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REFLECTIONS ON THE DOWNTURN

Let's imagine for a moment that on your daily walk to work, your normal route takes you past a pawn shop that is known to display expensive jewelry. Over the past couple of days, you've noticed that the jewelry on display has been marked down—for reasons that you don't really understand. All you know is that, in the past, these times when the jewelry went on sale were quite temporary and, in fact, in the past the prices were far more likely to go up than to go down.

The store also buys jewelry from the public, and over the same recent time period, the prices it is willing to pay have been declining as well.

The question is: would you pick this time to sell some of your own jewelry, or to buy some while it's temporarily on sale?

You can apply this same thought experiment to on-sale items at the clothing rack or in the grocery store, and the answer is always the same: your inclination would be to buy when things are on sale, and to sell (if you happen to have something) whenever the prices go back up.

The peculiar thing about this thought experiment is that whenever you're talking about jewelry, or clothing, groceries or pretty much any everyday item in the marketplace, the response is obvious. But when we're confronted with exactly this same situation regarding stocks, ETFs or other investments, the immediate inclination is exactly the opposite.

Why should that be? Psychologists have had a field day exploring the ideas of herd mentality and recency bias and a lot of other mental shortcuts (psychologists call them "heuristics"), but nobody has ever managed to explain why our instinctive reaction to price movements in investments should be different from our instinctive reaction to virtually everything else in the global marketplace. We know that fear plays a role, but how rational is that fear when every market decline in history has been followed by subsequent record highs? We know that fluctuations in our net worth are tied to our sense of well-being, but why should we feel less confident when the paper value of our holdings is 2-3% lower today than it was yesterday? Do we feel that much more confident when the markets are UP 2% or 3%?

Years ago, after Microsoft stock had risen from practically zero to astronomical heights, a financial journalist interviewed a few people who had become wealthy by holding on to their Microsoft investment for two full decades. The first surprise was how few of them there were; many people had been given stock grants during the company's early years in business, and others had invested in this hot company with a promising new operating system. But most of them had cashed out at the first, or second, or third dip, long before the real money was made.

The second surprise was how all of these now-wealthy stockholders told the same story: that there were many times when they had to grit their teeth and avoid the temptation to sell the stock of a company that was increasingly dominating desktop software. Every bump in the road was, to them, a strong sell signal, which required a certain fortitude to hang on.

The lesson in all this is that all of our brains are wired to be dysfunctional investors. Now that the markets are becoming unpredictable and stocks are going on sale, all the tendencies to make bad decisions are being triggered. If the same thing were happening at the grocery story or in that pawn shop display, we'd all be cheering this nice (albeit temporary) opportunity. The fact that we are not cheering tells us a lot about ourselves.

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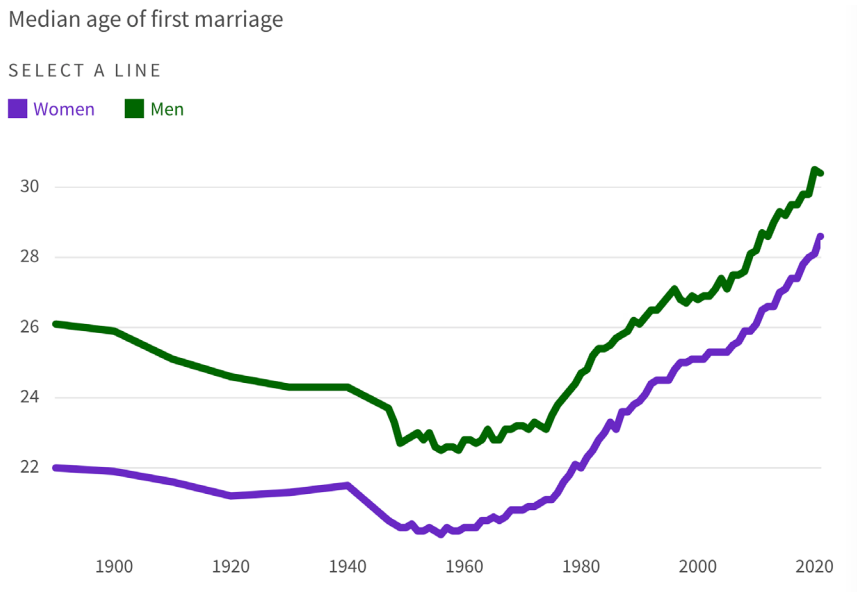
COUPLES AND SINGLES

We all know that the divorce rates are up and the marriage rates are declining in America. But it turns out there's a lot more to the story.

Such as? The tendency not to be married is more significant, historically, than most people realize. In 1949, according to Census data, 78% of all households contained married couples. In 2021, even with the advent of same-sex marriages, that number has dropped to fewer than half: 47.3% of households. Single-person households account for 11% of the total, up from 3.8% of all households in 1960. 35% of men and 30% of women today have never been married.

And people who do marry are marrying later in life. In 1890, the median ages of first marriage for men and women were 26 and 22, respectively, and that number actually declined to a low of 22 for men and 20 for women by 1956. Since then, those figures have risen to over 30 for men and over 28 for women.



And those divorce rates? 8.4% of men and 11% of women are currently divorced, but it appears that women are divorcing at higher rates than men over the last couple decades. The divorce rate for men peaked in 2013 at 9% and has declined since, while the divorce rate for women has grown from 9.4% in 1990 to the current 11%.

Source:
https://usafacts.org/articles/state-relationships-marriages-and-living-alone-us/

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MYSTERIOUS GAS PRICE HIKES

With a war raging in Eastern Europe, the common wisdom is that we are all going to pay for sanctions against Russia in the form of higher energy costs. But it's still a bit confusing that gas prices at the pump have risen so dramatically. A month ago, the typical consumer was paying $3.488 a gallon; today the average cost is $4.325—an increase of roughly 30%. In some places, the increase has been more dramatic; Californians are now paying $5.34 a gallon when they fill their tanks, and there have been reports of people paying $7 a gallon at certain gas stations around the country.

Why should this be confusing? First of all, only about 8% of the petroleum that the U.S. imports comes from from Russia (.67 million barrels a day last year), and the U.S. actually exported about 12 times that amount (8.63 million barrels a day) to other countries around the world—notably Mexico, Canada and China. In most years, our domestic oil production exceeds consumption, which means that the ban on Russian oil should—theoretically, at least, have little impact on the American gas pump.

But perhaps a cutoff in Russian oil is causing a bidding war that is driving up prices everywhere, and we're feeling the ripple effects. That doesn't actually seem to be the case. The cost of a barrel of the benchmark 'Brent Crude' (which basically means oil on the world markets) peaked at around $130 two weeks ago and has been falling ever since, down to around $106 currently. That's a decline of almost 20%. Domestically produced oil is actually a bit cheaper.

Of course, oil industry experts are saying there is no evidence that they're raising prices without any increase in their costs, and we will have to wait for their profit numbers before that evidence becomes available to the general public. In the meantime, all we know is that that the recent spike in American gas prices is hard to directly tie to the war in Ukraine.

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STRANGE CRYPTO

You certainly know about bitcoin and ethereum, the most widely-used cryptocurrencies. But did you know that there are actually1,500 different crypto 'coins' trading in and through the blockchain wallets? And some of them are downright bizarre. Consider Fonziecoin, Selfiecoin, Pizzacoin or the new-defunct President Johnson coin. The Kodak corporation has introduced KodakCoin as a way to pay photographers for digital usage, and the very-nearly-defunct Venezuelan government stands behind something called the 'Petro.' Something called the PotCoin, which is being promoted by former NBA basketballer Dennis Rodman, is designed to provide a decentralized banking infrastructure for the cannabis industry, joining CannabisCoin, KushCoin, Bongger, and Ganjacoinpro.

If you visit Russia, presumably after the current contratemps dies down, you will be able to buy Burger King Whoppers with Whoppercoin—and you'll receive one coin for each ruble you spend. (It will cost 1,700 Whoppercoins to get a free burger.) Cat loves can 'invest' in Monacoin, Catcoin and Nyancoin—after the Nyan Cat meme. Or you can put your hard-won dollars in something called the Useless Ethereum Token, which features a hand flipping you the bird. Its website states "You're going to give some random person on the internet money, and they're going to take it and go buy stuff with it. Seriously, don't buy these tokens." Instead, consider the Mooncoin, whose total coin supply is based on the average distance from the Earth to the Moon.

Source:

https://www.pcmag.com/news/23-weird-gimmicky-straight-up-silly-cryptocurrencies

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WHERE IS THE INFLATION COMING FROM?

By now you know that the U.S. is experiencing a fairly dramatic inflation rate. The Consumer Price Index rose 7.9% last year, and prices this year are surging as well. The question that is not being asked, however, is how much of these rising prices are a result of supply chain issues and higher worker wage demands, and how much are reflecting higher profits?

If worker pay has gone up at roughly the inflation rate, then we can pinpoint the higher costs that companies are having to pass on at the register. By this measure, however, worker costs are running substantially behind price increases; the average hourly wages across the U.S. economy rose 4.7% last year, while inflation grew by 7.9%.

A more credible place to look for the drivers of inflation is the snafus in the supply chains running here, there and everywhere, only to be held up idling outside of ports or ceasing altogether whenever another bout of Covid strikes. Ocean shippers made nearly $80 billion in the first three quarters of 2021, which is twice as much as in the entire ten year period from 2010 to 2020. Freight rates have increased tenfold, and companies are effectively paying for ships that stand waiting their turn for weeks outside of major ports. Shipping and associated delays are clearly driving up manufacturing costs.

Even so, the fact that we are seeing high inflation at the same time as corporate profit margins are at their highest level in 70 years cannot be totally coincidental. When Fortune magazine looked at the profit margins on 28 food and consumer goods from manufacturers listed on the Fortune 500, it found that the net profit margins were higher than pre-pandemic levels on 14 of them, and roughly the same on the others. Datasembly, which tracks food and consumer goods manufacturers, found that 11 of a sampling of 18 key consumer products had experienced inflation-beating price increases. JBS, Kellogg, Kimberly Clark and Tyson all raised their prices higher than the current inflation rate, with the JBS steaks and Tyson Buffalo-style chicken bites rising a whopping 34% and 26.7%, respectively. Molson Coors and Procter & Gamble more than doubled their profit margins last year, compared to pre-pandemic levels.

It's helpful to remember, when members of Congress throw around terms like 'price gouging,' that any company is legally entitled to set prices at whatever the market will bear. And some of those price increases are set at the store level, so if there is exploitation, it may not be at the manufacturing or producing level.

The bottom line is that if customers are willing to pay 25% more for something this year than they did last year, then that's simply evidence of capitalism at work. But at some point, consumers might stop simply accepting the conventional wisdom from news sources that our current inflation can be directly traced to higher production prices. If that realization ever happens, you can expect people to halt buying. Prices will drop, and corporate profits will fall back to more normal levels—or below.

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