



THE STOCKMAN *Letter*

4 PROFITABLE TRUTHS

About the Inevitable Crisis Ahead

By David Stockman

Preserving your wealth – and finding opportunities to profit – is the primary focus of *The Stockman Letter*.

It's a process, with many variables. And distractions are innumerable.

So, where is the “signal”?

Take politics, for example. It's about “duopoly.” And that duopoly thrives when we the people are in conflict with each other. Our “duopoly” is about preserving bipartisan power.

Understanding the duopoly's instinct to aggrandize its status is critical to understanding why we find ourselves in perpetual conflict all over the globe.

Meanwhile, “self-preservation” explains a lot about the Federal Reserve, too.

And, of course, we can't get anywhere these days without addressing MAGA... its contents... its discontents...

I hate to break it to you, but the “deep state” is not some organized monolith that meets every Tuesday or so to outline its intricate plan for global order.

It's far more sinister than that.

Indeed, lately it's all about upward-failing incompetence on a scale never imagined... outside, of course, the Acela Corridor.

The aftermath of World War II presented the United States of America an opportunity to fulfill Jefferson's fondest hope for the nation he helped found.

Rather than an “Empire of Liberty,” we've let ours metastasize into... something else, a Leviathan's Leviathan that threatens every founding principle for which we used to fight.

The proximate threat is, of course, to our wealth. Main Street – although it's more in terms of “making ends meet” rather than “interest,” “dividends,” and “total return” – has been suffering it for decades.

But it's there we see that unsustainable rot, caused by monetary central planning and Bubble Finance. And things that are unsustainable end.

The current episode will climax with the Mother of All Yield Shocks.

Surviving it is the point of *Deep State Declassified*, *The Stockman Letter*, and “The Stockman Model.”

We need to start off with an understanding of some basic truths about Imperial Washington, Wall Street, and you.

The Truth About Duopoly

I label it the “GOP’s Fiscal Debauch” because it’s another budget-busting, deficit exploding tax cut.

But here’s the mechanics: Republicans get Warfare State stuff, Democrats get Welfare State stuff... and they’re all pigs in shit.

Likewise, the Donald’s Trade War and the new tariffs he’s deploying will only add to inflationary pressures and further ensure “normalization” (whatever that really means...)

It reflects, primarily his blithering crackpottery on all economic matters.

At the same time, his “Accidental Great Disruptor” tendency exposes the damage of decades of globally coordinated monetary central planning.

This economic recovery is already the second-longest on record; and it’s been notoriously weak.

Have you heard, amid all the noise, some of the folks talking about recent data rollovers and what they mean for where we’ll be 12 or so months from now?

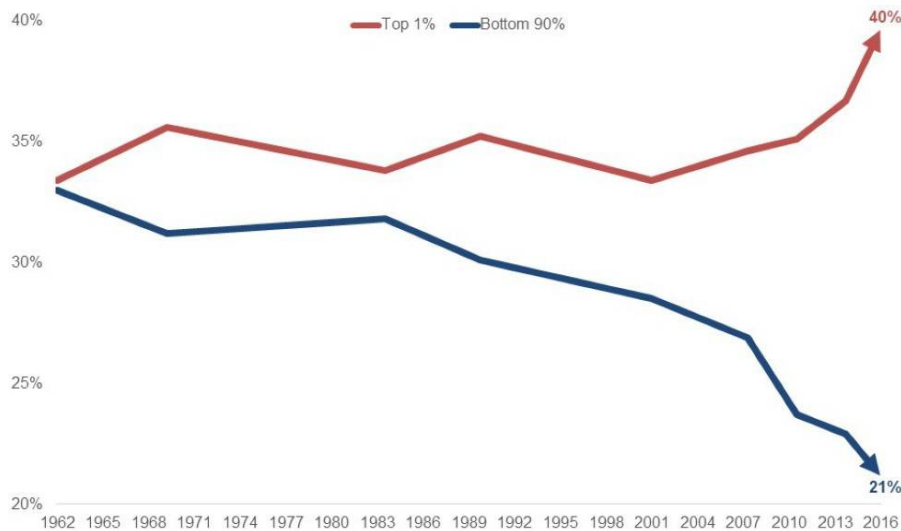
That whisper you hear is “recession.”

We should be so lucky.

And we’re left to dance with the same type of leadership that brung us...

The Top 1% Continue to Covet the Wealth

Shares of Wealth, United States



Source: "Has Middle Class Wealth Recovered?," Edward N. Wolff, 11/29/2017

www.dentresearch.com

Here's the reality, folks.

Republicans and Democrats both ignore the Baby Boom retirement tsunami rolling over the Welfare State.

Republicans and Democrats both ignore a bloated Warfare State rolling over the entire globe.

Republicans and Democrats both ignore soaring interest costs on the federal debt.

Republicans and Democrats both ignore the crippled growth capacity of our economy after decades of malinvestment.

Republicans and Democrats both ignore cowardice and complacency because to do so locks them hard in place with both Wall Street and Imperial Washington.

Look, I'm not here to bowl you over with "where the bodies are buried" bullshit.

That's not to say I couldn't. You can't help but learn things when you're a Member of the U.S. House of Representatives; at least the minimally sentient ones.

People who run the Office of Management and Budget and then spend 20 years on Wall Street are also privy to a lot of... titillating trivia.

But, right now, what we need is a rational way to preserve capital.

Sure, at my age I am a “perma-bull.” But I’m not perma-stupid. And I – the “Father of Reaganomics” (or so some say) – do know how to spot “opportunity.”

Our starting points, then, are “safety,” “preservation of capital,” and “opportunism.”

I understand the difference, in other words, between “the map” and “the terrain.”

Most importantly, I have a pretty good clue about the disaster coming down the pike.

Let’s all stop drinking the duopoly’s Kool-Aid.

The Truth About Forever War

Right now, the President is prepping for full combat with Nancy Pelosi.

At the same time, he's pulling the rug from under important pillars of the Warfare State.

Call it the unintended dividend of Trump's "America First" approach: France, Germany, Russia, and Turkey – snubbing our neocons – have opted for peace in Syria.

And this, folks, is the job of a Great Disruptor: Alienate the world enough for its leaders to say, "No, thanks," to Imperial Washington's Forever War.

Indeed, the Donald got it all right by getting it all wrong, again, when he canceled his appearance at a wreath-laying ceremony at Aisne-Marne American Cemetery and Memorial in Northern France to commemorate the 100th anniversary of the end of World War I due to inclement weather.

How can you commemorate – rain or shine – the end of a conflict that never really concludes?

The Marines at the bloody battle of Belleau Wood did not die "in the trenches for the cause of freedom."

They gave their lives in service of President Woodrow Wilson's megalomaniacal pursuit of a messianic vision of global order.

Wilson's "good intentions" and a vindictive peace imposed at Versailles paved the way for Lenin, Stalin, Hitler, totalitarian mobilization, and colonial revolt that fostered World War II, the Cold War, and the Global War on Terror.

It also revived Statist interventionism at home. That's not to mention starting the Federal Reserve on its path from decentralized "bankers' bank" into all-powerful monetary central planner.

Most insidiously, it generated the baleful notion of America as the Indispensable Nation.

Right there is the beginning of American Empire.

The 100th anniversary of November 11, 1918, is a reminder that the "great war" never really ended.

Of course, the Donald took heavy-duty flak for sitting out the wreath-laying from the Mainstream Media, Democrats, Republicans, old-school hawks, grandsons of Winston Churchill... even reconstructed “doves” piled on.

Here’s former Secretary of State John Kerry, [taking to Twitter to express the Establishment’s high dudgeon](#):

President @realDonaldTrump a no-show because of raindrops? Those veterans the president didn’t bother to honor fought in the rain, in the mud, in the snow - & many died in trenches for the cause of freedom. Rain didn’t stop them & it shouldn’t have stopped an American president.

This is the most monumental irony.

In his youth, Kerry led the “Winter Soldier” movement against the Vietnam War. After his own tour in Southeast Asia, he well understood the insanity of America’s role in a needless war.

Now, he’s a spokesmodel for the Warfare State.

Of course, the only war of the 20th century more senseless than Vietnam is what used to be called the “Great War.”

The deadlier, more destructive sequel – World War II – demanded a whole new naming convention.

And it took the likes of George Orwell to come up with a name semi-sufficient to describe what came after that, the “Cold War.”

But even that famous anti-authoritarian wordsmith would struggle with what we’ve made of “the end of history” and the “unipolar moment” that followed the Soviet Union’s collapse.

Indeed, America’s intervention in an old-world tragedy for no good reason whatsoever signaled more than a century of perpetual conflict based on mistaken intentions, political expedience, and, finally, pursuit of pure power...

It’s Forever War.

U.S. forces fight endless, ill-begotten wars. That’s what we do, whether in Vietnam in the 1960s or in Iraq and Afghanistan four decades later.

It's easy to lose sight of where the Pentagon continues to maintain a truly winning record: right here in the friendly confines of the United States of America.

Today, the idea that ever more inflated military spending is an investment in making America great again reigns supreme.

And that's been the case since the 1980s and the era of President Ronald Reagan.

Once, it was a matter of principle, standing up to an evil empire. Now, the Warfare State pursues pure power, propped up by cowardice and graft.

It's the duopoly, and it loves its Deep State.

Even with the Donald's "alienation diplomacy" well at work, disgusting Empire First creeps like Mike Pompeo occupy major slots in his administration.

He and fellow warmonger John Bolton continue to amplify a non-existent military threat from Iran. At the same time, they're kissing multiple asses in Saudi Arabia.

Even with all that, take a close look at those "sanctions": They include waivers for favorites, so the impact on the price of oil is minimized. And it still amounts to economic warfare on millions of innocents.

Europe is unhappy that the Donald pulled out of the Iran nuclear treaty without a fuller discussion. And the U.K. has joined France and Germany to protect European firms from the impact of unilateral sanctions.

So, it's going its own way on Syria.

It may not look like it, yet. But things are coming apart.

And it's going to accelerate.

The Truth About the Fed

When Congress recklessly passed a \$700 billion Wall Street bailout in early October 2008, it needlessly fueled panic in Corporate America.

In an instant, Ben Bernanke's "Great Recession" was off to the races.

Save for the TARP-induced wave of fear, the C-suite panic would have ebbed.

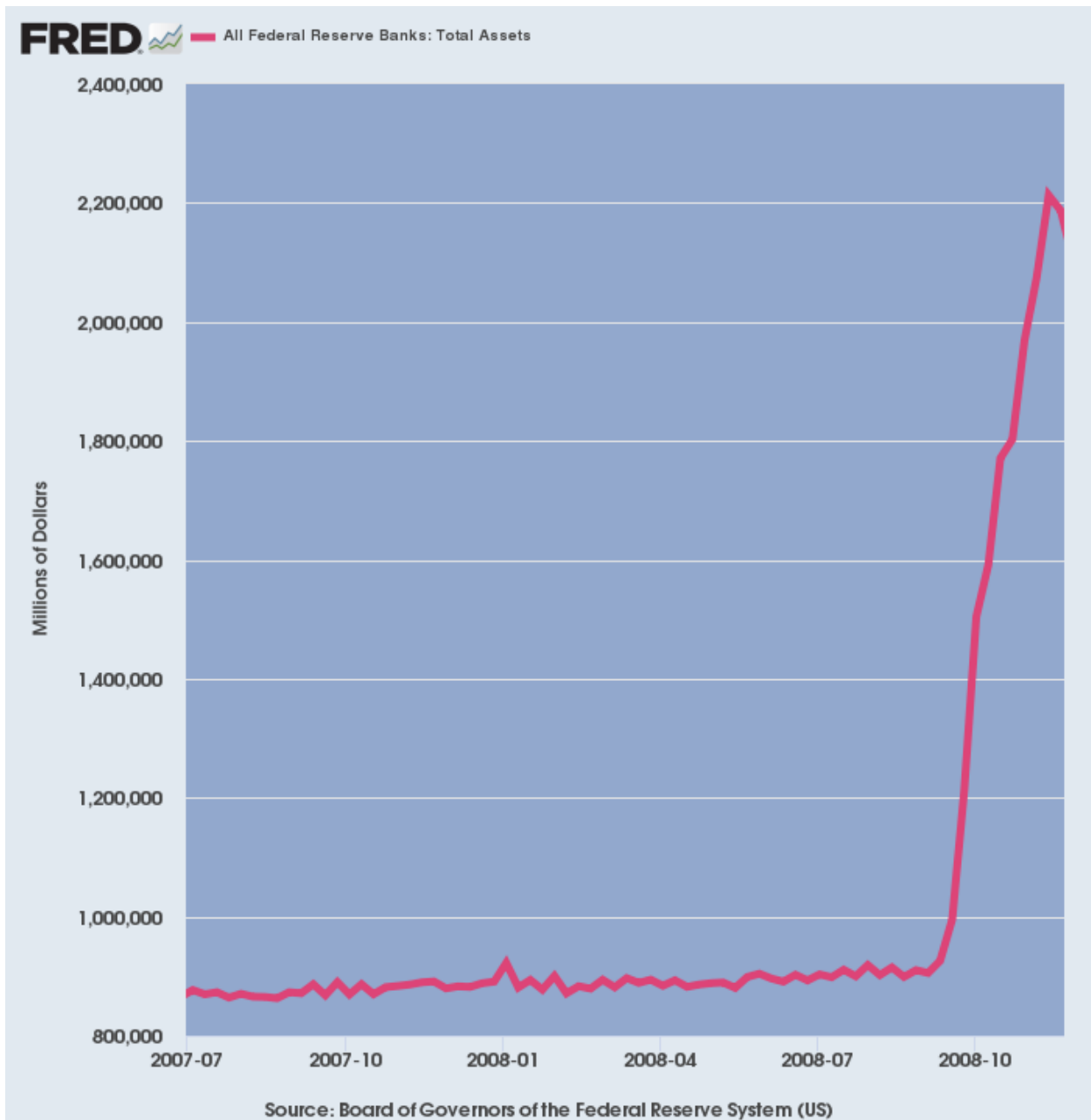
And, save for the insane flood of liquidity unleashed by the Federal Reserve, the last remaining gambling houses on Wall Street – Merrill Lynch, Goldman Sachs, Morgan Stanley, Citigroup – would have met their maker in the Chapter 11 courts.

The meltdown would have been contained to the canyons of Wall Street, burning out in due course with little spillover on Main Street.

As it happened, of course, the worst of both worlds transpired.

Imperial Washington's TARP and money-pumping panic both made the Great Recession deeper and more painful than it need have been.

And it arrested in its tracks the final liquidation of the Fed's Bubble Finance.



The egregious reflation of the Fed-fostered financial bubbles permitted the stealth destruction of American capitalism to have an extended lease on life.

Wall Street became red hot with reckless speculation and radical mispricing of stocks, bonds, derivatives, and other financial assets concocted by the same toxic waste labs that had brought on the mortgage securitization fiasco.

So doing, it sucked CEOs and CFOs into even more systemic strip-mining of corporate cash flows, payrolls, investment accounts, and debt capacities in the service of financial engineering.

That is, flushing cash back to Wall Street...

Upwards of \$15 trillion of stock-buybacks, M&A deals, and excess dividends since 2009 have pumped a tsunami of cash into the Wall Street's gambling pits.

These flows, needless to say, did fuel the greatest risk asset bubble ever – even as it atrophied the vitality and growth capacity of the Main Street economy...

The Fed's eight-year money-pumping spree after the 2008-09 meltdown also caused a good crisis to go to utter waste...

And we're still dealing with the consequences.

Indeed, it's easy to reach out and pick on the European Central Bank and others in the "easy money" mix these days.

That's especially so after Mario Draghi basically adopted the Fed's own 2% inflation target as Europe's when he revealed in October the ECB's plan to scale back its version of "quantitative easing."

Indeed, Draghi's notes basically warned the boys and girls in the euro equity markets that soon it will be "no more monetary sugar" because inflation is on a self-sustaining roll.

Here's another way to look at it: European workers and savers are now subject to the same punishment inflicted on American workers and savers by a 2% inflation target.

This monetary lunacy merely represents an oppressive groupthink pervading the Acela Corridor and prevailing in Europe and Asia as well.

The very idea that central bankers would stretch, struggle, and sweat to generate more inflation wouldn't have been discussed in polite company as recently as the late 20th century.

Here we are, just 18 years on from the colossal dot-com bust, brought on by Alan Greenspan's far more tepid version of interest rate repression.

The “recency” bias is so overpowering that not one in 10,000 market players questions this 2.00% Holy Grail.

[Well, except for the greatest central banker of all time...](#)

I puzzle about the rationale. A 2 percent target, or limit, was not in my textbooks years ago. I know of no theoretical justification. It’s difficult to be both a target and a limit at the same time. And a 2 percent inflation rate, successfully maintained, would mean the price level doubles in little more than a generation.

I do know some practical facts. No price index can capture, down to a tenth or a quarter of a percent, the real change in consumer prices.

Of course, Paul Volcker was forced out of the Eccles Building in 1987 by Ronald Reagan’s cheap-money Texan at the Treasury Department, Jim Baker, who later served George Bush Sr. as Secretary of State.

He goes on to note that this policy was driven by fears of deflation the likes of which we haven’t experienced for nearly a century.

“Tall Paul” has it right. Our central bankers might as well be debating the number of angels they can fit on the head of a pin.

Parsing their favored inflation index to the second and third decimal point has no more relevance to what they’re actually doing than did the sophistry of medieval theologians.

Indeed, the Roman Catholic Church was actually about the business of defending and justifying its power, institutional prerogatives, and onerous extractions from the people.

That, too, is the real business of today’s central banks.

The Truth About MAGA

Flyover America is fast on its way to feeling betrayed... again.

There was never a chance the Donald could or would “Drain the Swamp,” let alone MAGA.

We’ve known from Day One that Trump lacked a real program to rectify America’s ailing Main Street economy. And this has nothing to do with the Deep State’s vengeful resistance.

What’s happened in recent months was just one last rip of Wall Street’s army of gullible speculators and momentum-chasing robo-machines.

This “Trump Bubble” will prove to be the most lunatic mania of modern times. And it’s getting close to time for that consternated and inevitable chorus of “What were we thinking?”

Well, “we” were “thinking” on a decade of easy-money muscle-memory and buying the effing dip...

That worked on Wall Street – for insiders like Goldman Sachs and other big gambling houses speculating on carry-trade leverage in the options market, for example.

If you survived the plunge that happened between the Lehman Brothers bankruptcy in September 2008 and the March 2009 bottom, there were literally 50 buyable dips in the years of fabulous riches that followed.

That one-way market was the work of the Federal Reserve and its global horde of Keynesian central bankers.

Now comes the reckoning.

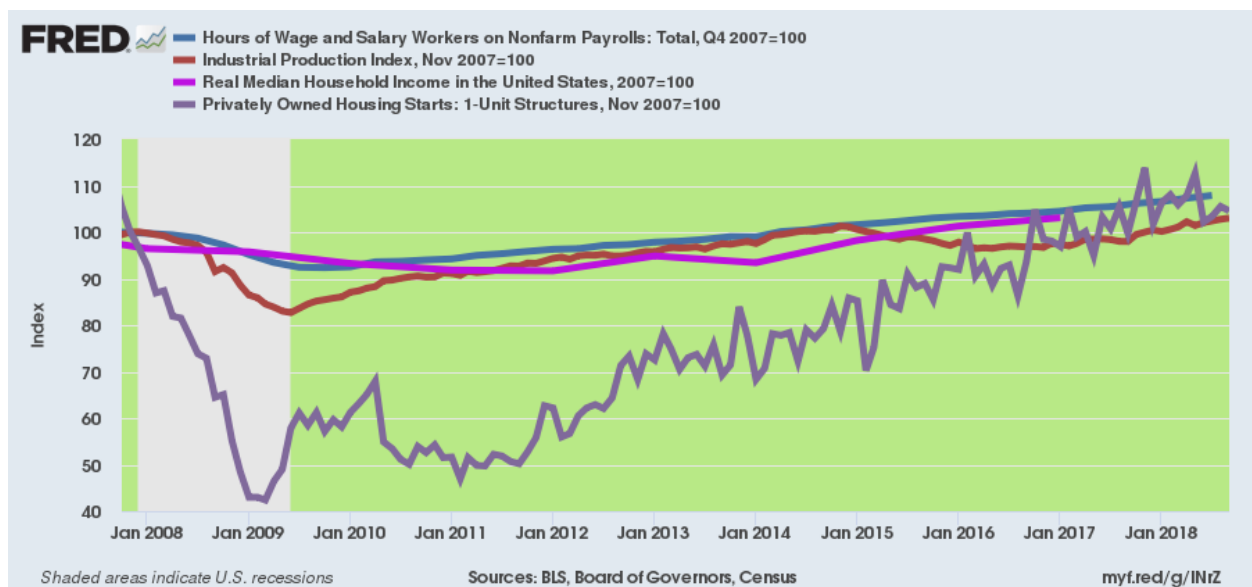
If the Donald isn’t sleeping well of late, it’s because he gave himself over to Imperial Washington and, still, they’re turning him out.

And he’s frustrated he’s not getting the “easy money” Obama got.

Perhaps it’s just as well.

The cratering of the Trump Bubble is just the beginning of the Donald’s comeuppance.

That's because this "booming" economy is no more real or sustainable on Main Street than Wall Street's last rip. Here are the data.



Total labor hours employed (that's the blue line) are up by only 7% over the last decade-plus. And even those are heavily weighted to the low-pay, part-time economy in leisure, hospitality, retail, temp, and personal services gigs.

Industrial production (the brown line) has only expanded by 3% in 11 years. Median real household incomes are up by about 2%. And single-family housing starts are up by only 5% after nine years of the cheapest mortgage rates in recorded history.

Folks, these aren't annual growth rates. They're 11-year cumulative gains. They amount to less than 1% annualized rounding errors in the great scheme of things.

The "headline" unemployment number always checks in around 3.9% at the end of a long expansion. And it's not worth the paper it's printed on anyway.

Meanwhile, that 4.2% second-quarter gross domestic product (GDP) print was actually the perverse and unsustainable feedback from the Donald's misbegotten Trade War and the GOP's Fiscal Debauch.

What's lurking beneath this quickly dissipating stock market and GDP euphoria is the same failed economy the Donald inherited.

It's just older.

MAGA was never the answer – especially not after the Tweeter-in-Chief signed off on the GOP’s Fiscal Debauch. The Donald is actually making both the Warfare State and the Welfare State bigger, faster.

Indeed, pretty soon we’re going to be paying more to service our debt than we will on either the military or Medicaid.

[As *The Wall Street Journal* so intrepidly noted in mid-November 2018](#), “Rising interest costs could crowd out other government spending priorities and rattle markets...”

As John McClane said in “Die Hard,” “Welcome to the party, pal!”

It is some dramatic irony, of course...

Here’s what I mean by that...

Had Imperial Washington allowed Wall Street to suffer the bleeding cure it desperately needed in September 2008, the Everything Bubble might not have happened, and the condign justice of a Trumpified White House might not have materialized.



DEEP STATE
DECLASSIFIED
with David Stockman

The Stockman Letter

819 N. Charles St.

Baltimore, MD 21201 USA

USA Toll Free Tel.: (800) 538-0428

Contact: deepstate@charlesstreetresearch.com

Website: www.deepstatedeclassified.com/

Have a question or comment? Contact a member of our customer service team toll free at 800-538-0428, Monday through Friday between 9 a.m. and 8 p.m. EST, or write to us at deepstate@charlesstreetresearch.com.

Legal Notice: This work is based on what we've learned as financial journalists. It may contain errors and you should not base investment decisions solely on what you read here. It's your money and your responsibility. Nothing herein should be considered personalized investment advice. Although our employees may answer general customer service questions, they are not licensed to address your particular investment situation. Our track record is based on hypothetical results and may not reflect the same results as actual trades. Likewise, past performance is no guarantee of future returns. Certain investments such as futures, options, and currency trading carry large potential rewards but also large potential risk. Don't trade in these markets with money you can't afford to lose. Charles Street Publishing expressly forbids its writers from having a financial interest in their own securities or commodities recommendations to readers. Such recommendations may be traded, however, by other editors, Charles Street Publishing, its affiliated entities, employees, and agents, but only after waiting 24 hours after an internet broadcast or 72 hours after a publication only circulated through the mail. Also, please note that due to our commercial relationship with EverBank, we may receive compensation if you choose to invest in any of their offerings.

(c) 2018 Charles Street Publishing. All Rights Reserved. Protected by copyright laws of the United States and international treaties. This Newsletter may only be used pursuant to the subscription agreement. Any reproduction, copying, or redistribution, (electronic or otherwise) in whole or in part, is strictly prohibited without the express written permission of Charles Street Publishing, 819 N. Charles St., Baltimore, MD 21201 USA.