Which Way Is Up?

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According to conventional financial theory there are two types of investors: Extrapolators and Fundamentalists.

Extrapolators read financial reports and if the fundamentals look good they extrapolate how much better they will be in the future and invest. If there are many extrapolators doing the same thing we have a hot market. But there is also high volume.

If the extrapolators are so sold on the economy then why do they increase volume by selling? It's because their puny minds are tormented by fear and greed and that leads to **wavering**. When wavering crosses the threshold to fear, they sell.

To be fair you can have a big mind and still get enmeshed in this process. Newton invested in what became the South Sea Bubble. After robust growth he saw that the investment had become ridiculously over valued and cashed in. But the valuation continued to rise and he kicked himself back into the investment just in time to experience the collapse. But being a smart guy he had set aside much of his unearned income. Thanks to his alchemic experiments, he knew how difficult it is to take and hold something from nothing.

The fundamentalists will not rely on a laundry list of supposedly good financial reports. Their focus is on final corporate cash flow. If they see that a stock value is low compared to its cash flow, they invest.

Both extrapolators and fundamentalists will stay invested in a hot market. The fundamentalists are more likely to sell if their investment has greatly appreciated from the initial purchase. They will also begin getting out of the market when the final cash flow shrinks. As the economy weakens to such an extent that it begins to negate all the defenses for continuous greed the mindset of the now mortified extrapolator sells. From selling matched with buying to much selling and no buying -- then the fundamentalists see a bargain.

Alongside the financial shenanigans there is the real economy where all the common folk work and live. Being a capitalist economy it means that the material means of subsistence, and much more, is in the hands of private individuals who could care less about serving the common folk. For them a product (commodity) is money, and if they can make the most money by restricting the output of the product, that's what they will do. Less use of production machinery and raw materials while making more money is nicely encapsulated by Veblen: "the highest achievement in business is the nearest approach to getting something for nothing", and even more clearly -- "businesslike sabotage".

For the common folk, they would like the means of production which they built and work to be used to the maximum extent because that is not only what they are made for, but that would maximize their standard of living.

Meanwhile all the vast accumulation of wealth now in the hands of the capitalist is put into use in various ways. Some set aside as retained capital, some invested in other enterprises, and a good deal distributed to shareholders as dividends.

Now in our tail-wagging-the-dog late capitalist economy it has become a nuisance to have to make anything at all. There are highly profitable enterprises that generate their income mainly as a means for disseminating advertising. Facebook is an exemplar of the worst: big profits while destroying the 'being' part of what it means to be a human being.

Google also generates much of its income from advertising. Amazon is an interesting phenomenon in that it has become a mega-conglomerate without really coming up with anything new except for transforming the giant Sears catalog into an efficient online connection between buyer and seller. In the same league are companies like Apple which this week has become the first trillion dollar company. Most of that is from cell phones that can easily be made by other companies for about fifteen percent of the cost of an iphone.

The greatest threat to capitalism is the increasing nuttiness of its operators. Runaway license for empowered capitalists maddened by unfettered greed has convinced them they can have everything. Fortunately, there is no honor among thieves. To get everything they must fight each other creating the ideal opportunity to self destruct, with the assistance of the common folk.

Jobs were 248,000 in June but only 157,000 in July. For all the hype about the booming jobs market the average over the last 101 months is a measly 177,000. Since November 2007 almost 25 million Americans have been added to the Civilian Non-Institutionalized Population (essentially the jobs pool) and only about 11 million found jobs. The remainder not worthy of being counted as part of American society. Of course, the markets had no problem with any of these negative facts.

The total value of stocks is 154% of annualized GDP. 130% is traditionally taken as the achievement of full value. Poor GDP growth and speculation may soon test the real against the fake.

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