

# Market Euphoria During Troubled Times

By [Stephen Lendman](#)

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Theme: [Global Economy](#), [Poverty & Social Inequality](#)

Major equity markets approach nosebleed levels. Experts disagree on whether bubble extremes approach. They're not unusual. They happen often.

The myth about markets reflecting reality is hokum. Keynes once warned about "enterprise becom(ing) the bubble on a whirlpool of (destructive) speculation." Hard times usually follows.

Easy credit fuels speculation. Euphoria follows. Greed trumps good sense. Folly pays a big price. This time is different talk proliferates. Momentum drives prices higher.

Stories of easy riches abound. Why miss out. Overvaluation leads to more of it. Fraudsters sell at the top. Greater fools buy at the wrong time. Hindsight is the best insight. Excess ends badly every time.

Downward momentum happens faster than market upswings. Years of gains are wiped out in months. Valuations evaporate rapidly.

Goldilocks economies turn rancid without warnings. Lenders remember how to say no. Reality arrives with a bang. Animal spirits disappear. Angst becomes pervasive.

This time IS different. Market appreciation is supposed to reflect good times. They go hand in hand. Ordinary people are fighting for the soul of the American dream.

It's fast disappearing. It's dying. Main Street Depression conditions are killing it. They're at levels last seen in the 1930s.

Spin hides them. Fed governors say QE and low interest rates stimulate economic growth. It's cover for what's been ongoing since late 2008.

It artificially inflates markets. It keeps too-big-to fail banks from collapsing. It's failed to stimulate economic growth. It weakened the dollar. It created bond and equity market bubbles.

Offshoring manufacturing and professional high-pay/good benefit jobs to low wage countries prevents growth. Replacing them with low pay/poor or no benefits ones doesn't compensate.

Money printing madness isn't forever. Reality has final say. The greater the excess, the bigger the bang when it arrives. America is in decline. It's on a collision course with trouble.

Weakness defines current conditions. Markets astonishingly defy gravity. They're rising during economic decline.

It's practically unheard of during hard times. Market declines nearly always accompany them. Not this time. Fed/Wall Street manipulation elevates them higher.

Imagine doing so during protracted economic weakness. Short-term recoveries punctuate it. Fundamental problems are unresolved.

Real investment is weak. Western unemployment and poverty remain disturbingly high. Banks aren't lending. Major ones are insolvent. Consumers are spending less. Government debt levels are rising. They're dangerously high.

In the past two decades, Japan experienced multiple recessions. Doing so reflects classic stagnation. It reflects longterm decline.

Money printing madness hasn't stimulated sustained economic growth. Since 2008, Japan experienced a triple-dip recession. Expect a fourth to follow.

Eurozone economies and Britain remain extremely troubled. Greece, Spain, Portugal, Ireland and Italy are basket cases.

Austerity is force fed when stimulus is needed. Hard times for ordinary people go from bad to worse. Troubled banks assure continued economic weakness.

Markets are addicted to free money. Providing it comes at the expense of Main Street. Communities are wrecked. Economic growth is sacrificed. Offshoring jobs America most needs exacerbates things.

Fragility, weakness and instability characterizes economic conditions. Hard times keep getting harder.

Markets are oblivious to what's happening. Free money keeps party time going. Perhaps another banking crash will change things. Maybe it'll be worse than before. Cassandras predict it. Maybe they're right. Hindsight explains best.

[Ben Inker](#) co-heads GMO investments Asset Allocation team. He's a GMO Board of Directors member. He believes US equity markets are about 40% overvalued.

He calls fair S&P fair value 1,100. It currently exceeds 1,800. It's in nosebleed territory. It could go much higher before topping out. Markets work that way.

Irrational exuberance characterizes them in times like these. There's never been anything like them before in memory. Coinciding with hard times is unheard of. For how long remains to be seen.

Small cap overvaluation is even more extreme than large cap S&P equities.

"The US stock market is trading at levels that do not seem capable of supporting the type of returns that investors have gotten used to receiving from equities," said Inker.

"Our additional work does nothing but confirm our prior beliefs about the current attractiveness - or rather lack of attractiveness - of the US stock market."

Legendary investor Jeremy Grantham co-founded GMO. Admirers call him the philosopher

king of Wall Street. He operates north in Boston.

What's ongoing reflects another bubble/bust scenario. According to Grantham:

"One of the more painful lessons in investing is that the prudent investor almost invariably must forego plenty of fun at the top end of markets."

"This market is already no exception, but speculation can hurt prudence much more and probably will."

"Ah, that's life. Be prudent and you'll probably forego gains. Be risky and you'll probably make some more money, but you may be bushwhacked and, if you are, your excuses will look thin."

[Robert Shiller](#) popularized the Shiller P/E ratio. It's 50% above its longterm average. The US equity market is way overvalued.

Shiller's S&P ratio uses a 10-year inflation-adjusted earnings average to calculate valuation. Historically, it averaged 16.5 longterm.

Shiller's current ratio slightly exceeds 25. It's worrisome. At 28.8, it's bubble territory," he says.

[Warren Buffett](#) has his own favorite metric. He calculates market value of all publicly traded securities based on a percentage of Gross National Product (GNP). He calls it the best single valuations measure.

GNP values goods and services produced at home and abroad. According to Buffett:

"If the percentage relationship falls to the 70% or 80% area, buying stocks is likely to work very well for you."

"If the ratio approaches 200% – as it did in 1999 and (early) 2000 – you are playing with fire."

In late November, it was 134%. It's in the 94th percentile of results over the past six decades. It's well above the 60-year average.

It's way overvalued. It perhaps heading for 1999 levels. The fullness of time will tell.

Economic conditions then were strong. Weakness followed. Protracted hard times reflects what's ongoing now.

Markets may go higher before peaking. Or maybe not. Betting on continued advances is a fool's game.

Winning makes investors look smart. Losing extracts pain when bubbles pop. Is this time different? We heard it lots of times before.

It bears repeating. Hindsight is the best insight. Forewarned is forearmed.

A Final Comment

On November 25, the [Washington Post](#) headlined “Among American workers, poll finds unprecedented anxiety about jobs, economy.”

John Stewart is typical of others. He’s middle-aged. His job pays too little to live on. “I can’t save any money,” he said. He can’t “buy the things (he) need(s) to live as a human being.”

Over four years into so-called recovery, “American workers are living with unprecedented economic anxiety,” said WaPo. Low income workers feel it most.

A recent [WaPo-Miller Center poll](#) showed over six in 10 workers fear losing their jobs. Concerns are greater than found in previous surveys dating from the 1970s.

Low income workers worry most. At the same time, angst today affects “all levels of the income ladder.

“Once you control for economic and demographic factors, there is no partisan divide,” said WaPo.

“There’s no racial divide, either, and no gender gap. It also doesn’t matter where you live.”

At issue is protracted Main Street Depression level economic conditions. Millions of Americans are unemployed. Millions more are underemployed.

Incomes don’t keep up with inflation. Job insecurity is unprecedented in modern times.

Conditions go from bad to worse. Every day reflects a struggle to survive. It’s the new normal. It shows no signs of ending.

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*His new book is titled “Banker Occupation: Waging Financial War on Humanity.”*

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