

# Wine Country Conference 2013

## Brief Lessons in History

Mike “Mish” Shedlock

<http://globaleconomicanalysis.blogspot.com/>

## Today's Topics

- Valuations
- The Inflation Deflation Debate
- A few investments look attractive
- Patience and why you need lots of it, especially right now.

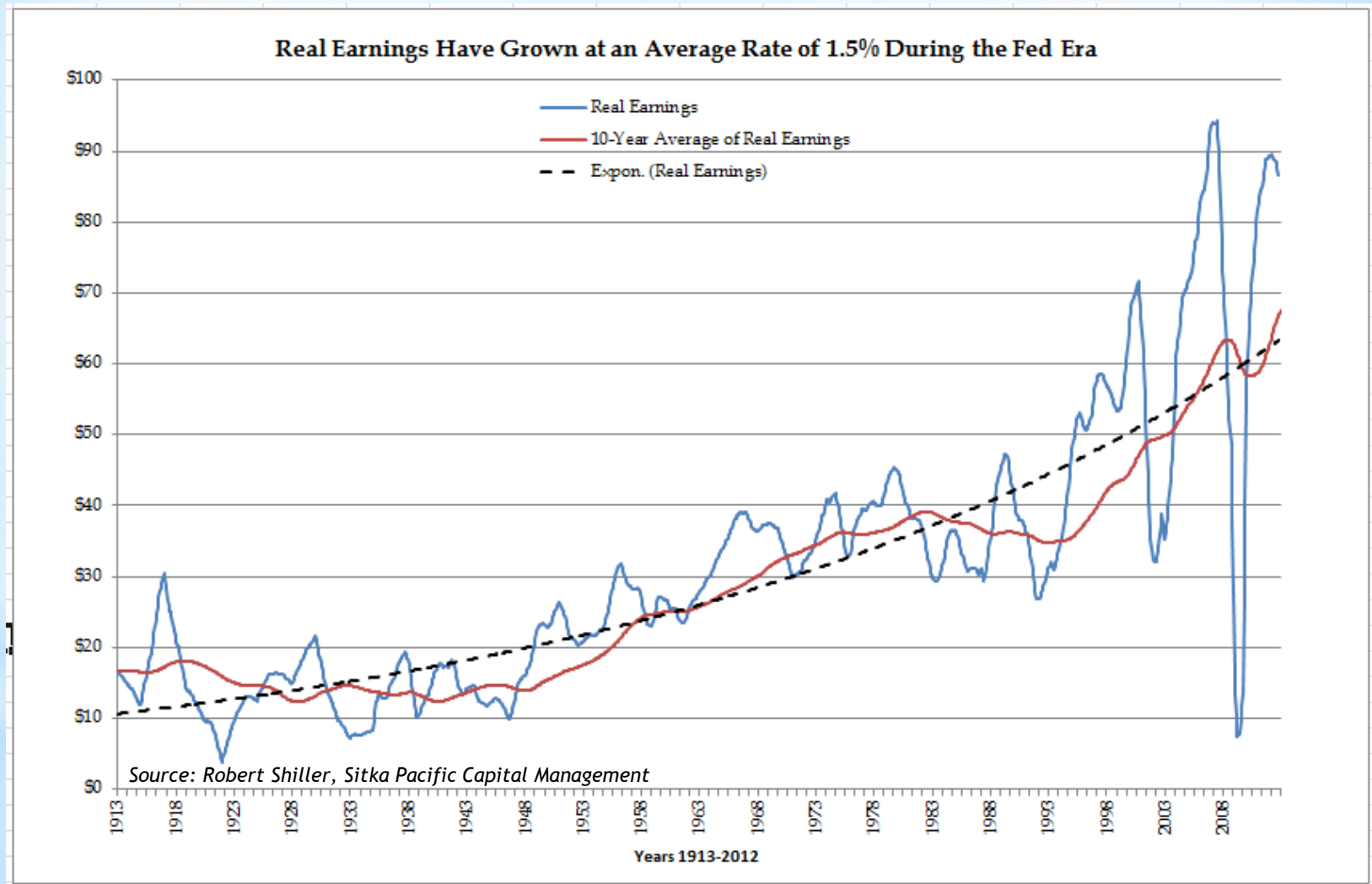
If you are hugely long this market...

- Valuations say you *shouldn't* be
- Margin debt says you *shouldn't* be
- History says you *shouldn't* be.

Jeremy Grantham, had some pertinent comments in an interview with Charlie Rose on March 11, 2013.

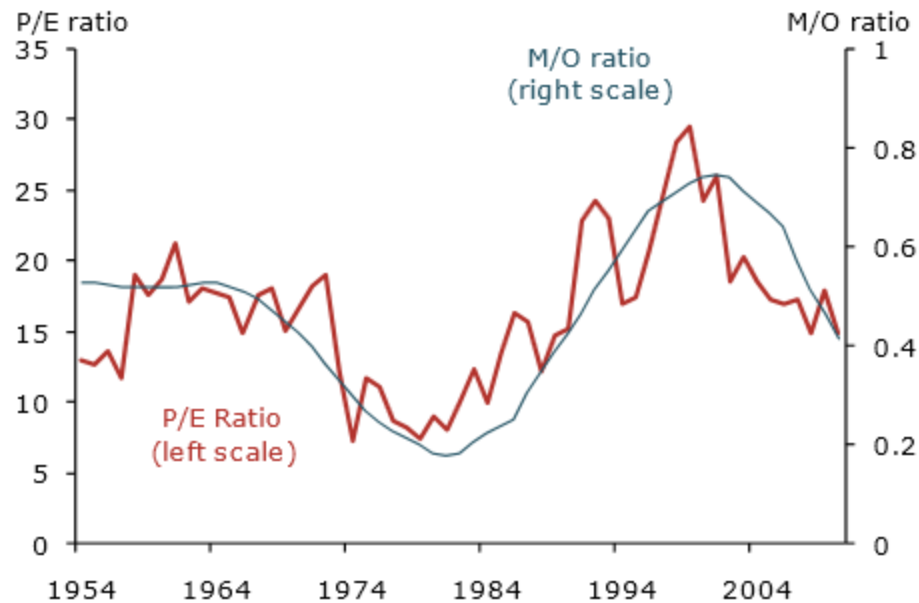
- *"There is an enormous pressure in the investment business to deliver good news."*
- *"Trust me. Good news sells better. Stockbrokers thrive on it, investment houses thrive on it."*
- *"To go out there in a bubble and talk about badly overpriced markets is an invitation to get fired."*

## "Real" Inflation-Adjusted 10-Year Average Earnings Growth



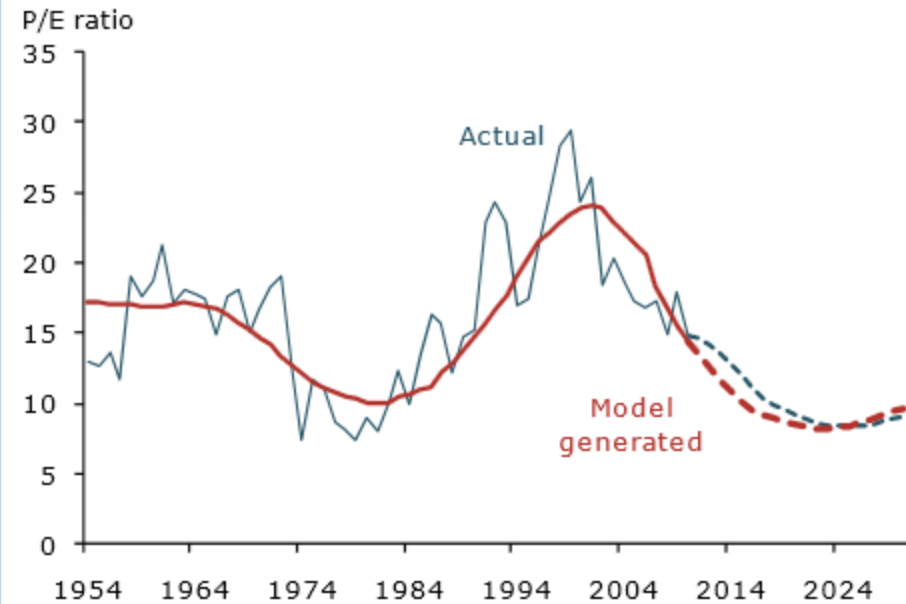
## Projected PE Ratios Based on Demographic Trends

**Figure 1**  
**P/E ratio and M/O ratio**



Sources: Bloomberg (PE) and Haver Analytics (MO).

**Figure 2**  
**Projected P/E ratio from demographic trends**

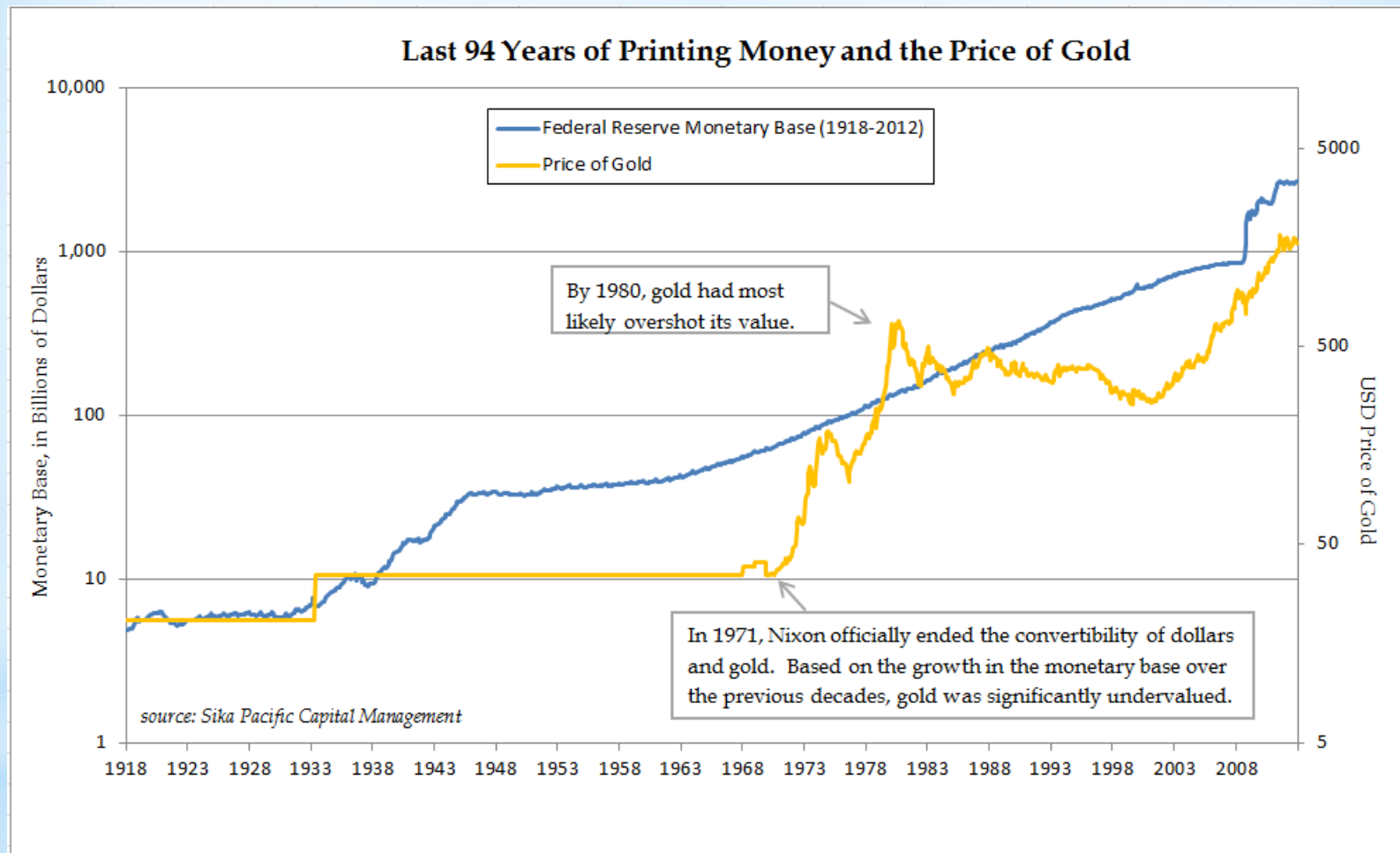


Sources: Bloomberg and Census Bureau.

## Myths That Don't Add Up

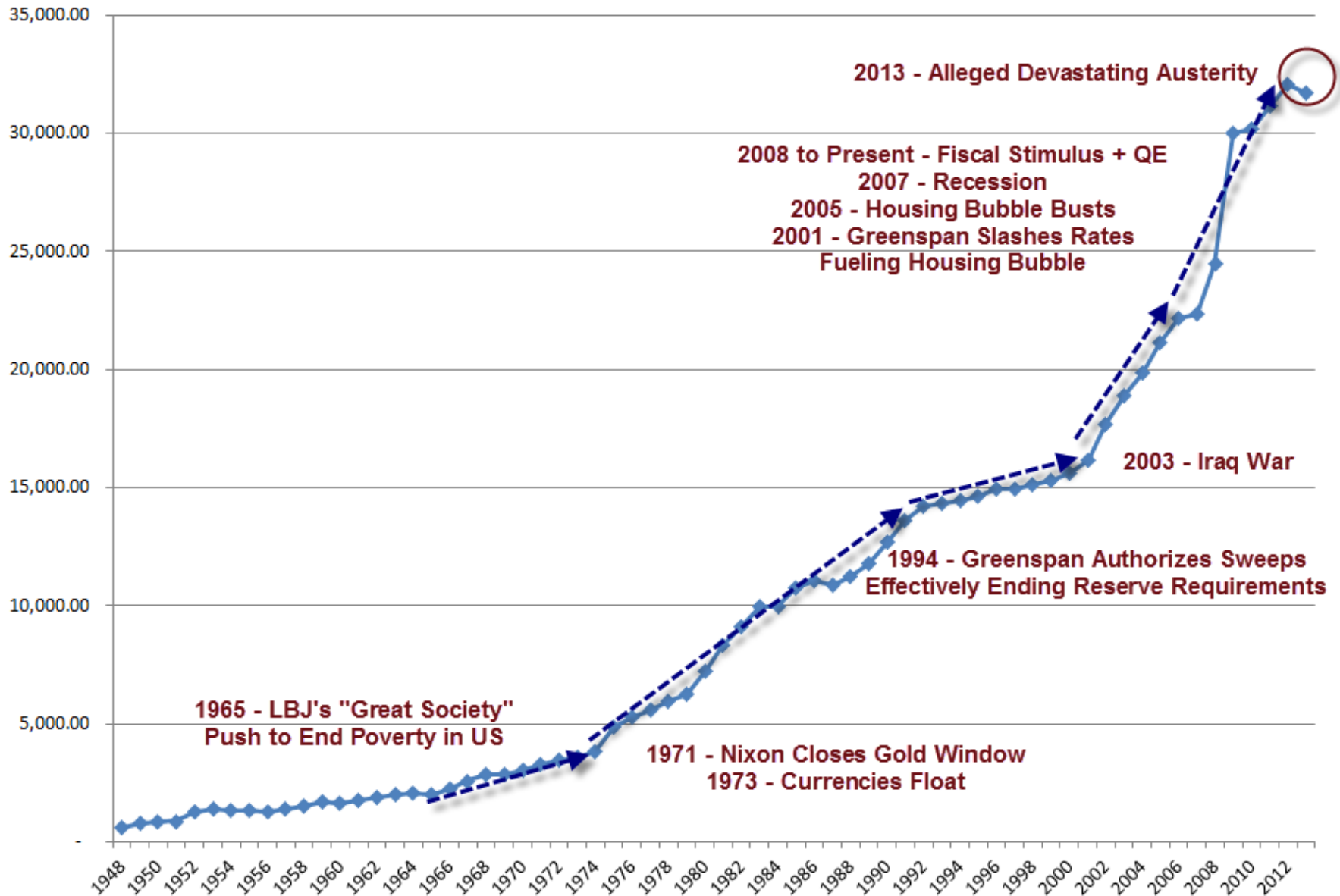
- Forecast of current earnings
- The idea the Fed can keep inflating asset prices perpetually
- The idea that gold is overvalued

# Federal Reserve Balance Sheet vs. Gold

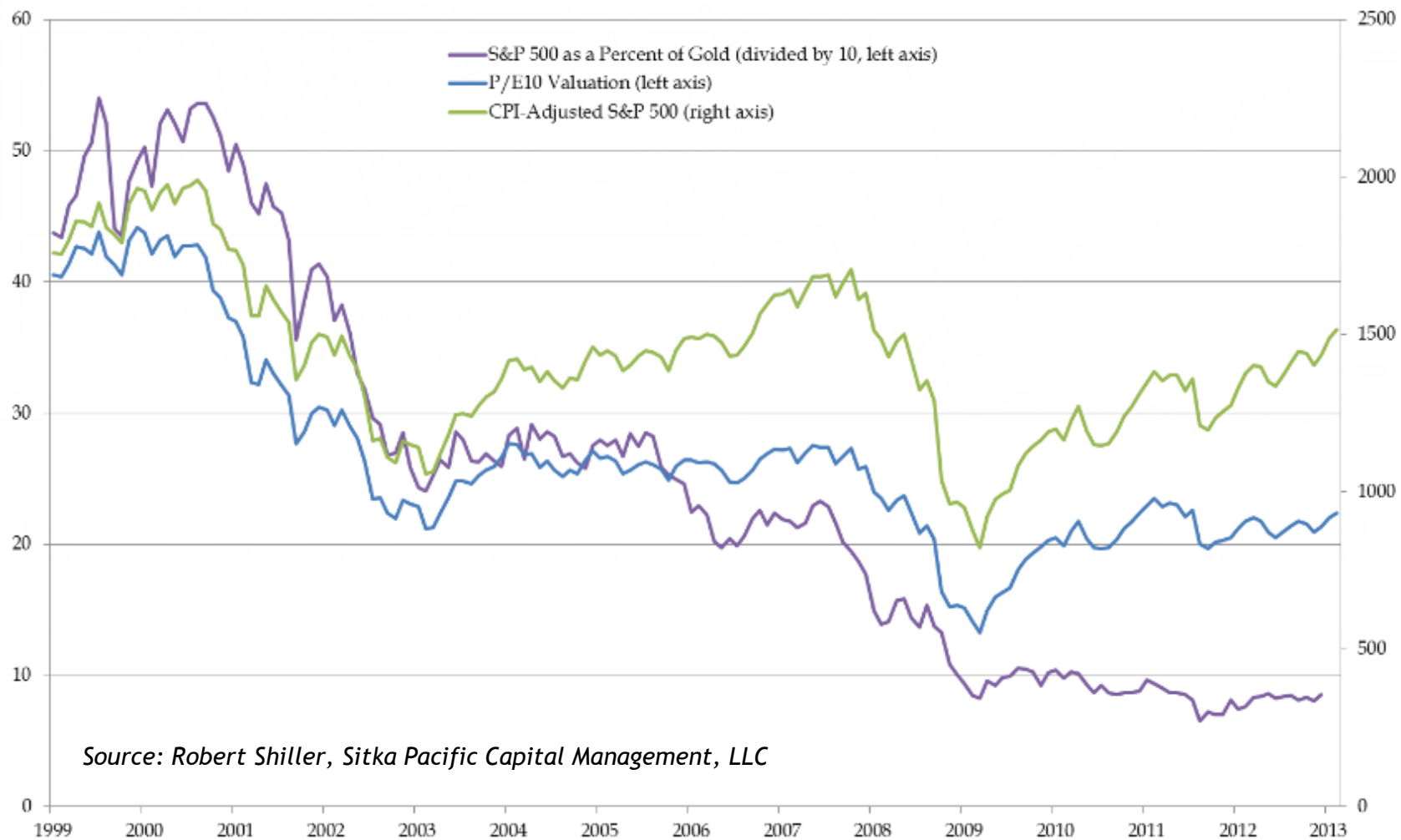


# "Great Moments in Fiat History"

## Spending Per Non-Government Worker



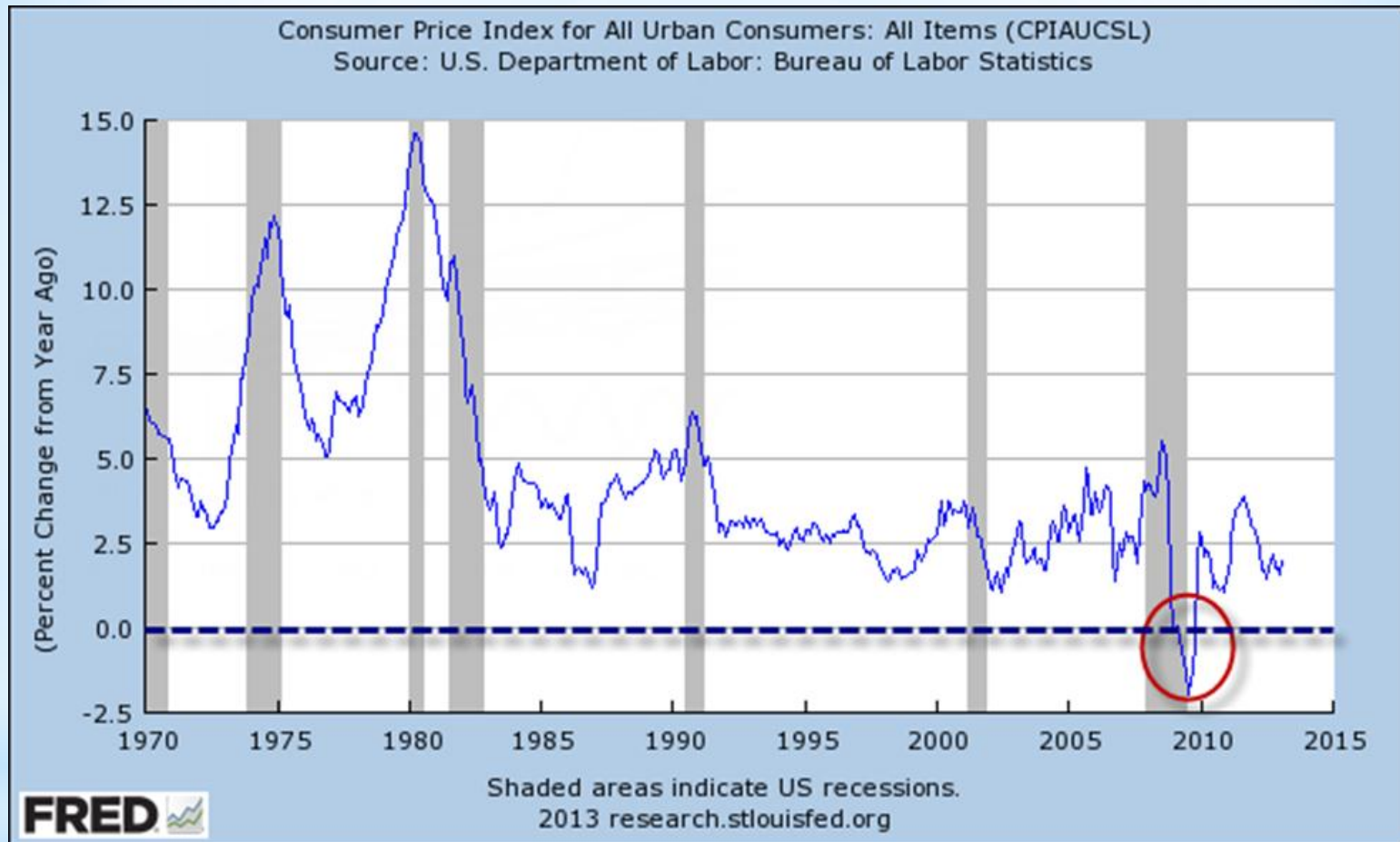
### What a Long-Term Bear Market Looks Like Under a Fiat Currency



## The Inflation/Deflation Debate

- Do we have inflation or deflation?
- Which one?
- What direction from here?

## CPI-U Percent Change Year-Over-Year

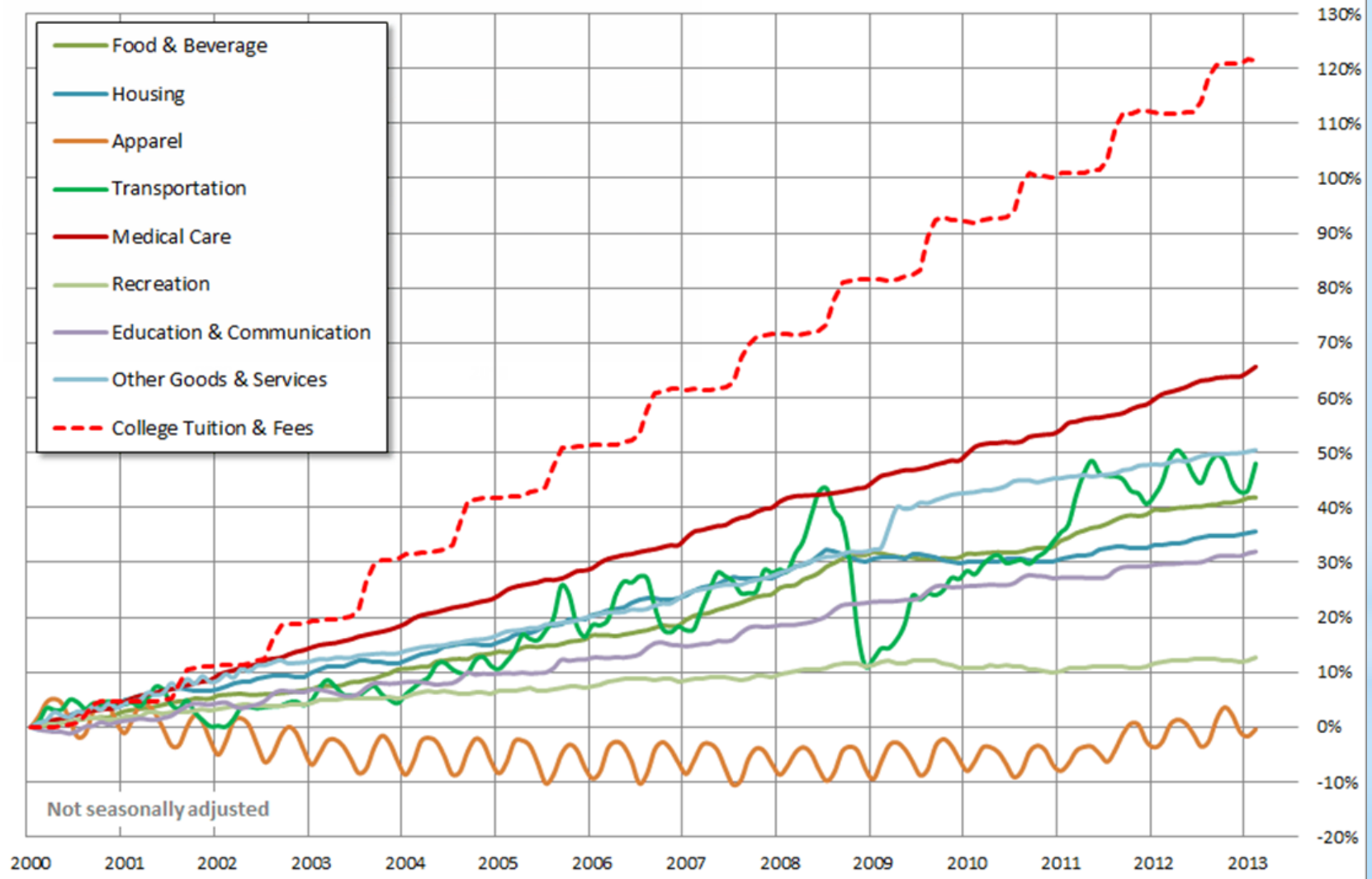


# Component Price Inflation

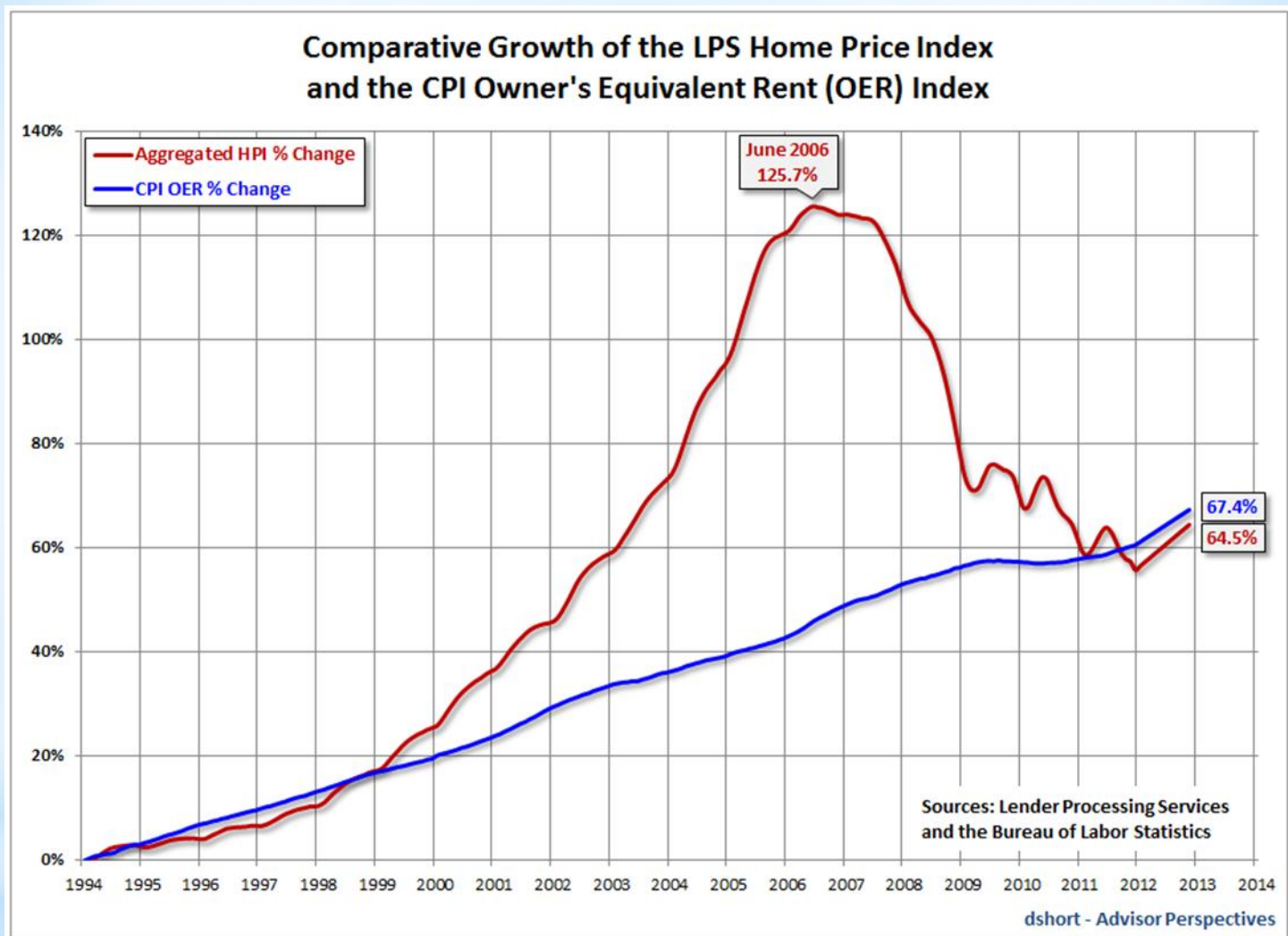
Data Through  
February 2013

## Breaking Down the Consumer Price Index College Tuition - The Inflation Nightmare

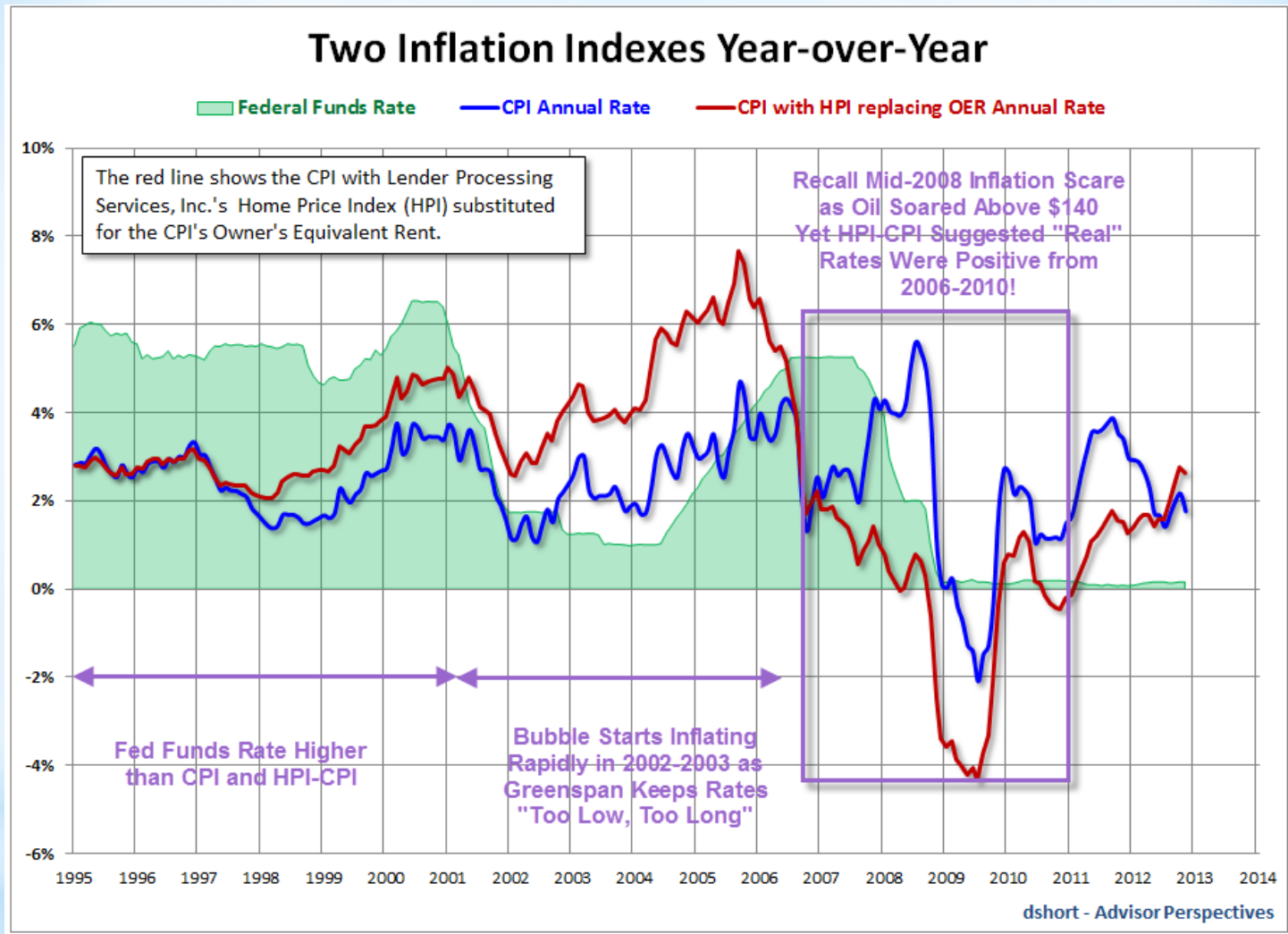
dshort.com  
March 2013



## Comparative Growth in HPI vs. OER



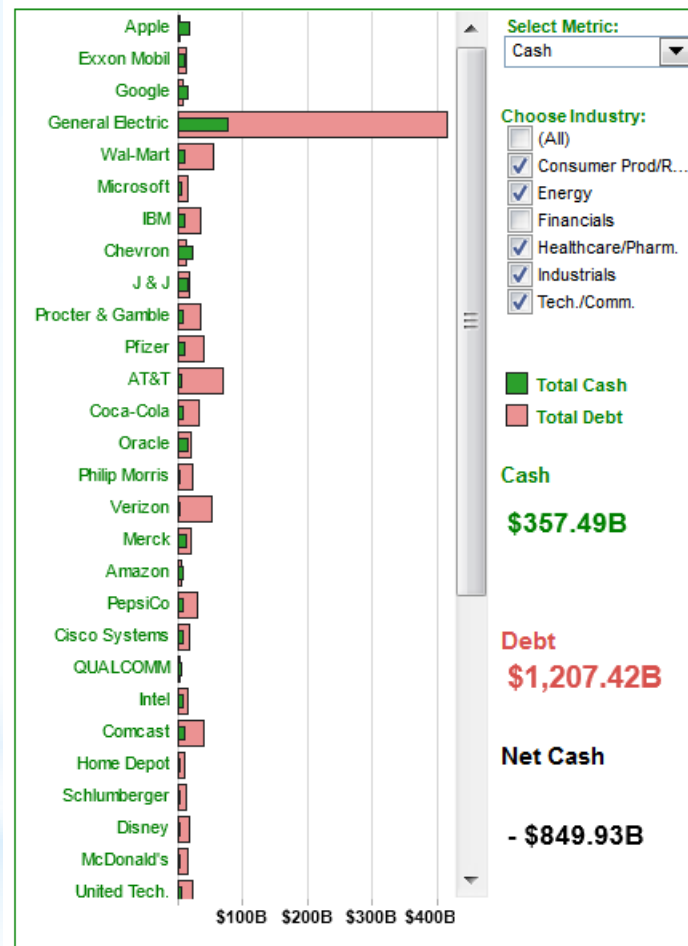
# Fed Funds Rate vs. CPI and HPI-CPI



# Beware the Cheerleaders

## Cash and Debt 2012

Among the Top 50 US Companies by Market Cap



Latest quarterly data obtained from: [finance.yahoo.com](http://finance.yahoo.com) on 3/07/12

## What about the Yen and Nikkei?



# The Case for Cash and Patience

Cash earns nothing, but it also loses nothing unless inflation is running rampant (and it isn't).

History suggests waiting for better opportunities is the prudent thing to do.

I cast my vote with history.

Mike "Mish" Shedlock