

**GLEANINGS II - 877**  
**Thursday March 11<sup>th</sup>, 2021**

**China's highway system** – A video by a British driver extols China's now 86,000 mile highway system, "longer than that of any other country" (to which it is adding 6,000 miles annually). And it shows a series of impressive pictures of awesome, sweeping, elevated highways (many of which look like they are hundreds of feet in the air & hence must have been hideously expensive to build). But every single one of them has one shortcoming that was obvious to my 18 year-old grandson at a glance when I asked him, 'hardly any traffic' (seemingly only about two or three vehicles per mile each way). And while, as was the case with China's "ghost cities", demand may eventually grow over time to justify the investment, meanwhile the negative rates of return on the capital tied up in them cannot help but be 'boat anchors' on its economy's short-term performance.

**President Biden, at 2:05 p.m. on March 6<sup>th</sup> reported "Over 85 percent of American households will get direct payments of \$1,400 per person. For a typical middle class family of four - husband and wife working, \$100,000 a year total, with ... two kids - they'll get \$5,600, and it will be on the way soon"** - According to the Distribution of Household Income chart in the Census Bureau's Annual Social and Economic Supplement 2019, the 85<sup>th</sup> percentile is from \$160,000 - \$169,999 - *So what warped political thinking gives those in this income bracket a windfall, especially since, incl. their tax credits that more than doubles to \$11,600!*

**Economic growth impact of the US\$1.9TR 'stimulus plan' exaggerated?** - According to Redwood City CA-based Envestnet Yodlee securities trading was the second most common use of the handouts to individuals under the March 2020 US\$2.3TR CARES Act. Randy Friedrich, the VP of Trading & Derivatives at Westlake TX-based Charles Schwab, echoed that when he noted "I do think you will find a lot of that stimulus money will end up in the market, and I think that it is a bullish catalyst". A Deutsche Bank, *albeit small*, survey of 430 retail investors found that on average they planned to put 37% of any stimulus checks directly into equities. According to J.J. Kinaman, Chief Market Strategist at TD Ameritrade (*now a Schwab sub*) "You have really started to see an interest from individual investors that we have never seen before". So it is not surprising that Goldman Sachs has raised its 2021 net new equity demand from households from US\$100, to US\$350, BN, due to "faster growth and higher interest rates ... additional stimulus payments to individuals and increased retail activity ... we expect households will be the largest source of equity demand this year." - *There have been 2021 US GDP growth forecasts as high as 7.5%, Goldman Sachs' has just gone from 6.6% to 6.8% & Bank of America's from 6.0% to 6.5%, while the latest Conference Board's call is for a 5.5% 'base' case, flanked by 2.8% 'downside', & 6.5% 'upside', scenarios. When retail investors hear this, they may not realize it will take 5.5% GDP growth in 2021 just to get the December 31, 2021 GDP back to its two years earlier level. And if, or when, the impact thereof hits the pocket books of typically undercapitalized retail investors, with institutional investors 'sitting on their hands', a really serious market panic may ensue. The last thing this market needs right now is a "bullish catalyst". And more money going into the market also means that people have less money to spend on consumption (a serious matter in an economy two-thirds driven by consumption). And experience suggests very strongly that retail-driven stock markets tend, later if not sooner, to 'fall off a cliff'.*

**Republicans make another attempt to kill the estate tax** - This would only benefit the 'super rich' 0.2% of the population, incl. lawmakers like Sen. Rick Scott (R-FL) - Net Worth - US\$259MM, Rep. Greg Gianforte (R-MT) - US\$189MM, Rep. Paul Mitchell (R-MI) - US\$179MM, Sen. Mitt Romney (R-UT) - US\$174MM and ... Sen. Mitch McConnell (R-KY) - US\$35MM (after spending his entire career in politics, by 2007 he had amassed a Net Worth of US\$3MM, with most of its growth since attributable to inheritances by his wife Elaine Chao, Trump's Transportation

Secretary). *While the tax accounts for only about 1% of total federal revenues, this could be significantly boosted if the rate were hiked from its current 17%, enforcement strengthened & loop holes closed (even most of those who do pay it, seldom pay anywhere near 17%). And many estates involved the inter-generational transfer of 'never before taxed' non-realized capital gains.*

**Warren Buffett's Annual Letter to Shareholders** - In the early 1980's a money manager friend of mine put Berkshire Hathaway shares in a client's portfolio at US\$1,200, driven to do so in part by the then 52 year-old Buffett's Annual Letter to Shareholders <sup>1</sup>). At the current US\$375,000 <sup>2</sup> price they have generated a 15% CARG & 20% average annual price growth (twice the S&P 500).

In 50 years Berkshire Hathaway had only nine years of share price declines (by -3.4% to -48.7%) & four years of record price growth (in 1976 by 129.3%, 1979 by 102.5%, 1985 by 93.7% & 1989 by 84.6% <sup>3</sup>. And much of this was made with 'bread & butter' companies, like banks, railroads & Coca Cola, with its exposure to healthcare-related companies & to Apple of more recent vintage (in Apple's case only three years, during which time its price has nearly tripled).

In this year's Letter Buffett included the following points :

- In 4Q/20 the Company bought back US\$9BN of its own stock, the same as in 3Q, bringing the 2020 total to US\$24.7BN (*odd he didn't 'fill his hat' in 2Q when its share price slid by US\$100,000+*). This "boosted shareholders' ownership in all of Berkshire Hathaway's businesses by 5.2% ... without requiring you to do as much as touch your wallet"; and
- Apple has demonstrated the benefit for shareholders of buying back stock. For in the three years since Berkshire paid US\$36BN for a 5.2% stake in the company, it had received dividends of US\$775MM & sold a small part thereof for US\$11BN. And yet it now owns 5.4% of Apple (whose shares are *now priced at 3x that three years ago*), "an increase that was costless to us" ... because Apple has continuously repurchased its shares, "thereby substantially shrinking the number it now has outstanding."

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## **SUPREME COURT REJECTS FINAL TRUMP BID TO NULLIFY 2020 ELECTIONS RESULTS** **(The Hill, John Kruzell)**

- It did so on Monday March 8<sup>th</sup> when it refused to hear his attempt for having his electoral loss in Wisconsin in the 2020 election nullified that he had launched late last December, six weeks after Biden had won in the state by over 20,000 votes.

*And to add insult to injury, it did so after earlier not having acted on his request to fast track the case so as to have a decision before the January 6<sup>th</sup> official count of the Electoral College vote by Congress. And to make matter still worse for Trump there are few, if any, ways, in which he can get even with the members of the Court, incl. the three he appointed to it!*

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<sup>1</sup> Who by then had been running the company for about 15 years.

<sup>2</sup> At which point it has a P/E ratio of a very traditional 16.68x, vs. Tesla's 'nosebleed level' 1,115x.

<sup>3</sup> Note that these all occurred in the same decade & a half; for as the Company got bigger & bigger, phenomenal results became harder & harder to achieve.

## **A DANGER TO THE COMMUNITY : JUDGE ORDERS TRUMP APPOINTEE DETAINED IN CAPITOL RIOT INQUIRY (USA Today, Karen Johnson)**

•After having been being arrested by the FBI for his role in the January 6<sup>th</sup> Capitol riot, on March 9<sup>th</sup> Federico Klein was ordered detained pending trial after US Magistrate Judge Zia Faruqui <sup>4</sup> ruled his alleged conduct had “demonstrated a lack of belief in the rule of law that was particularly troubling because of the government position (*in the State Department*) he held at the time of the attack”. This came after federal prosecutors said he had been an “enthusiastic participant in mob violence” & in the “first wave” of a mob clashing with the police on the Lower West Terrace of the Capitol, carrying a riot shield “stolen” from the police & using it against officers attempting to repel a swarm of attackers.

*There has since been word of a member of Air Force One’s cabin crew being arrested for his role in the January 6<sup>th</sup> Capitol riot, without there being any written confirmation. As to Klein, not much is known about him, except that he is 42 years of age & an ex-Marine (about one in ten of those arrested to date have served in the US Forces). He was a Class C political appointee [hacks who are paid like career public servants in the G-12 to G-15 (US\$64,490-US\$138, 572) salary range]. And theirs are appointments made to “confidential or policy roles” immediately subordinate to other political appointees. At last report (2016) there had been a total of 1,403 of them.*

## **HOW A JOURNALIST-TURNED-POLITICIAN BECAME THE BEST HOPE FOR ISRAEL’S ANYONE-BUT-NETANYAHU CAMP (Foreign Policy, Neri Zilber)**

- *Tuesday March 23<sup>rd</sup> is the date of the 4<sup>th</sup> Israeli election within in 2 years engineered in successive Netanyahu throws of the dice to extend his now 12 year term as Prime Minister. In an interview last week at his Tel Aviv offices Yair Lapid, the leader of the Yesh Atid party, said Netanyahu had taken Israel down a ruinous path and, expanding thereon, “You have a prime minister with three serious criminal indictments against him ... who has defined the future government he wants as a coalition ... with the worst kind of dark, racist, ultra-nationalist and bigoted forces ... There’s a fierce attack ongoing against the rule of law, the Supreme Court, the media and the entire concept of Israel as a liberal country.”*
- *In the polls Lapid’s centrist party is a strong second to Netanyahu’s Likud, & the bloc of parties committed to send Netanyahu packing has a razor-thin edge <sup>5</sup> over his coalition of ultra-orthodox, religious & far-right settler parties (incl. one going back to the late rabbi Meir Kahani who was banned from politics forty years ago for his *rabid* anti-Arab racism).*
- *Age 57, Lapid is a former prominent columnist & author who spent *his 20’s in TV in Los Angeles & after returning* years in the public spotlight in Israel, first as the host of a late night talk show & then anchoring Israel’s most-watched Friday night newscast. For a while, from 2013 onward, he also served a Netanyahu’s Finance Minister. And he is the son of Yosef “Tommy” Lapid, another journalist-turned-politician *who from 2003-2006 was Deputy Prime Minister & Minister of Justice under Prime Minister Ariel Sharon.**

*While Lapid has a good chance of becoming the next Prime Minister, that is by no means a foregone conclusion. For while his party may become the second largest, it is expected to get just*

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<sup>4</sup> Zia Mustafa Faruqui is a Georgetown University alum who served 12 years as a Assistant US Attorney, In September 2020, after a lengthy search the US District Court for the District of Columbia named him to his present position.

<sup>5</sup> This is not the number I saw elsewhere that was more like the Netanyahu clique trailing 64-56.

20 or so seats in the 120 seat Knesset. And as Lapid himself puts it, coalition-building in Israel is always “chaos ... (even though) there is a real need here ...for sane and balanced leadership, and the current [poll] numbers show there’s an audience for it. “

Those polls show a remarkable reshuffling of political sentiment. Likud is down to 28 from 37 seats in the last Knesset, Yesh Atid up 3 to 19, Benny Gantz’s Blue & White down from 12 to 4<sup>6</sup>, the Joint (Arab) List down from 11 to 9, & the party led by the once rising star, techno millionaire Naftaly Bennet lucky to get the 3.25% voter support needed to get any seats at all. Most vote shifting has benefited two new parties, Yamina, that calls itself an “opposition” party, going from 3 to 13 & New Hope, a group of mostly disenchanting ex-Likud members, from 2 to 11. And Netanyahu’s desperation can be gauged by his courting, with some success, Arab voters (while at the same warning his Likud supporters that ‘the Arabs will turn up in massive numbers to vote’ - while the opposite may prove the case since many may stay home, disappointed by the Joint Lists’s and Blue & White’s performance while not turned on by Netanyahu’s blandishments). And one can only wonder if his last minute canceling of his trip to the UAE since “his wife is in hospital with appendicitis” does not also fall in the ‘Hail Mary pass’ category.

If, as seems likely, Netanyahu will soon cease to be Prime Minister, the roof may cave in on him legally; for he will lose all ability to slow the grinding of the “Wheels of Justice” in those three breach of trust-, accepting bribes-, & fraud criminal indictments (like someone else we know?).

### **CHINA’S NEW FIVE YEAR PLAN IS DISAPPOINTING (Foreign Policy, Alice Han)**

- Last week China began its biggest annual political gathering, the so-called Two Sessions (lianghui). It has surprised many investors & political analysts by its caution & lack of ambition. The era of sky-high growth rates is over. And with sober-minded, fiscally conservative planners now firmly in control of policy, Beijing is now turning its attention to debt reduction & a daunting agenda of structural reform.

According to the state-owned Xinhua the 14<sup>th</sup> Five Year Plan will call for the following (which, according to Premier Li Keqiang, will “create great opportunities for foreign investors”) :

- **boosting consumption** - getting people to spend more is ‘key to full economic recovery’ (& make the economy less dependent on exports?);<sup>7</sup>
- **raising the incomes of middle income people** - the college-, & vocational school-, graduates, and skilled-, & migrant-, workers;
- **dealing with the aging population problem** - by ‘improving fertility policies’, reducing childcare-, & education-, costs for those with large families, expanding parental leave & gradually raising the statutory retirement age; and
- **improving state & company pension arrangements** -.in the hope this will cut the household savings rate (that currently is almost 3x that of the US) & hike the role played by domestic consumption in the GDP (that is about 60% of that of the US?).

One wonders if this may not be a straw in the wind that Xi’s plan to have himself declared ‘President for Life’ 18 months hence may not come to fruition?!

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<sup>6</sup> A disastrous decline from two years ago (when it had 35 seats the same number as Likud), due to voters’ disappointment about him not standing up more forcefully as Deputy Prime Minister against Netanyahu.

<sup>7</sup> In China the household savings rate is in the 25% range (about triple that in the US, at least until it jumped last year to record new levels), while consumption accounts for about 40% of GDP, vs. roughly 66% in the US.

*Meanwhile on March 18<sup>th</sup> & 19<sup>th</sup> Biden's Secretary of State Anthony Blinken & NSA Jake Sullivan are to meet in Alaska with China's top diplomat Yang Yiechi <sup>8</sup> & Foreign Minister Wang Yi. This may not go well. For according to State Department spokesman Ned Price <sup>9</sup> on March 11<sup>th</sup> "we'll be frank and explain how Beijing's actions and behaviour challenge the security, prosperity, the values of not only of the US, but also of our partners and allies" <sup>10</sup>. Beijing does not take kindly to criticism, and when Premier Li Keqiang was asked about this later in Beijing, he merely acknowledged "disagreements are hardly avoidable" before changing the subject & telling those present that, while in 2020 the economy had grown by just 2.3%, this year "we will face mounting pressure on employment ... Some 14 million new entrants will join the labor force, including a record high of college graduates totaling 9.09 million."*

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**Smith College US\$45,000 staffer Jodi Shaw resigned on February 19<sup>th</sup>** - She did so in a letter to the College's President Kathleen McCartney in which she noted :

- She was doing so in full knowledge of the fact that, as a single parent of two children, they now faced an uncertain future;
- The climate & her place in the college had changed dramatically since, in July 2018, a "culture war" had arrived after a black student had accused a white staff member of calling security on her because of racial bias. This had prompted the college to immediately issue her a public apology & announce its intention to introduce a program to combat "systemic racism" on its campus & then ramp up those initiatives, even though a subsequent independent investigation into the event had not found any evidence of racial bias;
- She had been told on multiple occasions since that discussing her own (white) skin colour was a requirement of her job, endured a number of meetings in which another staff member had repeatedly & violently banged his fist on the table chanting "Rich, white women, Rich, white women!", with reference to such alumnae, and had been provided with literature in which the world's population was reduced to two categories, "dominant"-, & "subordinate"-, group members, solely on race;
- Every day she was witnessing colleagues manage student conflicts solely through the lens of race, hence by the colour of their skin, & had been told to do the same & support a curriculum that teaches students to do likewise. And when, during a mandatory Staff Retreat on Racial Issues, her turn had come to respond to personal questions about race & racial identity, and she had indicated "I don't feel comfortable talking about that", the facilitators had in their summing-up told those present a white person's unwillingness to discuss their race was symptomatic of "their white fragility", a form of aggression;

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<sup>8</sup> Now age 70, fifty years ago he attended Britain's University of Bath & LSE. He was Ambassador to the US in 2001-2005 & Wang Yi's predecessor from 2007 to 2013, and now, as Director of the Central Foreign Affairs Commission Office, reports directly to President Xi.

<sup>9</sup> A Texan now age 38, he is a Georgetown University School of Foreign Service alum & has an MA from Harvard's Kennedy School of Government, and spent a dozen years in the CIA before joining the State Department in 2017 (the year in which he made some headlines with an Op-Ed piece comparing Jared Kushner's cursory security clearance with his own year-long one before he joined the CIA.

<sup>10</sup> And the Chinese did not react well when, in his first phone call with President Xi after becoming President, Biden touched, right off the bat, on 'domestic issues' like Hong Kong, Taiwan & the Uighurs, that Washington had beforehand been warned by Beijing he should stay away from.

- Under the guise of racial progress, Smith College had created a racially hostile environment in which the worth of human beings depends on the color of their skin & in which what passes as “progressive” at Smith & other institutions is *actually* ‘regressive’, tapping into humanity’s worst instincts to break it down into warring factions; and
- While others won’t speak about this for fear of professional retaliation, social censure & loss of livelihood, “I believe that my children’s future & our future as a free nation depends on people having the courage to stand up to this divisive ideology ... Sincerely ...”

*This prompted a public response three days later by Ms. McCartney that “an unnamed employee had accused the college of ‘creating a racially hostile environment’ “ & “had demanded payment of an exceptionally large sum in exchange for dropping a threatened legal claim”. Two days later that gave rise to an NYT report of worsening racial tensions between students, staff & administrators at the college on the issue of racial tension & its diversity training, and to other follow-ups by McCartney that “Good leadership is never about making people too uncomfortable or to feel ashamed or anything. I think our staff is content and are embracing it” & Ms. Shaw disputing her claim she “had demanded ...”, saying that the opposite had been the case, “the college had offered a settlement in exchange for my silence, but I turned it down.”*

**The Harry & Meghan saga** - A feature by Richard Kay & Guy Adams in the March 13<sup>th</sup> Daily Mail entitled Harry and Meghan, the Inconvenient Truth : Dossier Reveals Many Explosive Claims Which Rocked the Royal Family Were Contradictory or Wrong will be ‘grist for the mill’ of those who had their doubts about their allegations in the Oprah Winfrey interview in the first place. For it raises serious doubts about the veracity of their-, & mostly her-, stories, with seemingly ‘hard’ evidence to back that up - *My concern from the outset was that Harry might suffer the same fate as the Duke of Windsor, namely that the ‘pot of gold’ at the end of his besotted rainbow contained pyrite (aka ‘fool’s gold’) rather than the real stuff. But it may have turned out the other way; because for the first time since his Army days in Afghanistan he may have found a real purpose in life in parenthood while she found out that the pot of gold on the end of her rainbow did only contain fool’s gold and that her time in the bush leagues of global & American social life didn’t count for much in one of its major leagues. Personally I found it appalling that a woman would consider suicide when she is pregnant & that she instigated this mess at a time that Harry’s grandmother at age 94 faces the reality of soon having to part with her husband of nearly 75 years within months of his 100<sup>th</sup> birthday (and will have to carry on by herself with her duty-bound task of keeping Charles from becoming King). So it would not be surprising if, not too far down the road, Meghan & Harry will go their own ways, leaving him a single parent (upon which he is likely to find his way back into the bosom of his family, the wiser for the experience & the richer for his children). And as to the Daily Mail, while it does publish in tabloid format & has been accused of sensationalism, it derives at least some credibility from the fact that in the past 25 years it has earned the “National Newspaper of the Year” award no fewer than 8x, most recently in 2019.*