how it feels to have all your savings wiped out,” he says. “It makes me sick. It makes me depressed. It makes me very angry. It makes me feel stupid.”

Many investors were persuaded by Regan personally. According to audio recordings of sales calls with individual investors, which insurance agents who sold these products allowed me to review, Regan regularly closed the sales himself.

Among other claims, Regan told individual investors that he had worked at Goldman Sachs, was a chartered financial analyst and that the Securities and Exchange Commission had "approved" the offering.

However, Goldman says Regan never worked there, as he admitted to me in August; the CFA Institute, which administers the chartered financial analyst program, says it has no record of him; and it is a criminal offense to say that the SEC has approved a securities offering.

Pitching investments directly to individuals is likely a violation of Regan's bar from the securities industry in 2004, says Scopus Financial Group President Tom Selman, a former senior official at the brokerage industry's watchdog, the Financial Industry Regulatory Authority.

What's more, according to many agents and to audio recordings, Regan and Guzmán, his chief sales officer, repeatedly told their army of independent insurance agents that they didn't need a securities license to sell Next Level or Yield's products. Those products, however, appear to be securities and therefore a brokerage license would be required, says Selman. It is against state and federal securities laws for financial professionals to sell securities without a license.

"Let's pray we get something out of this," says Kimberly Whitacre, "but right now we can't even get answers." On Nov. 21, she learned that the insurance company Regan had said "guaranteed" her investment denied that it had provided such coverage, adding that "the paperwork and signatures of our officials were used fraudulently."

Richard Whitacre adds, "I don't know where to turn or what to do."

Most investors know that reaching for yield isn't wise. In this case, it appears to have been catastrophic.

It isn't pure, or simple, but it remains a speculative vehicle to be avoided. From the WP:

This is the golden age of bitcoin. You can thank Trump for that.

A likely reduction in regulatory protections could spell more volatility for the crypto industry.

By Adam Lashinsky
November 20, 2024

The election is over, and bitcoin is on the march. A spasm of enthusiasm over the election of Donald Trump has sent the most popular cryptocurrency to within striking distance of $100,000 per coin for the first time.

Even the most strident critic of cryptocurrencies — I qualify, having written repeatedly why bitcoin and its even-less-savory ilk should scare the bejesus out of ordinary investors — must acknowledge that the landscape has changed. Under Trump, once a skeptic and now a booster of cryptocurrencies, the newfangled digital assets are poised to make another breakout run.

The reasons have everything to do with politics and hype, and nothing at all with any new rationale for the worth of cryptocurrencies. They have almost no value in the traditional sense of the word. Yet the prospect of severely diminished regulatory scrutiny under a second Trump term and renewed promotional activity by wellheeled backers promises to become a self-fulfilling prophecy for the collection of hucksters who fancy themselves the "crypto industry."

Even after years of promises, there still are few legitimate uses for cryptocurrencies, no matter what crypto cheerleaders insist is an inflation hedge, a store of value, or a better form of international remittance. Or, as one wag put it to me: "No one has come up with a use case for owning bitcoin other than owning bitcoin."

That's not the whole story. Bitcoin and some other cryptocurrencies *have* proved valuable for three buckets of illicit financial transactions: criminal activity, terrorism and money laundering. The last of these is certainly real and possibly even desirable, depending on your point of view: The Wall Street Journal recently reported that Chinese investors are storing large amounts of cryptocurrencies on hard drives to evade their country's restrictions on moving assets overseas.

Trading cryptocurrencies has been hampered in the United States by regulators trying to protect individual investors. That's one reason Trump's return to Washington is so significant. Simply replacing Gary Gensler with a more crypto-supportive chair of the Securities and Exchange Commission is certain to release the feral animal spirits that have been contained to date.

Gensler has been locked in a battle with cryptocurrency backers, likening their offerings to stock issuances that require securities registration. Whoever Trump taps to head the SEC will likely push to treat these assets like commodities such as gold or pork bellies rather than stocks and bonds. That's in part because commodity regulators focus mostly on fraud rather than investor protection, and as such cryptocurrency issuers would have a much freer hand in a more lightly regulated marketplace.

Trump changed his mind on cryptocurrencies for the same reason he does most things: money. Crypto enthusiasts pumped upward of $135 million into backing candidates for office this year who supported crypto-friendly policies. Trump himself has also gotten in on the game. In the fall, during the middle of the presidential campaign, he and his sons announced a new crypto venture called World Liberty Financial. So far, the entity has failed to reach its initial fundraising goals.

Trump also has surrounded himself with crypto supporters. His choice to run the Commerce Department is Howard Lutnick, head of the financial firm Cantor Fitzgerald. That firm hosted a gathering for the faithful in Miami last week, the Crypto, Digital Assets, and AI Infrastructure Conference.

Among this crowd, one presently fashionable idea, which Trump endorsed on the campaign trail, is a strategic bitcoin reserve, similar to the country's strategic petroleum reserve. It's a nonsensical concept, of course, somehow tied to the argument that America needs to somehow stay ahead of other countries in the hoarding of an asset no one needs. It's telling, by the way, that the United States already holds significant amounts of bitcoin — most of which has been seized in criminal cases.

The upshot of all this has been a been a real Trump bump for crypto. The price of bitcoin is now around $94,000, up from about $40,000 in January. Shares of Coinbase, the largest exchange for trading cryptocurrencies — and a target of an SEC lawsuit alleging that it offered unregistered securities — are up by nearly 44 percent in the last month. There is no doubt there will be more demand for crypto if some of the forces holding it back are removed.

None of this, however, means cryptocurrencies will be a safer investment than they were before. If anything, they will become more dangerous. In their short lifespans, digital assets have been subject to wild price swings, given that they trade according to emotion more than anything else. A big rise now with fewer regulatory protections promises only more volatility in the future.

In that regard, bitcoin resembles what's been going on elsewhere in the investment world. In his annual letter to shareholders this spring, Warren Buffett lamented the "casino-like behavior" that didn't exist when he started his career. "The casino now resides in many homes and daily tempts the occupants." Speaking of Wall Street promoters, Buffett wrote: "Whatever foolishness can be marketed *will* be vigorously marketed — not by everyone but always by someone."

That someone, in Trump's second term, will be the crypto industry.

Adam Lashinsky is former executive editor of Fortune magazine and the author of "Inside Apple: How America's Most Admired — and Secretive — Company Really Works."

From the NYT:

Why Do So Many Americans Pass Up Bigger Social Security Checks?

Nov. 11, 2024

By Peter Coy
People get just 70 percent of their full Social Security benefit if they claim at 62, the full benefit at 67 and 124 percent of the benefit if they claim at 70. The gain from waiting is so big that it pays for most people to keep working, or even to dip deep into their retirement savings early to cover their expenses so they can delay claiming.

A 2022 study found that "virtually all" American workers then in the 45-to-62-year-old age group should wait beyond age 65 to start collecting Social Security checks. It said that more than 90 percent should wait till age 70, yet only 10 percent appeared to do so. Many started collecting checks on the first date they were eligible, once they turned 62.

To put it bluntly, people are making expensive choices. "The median loss for this age group in the present value of household lifetime discretionary spending is $182,370," the researchers found. For that amount of money, you could almost buy a Mercedes AMG-S63. Or, alternatively, pay a few medical bills. (The math for delaying benefits isn't quite as favorable now as it was in 2022, when that "virtually all" study came out, because of a rise in the interest rate that goes into the calculation.)

I'm interested in two things. One is why people make this choice when it is so often a mistake. The other is why our system makes it so easy for them to make this mistake. I feel about premature claiming the same as I feel about state-run lotteries, which prey on the desperate and the dreamers. I don't claim early and I don't buy lottery tickets. The mistakes other people make indirectly benefit me by decreasing payments and thus my tax burden, and that seems unfair.

A caveat: Delaying claiming isn't right for everyone. If you are in poor health or have other reason to think you'll die young, grab the government's money while you can. Likewise if you fear you'll have to declare bankruptcy unless the checks start coming. A report last year by the Center on Budget and Policy Priorities said that about 40 percent of people in their early 60s reported a disabling condition and that about 40 percent of recent retirees reported being forced out of work. For some such people, claiming Social Security early may be unavoidable.

That said, many other retirees can wait but don't. Suzanne Shu of Cornell has done deep research on the psychology of early claiming. She told me that a lot of people, when surveyed in their 50s, said they planned to claim late, understanding that the monthly benefit is higher for late claimers. But as age 62 approached, they crumbled.

"It's a bit like having a chocolate chip cookie in front of you on the table," she said.

The people who are most likely to crumble are those who perceive the benefit as a kind of possession, as opposed to a government benefit that's paid mostly out of the payroll taxes on current workers, she and John Payne of Duke found in a paper last year.

"Social Security is a program that most American workers think they already have as an endowment. They want it as soon as they can get their hands on it," she said.

People with a high degree of loss aversion are also likely to claim early, Shu and Payne found. That's counterintuitive, because by claiming early and getting smaller checks, they lock in a lifetime loss. But that's not how the early claimers see things, Shu, who has a doctorate in behavioral science, told me.

People who are loss-averse feel the pain of a loss more acutely than they feel the pleasure of an equal or even bigger gain. A highly loss-averse person frets about losing benefits by postponing claiming and then dying earlier than expected. That potential loss looms larger for the person than the more likely outcome of bigger checks over a normal life span.

Nudges to get people to claim later can cause them to claim even earlier, previous research found. For example, telling people how many years they need to live to do better by delaying claiming may cause many to fixate on the risk of an early demise. Graphing the benefits of delaying claiming doesn't help either, another study found.

In a journal article last year, Shu and three other researchers tested 13 interventions. The ones that worked got people to focus on behavioral norms, the possibility of feeling regret in the future from claiming too early, the benefits to one's future self from claiming later and the risk of living long and therefore needing the biggest checks possible.

I salute Shu and her fellow academics for trying to help. ...