October 2024

The banner headline from Thursday's WSJ:

TRUMP TRIUMPHS AGAIN

Also from the front page:

Dow Logs Biggest Gain Since 2022 as Outcome Stirs Investors' Hopes

BY KAREN LANGLEY AND RYAN DEZEMBER

Donald Trump's election victory powered the Dow Jones Industrial Average to its biggest gain in two years, with a broad market rally lifting shares of banks, industrial companies and small-cap firms that are expected to benefit from continued economic expansion.

The gains were widely distributed as Wall Street bet that Trump's promises of deregulation and tax cuts will further ignite an economy that already has posted strong gains in recent years. But sectors that were expected to benefit from Democratic policies, such as electric-vehicle companies and clean-energy related industries, declined sharply.

The promise of four years of Republican rule drove the latest rise in Treasury yields, reflecting expectations of stronger growth and inflation (which remains one of our two often repeated long-term concerns, the other being political dysfunction), while gold prices fell as fears that the election results would be contested and spark social unrest weren't realized. ...

Major stock indexes advanced to records. The Dow industrials soared about 1,508 points, or 3.6%, the biggest daily percentage gain since November 2022. The S&P 500 added 2.5%, while the tech-heavy Nasdaq Composite rose 3%.

Big winners included banks, which investors bet were poised to benefit from reduced regulation and a fresh acceleration in growth. ...

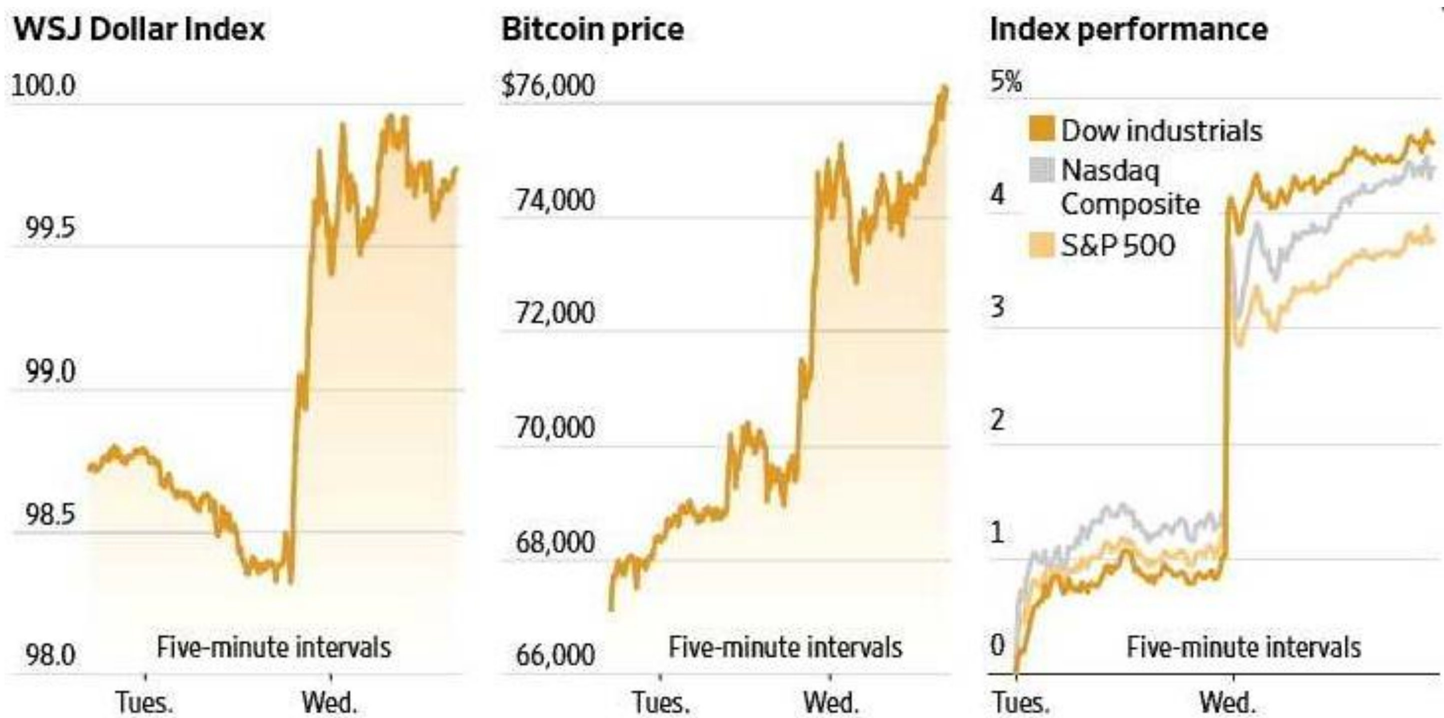
The prospect of lighter regulation and protective tariffs helped drive gains in industrials ....

Bitcoin rose 9.8% to $76,231.61, topping a previous record from March. Trump has said that he wants to make the U.S. the "crypto capital of the planet" and has pledged to create a "strategic bitcoin reserve." (We have previously shared how Trump's family has moved into crypto.)

At the same time, traders sought out companies and assets they expect to suffer during a second Trump term. ...

Investors' belief that Trump may break with the Biden administration's push into renewable energy and electric vehicles hit companies as far away as South Korea. LG Energy Solution fell 7% and Hanwha Solutions, which makes solar panels, dropped by 8.2%. In the U.S., First Solar fell 10% while Enphase Energy lost 17%.

Shares of Tesla, the electric- vehicle maker helmed by Trump ally and donor Elon Musk, bucked the trend, climbing 15%.



Sources: Dow Jones Market Data (index); CoinDesk (bitcoin); FactSet (index performance)

Investors sold bonds (which we repeatedly warn against), driving yields higher and widening the gap between yields on ordinary Treasurys and those on inflation-protected Treasurys. That is a sign they think that the policies of a second Trump term could put upward pressure on inflation.

Many investors also believe that Trump's tax-cut-heavy policies will add to the deficit, with the threat of a larger supply of Treasurys pushing down bond prices. The yield on the 10-year Treasury climbed to 4.425%, its highest closing level since July.

That hit firms and investments that are sensitive to higher bond yields. The S& P 500's consumer-staples sector declined 1.6% and the utilities segment lost 1%. The real-estate sector sank 2.6% (a sector we continue to favor long-term, with most clients holding approximately a 10% allocation).

Surging yields intensified a climb in the U.S. dollar, which was also boosted by the prospect of rising tariffs. Economists said tariffs can lift the U.S. currency by hurting the economies of foreign countries and discouraging Americans from spending on imported goods.

The WSJ Dollar Index, which measures the U.S. dollar against a basket of 16 currencies, rose more than 1%. The Mexican peso lost as much as 3.4% against the dollar to its lowest level since August 2022, according to Dow Jones Market Data, before recovering. Trump recently said he could impose 200% tariffs on vehicles made in the country.

Early wins by Trump in key states assuaged fears that it could take days or weeks for the election to be called. The Cboe Volatility Index—the market's fear gauge—plunged to its lowest level since late September.

Some investors watched the rally with skepticism, worrying the market looked expensive even before Wednesday. Stocks in the S& P 500 traded Tuesday at 21.6 times the companies' projected earnings over the next 12 months, above a 10-year average of 18.4, according to FactSet.

“Markets were already rich going into this election,” said Lisa Shalett, chief investment officer at Morgan Stanley Wealth Management. “Today they’re 2% richer and nothing about earnings fundamentals has changed.”

The S& P 500 had risen 21% through Election Day, its best performance in a presidential election year since 1936, when Franklin Roosevelt was in office.

Also from Thursday's WSJ:

Parsing the Market’s Reaction

By James Mackintosh

Markets are clear about what Donald Trump plans for his return to the White House: Stocks are up, the dollar and Treasury yields soared, and so did banks and bitcoin.

All are easy to fit to Trump’s promises. Corporate tax cuts almost automatically boost stocks, tariffs almost automatically mean a stronger currency, bigger deficits mean higher bond yields and easier regulation helps bank stocks and bitcoin.

Whether this knee-jerk reaction proves right in the longer run is another matter. ...

The 30-year yield was up by the most in a day since the darkest days of the pandemic in 2020. It is an indication that the out-of-control deficits run by both Presidents Biden and Trump will continue indefinitely.

The second issue is the impact on the economy of Trump’s two leading policies: immigration and tariffs.

If he follows through on the promise to deport millions of immigrants who entered the country illegally, it would be a major supply shock, reversing one of the issues that has helped to cool the jobs market and reassured the Federal Reserve that inflation is back under control.

Supply shocks mean higher inflation and slower growth, and are typically bad for stocks. Any hint of renewed inflation worries would push up bond yields, again bad for stocks.

The promised rise in tariffs has a textbook effect, boosting the dollar. Foreign currencies have to adjust down so that prices in dollar terms remain about the same after tariffs, exactly what happened in 2018 when Trump raised tariffs on China. If he goes ahead with across-the-board tariffs— plus 60% on China and special higher levels on Mexican car imports—the dollar should get a bigger boost.

Traders are on top of this, with the dollar up 1.8% against the euro, though initial large gains against the Mexican peso petered out. They are also betting big on smaller companies, which tend to be more domestically focused and so less hit by tariffs, with the Russell 2000 up 5.8%, double the gain for the S& P 500.

The effect on the currency could be partially offset by foreign tariffs on U.S. exports and by the potential for a full-blown trade war of escalating import taxes. The rest of the world would be bigger losers from this than the U.S. This is because the U.S. runs a big trade deficit and because its exports are led by oil and aircraft parts, neither of which are likely to be targeted by other countries.

While the U.S. might be hit less badly than other countries if there is a trade war, it would still be hit. Slower growth in the U.S. in principle ought to hold back stocks and hold down Treasury yields—again, the opposite of the market's assumption.

The third issue that will determine the fate of the Trump trade is the starting point. Back in 2016 stocks were much cheaper, with the S&P 500 at 16 times forecast earnings. The S&P is now at 22 times forecast earnings, so a lot of good news is already in the price. Likewise, the 10-year Treasury yield is at 4.4%, against 1.8% in 2016, and the ICE U.S. dollar index is at 105, against 97. It was easier in 2016 for all three to rise, so any disappointment about the direction or speed of Trump's policies would hurt.

This leads into the fourth issue: history. Traders called Trump entirely wrong at least twice in 2016. The immediate reaction to his surprise win was a massive selloff in stock futures, which were limit-down, off 5%, overnight—exactly the wrong move. Bond yields and the dollar then soared for the rest of November and December as investors prepared for him to take office in January—before the dollar plunged for all of 2017, and Treasury yields and what were then regarded as "Trump trades" in the stock market pulled back.

Investors believe they have a handle on what Trump will do this time. But it isn't obvious that they are any better at assessing politics, or that Trump himself is any more predictable.

From Friday's Global Investment Strategy:

Raising Our US Recession Probability Following Trump's Victory

Trump Wins Bigly

The Trump trade kicked into high gear following the former president's decisive victory on Tuesday. The S&P 500 hit a record high while the US dollar strengthened. Treasury yields initially jumped after the election but have come back down over the past two days. Nevertheless, the 10-year yield is still up 67 bps from its lows on September 16.

This week's price action was reminiscent of what transpired in the wake of the 2016 election. What is seemingly forgotten, however, is that while the 10-year Treasury yield rose from 1.8% in October 2016 to 3.2% in November 2018, it dropped to 1.5% by August 2019.

The decline in yields in late 2018 and 2019 occurred because capital spending failed to rise significantly following the passage of the 2017 Tax Cuts and Jobs Act (TCJA). In addition, the first trade war, which began in earnest in July 2018, weighed on both US and global growth.

This time around, the potential size of any incremental tax cut is smaller than in Trump's first term, while the potential negative impact from a renewed trade war is larger.

Fiscal Policy Under Trump

With respect to the tax cuts, the non-partisan Committee for a Responsible Federal Budget has estimated that the extension of the provisions in the TCJA will increase the federal debt by $5.35 trillion over the next 10 years in its central scenario. Exempting overtime income from taxes would increase debt by a further $2 trillion. Ending taxation of Social Security benefits would raise debt by $1.3 trillion, while exempting tip income from taxes would increase debt by $300 billion. Lowering the corporate tax rate to 15% for domestic manufacturers and enacting and expanding tax breaks for small business would cost another $400 billion (**Table 1**).

TABLE 1

Fiscal Policy Under Trump

Summary of Trump Plan, Savings/Costs(-) (billions, 2026-2035)			
Policy Proposals	**Low**	**Central**	**High**
Extend and Modify the Tax Cuts & Jobs Act (TCJA)	-$4,600	**-$5,350**	-$5,950
Exempt Overtime Income from Taxes	-$500	**-$2,000**	-$3,000
End Taxation of Social Security Benefits	-$1,200	**-$1,300**	-$1,450
Exempt Tip Income from Taxes	-$100	**-$300**	-$550
Lower Corporate Tax Rate to 15% for Domestic Manufacturers	-$150	**-$200**	-$600
Enact or Expand Other Individual and Small Business Tax Breaks	-$150	**-$200**	-$350
Strengthen and Modernize the Military	-$100	**-$400**	-$2,450
Secure the Border and Deport Unauthorized Immigrants	$0	**-$350**	-$1,000
Enact Housing Reforms, Including Credits for First-Time Homebuyers	-$100	**-$150**	-$350
Boost Support for Health Care, Long-Term Care, and Caregiving	-$50	**-$150**	-$300
Subtotal, Tax Cuts and Spending Increases	**-$6,950**	**-$10,400**	**-$16,000**
Establish a Universal Baseline Tariff and Additional Tariffs*	$4,300	**$2,700**	$2,000
Reverse Current Energy/Environment Policies and Expand Production	$750	**$700**	$550
Reduce Waste, Fraud, and Abuse	$250	**$100**	$0
End the Department of Education and Support School Choice	$200	**$200**	$0
Subtotal, Revenue Increases and Spending Reductions	**$5,500**	**$3,700**	**$2,550**
Net Interest	**-$200**	**-$1,050**	**-$2,100**
Total, Net Deficit Impact	**-$1,650**	**-$7,750**	**-$15,550**

* THE UNIVERSAL BASELINE TARIFF IS ASSUMED TO BE 20% IN THE LOW-COST ESTIMATE, AND 10% IN BOTH THE CENTRAL AND HIGH-COST ESTIMATE. THE CHINESE TARIFF IS ASSUMED TO BE 60% IN ALL SCENARIOS. THE HIGH-COST ESTIMATE ALSO INCORPORATES REVENUE LOSS FROM POTENTIAL DYNAMIC EFFECTS, SUCH AS A REDUCTION IN GDP.
SOURCE: COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET.
NOTE: FIGURES ROUNDED TO THE NEAREST $50 BILLION.

We expect a full extension of the TCJA and at least some token moves towards reducing taxes on tips. A further reduction in corporate tax rates is possible, but far from certain. Unlike in 2016, when the Republicans had a 47-seat majority in the House, their majority this time will be much smaller. The other tax measures Trump has mentioned are unlikely to come to pass given their high price tag and the fact that Trump did not emphasize them heavily on the campaign trail.

On the spending front, the conventional wisdom is that Trump will not cut spending, partly because his working-class base relies on many government programs. I am not convinced of this. While certain programs such as Social Security and Medicare are off limits, there is a large Republican contingent within Congress that would like to cut Medicaid, food stamps, housing assistance, and other programs which target the poor. Although most of these programs are not huge in absolute terms, they generate sizable multiplier effects because their recipients generally spend whatever income or transfer payments they receive.

Gutting the federal bureaucracy is also likely to be a priority under a Trump administration. Elon Musk's proposed government efficiency commission would likely serve as cover for that effort. Excluding defense, veteran affairs, and homeland security, the federal government employs around two million workers.

An additional question mark surrounds the status of the IRA and the CHIPS Act. Scott Bessent, an economic advisor to Trump and a front runner for treasury secretary labelled the IRA a “doomsday machine for the budget” in an interview with CNBC on Wednesday. Donald Trump called the CHIPS Act a “bad deal” two weeks ago on Joe Rogan’s podcast. Tech sector manufacturing construction was showing signs of peaking even before the election. A repeal of tech subsidies could expedite that.

Tariff Man

The current tariff rate on US imports is 2.3%. That is up from 1.4% in January 2018, but down from a peak of 3.0% in February 2022. The decline in the effective tariff rate over the past few years partly stems from China’s efforts in redirecting some of its exports through countries such as Vietnam and Mexico that are subject to lower tariffs. Trump will clamp down on such practices, while also threatening to raise tariffs on most other countries, including American allies.

Whether Trump carries out these threats is open for debate. The consensus view among market participants is that, for the most part, he will not. Once again, I suspect the consensus is too optimistic.

For Trump, tariffs are not a means to an end; they are the end in themselves. Trump really does want to build a tariff wall around the US. That is why he routinely compares himself to William McKinley, who presided over the US when most government revenues derived from tariffs.

A recent study by The Budget Lab at Yale estimated that Trump’s tariffs would reduce real disposable income for the median US household by somewhere between $1900 and $7600 (equivalent to about 2.4% to 9.4% of median household income). Even if that money were entirely funneled back into tax cuts, the net impact on aggregate demand would be negative because tariffs disproportionately hurt lower-income consumers with high marginal propensities to spend.

Then there are the potential supply-side implications. ... losses stemming from supply-chain disruptions, diminished economies of scale, and retaliation. It also ignores the fact that more than half of global trade consists of capital equipment and intermediate goods.

At a time when capex intentions are already depressed in both the US and Europe, a trade war would lead to less capital formation, and ultimately lower growth.

How the Fed Responds

In September 2018, the Fed considered a scenario where the US imposed a 15% tariff on all non-oil imported goods and foreign economies retaliated with similarly-sized tariffs. In the case where the Fed reacted to the resulting increase in inflation by raising rates, the economy entered a mild recession. In the case where the Fed looked through the rise in import prices, GDP growth slowed to a snail’s pace of 0.5% but the economy avoided an outright recession.

The Fed concluded:

The more accommodative policy response considered here attenuates the output decline considerably relative to the previous scenario without much effect on inflation. Accordingly, the see-through policy would seem an appropriate response to a tariff hike. However, the desirability of this strategy depends on firmly anchored inflation expectations and the pass-through of cost shocks into inflation being relatively short lived. If those conditions do not hold, then the alternative approach assumed in the previous scenario could be more *attractive. In particular, inflation and inflation expectations might run persistently higher if the tariff hike leads workers to raise their wage demands or firms to raise their markups. These effects might be intensified in a very tight labor market.*

Since the Fed published this paragraph, inflation has been on a roller-coaster ride, first surging during the pandemic and then retreating towards more moderate – though still somewhat above-target – levels. The current level of the PCE deflator is 0.9% above where it would have been if consumer prices rose in line with the Fed's 2% target since 2008. Long-term inflation expectations in the University of Michigan survey stand at 3.1%, around half a percentage point higher than in 2018.

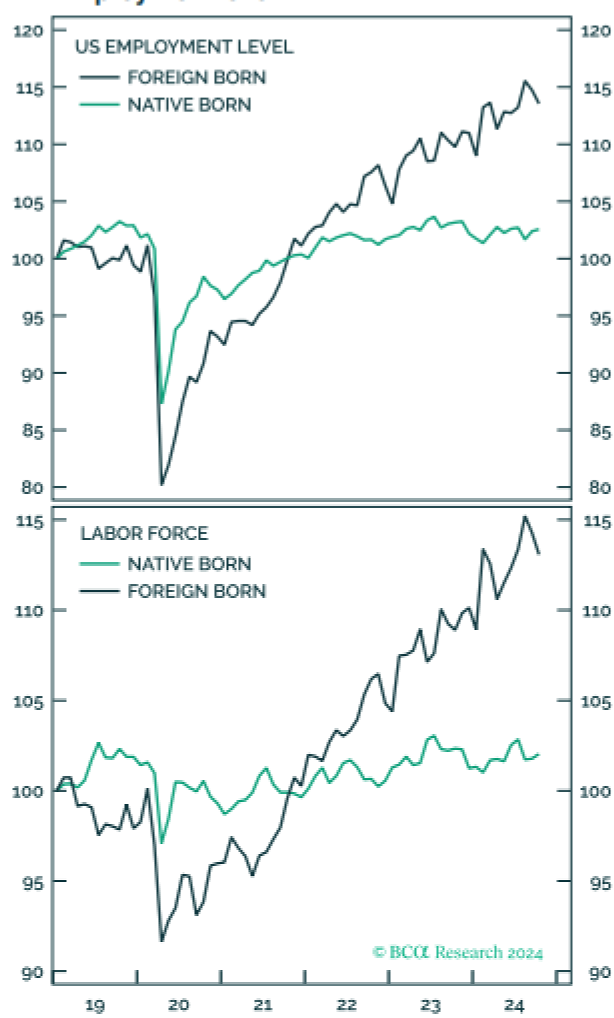
Having been so badly burned by the whole "transitory" narrative, our guess is that the Fed would be initially circumspect in cutting rates for fear that another rebound in inflation could unanchor inflation expectations. This could potentially exacerbate the economic downturn.

Immigration Crackdown

According to the Pew Research Center, there were 8.3 million unauthorized immigrants in the US workforce in 2022, accounting for 4.8% of the overall workforce. This number has almost certainly increased over the past two years given that immigration has accounted for nearly the entirety of labor force growth (**Chart 8**).

CHART 8

Immigration Has Accounted For Almost The Entirety Of Labor Force And Employment Growth



NOTE: ALL SERIES REBASED TO JAN. 2019 = 100.
SOURCE: BUREAU OF LABOR STATISTICS (BLS).

The Trump administration is highly likely to bring back its "Remain in Mexico" policy, which required migrants seeking asylum to remain in Mexico until their US immigration court date. Trump is also likely to end the Biden administration's policy of allowing up to a combined 30,000 migrants per month from Cuba, Haiti, Nicaragua, and Venezuela to come to the US legally.

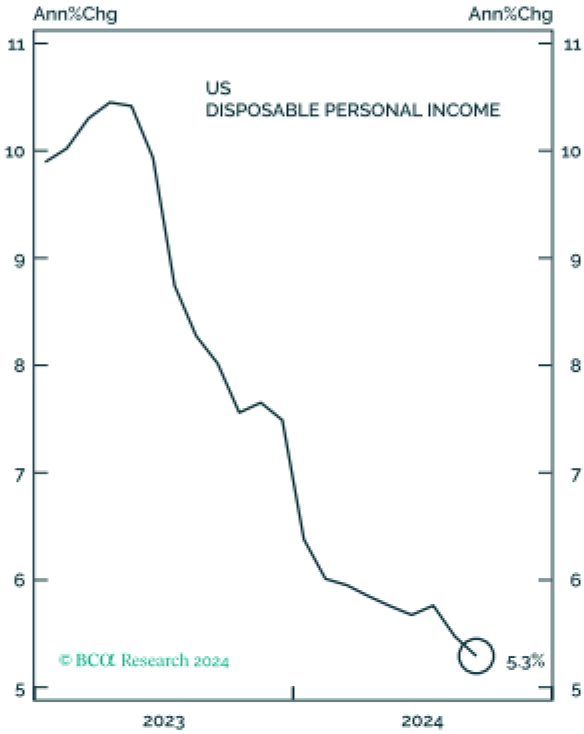
Deporting millions of illegal immigrants would be much more difficult. Our expectation is that the Trump administration will mainly focus on requiring companies to better screen job applicants for immigration status. This could erode the incentive for migrants to enter the US illegally.

A decrease in the number of immigrants entering the US would reduce the supply of labor. However, it would also diminish the demand for labor by curbing income growth, which has already been trending lower since mid-2023 (**Chart 9**). On balance, our sense is that an immigration crackdown would result in a modest tightening of the labor market but that other forces will play a much more critical role in determining the path for unemployment.

Labor Market Showing Cracks

CHART 9

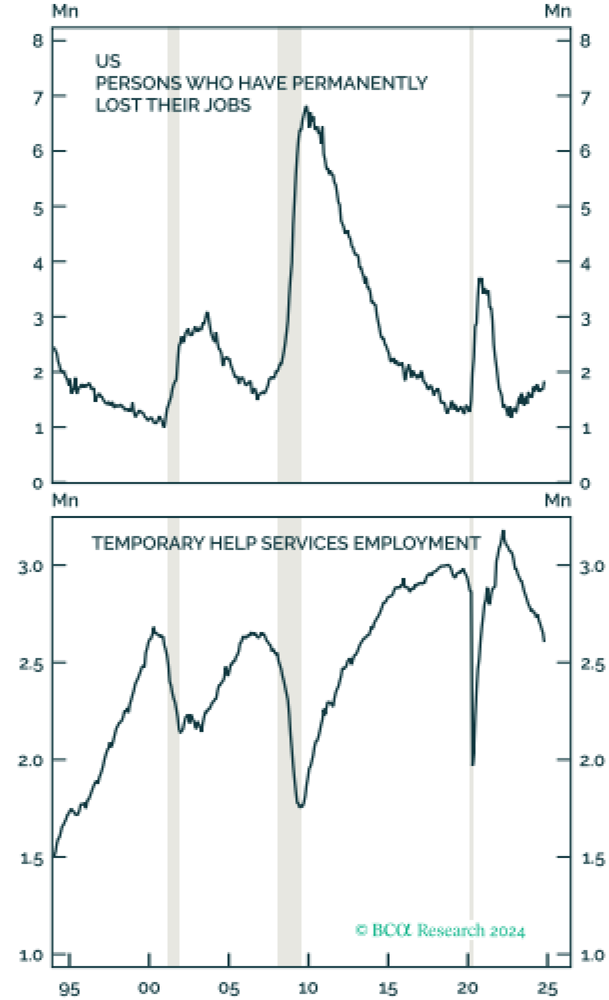
Disposable Income Growth Is Slowing



SOURCE: BUREAU OF ECONOMIC ANALYSIS (BEA).

CHART 13

The Number Of Permanent Job Losers Hit A Cycle High In October, While Temp Employment Continues To Slide



SOURCE: BUREAU OF LABOR STATISTICS (BLS).
NOTE: SHADED AREAS DENOTE NBER-DESIGNATED RECESSIONS.

Despite the consensus narrative about how the US labor market is in great shape, the data suggest otherwise. Payrolls grew by only 12K in October. While many commentators were quick to note that the hurricanes and the Boeing strike subtracted from payrolls, the fact that massive spending on the election probably inflated payrolls seemingly went unnoticed.

A refinement to its seasonal adjustment calculations prompted the BLS to revise down nonfarm payrolls by a combined 112K in August and September. A downward revision for October looks more likely than not: Had the BLS used the same seasonal adjustment factor this year that it used for September and October 2023, payrolls would have contracted by 53K.

Meanwhile, the official job vacancy rate published by the Bureau of Labor Statistics fell to 4.5% in September. This is exactly the level that Fed Governor Christopher Waller has identified as the tipping point at which unemployment could start rising rapidly if openings keep falling.

Unfortunately, the real-time data for October and early November suggest that openings continue to decline. Indeed's measure of total openings is down 2.2% since the end of September, while new openings are down 3.0%. LinkUp's daily estimate of job openings posted by the 10,000 global employers with the most job vacancies in the US has fallen by 4.9% over this period.

The growing difficulty that laid-off workers are experiencing in finding new jobs has pushed up continuing unemployment claims to a three-year high on a seasonally adjusted basis. On a non-seasonally adjusted basis, continuing claims are 17% higher than where they were at this time of the year in 2018/19. The number of permanent job losers hit a cycle high in October and is now more than 40% above where it was at the start of

2020 (**Chart 13**). Temp employment, which consistently weakens in the lead-up to recessions, continues to slide.

Bond Yields Are At Restrictive Levels

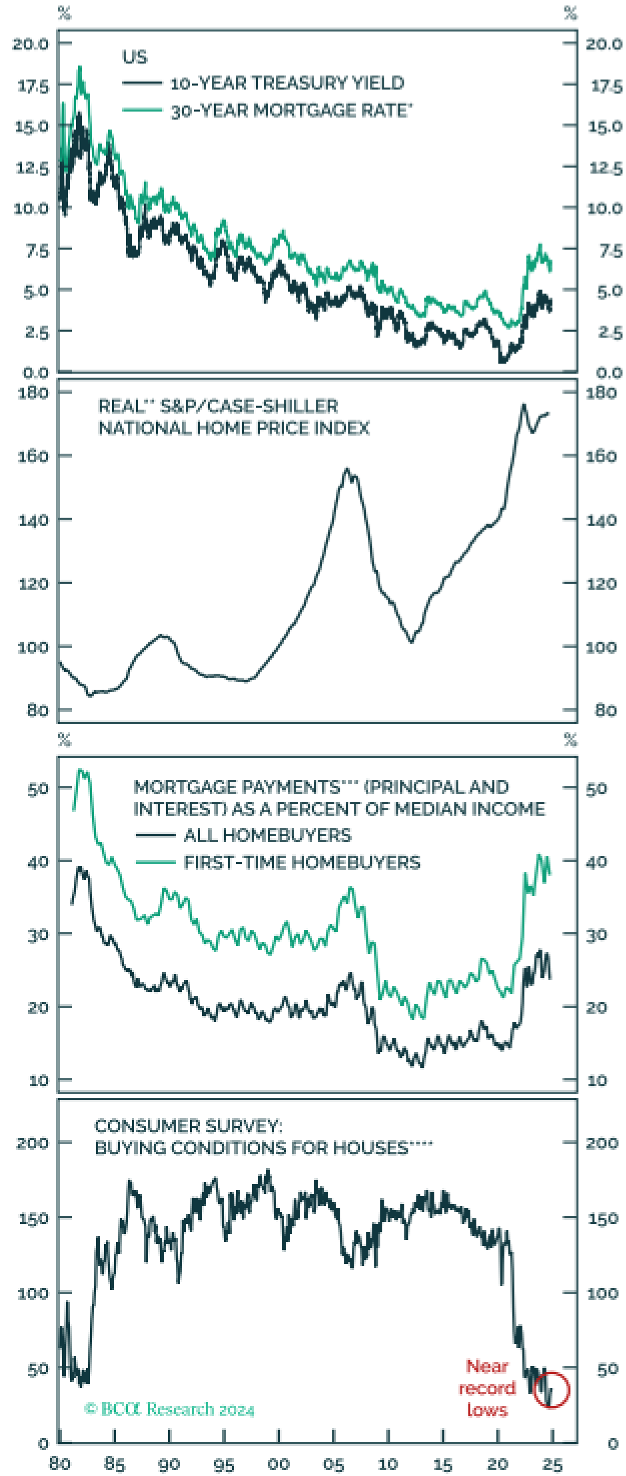
Back in February 2023, when I was still bullish on stocks and predicting an "immaculate disinflation," I wrote a report entitled There Won't Be A Recession Until More People Are Convinced That There Won't Be A Recession. The report concluded that "Ironically, increased confidence that the economy can withstand higher bond yields may be necessary to lift yields to a level that is actually detrimental to growth."

Twenty-one months later, those words continue to ring true. A 10-year Treasury yield in excess of 4% and a mortgage rate of 7% may have been appropriate in the second half of the 1990s when homes were cheaper and the economy was in the throes of a massive, disinflationary capex boom (**Chart 14**).

Today, however, the economy needs lower yields. Residential investment is the only component of GDP that reliably declines in the lead-up to recessions (**Table 2**). It has shrunk in both Q2 and Q3 and is on track to shrink again in Q4 according to the Atlanta Fed's GDPNow model. The weak state of the housing market is screaming at investors that monetary policy is restrictive. Entranced by the Trump trade, they are not listening.

With the economy weaker than generally perceived, and with the spectre of a new trade war on the horizon, we are lifting our 12-month US recession probability from 65% to 75%.

CHART 14
Rates Are Too Restrictive Right Now...



* SOURCE: FREDDIE MAC.
** DEFLATED BY HEADLINE CPI, REBASED TO JAN. 1990 = 100.
*** SOURCE: NATIONAL ASSOCIATION OF REALTORS.
**** QUESTION POSED: GENERALLY SPEAKING, DO YOU THINK NOW IS A GOOD TIME OR A BAD TIME TO BUY A HOUSE? SOURCE: UNIVERSITY OF MICHIGAN, SURVEY OF CONSUMERS.

Implications for Stocks, Bonds, and the US Dollar

Calculations by both Bank of America and Goldman Sachs suggest that a decline in the corporate tax rate from 21% to 15%, as Trump has proposed, would boost S&P 500 EPS by about 4%. This is less than by how much the S&P 500 has increased just this week.

Admittedly, other parts of Trump's agenda, including deregulation and laxer anti-trust enforcement, could provide additional tailwinds to corporate earnings. However, those tailwinds must be assessed in light of possible headwinds such as tariffs.

Analysts at Barclays estimate that a 60% tariff on Chinese imports and a 10% tariff on imports from other countries would reduce S&P EPS by 3.2%. The hit to earnings would rise to 4.7% if, as is likely, other countries

TABLE 2

Residential Investment Is The Only Component Of GDP That Typically Contracts In The Lead-Up To Recessions

	MEDIAN CONTRIBUTION TO REAL GDP GROWTH (PERCENT, ANNUALIZED)	
	Non-Recessionary Quarters Q2 1947 - Q3 2024	4 Quarters Prior To Recession Q2 1947 - Q3 2024
REAL GDP GROWTH	3.50	2.69
PERSONAL CONSUMPTION EXPENDITURE	2.29	1.75
SERVICES	1.24	1.03
GROSS PRIVATE DOMESTIC INVESTMENT	1.17	0.18
FIXED INVESTMENT	1.01	0.34
NONRESIDENTIAL	0.83	0.63
RESIDENTIAL	0.20	-0.34
CHANGE IN PRIVATE INVENTORIES	0.19	0.03
NET EXPORTS	-0.22	0.20
GOVERNMENT	0.35	0.50

SOURCE: BUREAU OF ECONOMIC ANALYSIS (BEA).

retaliated. The impact on earnings would be even greater if higher tariffs led to lower capex and weaker productivity growth.

A stronger dollar would also reduce earnings. As a rule of thumb, a 1% appreciation in the trade-weighted dollar lowers S&P 500 EPS by about 0.3%. Since other countries, in aggregate, run a trade surplus with the US, a broad-based shrinkage in global trade would hurt economies such as Germany and China more than the US. It is not surprising that both the euro and the RMB have weakened in recent days.

As far as bonds are concerned, while a trade war would be inflationary at the outset, it would be deflationary later on because it would lead to weaker growth. The passage of the Smoot-Hawley Tariff Act in 1930 is a good reminder of that point.

Taken together, these considerations lead us to recommend a modest underweight on stocks and a modest overweight on bonds. We intend to move our recommended stock allocation to maximum underweight, with a corresponding max overweight on bonds, once clearer evidence of a recession emerges. ...

For an International geopolitical take: https://www.youtube.com/watch?v=bvYiMZ1_hjo (9 min.)

For those of you that are as concerned as we are about the longer-term results of the election:

"Be assured ...that there is a great deal of ruin in a nation." Adam Smith, 1777

In 1777, the future looked far from bright for Britain. The country was bleeding itself dry in North American wars, first against the French and then against their own colonists. This is what led John Sinclair to lament to Adam Smith that **"If we go on at this rate, the nation must be ruined,"** which elicited the skeptical reply above from the father of modern economics and capitalism.

Four more from the WSJ, the Third of which highlights another Wall Street product that should be avoided:

Financial Guru, TV Star, Bestselling Author? Not So Fast

The marketing that some financial advisers use to attract clients can be misleading. Make sure you don't fall for their 'trustwashing.'

By Jason Zweig
Nov. 1, 2024

If financial advisers can't earn trust, they can buy it.

In a confused and crowded marketplace with no objective criteria for measuring the honesty and competence of financial advisers, those who seem trustworthy will capture clients.

Sadly, much of the marketing that advisers use to earn investors' trust is misleading, including TV appearances they didn't make, books they didn't write and standards of ethics they don't meet. I call this "trustwashing."

This tarnishes the many advisers who deserve the public's trust. And the millions of people who could benefit from professional financial advice can't tell for sure who is trustworthy.

Consider that dozens, perhaps hundreds, of advisers' websites feature the words "As Seen On" with the logos of media titans like ABC, CBS, Fox and NBC.

Those displays are called "trust badges." Online marketers charge a couple hundred dollars for them. The agencies write a flattering press release with material provided by the adviser. (Some advisers write the puff piece themselves.)

The agencies then syndicate the press release for posting on the websites of local TV stations—although it will typically be purged before long.

Were those advisers "seen on" ABC or CBS or Fox or NBC? A few paragraphs of shameless puffery about these financial gurus might have appeared—at least temporarily—on the website of, say, ABC affiliate WAOW in Wausau, Wis., CBS affiliate KTVN in Reno, Nev., Fox 34 in Lubbock, Texas, or NBC affiliate WVVA in Bluefield, W.Va.

"You get to say, 'I was on Fox,' when your name is buried in a press release posted on some local TV channel's website," says Rick Sabo, a financial planner in Gibsonia, Pa., who works as an expert witness in financial fraud cases. "It wasn't that a reporter came to you and put you on the air because they really valued your opinion and your expertise."

Akshat Thapa, chief executive of one of these online services, NewswireNEXT.com, says "consumers clearly understand that 'As Seen On' does not necessarily imply that the person or business was featured in an on-air interview with the TV network."

I don’t know about you, but I assumed “As Seen On” a TV network meant that the adviser had appeared *on* that network.

In the phrase made famous on “The Odd Couple” (a show that *was* on network TV), “When you assume, you make an ass of you and me.”

Advisers also can buy an ethical seal of approval, which some then display on their websites or in their offices.

One organization in this business, the National Ethics Association, says it vets members carefully and is “devoted to aiding consumers with the increasingly complex task of conducting due diligence on business professionals.”

When I did my own due diligence on the advisers listed in the NEA’s online roster, their ethics often looked questionable.

Among 272 NEA members identified as stockbrokers or financial advisers, I found that 97 had a disciplinary history at brokercheck.finra.org or adviserinfo.sec.gov, free public databases maintained by securities regulators.

Among the advisers with the NEA’s seal of approval are:

- seven who were fired amid allegations of misconduct,
- seven who were sanctioned by regulators for selling unregistered securities,
- three who have been barred for life from the securities industry,
- two whose state securities licenses have been revoked,
- two who filed for personal bankruptcy,
- one with nearly $200,000 in unpaid federal taxes.

Membership in the NEA isn’t an honor conferred upon advisers who are nominated by peers or clients. It’s a commercial product that advisers buy for $156 a year. It’s even available by the month, at $15 a pop.

Representatives of Arthur J. Gallagher, which acquired the NEA in 2016, didn’t respond to requests for comment.

What about the bestsellers many advisers say they wrote, often with celebrity co-authors?

Asset-retention.com says the retirement-planning firm’s founder, Troy Bender, is the co-author of a book with motivational speaker and bestselling author Brian Tracy.

Bender’s contribution to what his website calls “Troy’s book” turns out to be a single seven-page chapter in a 449-page volume with 47 other chapters.

After a brief phone call setting up a time to speak to me, Bender didn’t respond to my further requests for comment.

According to Nick Nanton, co-founder of the Celebrity Branding Agency, whose publishing division issues these promotional volumes, they’re typically produced by ghostwriters “so they’re well-written.”

The way he promotes "his" book isn't unusual. The websites of at least eight financial advisers tout them as co-authors of "Momma's Secret Recipe for Retirement Success," with Jack Canfield, author of the bestseller "Chicken Soup for the Soul."

Nanton says the service costs roughly $15,000 to $25,000. He says his firm does background checks and tries to "only work with people who are honest and good at what they do."

These books are "a great way to get to know someone's story, but [investors] still need to put in the time to check the person out carefully," he says. "Does a bad apple sneak in there? Every once in a while, yes. Liars are good at lying. And if someone becomes a serial killer 10 years from now, I can't control that."

Consultants, doctors and other professionals also use trust badges, dubious books and seals of ethical "approval." But, under rules set by the Securities and Exchange Commission, investment advisers are supposed to avoid marketing themselves in potentially misleading ways.

I've often written that the key to finding an adviser you can trust is to ask lots of questions. The proliferation of trustwashing proves that you need to ask even more questions than ever: Can I see video clips of your network TV appearances? How much of that book did you write yourself? Did you pay a fee for that honor or award?

It's a shame that trust is for sale. Make sure your adviser earned it.

You're Not Paranoid. The Market Is Out to Get You.

Thanks to today's incessantly twitchy, infinitely networked markets, it has never been harder to be a disciplined and independent investor

By Jason Zweig
Oct. 18, 2024

Investing isn't about mastering the markets; it's about mastering yourself.

That was the central tenet of Benjamin Graham's "The Intelligent Investor"—and, in large part, why Warren Buffett has called it "the best book about investing ever written."

Graham's emphasis on self-control is also why, although first published in 1949, the book is still relevant today. In fact, it's more relevant than ever.

Graham wasn't only one of the best investors of all time; he may have been the wisest. His intellectual brilliance, six decades of investing and study of history gave him a profound understanding of human nature.

As he wrote: "The investor's chief problem—and even his worst enemy—is likely to be himself."

This column is named after that book, which I edited in a revised edition published in 2003. A newly revised version comes out Oct. 22. (Graham's original text remains intact; I've written commentaries that put each chapter in context for today's investors.)

To be an intelligent investor doesn't require a stratospheric IQ. It does require discipline and the ability to think for yourself.

As Graham pointed out, individual investors are “scarcely ever” forced to sell stocks or funds and—unlike professional portfolio managers who are continually measured against the market—are never compelled to care what other investors are doing.

That independence is your single most valuable asset, a luxury most professional investors can only dream of possessing. It’s what Graham called the “basic advantage” of the intelligent investor. But, he warned, “the investor who permits himself to be stampeded [by other people’s behavior]…is perversely transforming his basic advantage into a basic disadvantage.”

As I argue in the new edition of the book, it has never been harder to be a disciplined and independent investor. In today’s incessantly twitchy, infinitely networked markets, the siren song of smartphones, social media and streaming video can tempt you to trade more and copy the crowd.

After all, it often makes sense—and just feels right—to join the herd.

You probably wouldn’t eat at an empty restaurant, purchase a product that has no positive online reviews or buy a house nobody else will bid on.

Own a soaring stock you can chat about online with thousands of other people who love it, and you’ll feel you belong to a pride of lions. Own a falling stock that nobody wants to touch, and you’ll feel like a skunk at a garden party.

Starting in 2020, swarms of investors coalesced on Reddit, Twitter and Discord to pool their buying power and drive up the prices of such stocks as AMC Entertainment Holdings, GameStop and Bed Bath & Beyond. A few leaders and early birds made huge profits.

Yet crowds aren’t always right, and their errors are contagious. What separates the wisdom from the madness of the crowd?

In 1907, the statistician Francis Galton described a contest at an agricultural fair in which nearly 800 visitors tried to guess the weight of an ox. Although many knew little or nothing about oxen and their guesses varied widely, their average estimate turned out to match the weight of the ox exactly.

Galton’s guessers had a variety of viewpoints, sought to win a prize for accuracy, didn’t know other people’s estimates and had to pay an entry fee. The sponsors of the contest collected and tallied all the guesses.

The judgments of that crowd were independent, confidential, diverse, incentivized and aggregated—and, therefore, remarkably accurate at estimating simple values.

But the judgments of today’s crowds are often the opposite of Galton’s.

“Finfluencers” like Elon Musk and Chamath Palihapitiya can set off stampedes, crushing cognitive diversity as countless people rush to emulate them.

Whipping each other into a frenzy, online packs of investors hold on for dear life to fading stocks like AMC—or drive a hot stock like Palantir Technologies, up more than 140% this year, to heights that may be unsustainable.

There are no barriers to entry, no way to authenticate claims of expertise, and no registry of how accurate the opinions are.

That can degenerate the wisdom of the crowd into madness. The weight of an ox doesn’t change with people’s estimates of it. However, if thousands of speculators decide a stock or cryptocurrency is worth $100,000, it will skyrocket—at least temporarily—even if it’s worthless.

Joining the crowd can change how you think, no matter how much you pride yourself on your independence. That's especially insidious because it occurs subconsciously.

One recent study found that investors on social media are five times more likely to follow users who agree with them and will see nearly three times more messages they agree with than disagree with. Falling into such an echo chamber, the study showed, leads people to trade more—and earn lower returns.

Meanwhile, bucking the consensus engages circuits in the brain that generate pain and disgust. Experiments have shown that when you find out your peers disagree with you, your choices become up to three times more likely to match theirs, although you have no conscious awareness of being influenced.

In today's digital world, those influences have morphed into tools designed to kidnap your attention, corrode your patience and kill your ability to think for yourself.

The companies behind Robinhood and other popular trading apps often describe them as "gamification." A more accurate term would be "gamblification."

These trading apps are fun to use, but have three pernicious features. They are designed to encourage short-term trading. They are potentially addictive. And they rely on manipulative techniques perfected by the gambling industry:

- audiovisuals that display market prices like the spinning reels on a slot machine;
- scratch-off rewards resembling lottery tickets, giving you a share of a random stock and the excitement of playing with what feels like free money;
- frequent alerts notifying you of big moves and goading you to trade.

Gamblified apps also prod users into buying and selling options contracts, which can be riskier—and are far more costly to trade—than stocks.

A study by the Ontario Securities Commission found that earning rewards prompted people to trade 39% more often; seeing a weekly list of top-traded stocks led participants to increase their trading of those stocks by 14%.

Gamblifying a brokerage app by adding badges, levels and leaderboards can also change how investors think. Instead of seeking to fulfill their own financial goals, they will strive to beat everybody else, becoming up to twice as likely to buy a risky stock.

The people who run your online brokerage know all this. That's why they want to hook you on their apps. The more time you spend on your device, the more often you're likely to trade, enriching the brokerage instead of yourself.

Because you may never realize how much a group is influencing your decisions, it's vital to protect yourself *before* you join the crowd. ...

That way, you lock yourself into doing the opposite of the crowd.

Adapted from "The Intelligent Investor, 3rd Ed.: The Definitive Book on Value Investing" by Benjamin Graham and Jason Zweig, to be published by Harper Business on October 22, 2024 ....

CLOs Are So Hot Right Now, They're Getting ETF'd

New exchange-traded funds are aimed at individual investors

By Vicky Ge Huang
Oct. 17, 2024

Low-rated corporate loans are having a banner year. Wall Street is trying to find more ways to sell them to ordinary people. At least four asset managers, including BlackRock and Nuveen, have recently asked permission from the Securities and Exchange Commission to launch new exchange-traded funds of collateralized loan obligations—securities made by bundling junk-rated loans together. Those will join about a dozen CLO ETFs that have already entered the market in recent years and that now have about $16 billion in assets under management.

The funds mark the latest effort to bring a hot Wall Street product within reach of ordinary investors. CLO sales have been rising fast: Firms such as Ares Management and Blackstone have logged around $147 billion in sales this year, compared with $87 billion during the same period last year, according to PitchBook LCD data through Oct. 11.

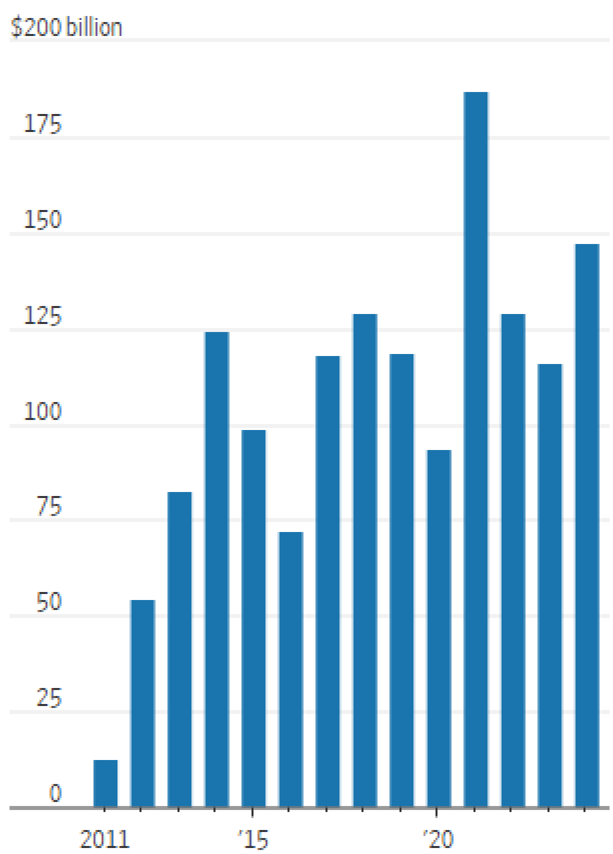
CLOs buy junk-rated corporate loans by borrowing money from investors. Investors in CLOs aren't buying the loans themselves, but rather floating-rate debt securities used to purchase the loans. Those come with varying credit ratings and offer disparate yields—with lower-rated, higher-yielding securities at greater risk of losses when the underlying loans start to default.

A major appeal of CLO securities is that they tend to offer higher yields than comparably rated corporate bonds. For example, triple-A-rated CLO securities currently yield around 5.6% on average, while single-A corporate bonds yield around 4.8%.

The combination of variable rates and relatively high yields has traditionally attracted big institutions such as banks and insurance companies. CLOs have been one of the top-performing fixed-income investments in 2024, with yields at their highest levels in decades and a growing economy easing fears of a wave of corporate defaults. Now, money managers are betting the ease of buying and selling ETFs will attract more individual investors.

"There's a great demand for yield, especially from assets that aren't so exposed to inflation or big swings in interest rates," said Jared Woodard, head of ETF strategy at BofA Securities. "We think that CLOs fit the bill, especially within a wrapper like ETFs where you have greater transparency about what's owned."

Annual issuance of U.S. CLOs



Note: Data for 2024 is through Oct. 11.
Source: PitchBook LCD

CLO yields have remained relatively high, despite the Federal Reserve's half-point rate cut last month, because they typically reset every three months on a quarterly schedule. For many CLOs, that means investors won't see reduced payouts until November.

The $13 billion Janus Henderson AAA CLO ETF, the largest of its kind, has a yield of about 6.5%, according to the fund manager.

"It still compares incredibly favorably to a lot of other fixed-income products out there," said John Kerschner, head of U.S. securitized products at Janus Henderson. ...

Major risks include the threat of an economic downturn. Companies with weaker credit ratings would be among the first hit in a recession. Corporate defaults would likely hit loan repayments. A downturn could also drive investors to pull money from floating-rate investments, because they expect the Fed to cut short-term interest rates to spur economic growth.

"Your potential for defaults and credit losses would go up at the same time as your yield is declining," said Joseph Lynch, global head of non-investment grade credit at Neuberger Berman. ...

Would a Time Machine Make You a Great Investor?

Traders who got a peek at dozens of real Wall Street Journal front pages mostly couldn't make money. Here's why.

By *Spencer Jakab*
Oct. 14, 2024

It sounds like an investor's wildest dream. A surprising experiment shows that it shouldn't be.

Huge sums are lavished each year on Wall Street economists and strategists asked to gaze into their crystal balls ahead of market-moving economic numbers. When they mostly get it wrong and there is a surprise, the news is big enough to make front-page news in the next day's print edition of The Wall Street Journal. But what if a trader had an actual crystal ball and could read a copy of the world's leading business newspaper a day early?

For example, the Journal's headline on Saturday, Oct. 5, read "Hiring Blows Past Expectations." The jobs report released the previous morning for September, which showed that U.S. nonfarm payrolls grew by 254,000 compared with expectations of around 150,000 jobs added, helped send the Dow to a record high that trading session. Meanwhile, bonds lost value, with the yield on the benchmark 10-year Treasury note adding to its largest weekly rise in nearly a year.

Knowing the actual movement of markets would be a guaranteed road to riches, not unlike the fictional Biff Tannen in "Back to the Future II" becoming fabulously wealthy when his future self travels back to 1955 with a sports almanac. But what about just the Journal's front page with a few giveaway details blacked out, such as "stocks soar?" And how about being given a huge pot of money, plus the ability to multiply your bet, to turn your glimpse at the future into a truly vast fortune?

The real-world results, courtesy of a man who learned the hard way about confident predictions and borrowed money, are fascinating. Victor Haghani, a founder of doomed hedge fund Long-Term Capital Management, whose financial quants nearly took down the global financial system a quarter-century ago, now runs money manager Elm Wealth with Chief Executive James White. The company espouses passive, low-cost money management for its wealthy clients and has published a number of plain-English studies and experiments to get its philosophy across.

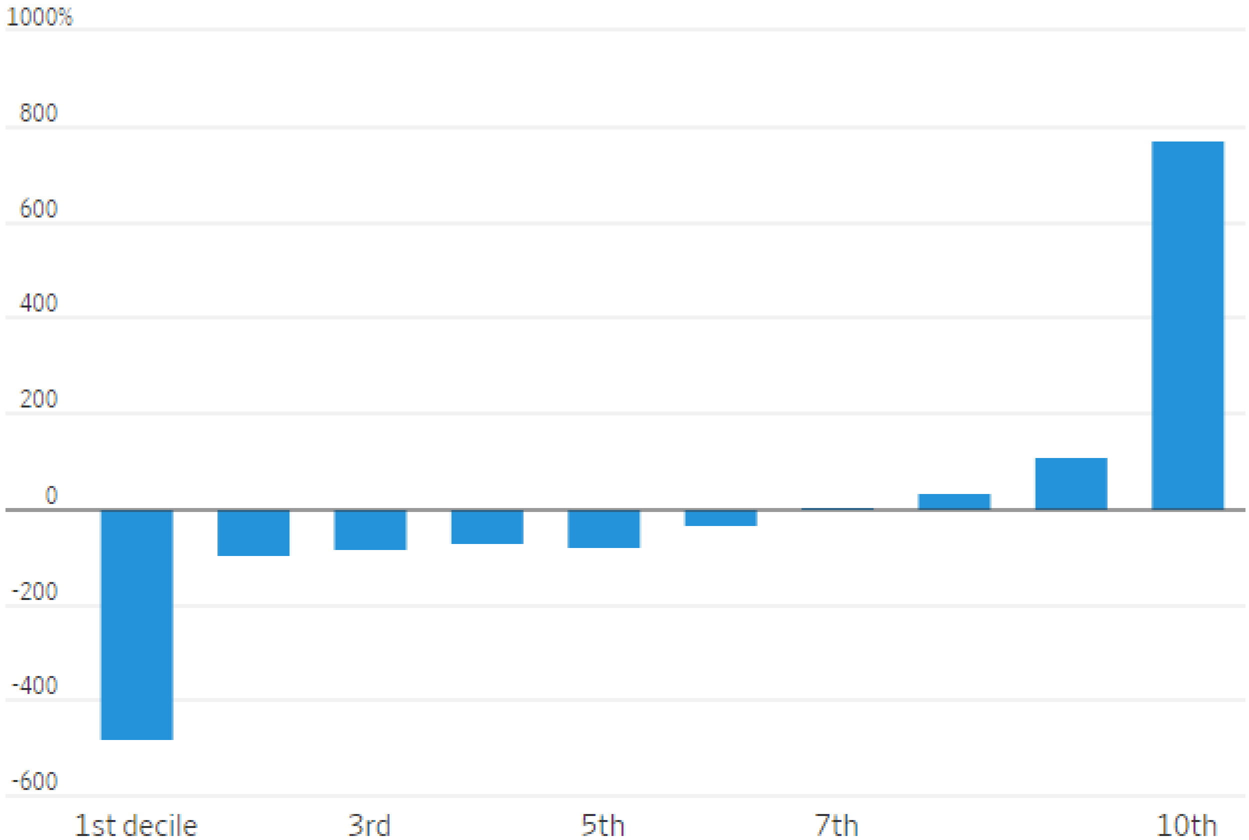
The latest is the "Crystal Ball Trading Game." Players are given $1 million in play money and are shown 15 Journal front pages following big economic news randomly selected over the past 15 years. With up to 50 times leverage, multiplying that pot of money sounds like shooting fish in a barrel. Yet it wasn't, and many players instead shot themselves in the foot. Through Thursday, more than 8,000 mostly financially savvy players had taken a crack at the game. Their median ending wealth after 15 rounds was just $687,986 according to data provided by Elm. Many lost everything.

Players got the basic direction of the stock market right a little less than half of the time. They were a little bit better at guessing the direction of 30-year Treasury bond futures. That is probably because economic news is less ambiguous for bonds, according to Haghani. For stock traders trying to parse the Federal Reserve's next move, sometimes good news is good and sometimes it is bad. Many times they will even react one way in early trading only for the mood to shift to the exact opposite take before the closing bell.

But how does one explain the median loss of 31%? Surely being able to bet heavily on the really obvious, no-brainer newspaper headlines should make up for a few errors? In fact that proved to be many players' financial undoing, with a not-insignificant number having negative money by the end. The first lesson from the game, then, might be to curb your enthusiasm in such cases.

Haghani and another colleague did a real-money experiment eight years ago with 61 people versed in finance or economics, including students and employees of leading firms, and even many of them got it wrong. They offered them $25 and a loaded coin with 60% odds of coming up heads. They could flip as many times as they wanted to for half an hour and walk away with up to $250. Almost all should have pocketed that amount if they

Player gains or losses by decile in Crystal Ball Trading Challenge



Note: 8,117 players through Oct 10
Source: Elm Wealth

knew how to size their bets based on their degree of confidence, but only 21% did and, incredibly, 28% lost all of their money.

The second lesson from the Crystal Ball, though, is that markets are made up of crowds with complex emotions. Seeing a bold headline with the actual market moves blacked out won't tell you how to bet. As in the game, a speculator can just sit one out if the market feels like it could zig when theory tells you it should zag.

And if someone with an oddly familiar face steps out of a DeLorean with a future copy of The Wall Street Journal, make sure they don't forget to include the stock price listings.