Tobin's Q Ratio Revisited

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The average Q ratio (dividing total market value by total asset value) since 1900 is 0.70% – the S&P 500 is 58% above that (stated differently – the market value is 10% above the cost of purchasing all of its companies). Anything above 1 is considered dangerous. It's currently 1.15% – the second highest ever. 1929 peak was 1.06%. The dot com insanity crashed at 1.64%. The scare value is calculated by marking the points at which financial systems collapse. It's arbitrary, and does not really signal anything. The dot com splurge went on long after passing the 1929 mark. But the current bubble is arguably the most extravagant ever. The decade following WW1 did in fact have a robust real economy from which an equities bubble might reasonably occur. The dot com era generated numerous high market value, valueless companies, but it did also have some major firms that survived and, most importantly, it was based on a new technology at least as important as radio, TV and the auto – the Internet. Remaining after that collapse was a fairly strong real economy as a base for a fairly rapid recovery. No helpful factors were available following the 2007 bubble burst. Housing and much of the real economy (especially autos) failed spectacularly. It took WW2 to get the country out of the Great Depression – financial and other stimulus had failed to do much other than halt the slide. With the Great Recession the Fed pulled out all the stops on liquidity and created a massive financial bubble that greatly enriched both the financial and real economy, but damaged the latter in that they failed to invest in their own firms preferring the easy money of the financial sphere. In short, it halted the slide but destroyed the need for a real recovery of the real economy.

Reasons to reject risk fears. The speculators mantra – if you permit fears of a financial collapse to get out or keep out of investing, you risk not making lots of money before that happens: therefore, there is no risk that needs fearing. Just been observant and siphon off some of the winnings periodically so you are saved from losing everything. Then there is the kind of baloney retailed during the dot com boom: making money by making a real product or useful services is outdated. The real economy, which is where everybody lives (or doesn't) is made up of the production of goods (includes energy) and necessary services (communication and distribution). If you like, you may include things like education and health care, but they obviously are not strictly necessary because most of the people of the world have little access to them (The Lancet recently reported that two thirds of the world population lacks access to basic surgical procedures). Meanwhile, corporate stock buybacks from Feb-April have exceeded 3 of the 4 largest months. Fearlessness prevails.

The day after builders' confidence unexpectedly fell, the number of housing starts unexpectedly rose in April to the highest point in 7 years. But two thirds of the rise was due to a jump in the northeast and no doubt had much to do with major the major housing start decline in February because of weather conditions in that area of the country. Housing currently constitutes about 3% of the GDP. It was about 6% 15 years ago, as it currently is in the UK which had a fairly strong housing recovery, unlike this country. Speaking of the UK, it's CPI was negative in April (0.1%) for the first time since 1960.

Monthly housing figures are usually presented in annualized form. The larger figure covers up the homely practical figure. There were a total of 133,000,000 housing units in the country as of Q1 2015. From Q1 2009 to Q1 2015 2,574,000 units were built. That amounts to an average of 429,000 per month. Owner occupied housing units in Q2 2004 were at 61%. Q2 2014 it was 55%. Home ownership was 69% Q1 2005 and is 64% Q1 2015. In short, no sign of a housing recovery. Rentals have zoomed to 70%.

On Friday a core CPI of 0.3 MtoM was reported – 1.8% annualized. That scared the markets a bit on extremely low volume. Yellen promptly said not to worry about June, suggesting that the real economy slide is still with us and that a minuscule increase in interest rates is off until September at least. It's worth noting that while the core rate was up the most since March 2006, the overall CPI was -0.2% MtoM, the lowest since October 2009.

The Bureau of Economic Analysis is working on ways to solve our low GDP rate. It proposes some a bit of Chinese magic – the way it's massaged in China. That involves a second seasonal adjustment that will be reflected in 2nd quarter figures. The first quarter decline of -0.1 may be boosted to +1.8%.

According the ILO, only 25% of the world's worker have what are considered permanent jobs. The temp/part time phenomena is worldwide.

Chinese steel prices are the lowest in 12 years reflecting the collapse of China's property development.

Walmart profits down 7% in the first quarter. The guinea pig of retail sales has reported its condition.

The market value of the top 1900 companies on the Tokyo exchange topped the value of the December 1989 bubble peak at $4.9 trillion. Japan's central bank announced that it will continue it's asset purchases indefinitely. That annual total is equal in value to 16% of the nation's annual GDP.

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