

Note : This will be it for Gleanings until January 7th 2016, with the possible exception of a Special Edition at some point during the interval. Let it therefore be my pleasure to wish you all a Merry Christmas, or a Great Holiday Season, as the case may be, and a Happy, Successful &, above all Healthy 2016.

Quote of the week - He who beats a drum for a mad man to dance is no better than the mad man himself." - A Sierra Leone proverb (applicable to the Muslim-hysterical crowd?)

Quote of the week 2 - "Give a man a gun & he can rob a bank; give him a bank & he can rob everybody." - Source unknown (*since it seems relevant to much of today's Big Business in the US, it may be unfair to single out the banks*)

Alberta loses its much-vaunted triple-A credit rating - While the culprit, Standard & Poor's, in its December 8th announcement referenced 'weak budget performance and a rising debt burden', Alberta Finance Minister Joe Cecci sought to downplay the importance thereof & blamed the low oil prices. On the other hand, three days later in a yearend interview he appeared to have come to his senses; for he told the interviewer it may be necessary to 'hit the brakes' of some of his government's *much-beloved* initiatives promised during last spring's election campaign, incl. childcare benefits, school fee reductions, student hiring & environmental retrofits.

Books coming back in fashion? - According to Nielsen Bookscan in the first 11 months of this year a total of 571MM 'units' of physically printed material (i.e. books) had been sold in the US, up 2.1% YoY, while elsewhere it was reported that the sale of the so-called 'electronic books' seem to have plateaued. Rather interestingly, last year the sale of old-fashioned vinyl music records was reported to have been up 49%, albeit from a very low base, to almost 8MM, with the biggest problem being the antiquated machinery of the manufacturers thereof & a scarcity of producers of the vinyl needed to manufacture them.

Canada as a haven for refugees? - Canada's taking of 25,000 Syrian refugees provided a nice photo-op for Prime Minister Trudeau. But in the overall scheme of things that was not out of the ordinary since that's about the number of refugees that Canada has welcomed very year since 2008. What is interesting, however, that in the decade ended December 31st, 2013 the largest number of 'refugees' (not counting dependents) had come from Columbia (17,381), China (15,344), & Sri Lanka (12,236), and only a mere 1,730 from Iraq & 592 from Syria.

Corruption in Russia - Transparency International in its 2014 Corruption Perceptions Index gave Russia a score of 27 out of 100 & ranked it 136th out of the 175 countries in it. Be that as it may, Putin's official spokesman 47 year-old Dmitry Peskov last April 3rd told reporters, in response to their questions about the arrest of several high-placed officials, that "the intensity of the fight against corruption is in no way related with the economic situation in Russia ... It's an absolutely consistent policy ... but not an area where transparency promotes effectiveness"; furthermore that those in charge of the fight against corruption "are doing serious work on a permanent basis." So it was with great glee that Russian opposition activist Alexei Navalny on August 2nd tweeted photographs of the previous day's wedding of Peskov to his girlfriend of five years, the glamorous former ice dancing champion¹ Tatiana Navka, in which he could be seen

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Born in 1975, she crowned her career in 2006 with the Olympic gold after numerous World-, European-, & Russian championships (incl. gold medal at Skate Canada in 2003).

wearing a wrist watch that retails for the equivalent of US\$620,000, about 4x his annual salary². The plot thickened even further when Navalny alleged on August 17th that part of their honeymoon had been spent, with children & friends in the waters of the Italian Island of Sardinia aboard the yacht The Maltese Falcon that rents for 350,000 Euros (US\$388,000) a week, wondering who might have paid for that or, if he had paid for it himself, how he had managed to save enough to pay for it from his salary. And while this prompted Peskov to issue a statement saying that “I am in Sicily and renting a hotel, not a yacht”, this language was ambiguous enough, & Navalny got enough corroborating evidence, incl. some from a supposed ‘leak’ from the wedding party, to give his side of the story ‘legs’. Meanwhile Dmitry Gescov, a member of the Russian Duma (*the lower house of its Parliament*) critical of the Kremlin opined “Peskov’s yacht is a sign of the long-awaited split among the elites ... we are stocking up on the popcorn.”

Peace on Earth Nevada Republican-style - Michelle Fiore (age 45) is a Tea Party Republican & a ‘no new tax’ devotee, a second term member of the Nevada Assembly (*with Washington ambitions?*), a small (homecare) business owner, & an NRA life member. She has had troubles with the IRS (for which she blamed others) & unsuccessfully promoted a draft bill to allow college students to pack concealed weapons on campus, and in her own words is proud to be “100% politically incorrect”, saying things like “union members are poor excuses for human beings” & “I’m not OK with Syrian refugees ... I’m OK with putting them down ... put a piece of brass in their nocular³ cavity and end their miserable life. I’m good with that.” - *So it should not have surprised anyone that in her family group picture ‘Merry Christmas’ message her six or so year-old grandson is packing a toy gun and both her daughters & sons-in-law real “heat”, and she & her sexagenarian mother what looks like a pump shot gun & an automatic weapon respectively.*

Pfizer-Allergan merger - At US\$183.7BN it was the largest merger in 2015 in the US. While driven in part by the former’s desire to move its headquarters to more tax-friendly Ireland, what got absolutely no media coverage was the fact that Pfizer’s bread & butter product is Viagra & Allergan’s Botox, both of them ‘cosmetic’ drugs of no particular public health value, nor of any interest to most of the world’s population.

Politicians’ children - The Washington Post did more than raise a few eyebrows when it published, but then withdrew, a political cartoon by Pulitzer Prize wiiner Ann Telnaes showing Sen. Ted Cruz as an organ grinder & his two, *seemingly pre-school*, daughters as monkeys - *it can be argued that he himself opened the door to this when he used them & his wife Heidi as props at the event last March 23rd at Liberty College in Lynchburg, VA at which he announced his candidacy for the presidency and, most recently in his latest TV ad campaign, featuring fake Christmas stories entitled “How Obamacare stole Christmas” & “The Grinch (i.e. Hilary) who lost her Emails”.*

² Which prompted his bride to tell the press that she had given him the watch as a wedding present & that “the price everyone is discussing right now is not true” (which raises a whole bunch of other questions since Richard Mille’s official “suggested retail price” is listed as “488,000 Euros, incl. tax and VAT - 19.6%”.

³ The word “nocular” isn found in the Concise Oxford Dictionary of Current English and, more importantly, in any Scrabble dictionary.

Syria - There has been some brave Ban Ki-moon-inspired talk of a peace agreement, a new constitution in six months & 'free' elections in a year. But there is little evidence of much thinking how to make that possible & how to go from there. For there can be no doubt that, in case of a peace agreement, Syria's neighbours will waste little time showing the door to the millions of refugees currently squatting within their borders and, that after five years of destruction of the country's capital stock & infrastructure, there will be an urgent need for a post-WW II Marshall Plan clone with there being little, if any, ready evidence of a donor appetite for opening their wallet to pay for it.

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THE TROUBLE WITH SOVEREIGN WEALTH FUNDS (WSJ, Simon Clark)

- According to the Las Vegas-based Sovereign Wealth Institute the world's sovereign wealth funds have assets equaling US\$7.2TR, more than all the world's hedge-, & private equity-, funds combined (with nearly 60% thereof in funds dependent on energy exports). But now they are selling (*even Norway will tap its fund in 2016, for the first time in its 25-year history*), at the very time that investors generally are pulling back from risk. This prompted Adnan Mazarei, the Deputy Director of the IMF's Middle East and Central Asia Department, to observe "A withdrawal of assets by sovereign-wealth funds against the background of liquidity concerns could lead to large price movements." And this is complicated by the fact that many of the funds don't disclose their size, holdings or investment strategies, thereby making it more difficult to assess what, if any, risk they may pose to the system."

Another potential 'snake in the global financial system's grass' that should give investors reason to review his/her short-to-medium strategy before everyone else does.

PUERTO RICO 'VERY UNLIKELY' TO AVOID JANUARY 1 DEFAULT (Reuters)

- On December 22nd Gov. Alejandro García-Padilla said that it is "very, very" unlikely that there will be no default of debt (*service payments*) on January 1st & that his government was evaluating which bonds are to be paid.

This is a change in tone from earlier this month when he said the island "will default in January or in May". And his government must be in dire straits since on December 1st he authorized the 'clawing back' of revenues from public bodies, at least some of which might otherwise have been available for debt servicing purposes.

CONSUMER, BUSINESS SPENDING SUPPORT THIRD QUARTER GROWTH (Reuters, Lucia Mutikani)

- On December 22nd the US Commerce Department reported its third estimate of Third Quarter GDP growth, shading it down to 2.0% from 2.1% it had reported one month ago⁴

⁴ Thereby remaining 'around the economy' long-term potential' (in the last almost six years annual GDP growth has averaged 2.2%) - interestingly enough, this is the first time I have seen public acceptance/recognition that the US economy's 'trend growth rate has declined to the 2% range.

(but slightly better than the 1.9% the market had expected), both of them well down from the Second Quarter's 3.9% (which had benefitted from strong inventory growth that had 'borrowed' growth from subsequent quarters). Growth had benefitted from 3.1% growth in consumer spending (that now accounts for two-thirds of GDP, well above the the Great Recession low but still well short of the pre-Great Recession high), the strengthening labour market & rising home values, and from strong business spending on new equipment. On the other hand, when measured from the income side, due to the downward revision of corporate profits, the decline was more pronounced, from 3.1% to 2.7%). And the revision of inventory growth during the quarter from US\$90.2BN to US\$85.5BN meant that the inventory change had affected GDP growth slightly more than believed a month ago and, unless inventories can be whittled down, they will remain a drag on GDP growth in the Fourth Quarter (currently estimated to come in at 2%). Elsewhere, after tax corporate profits were down 1.7% QoQ (slightly more than expected last month) & 8.2% YoY the biggest quarterly decline since the Fourth Quarter of 2008.

Elsewhere the Fed reported that household net worth declined 1.1% during the quarter (but still was up 2.9% YoY) as stock market losses more than offset the increase in the value of their homes, while consumer debt was up 7.2% - so all in all, in raising its benchmark rate the Fed may have been taking a huge, albeit inevitable, leap of faith.

YELLEN WILL GO DOWN IN INFAMY : SOCGEN BEAR (CNBC, Matt Clinch)

- Albert Edwards in 2005 called Alan Greenspan, *who many people had come to attribute financial supernatural powers to*, an "economic war criminal". He now says Yellen's tenure as Fed Chair will *in the years ahead* be looked upon with similar disdain as Greenspan's is now, both of them for stoking massive debt bubbles. For the explosion in corporate debt the Fed has done little to avoid "may just take a pinprick to burst" as the excessive leverage in the corporate sector will react badly to the falling revenues & profits *that will be the consequence of their strong dollar-driven loss of global competitiveness that the higher rates may worsen further*. He believes the Fed's decision was too little, too late to avoid a major financial shock for the US economy not unlike *(but only worse?)* than that of 2008.

He may be unfair to Yellen; for she was handed a 'sticky wicket' by her predecessor, Ben Bernanke, finding herself in the same situation as the flies in Aesop's fable of The Flies & the Honey Pot (the more they struggled, the more they became entrapped) and, like Obama in 2008, failing to cut her losses by putting daylight between her-, & her predecessor's-, policies.

QE 'SHOCK AN AWE' TURNING INTO 'AW, SHUCKS' (Reuters, James Saft)

- Part of the reasoning behind QE was to create conditions in which companies would invest in new capacity. But Stephen Jen, co-founder of-, & one of two partners in-, London-based SLJ Macro Partners recently wrote in a Note to Clients "Developed central banks have reached a point of diminishing returns to their unconventional policies, have experienced difficulties in justifying further monetary easing, and in general can no longer 'shock and awe' the markets".

The general idea was that flooding the system with cheap liquidity would boost corporate investment in new capacity⁵. But it hasn't quite worked out that way; for corporations & banks instead chose to stuff their cash 'under the mattress', causing an unprecedented deceleration in the velocity of money that offset the effect of their massive liquidity injections; according to the St. Louis Fed the velocity of money is down 25% since 2006, & 10% from its previous 1964, post-1959 low (the year it started tracking it). And the consequences of this will have a long-lasting impact; for in finance, once credibility is eroded, recovery thereof is a slow process.

JPMORGAN CHASE TO PARTNER WITH ONDECK CAPITAL (CrowdFund Insider, J.D. Alois)

- On December 1st OnDeck Capital announced it was entering into a strategic relationship with JPMorgan whereby the latter will use OnDeck's lending format to service the needs of its SME (Small & Medium-sized Enterprises) clients (more efficiently) while OnDeck will benefit by having JPM promote its services nationwide.

OnDeck Capital was founded in 2006 by Mitch Jacobs (who in 2010 was Ernst & Young's Entrepreneur of the Year). It is one of a growing number of so-called P2P (peer-to-peer) lenders, that act as middlemen between private investors with money to invest & SME entities in need of US\$5,000-US\$250,000 in short-to-medium-term funding. Whereas banks can take weeks to render a creditworthiness decision, P2P lenders, using proprietary credit analysis software (in OnDeck's case developed by its founder - who no longer is with the company) that review a far broader range of parameters than banks use can do so within hours, if not minutes, and, without the brick & mortar overhead, can do so more efficiently. The Company is New York-based, IPO'd on the NYSE a year ago and, as of mid-2015, had arranged loans for 30,000 customers in the US & Canada with an average US\$45,000 loan size. Their emergence on the scene was, in part at least, an 'unintended consequence' of the Fed's zero interest policy, that prompted private investors to "disintermediate"⁶ the traditional formal financial system for higher returns.

PUTIN MAJORITY BREAKING DOWN BUT ELITE SPLITS AND MASS PROTESTS WON'T COME IMMEDIATELY, SOLEVEY SAYS (Window on Eurasia, Paul Goble)

- The truck drivers' strike⁷, & the seriousness with which the Kremlin reacted to it, show "the Putin majority, the Putin consensus and the Putin stability are beginning to break down"; but, says Valery Solevey, "the really serious mass protests will *only* begin significantly later ... in a year or eighteen months since the system still has a sufficiently great reserve of strength and in society there is still too great a fear of social cataclysms to expect otherwise ... the authorities are afraid, but still do not understand specifically what they are afraid of." He says Putin took Turkey's downing of the Russian plane as a

⁵ In so doing, in a clear case of 'hubris', the pointy-headed central bankers, long on academics &, deeming themselves the 'Masters of the Financial Universe', short on hands-on experience in financial market street fighting, chose to ignore the age-old market adages of "never push on a string" & "never fight the tape"

⁶ This term was coined half a century ago, when borrowers quit relying less on funding provided by bank loans & more on that generated by selling their securities to investors.

⁷ Against a new tax, it was all but unprecedented in its widespread nature & its staying power.

personal affront & responded accordingly, although some close to him sought to 'restrain' in the belief that he "overrates possibilities which are not so great and that the geopolitical ambitions of the country clearly don't correspond to its economic position"; furthermore, that these people "see ... that things are not very good, that Russia should reduce its ambitions and ... Putin should recognize the need to do so. But one must understand ... the powers that be in Russia are organized in such a way that all key political decisions are taken exclusively by the president." And while some people speak about a split in the Russian elite "there is *now* no such split and ... it will not appear in the foreseeable future. There is an obvious fear among the elite and growing concerns about its future ... given the unpredictability and irrationality of Putin's actions ... but the elite feels itself to be the president's hostage ... (*and*) those who hope it will come out against him are at the very least naive". It will take mass demonstrations & pressure from abroad for it to revolt.

Window on Eurasia is a regular column in the Moscow Times. Founded in 1992, it is the only English language daily newspaper in Moscow and seeks "to provide foreigners and internationally-oriented Russians with balanced, well-researched journalism and practical information that helps them understanding Russia". The writer, Paul Goble, a US-based expert on Russia, currently teaching a course on "Islam and Geopolitics in Eurasia" at the Washington-based Institute of World Politics, a graduate school founded in 1990 that specializes in national security-, & intelligence-, matters, and international affairs, and Valery Solovey is a history professor at MGIMO, the Moscow State University of International Relations (one of Russia's pre-eminent institutes of higher learning) & the leader of its International MA program in International Affairs, specializing in "Governance and Global Affairs" that targets becoming the Russian equivalent of France's Ecole Politique & Harvard's John Kennedy School of Government.

ARGENTINE PESO PLUMMETS AFTER REFORMS (Reuters, Hugh Bronstein)

- On December 17th the new Argentine government of President Mauricio Macri, who last month ended the 12 year reigns of the well left-of-centre Mr & Mrs. Kirchner by promising to solve Argentina's resultant economic woes (double digit inflation, a huge deficit & waning FX reserves) with a dose of free market solutions, floated the country's currency. This resulted in it dropping 26.5% in value to 13.38 to the US dollar (whereas Finance Minister Alfonso Prat-Gay⁸ the previous day, in announcing the float, had indicated a 14.2 to the dollar level would be a reasonable expectation for the post-devaluation peso.

The political honeymoon may not last long; for while exporters, first & foremost, Argentina's farmers, will see a big boost in the local currency prices for their goods, Mr. & Mrs Argentinian Consumer will see big one-time price increases in much of what they buy every day.

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'DRUG INDUSTRY'S VILLAIN' ARRESTED FOR FRAUD (AP, Tom Hayes)

⁸ Who in 2002, at age 37, was named Governor of Argentina's central bank and has been given credit for, during his two-year stay there, reducing inflation fro 40% to 5% , & laying the ground work for half a dozen years of extraordinary rapid growth (in the 8% range)

- Martin Shkreli (age 32), an unapologetically aggressive businessman & self-promoter, was arrested on December 17th, charged with securities fraud & conspiracy. According to U.S. Attorney Robert Capers he had “engaged in multiple schemes to ensnare investors through a web of lies and deceit”⁹ ¹⁰ & to prosecutors in a “Ponzi-like scheme” when between 2009 & 2014 he lost his investors’ money in a hedge fund *he had founded in 2009* through bad trades & then had raided Retrophin, a biotech company he had founded in 2011 & was CEO of until his Board fired him in September 2014, for US\$11MM to pay back his disgruntled clients”¹¹. Last August he prompted a firestorm of criticism & a Senate hearing on drug prices, after a company he had started less than a year earlier, Turing Pharmaceuticals, acquired for US\$65MM the US rights to a 62-year-old drug that is the sole treatment for a parasitic infection that mainly strikes pregnant women and cancer-, & AIDS-patients, & then jacked its price up 55x (from US\$13.50 to US\$750)¹² a pill, prompting Hilary to call this price gouging & “outrageous”, & Trump to call him as “a spoiled brat”.

While Forbes in December 2012 included him in its list of “30 under 30 in Finance” & lionized him for being an activist investor “battling billionaires and entrenched drug industry executives”, it is hard to fathom why any sensible ‘investor’ would have entrusted him with his/her money. He was asked to leave New York City’s Hunter College High School (for intellectually-gifted children) for non-attendance, but gained enough credits for his diploma through a special program that also got him, at age 17, an internship at the Wall Street hedge fund Cramer, Berkowitz and Company¹³. After getting, at age 21, a Business Administration degree from another ‘good school’, CUNY’s Baruch College, & (brief?) stints as an analyst at Intrepid Capital Management & UBS Wealth Management, he started his first hedge fund in 2006, at age 23, only to have it brought down a year later when it lost a US\$2.3MM default judgment suit brought against it by Lehman Brothers. During much of his early career he was said to have specialized in-, and made a name & a lot of money-, for himself by shorting stocks & then going on the social media circuit to tell all & sundry about the companies’ shortcomings. In 2009 he co-founded, with a chum from school days, his second hedge fund, MSMB Capital Management¹⁴ & in 2011 by himself Retrophin (that later that year made an unsuccessful US\$378MM bid for Amag Pharmaceuticals (after that company’s proposal to merge with another company was badly received by Wall Street) ‘to protect AMAG shareholders from what was perceived as not a good deal’. Since last January, when the authorities started investigating his, & some of his

⁹ And to an FBI official that he had pursued “a securities trifecta of lies, deceit and greed.”

¹⁰ Alleging, among others, that 2010 he had told one investor that MSMB Capital had assets of US\$35MM while in reality it had just US\$700.

¹¹ And last August sued him for US\$65MM, claiming he had misused Company funds, and alleging he had “committed stock trading irregularities and other violations of securities rules” & harassed a former employee and his family.

¹² Telling the Fourth Forbes Healthcare Summit earlier this month that he likely should have raised it more since “No one wants to pay it, no one’s proud of it, but this is a capitalist society, capitalist system and capitalist rules ... my investors expect me to maximize profits, not to minimize them or go half or go 70% but to go to 100 percent of the profit curve.

¹³ Co-founded in 1987 by Goldman alum & now TV personality Jim Cramer.

¹⁴ That has been the focus of the investigation since last January of his activities there & the foundation of the charges laid against him last week.

associates', activities at Retrophin (presumably prompted by its Board having fired him a few months earlier), he has invoked his Fifth Amendment right against self-incrimination. But that did not stop him, in August, from buying, when it's stock was trading at < US\$1.00 (for < US\$3MM?) a 70% interest in San Francisco-based -, & NASDAQ-listed-, KaloBio Pharmaceuticals & naming himself its CEO, after which its price rocketed to US\$39.50 (giving it a market cap of US\$100+MM), although the day after his arrest it fell 53% before the market even opened, giving NASAQ reason to halt trading in its stock as of 6:48 a.m. And the day after his arrest, he resigned as CEO from Turing & on the 21st KaloBio announced he had been removed as its CEO - He must now be out on bail since he has been giving press interviews claiming he was innocent of all charges & that after the Turing episode the authorities ha been out "to get him", conveniently overlooking the fact that the investigations had started long before the Turing episode