

## Rehypotheccation in the New Year

12-25-15

On Monday the markets zoomed upward on opening. Then crashed below their starting point before rising once again to a decent close. The opening rise and then fall resembles the typical buy on a dip, but I think something deeper has kicked in -- fear of the dreaded uncontrollable crash. Thus after a series of bad days that will soon end in a bad year for the markets (bonds will have done better), they must put on their best frozen happy face. China's Central Economic Work Conference provided much needed assistance by announcing new support measures for their flagging economy. Widening the fiscal deficit -- that is, more wasteful spending -- and doing more to boost housing -- that is, duplicating what caused two of the last three crashes in this country by allowing banks carte blanche to sell a home. Similar measures have been tried and they have failed numerous times, but they still provide a good cheery cover for stock buying.

More on commodity/real economy demand. Brent crude is at an 11 year low (\$36 a barrel). Australia, the world's biggest exporter of iron ore, predicted a 19% fall in exports in 2016.

On Tuesday there was another decent gain. This time it was the Japanese government announcing after a meeting on the economy that they will boost and extend easing measures even though they've so far only managed 5 recessions in 8 years and the economy is still borderline deflationary. But Japan has the world's highest public debt so the government also announced they will be enacting new revenue measures which are sure to kill any chance for the easing to accomplish anything -- e.g. like the 3% increase in the VAT -- the planned 2% additional increase to bring it to 10% has been in abeyance because of the earlier disaster. Still that's 'positive' news for the markets.

On Wednesday there was another decent gain. This time it was OPEC saying oil will be \$70 a barrel in 2020 (as if they have a better than even chance to know what it will be tomorrow) -- but the price is expected to keep falling until then. A nice obscuring of negative news. The DJIA had an especially good day because Nike reported a 20% earnings increase in November. You may wonder why a company that makes *sneakers*, and has only 15,000 employees in this country because all its production work is done abroad is listed on the Dow Jones *Industrial Average Index*. In the 49th refurbishing of the index poorly performing big companies like Alcoa, Hewlett Packard and the Bank of America -- each with well over 100,000 employees and producing or providing important goods and services -- had to go and be replaced with upwardly mobile companies regardless of how unimportant and minute. Another replacement was Amex with all of 8500 employees. True -- it provides a useful service -- but an industry? Maybe for the next war they'll buy bombers with their Amex cards. It's a sign of the degree of dishonesty in financial reporting, and mainstream reporting in general, that long-term comparisons are made of the DJIA to make it seem like everything is only going in one direction -- onward and upward. The manipulations stand as a confession of the reverse. As for Nike's earnings 66% of the revenue came from

China and Japan -- only 14% from North America. Nothing inherently positive in that news, but low volume and holiday cheer along with the absence of any disastrous news makes for prosperous investing.

Will the new year be a rehypothecation of the old? If we consider the masterful suspension of disbelief regarding the real condition of the economy as collateral owned by the deceived but possessed by the issuer, and the expectation of continued deceiving of the deceived into the new year an asset worth broader investing usage, then we can expect even worse financial and economic reporting in the coming year. But there is always hope -- the deceived might just sequester re-use of the collateral, which is tantamount to their suspension of their suspension of disbelief.

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