

2009: The Year of *Mad Max*?

By Reid Holloway

Pondering the New Year, my mind wandered, then hit upon *Mad Max* and *The Road Warrior*, post-apocalyptic-themed films three decades ago putting Mel Gibson on Hollywood's radar screen. Borrowing from *Wikipedia*, "...uprisings and an extended war due to energy shortages proved to destabilize the country, marauding biker gangs began to terrorize...breakdown of civilization. A narrator informs us that the world has 'crumbled and...the cities have exploded'; life has become a 'whirlwind of looting and a firestorm of fear,' in which 'men began to feed on men'."

2009 may not get that bad, but I've got a pretty solid feeling it could be a year during which the credibility of such a scenario expands.

Simply put, what's going on in today's economy is unprecedented, and what I view as inordinate complacency is cause for alarm.

A month ago, a *Barron's* roundup of money managers reported the consensus view that the Dow Industrials would close 2008 at about 10,500. Well, we're 2,000 points short. *USA Today* provided some equally inclined experts, all predicting the stock market would post gains for 2009—not a contrary opinion among them.

The median earnings forecast for the S&P 500 for 2009 is way too buoyant. Neither managements nor financial analysts have yet to guide downward sufficiently. Initial clues are already evident in the revenue vs. earnings performance of the recent reporting season, especially in the unwarranted optimism among stocks seen benefiting from the Obama Administration; *e.g.*, infrastructure. Some expectations have pulled back, but the levelheaded outlook as I see it is deteriorating at a speedier clip than the common estimate. By the time projections come into line, the market could be trading sub-750 S&P 500.

Another important factor: demographics. Two broad groupings comprise the investing public.

The Baby Boomers, now in or nearing retirement and liquidating substantial portions of their accounts, are gravely underfunded for their post-65 years (if they can afford to stop working). Those who switched to bonds thinking "safety" have been hurt even more than those who remained in stocks. This frames a ceiling at Dow 9,500 in my view.

Then there's the group born after 1980. They've never seen tough times in their lives, but they're about to. To me this denotes a significant presence of overvalued capitalization.

Public-employee pensions had just as bad a 2008 as other investors, only their benefits are far more generous, and politically propelled. Soon they'll be knocking on the collective door of already beleaguered state legislatures, tin cups in hand.

The financial- and auto-industry bailouts will spread to new vistas. Add to that trillion-dollar-plus public-works plans proposed by the president-elect and you're looking at skyrocketing obligations on taxpayers as far as the eye can see: swelling deficits and debt and, eventually, staggering inflation.

Lower interest rates, regarded by most as stimulative, will fuel inflation further, and will also drag down already weak personal income and spending as diminishing yields generated by the bond market dampen the elderly's fixed incomes. That increases the odds unemployment will be higher a year from now.

This isn't just another recessionary phase. *What we are actually seeing are the formation and ramifications of an all new economic cycle: regulating and taxing respective industries into financial victimhood, bailing them out, and then taking them over.* This approach—widening in size and scope, despite popular opposition—is delusional: the fantasy that Uncle Sam's Sugar Daddy checks drawn on empty accounts—*socializing insolvency*—somehow sows the seeds of future abundance.

President Bush erred, in my opinion, when he termed unthinkable a “disorderly bankruptcy” in the absence of a Big Three federal bailout. Had he let the free market he claims to believe in do its job, we might have achieved some rational and orderly relief from structural excesses and inefficiencies, tolerated and festering for decades, to take shape. That's what reorganization statutes are there for. Instead we're foisting the hemorrhage upon an undeserving commonweal, and thus inherently and deleteriously compounding the underlying problem, while also leveraging the risk to national scale.

Is there an upside?

Chapter 11 may be the Max Rockatansky shake-up our economy needs more than Bush-Paulson-Bernanke. The question remains whether our leaders have the spine. If not, a less than sanguine 2009 could be followed by a far worse 2010 and beyond. Well meaning (or not so well meaning) politicians notwithstanding, the markets always win.

Reid Holloway is a consultant and Realtor based in Northwest Connecticut. He created the RLH Volatility Model (<http://stocksthatwiggles.com>) and has published studies on the oil markets and the Electoral College.

- o0o -

Reid Holloway.
860.482.6673.
<http://stocksthatwiggles.com>