Bill Gross’s Solutions for 2015 – Genuine Lifelines or Smoke & Mirrors?

By Matthias Chang – Future Fast-Forward

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I devote much time to reading “investment outlooks” by leading financial analysts not so much for their predictions and forecast, but where they are leading the ordinary investors to park their hard-earned monies and to get an inside view of their strategies from such recommendations to ordinary investors. For I take the view that such recommendations to ordinary investors are never meant for the global 0.1% elites.

Before proceeding further with my article, please make the effort to read Bill Gross’s January Investment Outlook, “Ides” which is reproduced in the Appendix of this article.

I have no quarrels with his market observations for 2015, as he is after all the world’s leading authority on government bonds. He wrote in the first paragraph:

“Beware the Ides of March, or the Ides of any month in 2015 for that matter. When the year is done, there will be minus signs in front of returns for many asset classes. The good times are over.”

He concluded his outlook as follows:

“Debt supercycles in the process of reversal are not favorable events for future investment returns. Father Time in 2015 is not the babe with a top hat in our opening cartoon. He is the grumpy old codger looking forward to his almost inevitable “Ides” sometime during the next 12 months. Be cautious and content with low positive returns in 2015. The time for risk taking has passed.”

Next, comes the interesting part. His solutions!

He further observes that:

“And so that is why – at some future date – at some future Ides of March or May or November 2015, asset returns in many categories may turn negative.”

And finally, he poses the $Trillion dollar question:

“What to consider in such a strange new world?”

He answers confidently (for you sake):

“High-quality assets with stable cash flows. Those would include Treasury and high-quality corporate bonds, as well as equities of lightly levered corporations with attractive dividends and diversified revenues both operationally and geographically.”
I stated repeatedly that the US$ is the King of all toilet paper monies. US treasury bonds are no different – toilet paper I.O.Us! Empty promises!

Let me explain. When Uncle Sam wants to borrow money, bonds are issued and bonds in laymen’s language are “I.O.U.s” – a mere promise to repay the debt. But, the debt is not repaid in gold or silver (sound money) but is repaid with toilet paper money.

I am not the only one saying that the US can never ever repay its debts. Many leading financial analysts have stated so. It is a physical and financial impossibility for US to repay its debts. The US is the world’s largest debtor. If any other country owes as much debts, any future bonds would be rated as “Junk”. No questions about it!

Junk bonds usually carry high interest rates to compensate for the greater risk involved in lending to a borrower whose bond is rated as junk. If any sovereign bonds ought to be rated as junk, the top of the queue would be the US. As a result of the manipulation of interest rates by the FED in cahoots with other global central banks, interest rates on US sovereign junk bonds are zero bound.

It is only investment grade bonds that are triple-A rated. And once it is rated AAA, it is the best security and in accordance with Basel III accords, it is deemed a “Tier 1 security / capital.”

But, because of the zero interest rate policy (ZIRP), US treasury bonds have low interest rates giving an illusion that it is in fact a Tier 1 security and a financial “safe-haven.”

The MSM never cease to propagate that whenever there is any crisis, especially global crisis, people should seek safe-haven in US treasury bonds, as it is backed by nothing more than the hollow words – “good faith and credit of the US Government.” Not gold, not silver but mere words, and or faith in those words.

People around the world accept this con willingly, not exercising their brains to think and face reality – the US is the greatest junkie debtor. Bondholders are paid interests that are swallowed up by inflation. It is incredible that so many educated people are so intellectually blind that they cannot see that they are merely exchanging one set of toilet papers for another set of toilet papers!

But, for the bankers, who know that it is all worthless, it is of utmost importance that the ordinary investors the world over are not aware of this con-game. This is because to the bankers these toilet papers are “monies dropping from heaven.” They can borrow monies from the FED at zero interest rate, buy treasury bonds which are in turn used as “security” to leverage their debts in the derivative markets etc. or unload them when the price is pushed up through manipulation.
So, when more people pile up on treasury bonds, the increase in demand will cause a price surge which in turn will enable banks to leverage more and more in all the global financial markets / casinos.

Given the reality as I have depicted, we invite you to reconsider Bill Gross’s recommendations that you invest in “High-quality assets with stable cash flows. Those would include Treasury…”

Holy Smoke! Which sane mind would consider US treasuries - toilet paper I.O.U.s - as high quality assets when the US can never ever repay its debts? For sure there will be stable cash flows – the toilet paper flows from the money printing machine (digitally or otherwise) of the FED. These “cash flows” are insufficient to cover even the rate of inflation.

Why would Bill Gross make such a ridiculous recommendation?

The answer must be viewed within a larger context. The ongoing crisis is the final battle to save the dollar. The ground has been prepared to frighten the world to abandon as much of the other fiat currencies through forced “devaluation” led by Japan so that when the other fiat currencies depreciate, the dollar is perceived as “strong” and to spark a US$ rally. Japan was forced to commit financial suicide by massive devaluation to save the dollar, as Japan has no choice but to obey, being a country under military occupation. If the dollar is screwed so is the Yen.

In Europe, the spectre of negative interest rates has caused alarm, as depositors in due course are required to pay the banks to accept their deposits. There is the other threat – the bail-in threat whereby in the event of a bank collapse, the depositors’ monies would be use to pay off bondholders. The net effect is to frighten savers and investors to such an extent that they do not know where to place what is left of their hard earned monies, except the SO-CALLED ONLY “SAFE-HAVEN” OPTION.

Therefore, the scenario has already been prepared that the only “safe-haven” in the financial world is that of US$ assets ESPECIALLY US TREASURY BONDS.

THIS IS THE ZIONIST ANGLO-AMERICAN GRAND STRATEGY TO SAVE THE $! THE .1% FINANCIAL ELITES LAST FINANCIAL GAMBIT TO SAVE THEIR ILL-GOTTEN GAINS BECAUSE ALL OF THEIR WEALTH IS DENOMINATED IN US$. THEY CANNOT AFFORD THE DEMISE OF THE DOLLAR.

IT IS AS SIMPLE AS THAT!

With regard to Bill’s other recommendation, “equities of lightly levered corporations with attractive dividends and diversified revenues both operationally and geographically”, the critical factor is not leverage per se, it is the valuation of the stock price. And in the present scenarios of equity markets, prices are all so bubbly inflated.
We search in vain for a recommendation to acquire precious metals, especially physical gold and silver, but we are not in the least surprised that Gold and Silver are not in his equation.

So, the next time you read any “investment outlooks”, don’t follow blindly the solutions. Put on the thinking cap and look directly into the eyes of reality and ask yourself, *Does it make any sense at all investing in toilet paper assets in a bubble economy and when the printing machine is running 24/7?*

Having being told in Shakespearian dramatic terms that the Ides of March or May or November 2015 is a given, surely the best solution is to seek protection in genuine safe-havens like Gold and Silver and not be exposed to additional risks in rigged markets!

**Appendix – Bill Gross’s January Investment Outlook**

**“Ides”**

A January Investment Outlook should normally be filled with recommended “do’s and don’ts,” “picks and pans” and December 31, 2015, forecasts for interest rates and risk assets. I shall do all of that as usual when I travel to New York City for the annual Barron’s Roundtable in a few weeks’ time. That is always an opportunity for me to engage in verbal jousting with Marc Faber, Mario Gabelli and the usual bearish forecast from the Gnome of Zurich, Felix Zulauf. So I’ll leave the specific forecasting for a few weeks’ time and sum it up in a few quick sentences for now: *Beware the Ides of March, or the Ides of any month in 2015 for that matter. When the year is done, there will be minus signs in front of returns for many asset classes. The good times are over.*

Timing the end of an asset bull market is nearly always an impossible task, and that is one reason why most market observers don’t do it. The other reason is that most investors are optimists by historical experience or simply human nature, and it never serves their business interests to forecast a decline in the price of the product that they sell. Nevertheless, there comes a time when common sense must recognize that the king has no clothes, or at least that he is down to his Fruit of the Loom briefs, when it comes to future expectations for
asset returns. Now is that time and hopefully the next 12 monthly “Ides” will provide some air cover for me in terms of an inflection point. Manias can outlast any forecaster because they are driven not only by rational inputs, but by irrational human expressions of fear and greed. Knowing when the “crowd” has had enough is an often frustrating task, and it behooves an individual with a reputation at stake to stand clear. As you know, however, moving out of the way has never been my style so I will stake my claim with as much logic as possible and hope to persuade you to lower expectations for future returns over the next 12 months.

My investment template shares a lot in common with, and owes credit to, the similar templates of Martin Barnes of the Bank Credit Analyst and Ray Dalio of Bridgewater Associates. All three of us share a belief in a finance-driven economic cycle which over time moves to excess both on the upside and the downside. For the past few decades, the secular excess has been on the upside with rapid credit growth, lower interest rates and tighter risk spreads dominating the long-term trend. There have been dramatic reversals as with the Lehman Brothers collapse, the Asia/dot-com crisis around the turn of the century, and of course 1987’s one-day crash, but each reversal was met with a new and increasingly innovative monetary policy initiative on the part of the central banks that kept the bull market in asset prices alive.

Consistently looser regulatory policies contributed immensely as well. The Bank Credit Analyst labels this history as the “debt supercycle,” which is as descriptive as it gets. Each downward spike in the economy and its related financial markets was met with additional credit expansion generated by lower interest rates, financial innovation and regulatory easing, or more recently, direct central bank purchasing of assets labeled “Quantitative Easing.” The power of additional and cheaper credit to add to economic growth and financial asset bull markets has been underappreciated by investors since 1981. Even with the recognition of the Minsky Moment in 2008 and his commonsensical reflection that “stability ultimately leads to instability,” investors have continued to assume that monetary (and at times fiscal) policy could contain the long-term business cycle and produce continuing prosperity for investors in a multitude of asset classes both domestically and externally in emerging markets.

“The power of additional and cheaper credit to add to economic growth and financial asset bull markets has been underappreciated by investors since 1981.”

There comes a time, however, when zero-based, and in some cases negative yields, fail to generate sufficient economic growth. While such yields almost automatically result in higher bond prices and escalating P/E ratios, their effect on real growth diminishes or in some cases, reverses. Corporate leaders,
sensing structural changes in consumer demand, become willing borrowers, but primarily to reduce their own outstanding shares as opposed to investing in the real economy. Demographics, technology, and globalization reversals in turn have promoted a sense of “secular stagnation” as economist and former Treasury Secretary Larry Summers calls it and the “New Normal” as I labeled it as early as 2009. The Alice in Wonderland fact of the matter is that at the zero bound for interest rates, expected Returns on Investment (ROI) and Returns on Equity (ROE) are capped at increasingly low levels. The private sector becomes less willing to take a chance with their owners’ money in a real economy that has a lack of aggregate demand as its dominant theme. Making money by borrowing at no cost for investment in the real economy sounds like a no-brainer. But, it comes with increasing risk in an environment of secular stagnation, demand uncertainty, and with the ROI closer to zero itself than an entrepreneur is willing to bear.

And so the miracle of the debt supercycle meets a logical end when yields, asset prices and the increasing amount of credit place an unreasonable burden on the balancing scale of risk and return. Too little return for too much risk. As the real economy of developed and developing nations sputter, so too eventually do financial markets. The timing – as mentioned previously – is never certain but the inevitable outcome is commonsensically sound. If real growth in most developed and highly levered economies cannot be normalized with monetary policy at the zero bound, then investors will ultimately seek alternative havens. Not immediately, but at the margin, credit and assets are exchanged for figurative and sometimes literal money in a mattress. As it does, the system delevers, as cash at the core or real assets at the exterior become the more desirable holding. The secular fertilization of credit creation and the wonders of the debt supercycle may cease to work as intended at the zero bound.

Comprehending (or proving) this can be as frustrating as understanding the differences between Newtonian and quantum physics and the possibility that the same object can be in two places at the same time. Central banks with their historical models do not yet comprehend the impotence of credit creation on the real economy at the zero bound. Increasingly, however, it is becoming obvious that as yields move closer and closer to zero, credit increasingly behaves like cash and loses its multiplicative power of monetary expansion for which the fractional reserve system was designed.

Finance – instead of functioning as a building block of the real economy – breaks it down. Investment is discouraged rather than encouraged due to declining ROIs and ROEs. In turn, financial economy asset class structures such as money market funds, banking, insurance, pensions, and even household balance sheets malfunction as the historical returns necessary to justify future liabilities become impossible to attain. Yields for savers become too low to meet liabilities. Both the real and the finance-based economies become threatened with the zero-based, nearly free money available for the taking. It’s as if the rules of finance, like the quantum rules of particles, have reversed or at least negated what we historically believed to be true.
And so that is why – at some future date – at some future Ides of March or May or November 2015, asset returns in many categories may turn negative. What to consider in such a strange new world? High-quality assets with stable cash flows. Those would include Treasury and high-quality corporate bonds, as well as equities of lightly levered corporations with attractive dividends and diversified revenues both operationally and geographically. With moments of liquidity having already been experienced in recent months, 2015 may see a continuing round of musical chairs as riskier asset categories become less and less desirable.

“Be cautious and content with low positive returns in 2015. The time for risk taking has passed.”

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