



## **Introduction**

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**2013 Year in Review:  
A Beautiful Deleveraging or the Great Deformation?**

**David B. Collum  
Cornell University  
November 20, 2013**

**\*The seminar is posted on my group website:  
[http://collum.chem.cornell.edu/dbc6/DBC\\_rogue.html](http://collum.chem.cornell.edu/dbc6/DBC_rogue.html)**



## **Resume and Credentials.....(crickets)**

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**"Dear Cornell students:  
don't learn economics  
from your chemistry professor"  
--Matt Yglesias, *Slate*--**



## **Resume and Credentials.....(crickets)**

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**"Dear Cornell students:  
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from your chemistry professor"  
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**"I can think of no one better than you, Dave,  
to fill the void of an increasingly undistinguished profession  
of economists. They have excellent judgement at Cornell."  
--Stephen Roach, former Executive Director at Morgan Stanley--**



# Investing

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## **Standard Portfolio**

**60% stocks**

**40% bonds**



## Investing

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### Standard Portfolio

**60% stocks**

**40% bonds**

### Dave's Portfolio

**1980-1988: nothing but bonds**

**1988-1999: stocks and bonds**

**1999-present:**

- **0 ➡ 50% precious metals**
- **100 ➡ 25% cash**
- **0 ➡ 25% energy**



## **Investing**

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**01/01/00-12/31/12**

- **S&P 500: 0% compounded**
- **Dave: 11% compounded**



## Investing

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### 01/01/13-today

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**\*Stocks boomed; gold busted. Period/full stop.**





## **The Bear Case: Monsters Under My Bed**

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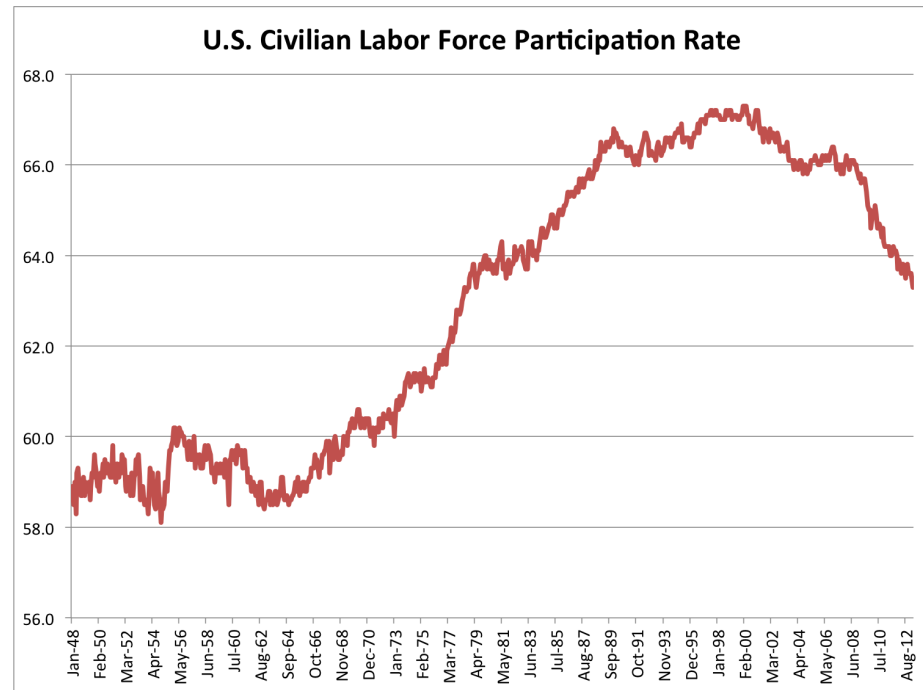
# The Bear Case: Monsters Under My Bed

- **Warren Buffett**



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- **Warren Buffett**
- **Demographics**





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**\$200 trillion**



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**80 year payback**





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**\$200 trillion**

**100 million taxpayers**

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**80 year payback**

**\*Somebody is going to get really screwed.**



**It's the economy, stupid!**

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# It's the economy, stupid!



# It's the economy, stupid!

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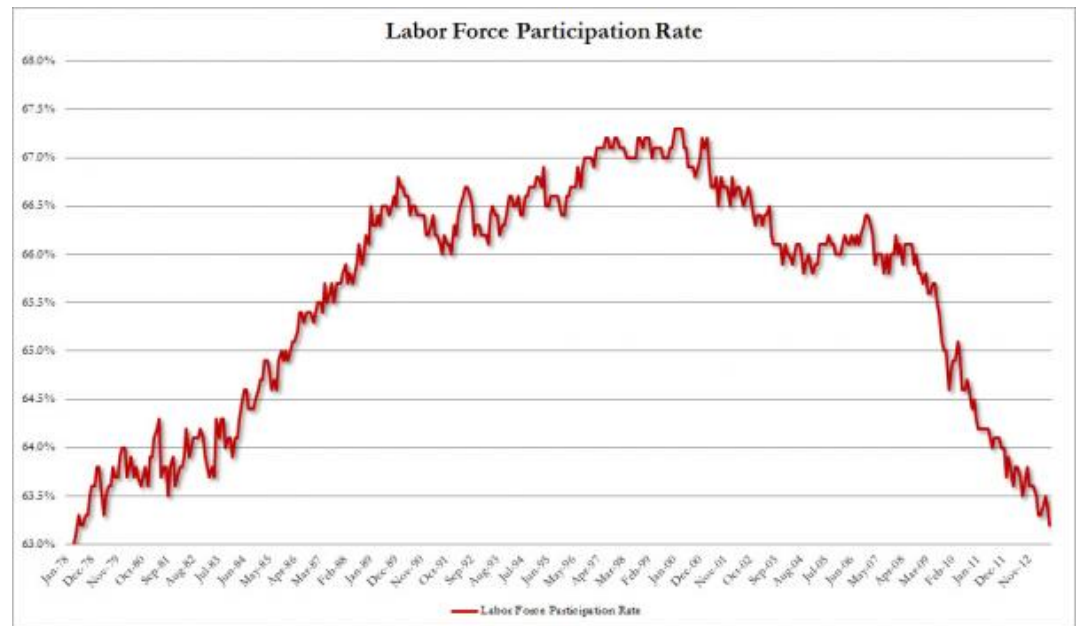
- Housing



# It's the economy, stupid!

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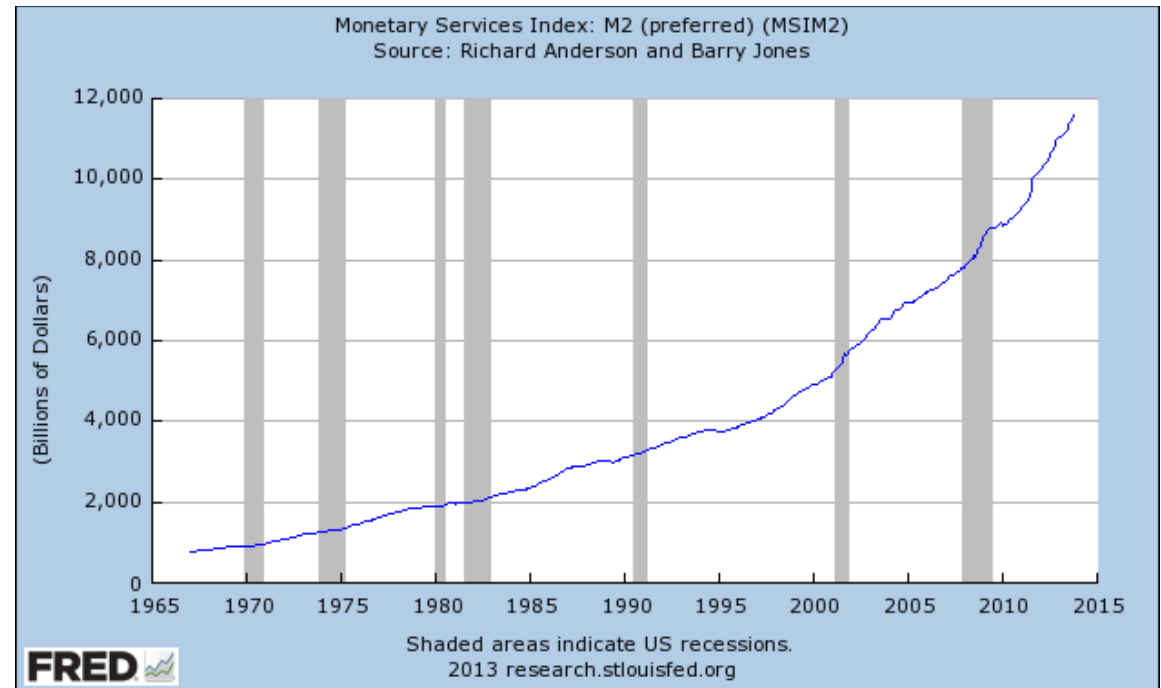
- **Housing**
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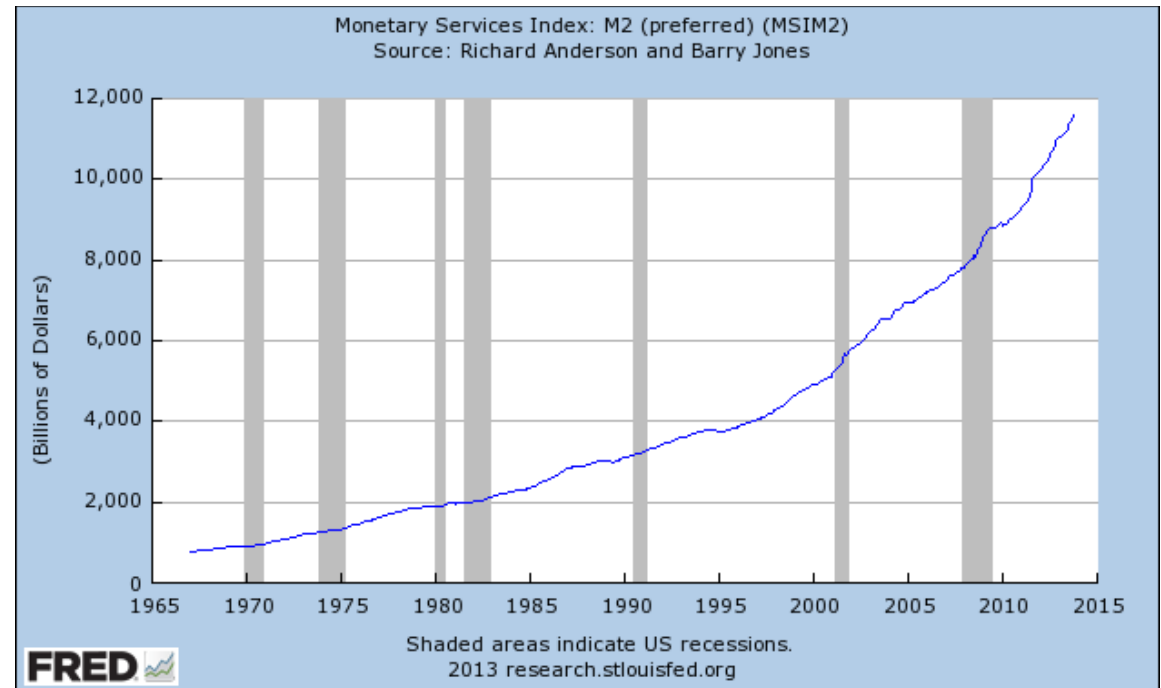
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- **Inflation**



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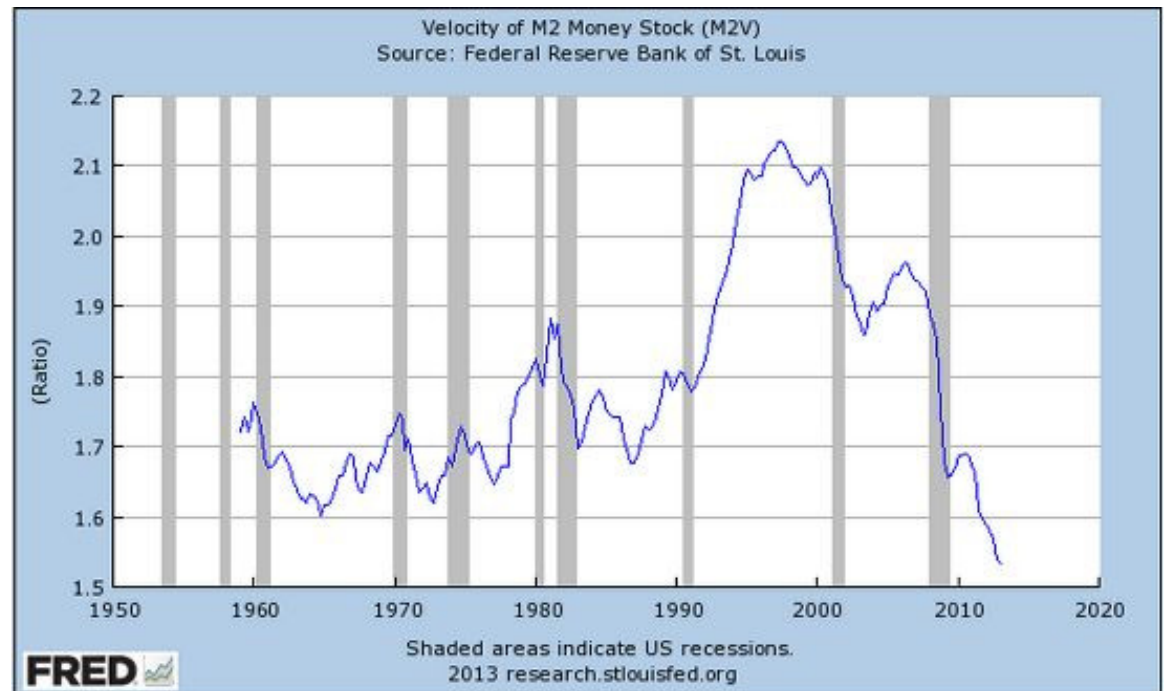
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**Where's the inflation?**

## It's the economy, stupid!

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- **Unemployment**
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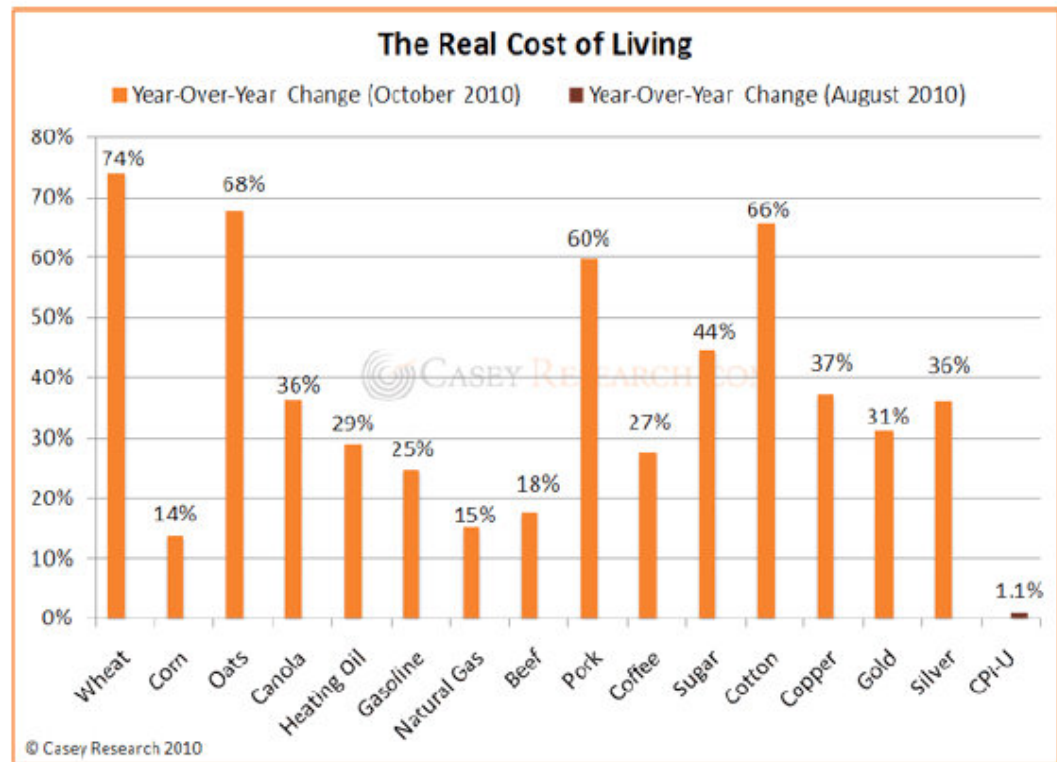


**Velocity of money is at record lows**



## It's the economy, stupid!

- Housing
- Unemployment
- Inflation



**Maybe they're not looking for inflation**

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- **Housing**
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**Maybe they're not looking for inflation**



## **Debt: Why is debt bad?**

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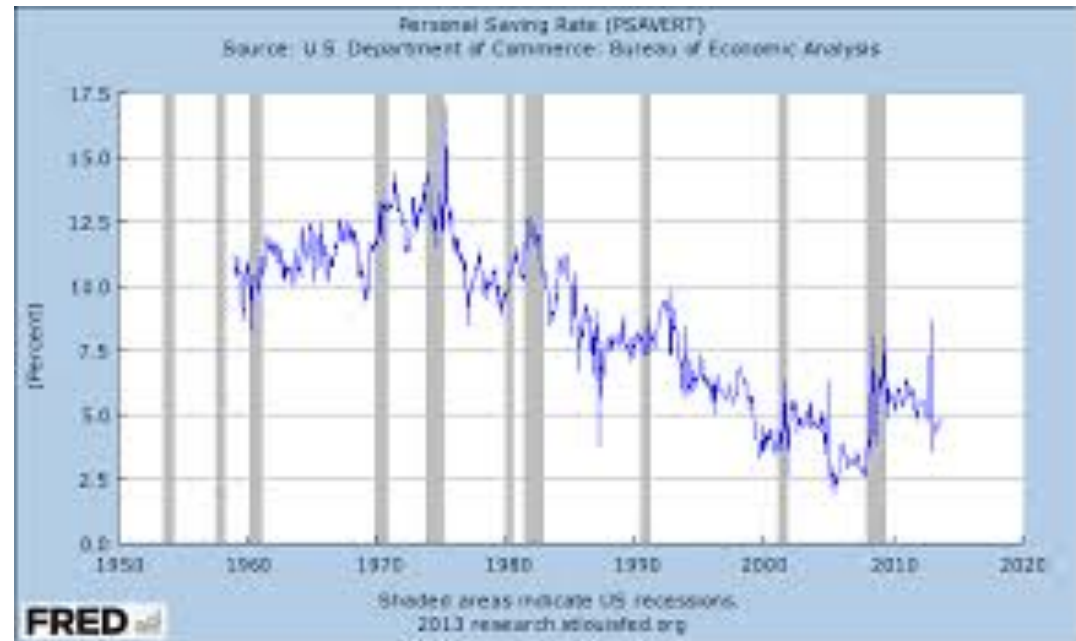
**Debt sucks cause ya gotta pay it back!**



# Debt

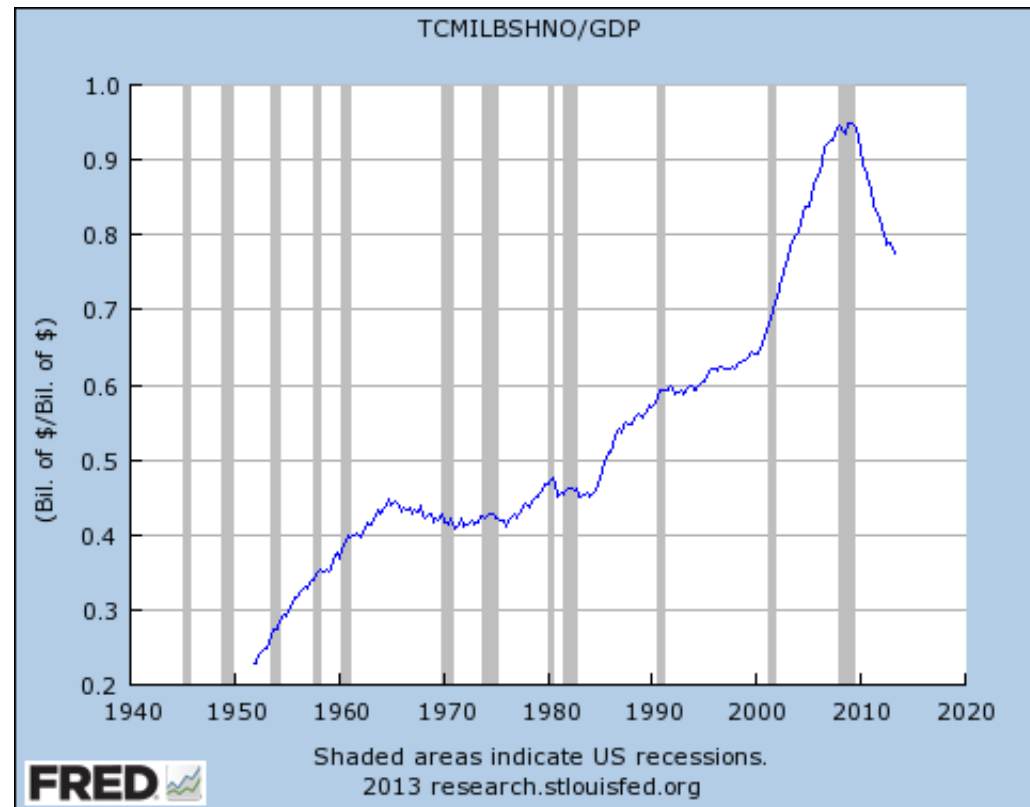
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- **Personal Savings**



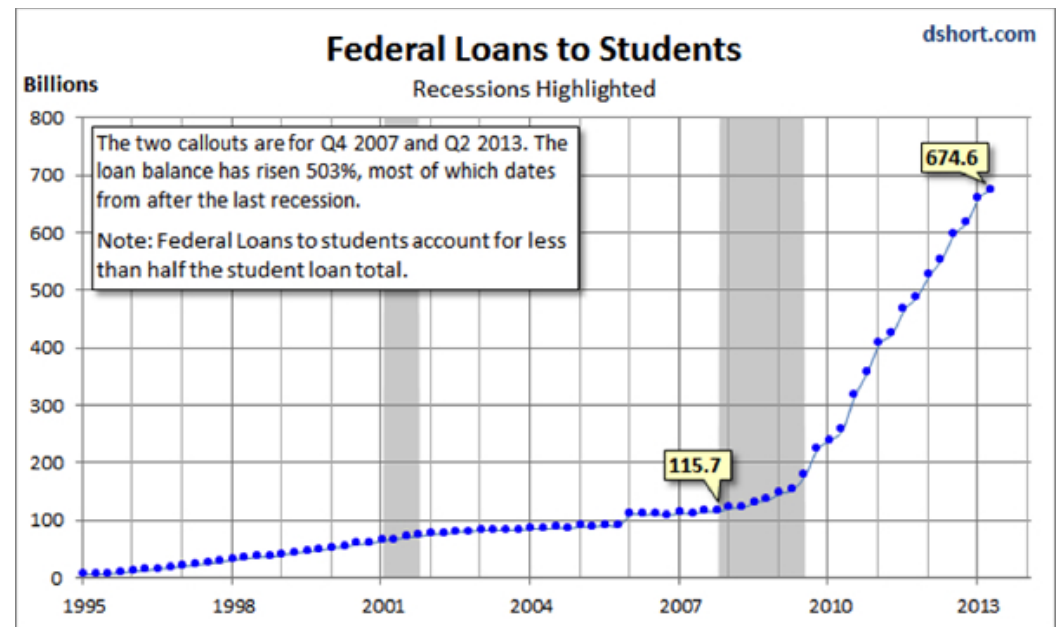
# Debt

- **Personal debt**



# Debt

- Personal debt
- Student debt

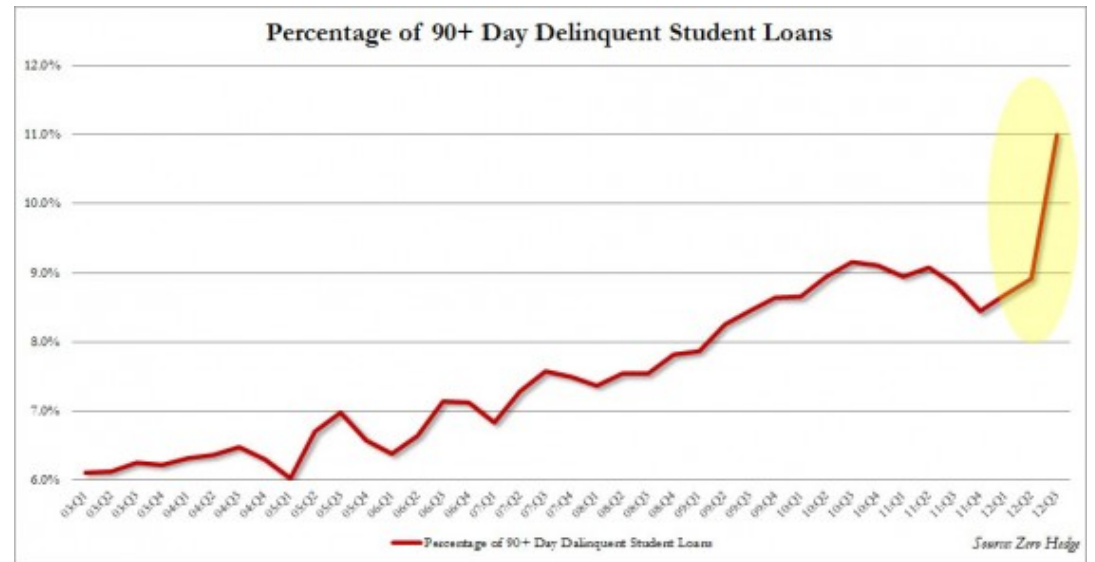




# Debt

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- Personal debt
- Student debt



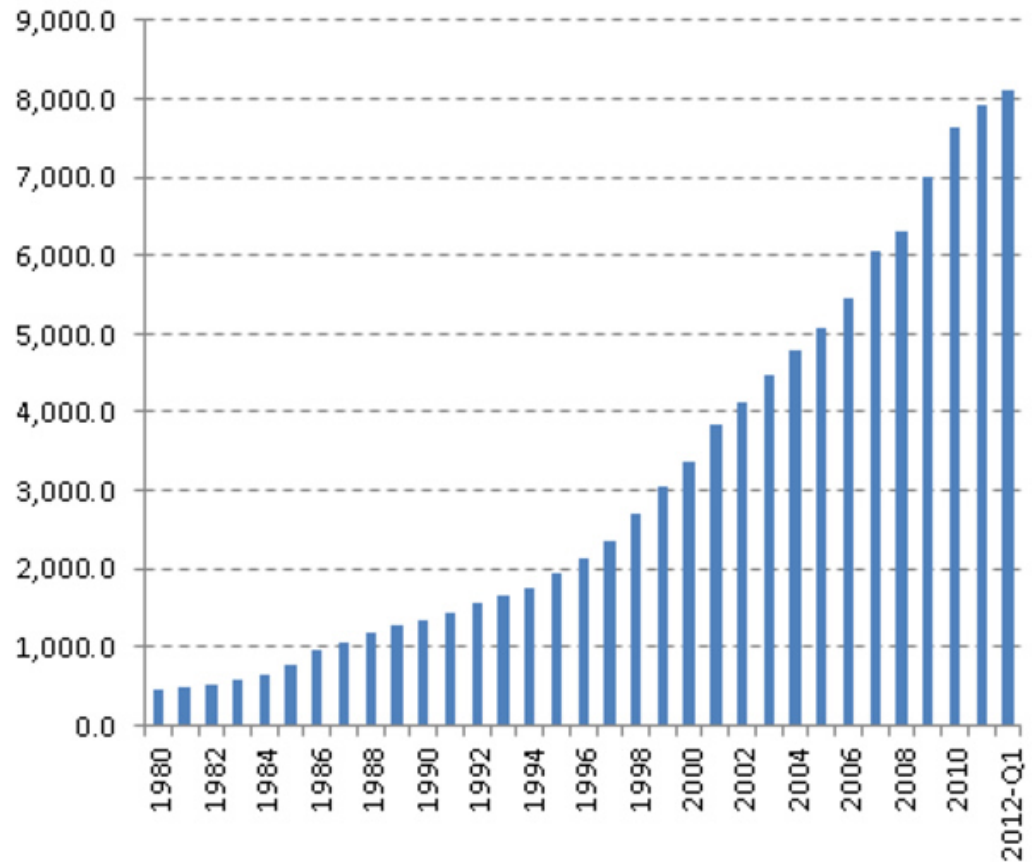
## It's the economy, stupid!

- Personal debt
- Student debt
- Municipal debt



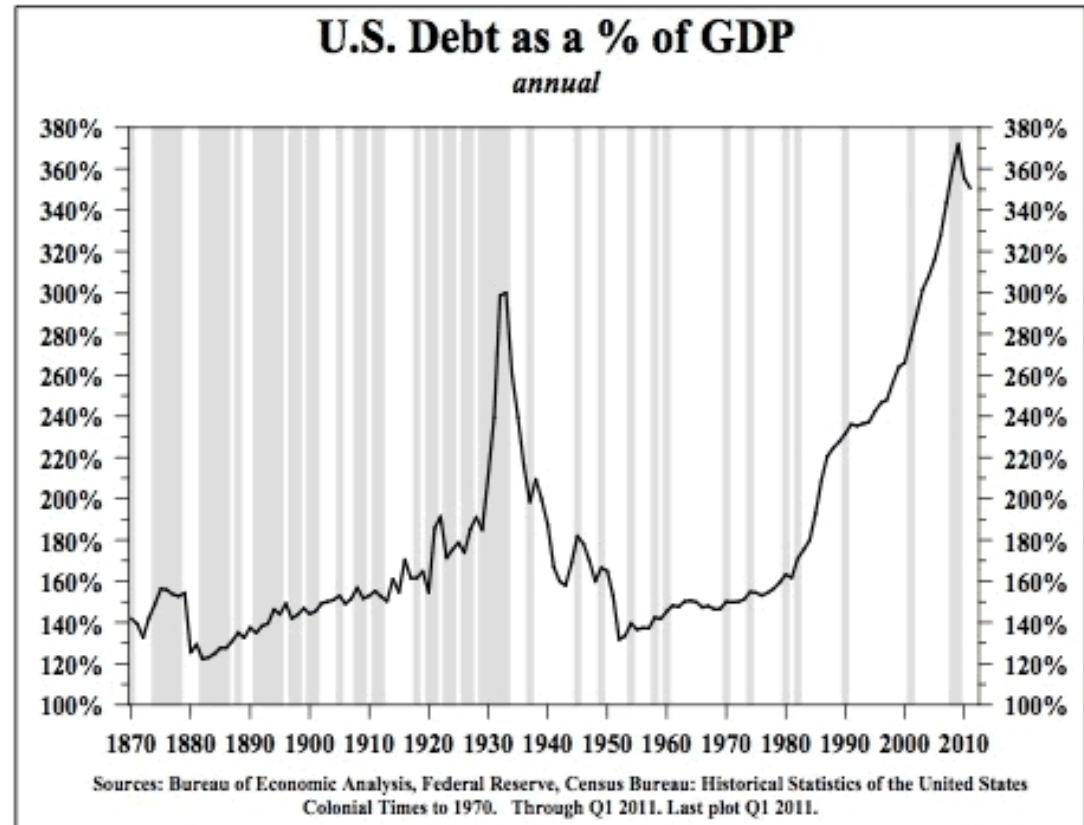
## It's the economy, stupid!

- **Personal debt**
- **Student debt**
- **Municipal debt**
- **Corporate debt**



## It's the economy, stupid!

- **Personal debt**
- **Student debt**
- **Municipal debt**
- **Corporate debt**
- **Sovereign debt**





## **Precious metals: Are they *really* precious?**

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# Precious metals: Are they *really* precious?

- Price Action



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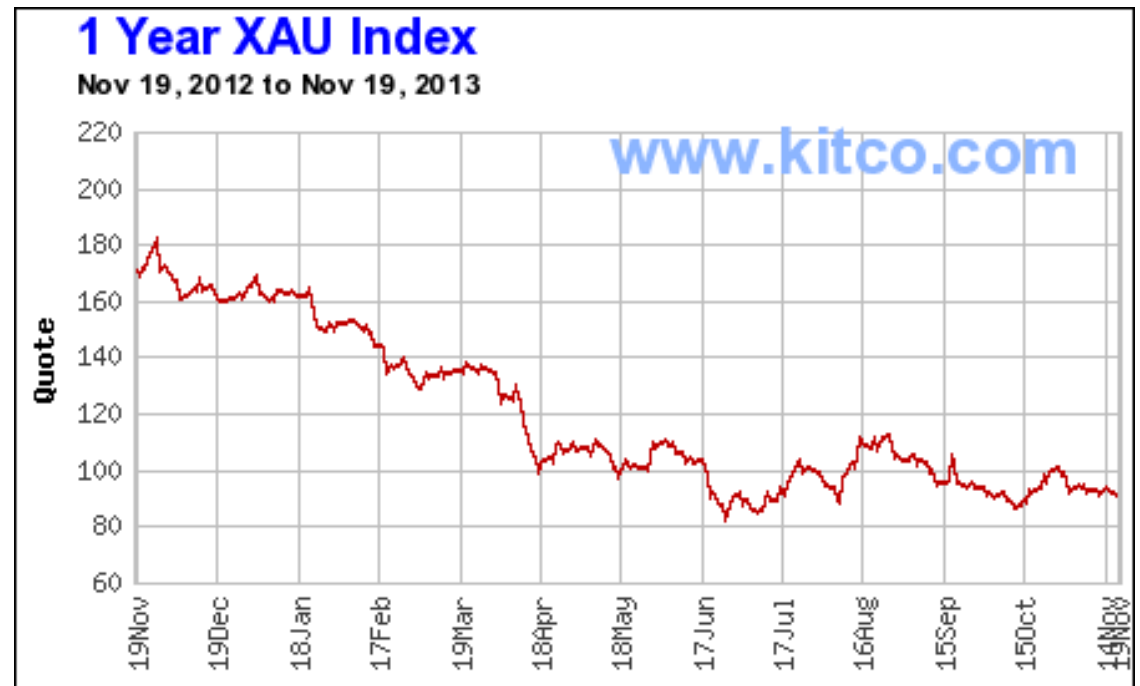
**"People only want to be contrarians when it's popular."  
—Rick Rule—**



## Precious metals: Are they *really* precious?

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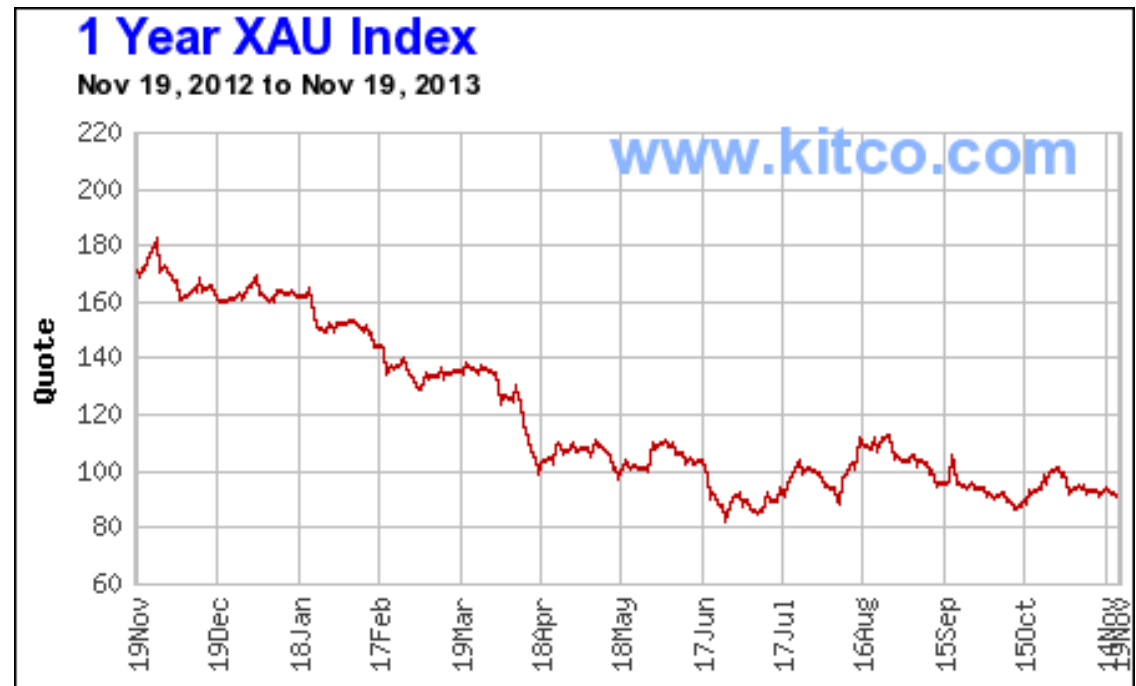
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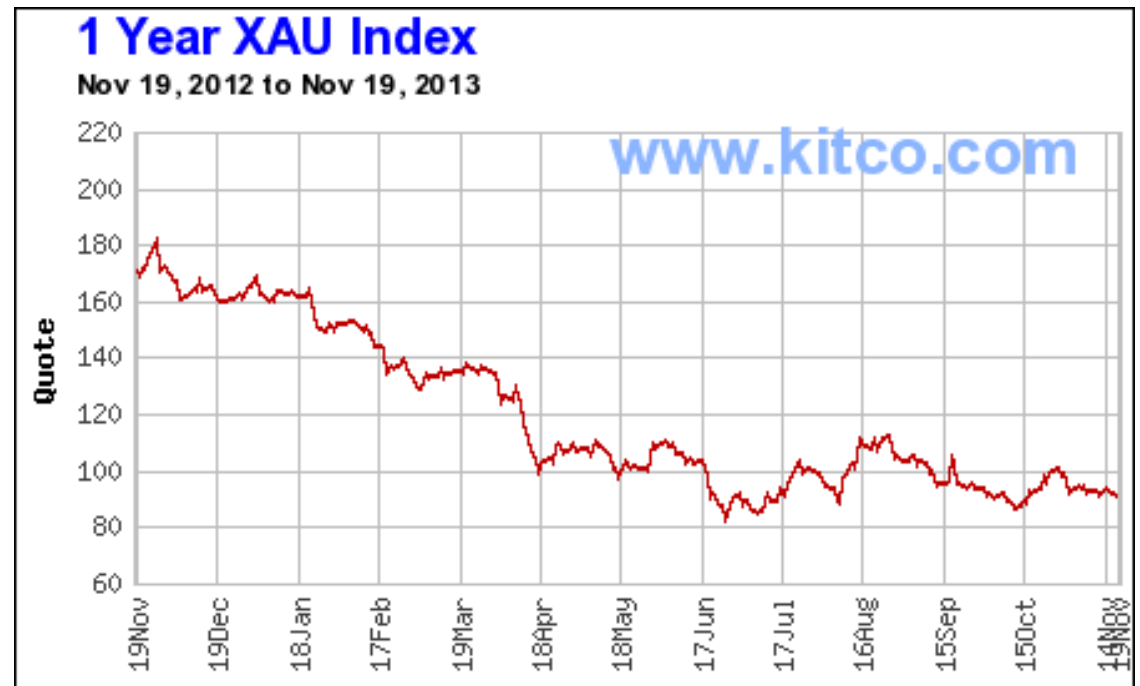
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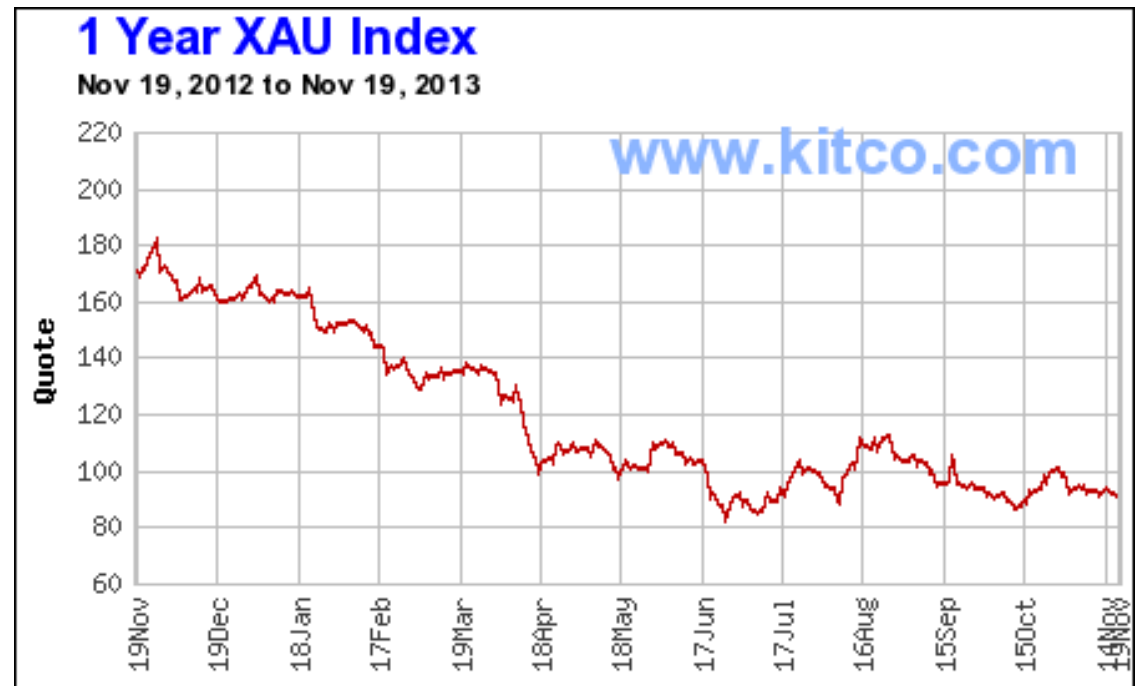
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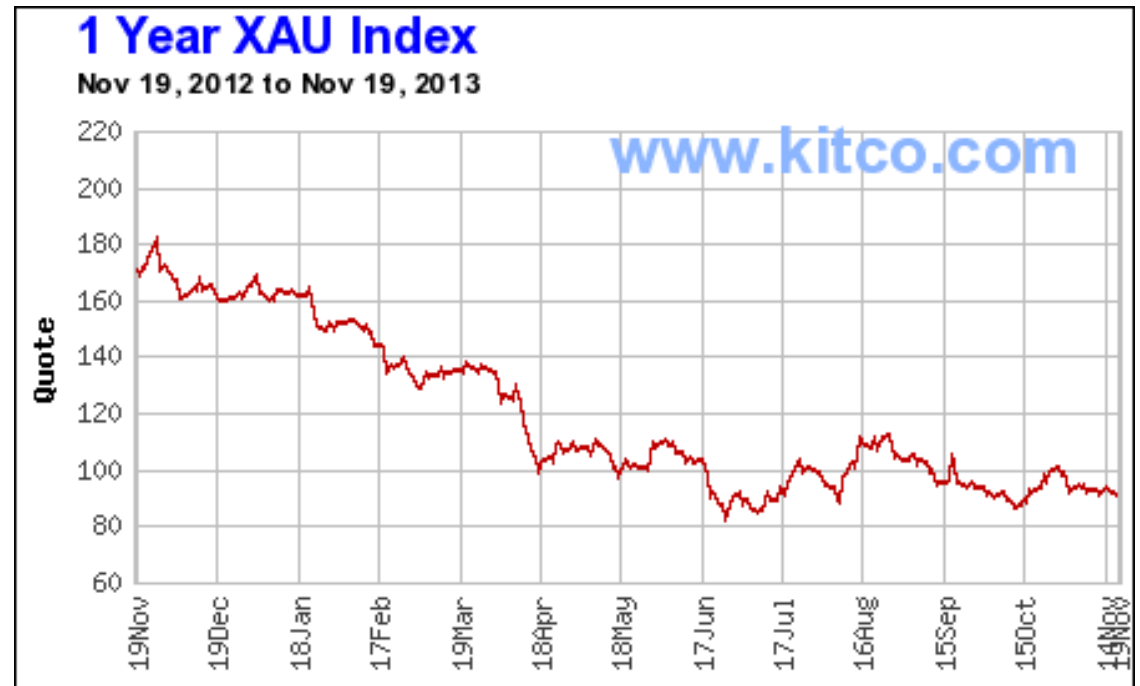
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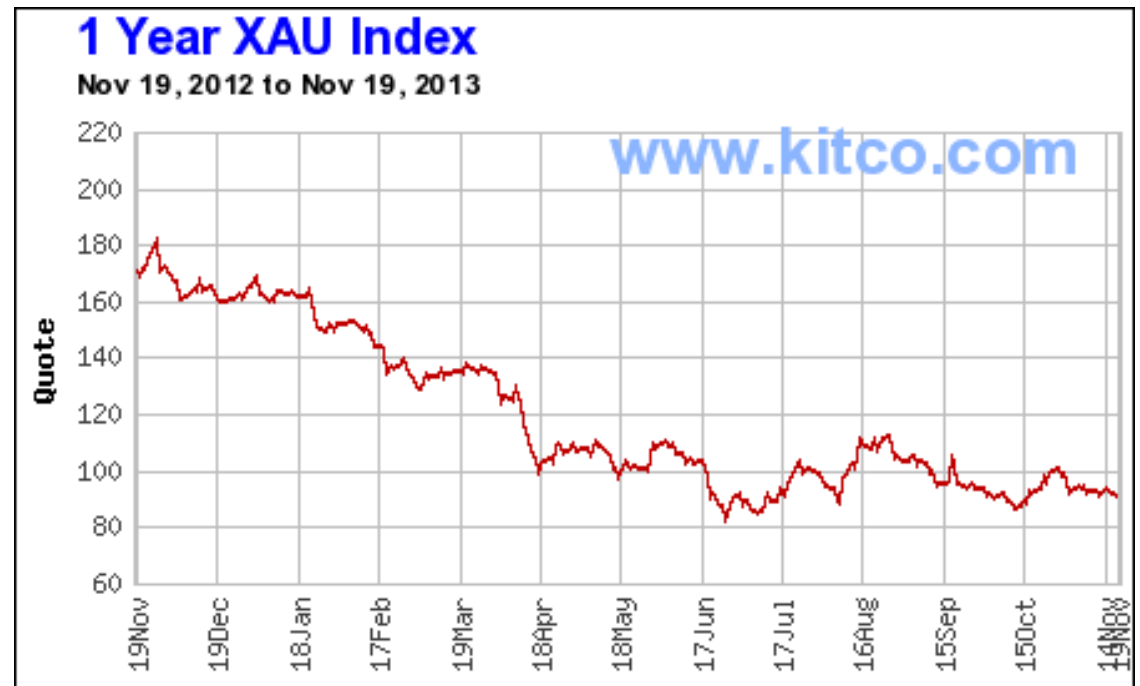




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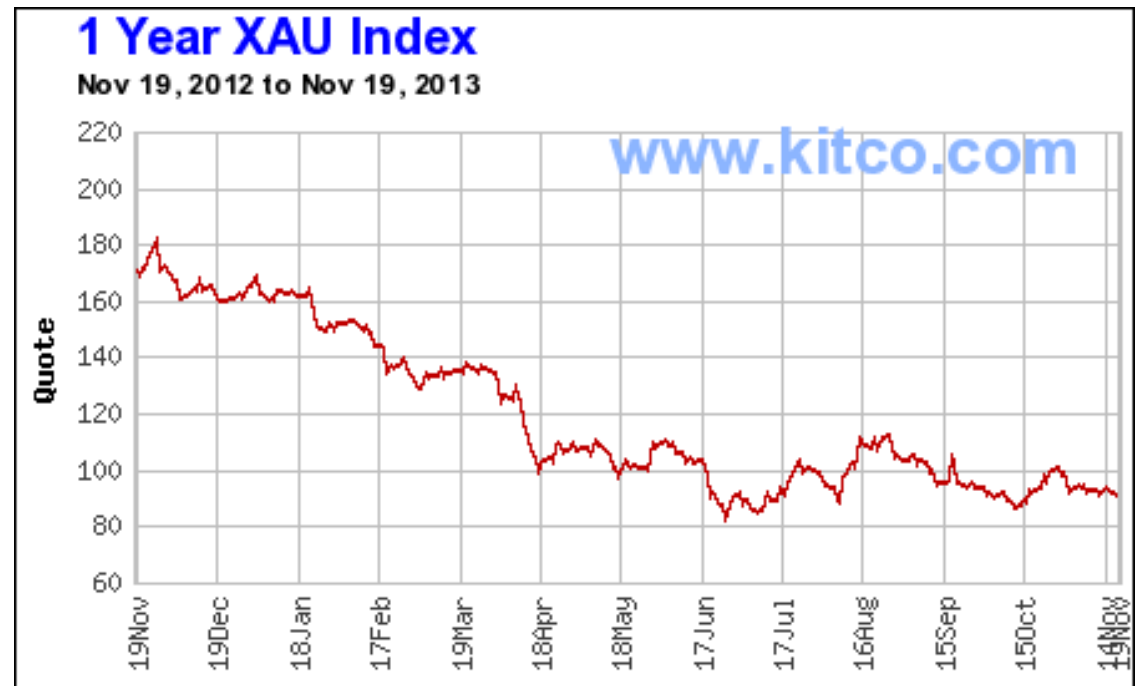
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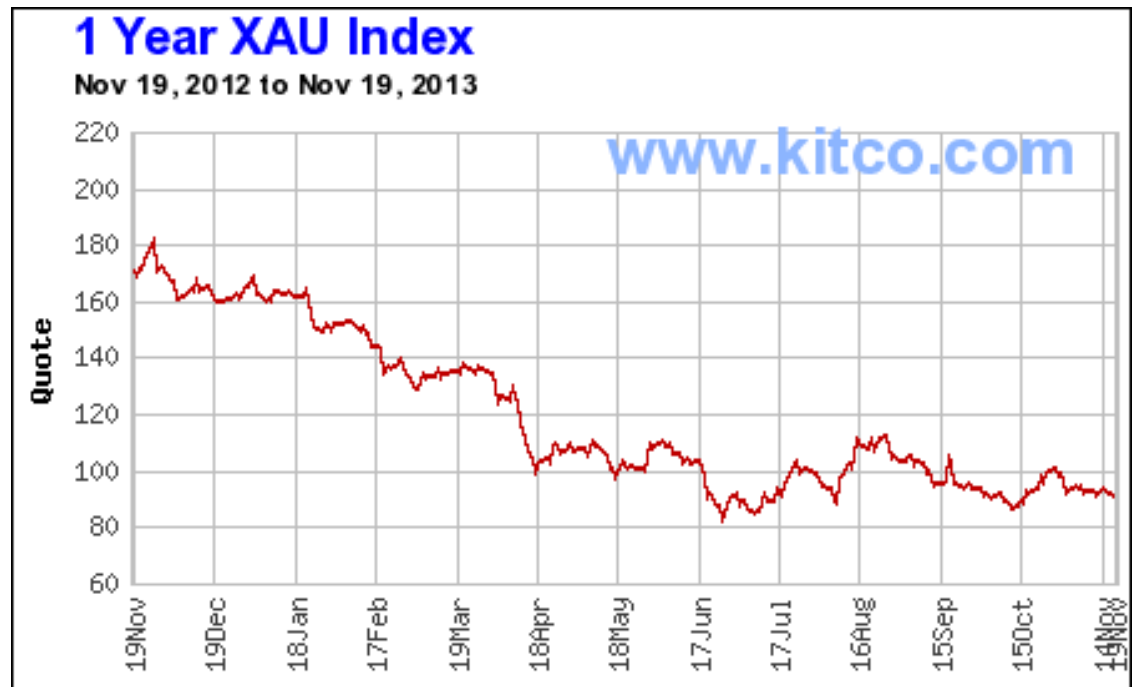
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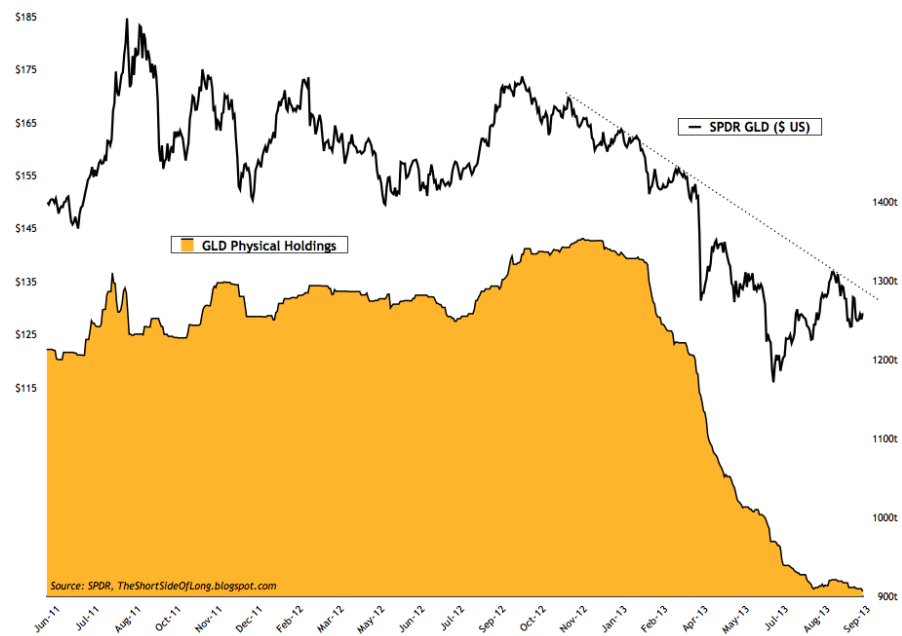
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- Is it game over?



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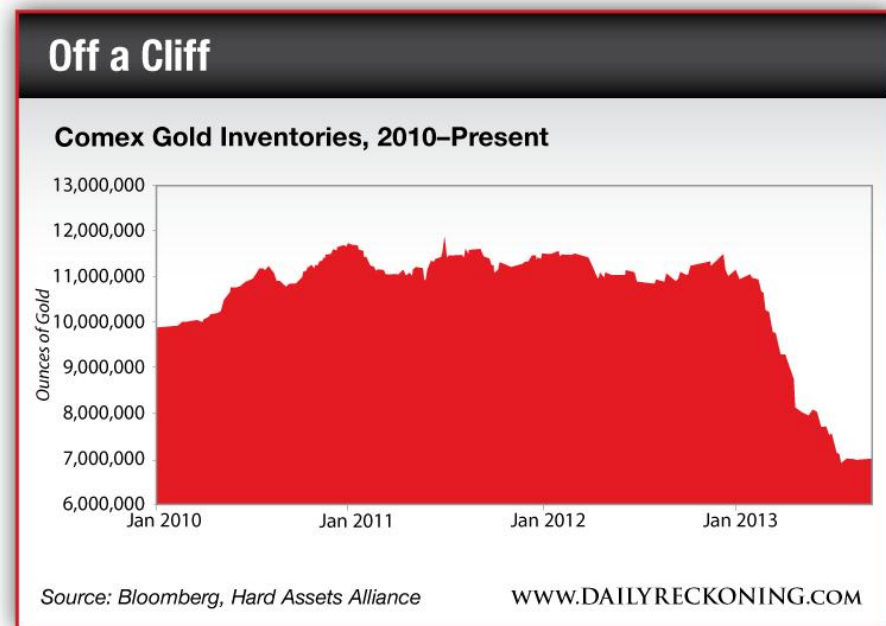
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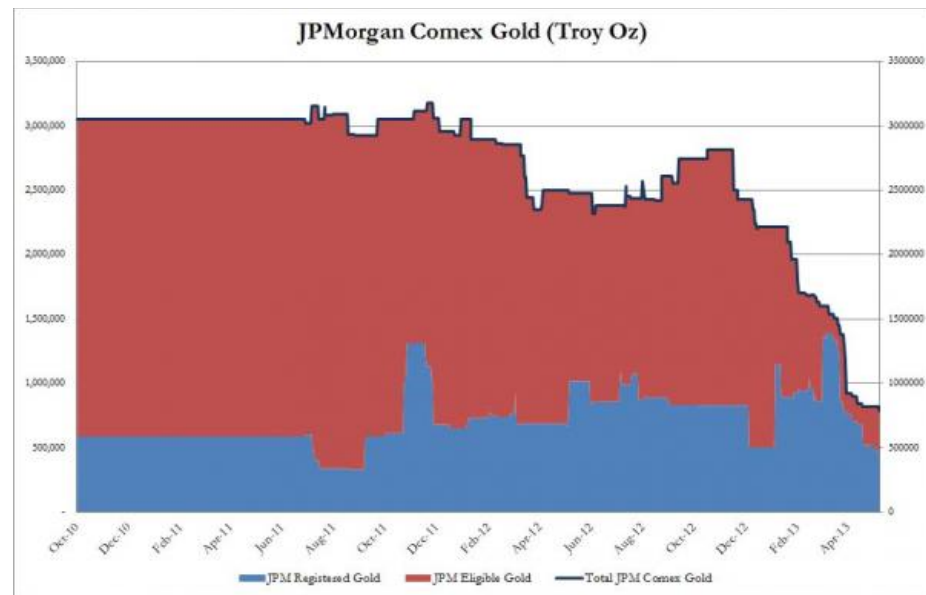
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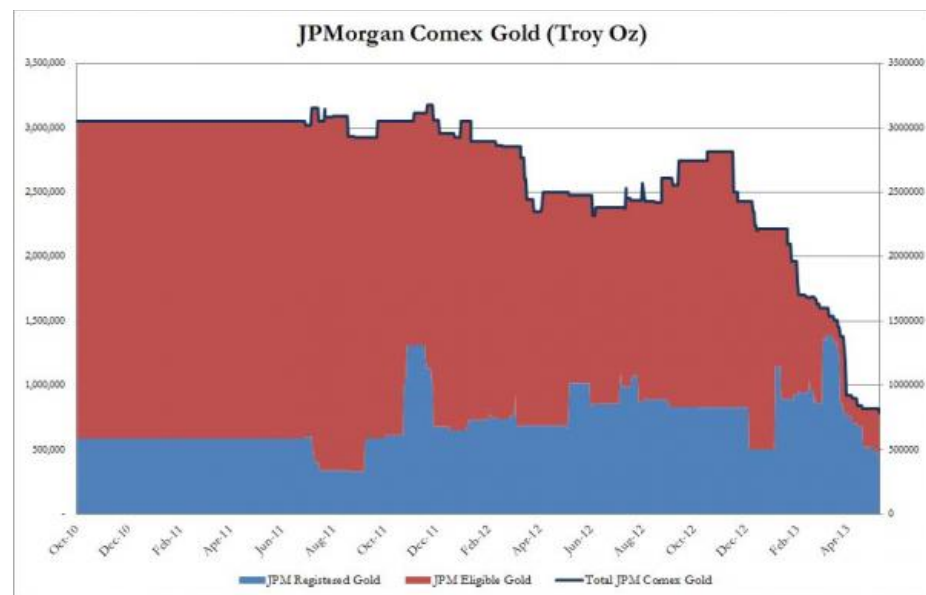
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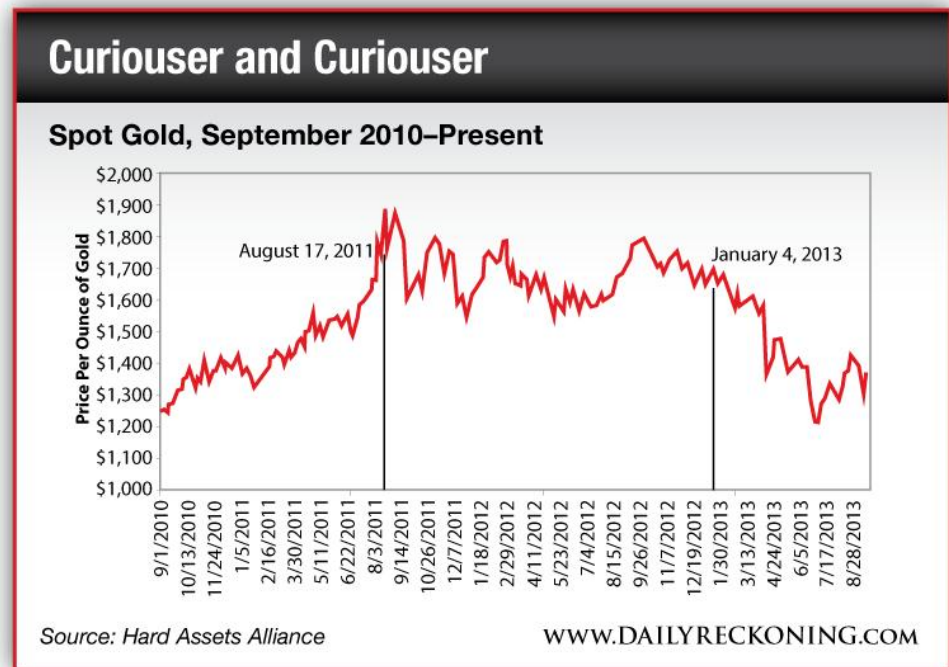
**"Gold bugs are frequently jerks. This drop vindicates the economic ideas of the economic elites."**

**--Joe Weisenthal, *Business Insider*--**



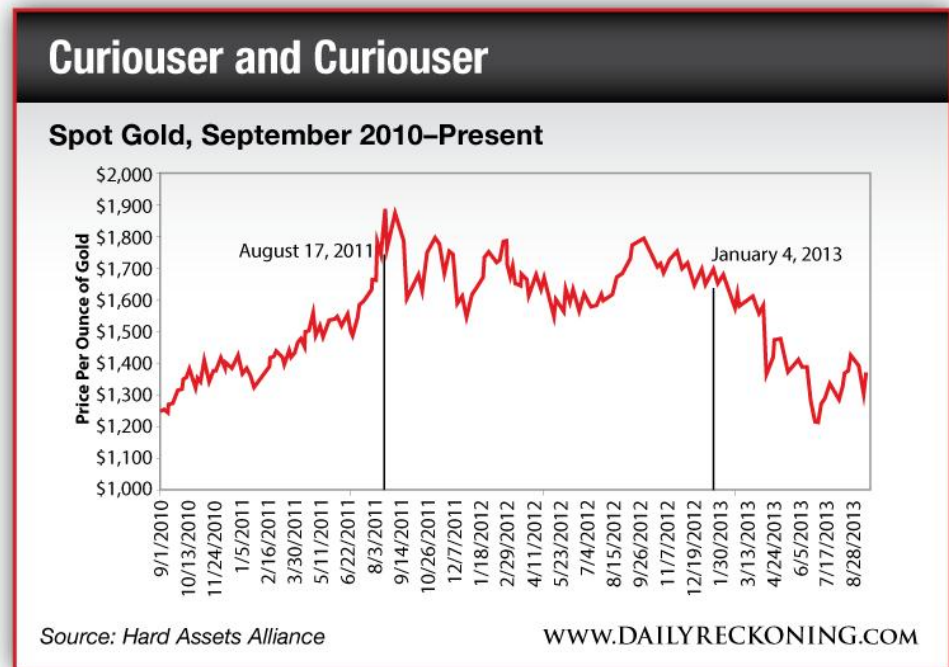
## Precious metals: Are they *really* precious?

- What's wrong with this picture?



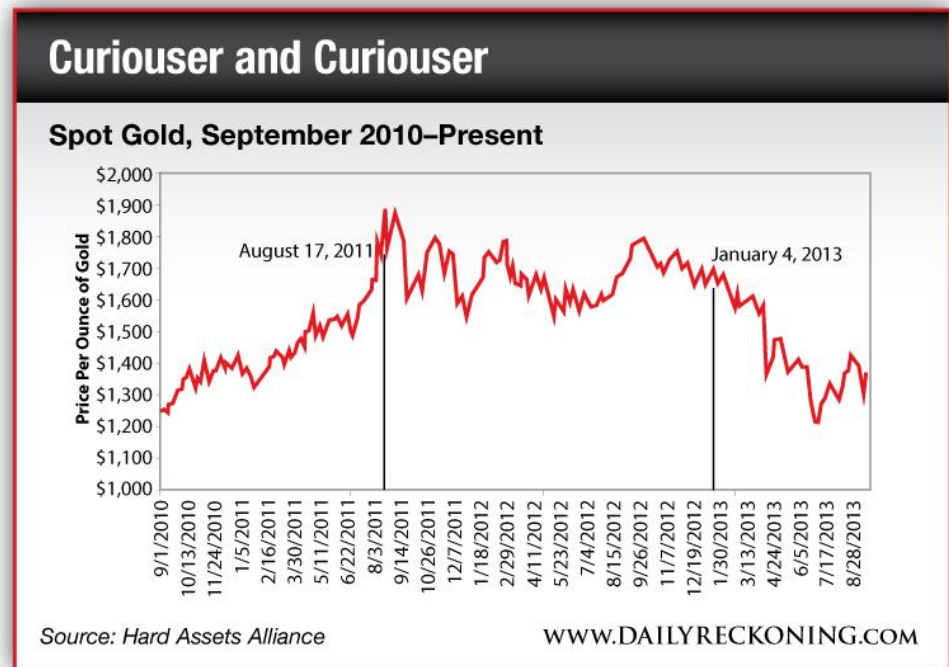
## Precious metals: Are they *really* precious?

- What's wrong with this picture?
- Isn't this backwards?



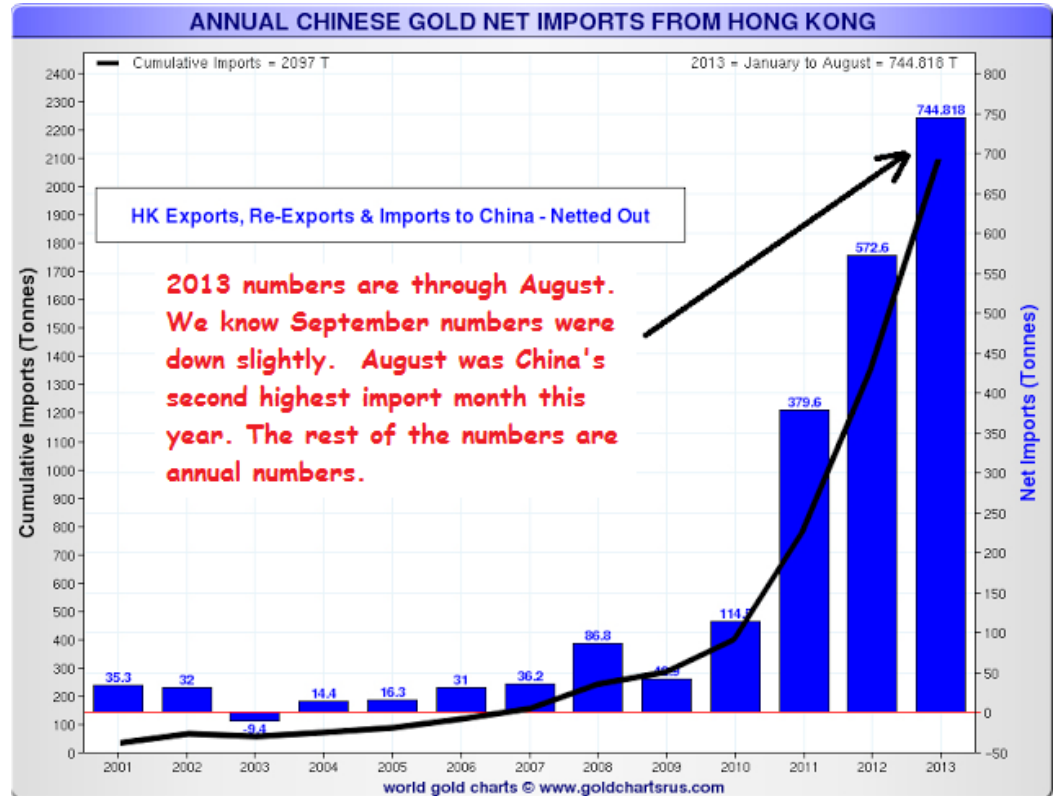
## Precious metals: Are they *really* precious?

- Repatriation?
- India?
- Gold ETF?
- ABN Amro?
- Where's it going?



# Precious metals: Are they *really* precious?

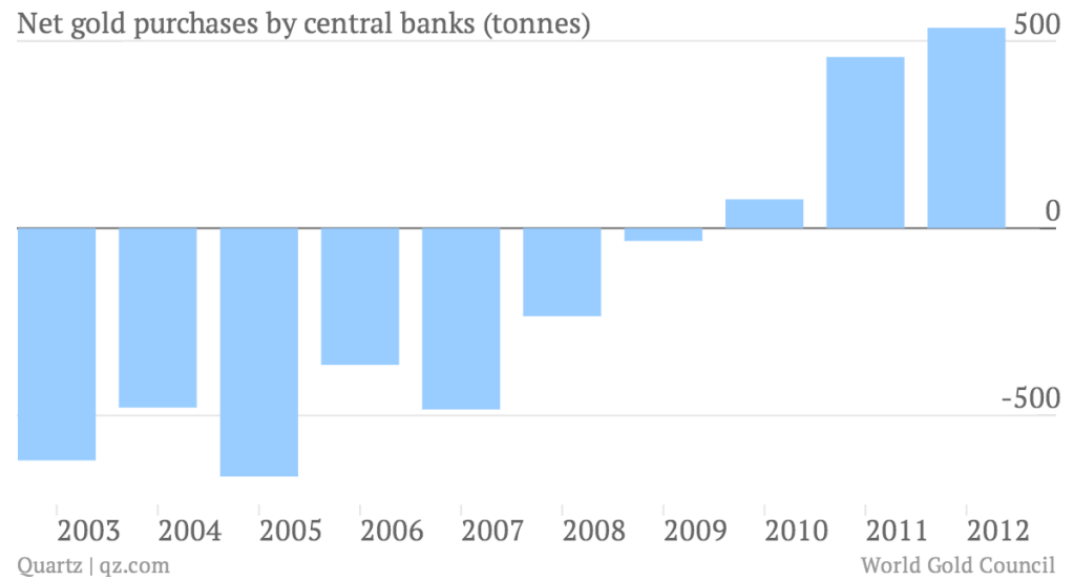
- **China!**



## Precious metals: Are they *really* precious?

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- **China!**
- **Switzerland**
- **Northern Europe**
- **Vietnam**
- **Hong Kong**
- **Russia**
- **Middle East**
- **Germany**
- **Venezuela**
- **Most central banks!**





## **Precious metals: Are they *really* precious?**

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- **Gold is moving from West to East**
- **West failed to demonetize it**
- **Volcker White Paper (1974)**
- **Yes. Gold may be *very* precious**



# The Federal Reserve

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## **Price Discovery**

- **supply and demand meet at price**
- **How about really big markets?**



## **The Federal Reserve**

---

### **Price Discovery**

- **supply and demand meet at price**
- **How about really big markets?**

### **Enter the Federal Reserve**

- **Banking cartel**
- **Two mandates**
- **capital markets**
- **New era price discovery**
- **Elephants and the Fatal Conceit**





## **Baptists and Bootleggers**

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### **Baptists**

- **David Stockman**
- **Ray Dalio**
- **Kyle Bass**
- **James Grant**
- **Bill Gross**
- **Paul Volcker**
- **Elizabeth Warren**
- **Ron Paul**
- **Edward Snowden**
- **Market shorts**
- **The Constitution**

### **Bootleggers**

- **Greenspan and Bernanke**
- **All central bankers**
- **Jamie Dimon**
- **Paul Krugman**
- **Department of Justice**
- **Barack Obama**
- **NSA**
- **Skynet**
- **Nobel Committee**
- **Carlos Danger**
- **Congress**



## **Europe**

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- **Club Med**
- **Youth unemployment**
- **Poland**
- **Greece**
- **Cyprus**
- **Watch for bar fights**



## **Asia**

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- **Fukushima**
- **Japanese Demographics**
- **Chinese bubbles**



## **What should *you* do?**

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- **Don't worry about this stuff yet**
- **Focus on your careers**
- **Find your passion**
- **Learn to write well**
- **Get out of debt**
- **Stay out of debt**
- **Save**
- **Define your single most important goal**
- **Two maxims of stress release**
- **Read death bed regrets**
- **Read history and psychology**



## **Books and Audiophilia**

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***Millionaire Next Door* by Stanley and Danko**

***Steve Jobs* by Walter Isaacson**

***Moneyball* by Michael Lewis**

***Made to Stick* by Chip Heath**

***Blink* by Malcolm Gladwell**

***Thinking Fast and Slow* by Daniel Kahnemann**

***Clash of Economic Ideas* by Lawrence White**

***Unbroken* by Laura Hillenbrand**

***The Great Influenza* by John Barry**

***The Battle of Bretton Woods* by Benn Steil**

***Wealth of Nations* by Adam Smith**

***Fatal Conceit* by Frederich Hayek**

***The No Asshole Rule* by Robert Sutton**

***Great Courses* by The Teaching Company**



## **Acknowledgements**

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**11/20/27-8/1/13**

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