Death + Destruction = Hedge Fund Profits

09-04-2020

Pacific Gas and Electric is much like its eastern counterpart Consolidated Edison. The latter recently kept million without electricity for many hot days following a minor tropical storm because it refuses to sacrifice profits by using it to move power lines in densely populated areas underground; or have sufficient crews hired for such emergencies. But PG&E has topped Con-Ed in not only skimping on repair crews when the many California forest fires caused outages, it also permits its power lines to deteriorate to such an extent that they are the cause of fires that create outages. Just one comprehensive do-it-yourself disaster maker.

Recent deadly fires in northern California, negligently caused or made worse by PG&E, drove the company into the friendly arms of a bankruptcy court. Humans operating the company caused the catastrophe that killed more than 100 persons but they have escaped legal responsibility because of one of the most vile creations of capitalism -- an homunculus in the form of articles of incorporation that makes a piece of legal paper an official being. Thus a bankruptcy court ordered a fictitious entity pay creditors $11billion. As appearance of fairness and concern it also awarded the real victims of the catastrophe $13 billion, but half of that will be in shares of PG&E which has recently resumed trading. That way victims of the recent tragedy may profit from risky cost cutting prior to the next tragedy, which if all goes well will be inflicted on persons other than themselves.

Since time is money many creditors prefer to sell their insurance claims in a kind of factoring process that enables hedge fund vultures to purchase them for a fraction of their legal value. In this way Baupost Group, a relatively small $30 billion Boston hedge fund, 'earned' a $3 billion windfall by purchasing third party title to subrogation (insurance) claims by paying only 35% of its nominal value. This one nifty deal increased Baupost's cash balance from 31 to 38 percent and its second quarter growth by 10%. A spokesperson for the fire victims said that they were angered that most of money awarded was "used to help help wealthy hedge funds and Wall Street." But that's capitalism – love it or leave it.

Almost the Next Big One

Thursday was an anxious day for traders because it had all of the hallmarks of the next big one. When markets, particularly Nasdaq, are constantly rising and hitting new highs nothing worse than small short declines are expected, not almost 5% like yesterday with some of the largest firms losing 9%.

Today investors tried to return to upwardly mobile normalcy, but after a brief rise there was another sudden downturn, then a gradual rise that ended in a relatively small loss.

Some recognized a similarity with the dot com bust because many new tech companies have very high valuations while still being far from being profitable. Note that Nasdaq had a closing high of 5,048.62 on March 10, 2000. On October 9, 2002 it reached a closing low of 1,114.11. Twenty years later it has zoomed past 11,000.

Individual valuations are ridiculous. Apple is valued at $2 trillion – is it really worth more more than the total value of the UK's FTSE 100. Amazon and Microsoft are on course to $2 trillion next year.

Much of the dot com bubble came from phony analyst recommendations based on nothing more than the desire to increase the profits of the companies they work for. After the bust the SEC investigated the corrupt research practices of 10 Wall Street banks and imposed a puny fine of $875 million for assisting investors in losing $4 trillion.

The most recent bubble has come from similar professional hyping, but mostly through company stock buybacks. Apple has engaged in a $360 billion buyback of its own stock since 2012 – $141 billion in the last two years. That record high buyback was assisted by Trump’s 2017 tax cuts which permitted Apple to bring home $252 billion of its profits that it had stashed abroad tax free.

Still top executives, obscenely wealthy though they be, cannot resist adding to their heap. Since May they have sold over $50 billion of their own firm’s shares. That apparently contributed to brief bust. Hopefully their greed will help pull down the whole house of cards.

http://unrealeconomy.org