

## Stockman's Sky is Falling

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Last week, The New York Times published former Reagan OMB Director David Stockman's "sky is falling" critique of the current economy and financial markets. *State Wrecked: The Corruption of Capitalism in America*. Stockman says the US is broke – "fiscally, morally, intellectually" – and says "When the latest bubble pops, there will be nothing to stop the collapse...." He says investors should sit in cash.

The piece instantly achieved rock-star status. "What do you think of Stockman's piece? He's not a liberal...he's a conservative...so, isn't this something I should take seriously? Stockman isn't a nutcase; shouldn't we run for the hills now?"

The funny thing is that we agree with much of what Stockman writes. Government is too big. The Fed is making mistakes. TARP, QE, stimulus, the auto/union bailouts, and other government action were a mistake. We also agree that "there was never a remote threat of Great Depression 2.0 or of a financial nuclear winter." If Hank Paulson and George Bush "stood firm" the crisis "would have burned out on its own."

None of this is new, except for the part about the crisis not threatening a depression. Stockman really didn't say anything that @ZeroHedge, Rick Santelli, Peter Schiff, Glenn Beck, Ron Paul, or a host of other free-market (and short-selling) types haven't argued for the past four years.

The piece could have been written in 2012, or 2011, or 2010. It could even have been published in March 2009. After all, nothing new has really happened. Congress and the President were spending too much back then and still are today. The Fed was printing money rapidly in 2009 and still is today. Deficits were huge then, and still are today.

Yet, for four years, economic data have been consistently and relentlessly positive – not booming, but positive. And for four years, corporate profits and market capitalization have climbed substantially. The S&P 500, including reinvested

dividends, is up more than 150% since March 9, 2009, while corporate profits have more than doubled from the bottom. Real GDP has expanded for 15 consecutive quarters. Real consumption and real business fixed investment in equipment and software are both at all-time record highs. All of this is hard evidence that something good is happening.

But Stockman says the economy and Wall Street are, "inflated by an egregious flood of phony money from the Federal Reserve, rather than real economic gain."

And this is where we fundamentally disagree. Despite all the arguments by the free-market, politically-motivated, short-sellers, positive developments are taking place. Right now...today. New inventions – the cloud, tablets, fracking, smartphones, 3D-printing, telecommunications, and on and on – are adding wealth, creating jobs, boosting profits and connecting the global economy at a rapid clip. The government didn't generate any of these.

Yes, there are people caught in the web of government over-spending and crippling-regulation. Yes, the Fed has created too much fiat currency. Yes, big government is creating a large class of people who think living off the government is a right. But, the market is still working. Banks are not transmitting the Fed's largesse; M2 is growing at a modest clip. Moreover, new technology is creating massive opportunities for those who grasp its power.

In other words, the sky is falling at the same time the sky is the limit. We don't disagree with Stockman's warning, but we completely disagree with his investment advice. Today, cash is a place for those with no faith at all in markets. Taking just the last several years of policy mistakes, the US may be on a course for Armageddon. But that ignores some major policy gains in the past 30+ years. Armageddon, if it ever comes, is a very long way off, nowhere close to the foreseeable future.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-11 / 7:30 am	Initial Claims – Apr 6	360K	<b>365K</b>		385K
7:30 am	Import Prices – Mar	-0.5%	<b>-0.2%</b>		+1.1%
7:30 am	Export Prices – Mar	+0.1%	<b>+0.1%</b>		+0.8%
4-12 / 7:30 am	PPI – Mar	-0.2%	<b>-0.2%</b>		+0.7%
7:30 am	"Core" PPI – Mar	+0.2%	<b>+0.2%</b>		+0.2%
7:30 am	Retail Sales – Mar	-0.0%	<b>+0.4%</b>		+1.1%
7:30 am	Retail Sales Ex-Auto – Mar	+0.1%	<b>+0.6%</b>		+1.0%
8:55 am	U. Mich Consumer Sentiment- Apr	78.8	<b>79.0</b>		78.6
9:00 am	Business Inventories – Feb	+0.4%	<b>+0.3%</b>		+1.0%