Our Titanic Markets
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The RMS Titanic is as an easy metaphor for disaster but deserves an irresistible revisit as the global economy steers toward a debt-soaked iceberg. This particular collision of luxury, technology, hubris and Mother Nature has caught the imagination of generations. Why? Because April 15, 1912 reminds us that the unthinkable can happen in a heartbeat…

As for our current economy, its inflated markets, poor leadership and imminent dangers ahead, I see numerous Titanic parallels. Captain Smith, a veteran professional of the sea, along with the Titanic's owners (including the infamously confident Bruce Ismay), declared the ship unsinkable just days before the ocean liner lay 2.5 miles beneath the Atlantic with over 1500 souls equally lost. The nautical experts, like the passengers, had faith in engineering, technology, experience and, most importantly: appearances, from the mother o' pearl paneling in the smoke rooms to the mirrors, millwork and exquisite paintings on the A-Deck and the extraordinary design of the grand stair case. The combination of comforts and expertise assured everyone from steerage to the First Class dining room that everything was fine. In fact, the evening of the Titanic's last sunset, that same dining room hosted a ten course meal, replete with a first course of oysters and consommé Olga, a fourth course of filet mignon lili, a fifth course of roast squab and cress, a ninth course of pate de foie gras and a final course of waldorf pudding and vanilla eclairs. Whewww. What, indeed, could possibly go wrong in a world of foie gras, roast squab and vanilla eclairs?

An iceberg. Despite all this order, comfort and expertise, the ship was heading on glass smooth water toward disaster without enough lifeboats.

The same tragic irony applies to our current economy. It overflows with confidence, experts, comfort, and appearances promoting calm despite plain-site (yet ignored) dangers ahead. An artificially thriving economy, like an iceberg, has a misleading surface. The real danger—90% of it—lies beneath the waterline. Today, almost every market expert, from the Fed officers, the big banks, and CNBC pundits to the White House are declaring "the shadow of crisis has passed" as our President points to stock markets reaching all-time highs, unemployment cured, deficits reduced by 2/3 and GDP growing steadily up and to the right. By all measures—at least *superficially*—we are navigating smooth (eerily smooth) seas under a starlit night of vanilla eclairs as the 1% stroll the promenade decks of the post-08 recovery enjoying a collective equity growth of $50T in the last 8 years and a group of central bankers who keep printing money and buying prosperity. What a glorious time. Pass the foie gras.

But here's the rub. It's not real. None of it. Unemployment is not cured, markets are doped not thriving and compounding GDP (at 1.8%) is at the lowest levels in over a century. But these facts are hidden, even distorted. For example, when you account for the fact that 60% of the heralded new jobs are actually part time or from the lowest wage sectors and that millions of discouraged workers have simply given up job-searching and are conveniently left out of the statistical pool, you see the truth beneath the surface. Part of this truth is the fact that 1 in 7 Americans are on food stamps. As for our record breaking stock markets… Yes, indeed they are high. But look closer: those same markets are not driven by productivity, economic growth or real GDP. They are driven by debt (highest in history) and money printing (3.2T and counting, and that's just in the US...). Take away this artificial stimulus, and the US economy would be in steerage, not the first class dining room. A 2/3 deficit reduction is constantly bragged about, but what is not said is that there is a widely misunderstood difference between *deficits* and *debt*, and our current debt—$18T and counting, is an aberration, unsustainable and fatal. GDP growth? The US—on the backs of an entirely artificially paid for stock and bond market—posts a couple of improving quarterly numbers and the cheerleaders are declaring victory. What they don't see behind their pom-poms, however, is the fact that having borrowed over $6.7T in debt since 2008, we have only $3.1T in GDP to show for it. Again, look deeper beneath the smooth surface of things. What you see are lots of jagged edges.

And then there's the iceberg *ahead*. It's composed of debt-made bubbles—equity, credit, currency and real estate—at all-time peak dimensions as world-wide debt more than doubles in the span of a decade. The global equity markets are massively inflated, historically over-valued by all measures, including median PE ratios, q-ratios, price-to-book ratios and dividend yields. Since 2000, the global bond market has tripled to over $100T in size, backstopping another $555T in derivatives. The gross notional value of those instruments alone is now at $710T, which is 9X's global GDP and, well…horrifying. And fueling this short-term binge is the easy money, low rate bacchanalia of the world's central banks, from Washington to Beijing, Brussels to Tokyo, each part of the last desperate act of every failed, bankrupt and broken national system since John Law and 1720—namely, they are printing money to buy nothing more than time. This may sound like an opinion. It's not. It is fact, math, history and candor.

And so the good times steam along as the wine flows and the waldorf pudding is served. Like the happy passengers on the last night of the Titanic, we feast calmly on the comforts of surfaces, choosing to ignore what lies ahead, as it is too unthinkable, too messy, too cold and too far away. We eat, and like the asset bubbles all around us, get fatter and fatter, until…

An iceberg hits. At 11:40 PM on the night of April 14th, 1912 the unsinkable Titanic started sinking. Captain Smith and Bruce Ismay were ignoring the warnings. Like our experts (Bernanke, Yellen, Greenspan, Larry Summers et al), they felt they knew better. But one passenger, the Irish naval architect, Thomas Andrews, went below decks and counted out the rapidly filling water-tight compartments. Once the fourth overflowed into the fifth, he bravely told the Captain the ship would sink—it's a "mathematical certainty," he said. He understood physics the way some of us understand markets. They both operate on natural laws, not human arrogance, wishful thinking or denial. Just as too much water sinks a ship, too much debt sinks an economy. Sure, you can buy time, even luxurious time (such as our current illusion), but you can't make a flood evaporate once you've unleashed it. Trillion dollar debt levels are no different.

And so by 2:20 AM on the 15th of April 1912, all the paintings, mirrors and beautiful wood carvings on the A-Deck…all the majesty of the grand staircase and all the rows and rows of roast squab, vanilla eclairs and filet mignon lilis lay at the bottom of the ocean—along with hundreds and hundreds of tuxedo-clad and 3rd class passengers and the "experts" who brought them there.

All but one expert that is…A certain Bruce Ismay, lead investor and Titanic executive owner, snuck on the last lifeboat and survived. It was the same Bruce Ismay who decided against the extra lifeboats. Prior to the sinking, he thought he knew everything. Afterwards, we learned he knew nothing. The same will be said of many of today's experts going forward.