

Black Swan Plc

People who say it cannot be
done should not interrupt
those who are
doing it" George Bernard Shaw



Black Swan Newsletter: BREXIT Edition 26th June 2016

“I’m mad as hell and I’m not going to take this anymore”

In the 1976 film **Network**, newscaster Howard Beale persuades the nation to stand up for themselves, open a window and shout: **“I’m mad as hell and I’m not going to take this anymore!”** All over the West this is how people feel. That is what the BREXIT vote is really about: it has precious little to do with an In/Out vote on the EU and certainly it is not the result of any rational analysis on the part of either side of the campaign.

I was in favour of Leave. Of course, as an Australian, I did not have a vote but my support for leave **was** based on rational analysis that somehow the thievery and lies of the Western political elite has to be brought to an end. It is this that will actually create the most secure future for our children rather than allowing the status quo to continue. None of the current political crowd want to fix anything. How can Blair take Britain into an illegal war, create a foundation to rake in billions and become a Middle East Peace Envoy? It is complete lies and thievery on a grand scale. He never cared about fixing the economy (hell’s teeth he put the idiot anyone-can-make-money-in-a-bull-market-Brown in charge) and all he wanted was to retire with a foundation and pots of cash.

So let’s step back for a moment and see what has been achieved since the banks were rescued in the early 21st Century because that is where we need to look to understand what has just happened and to comprehend what is going to happen next.

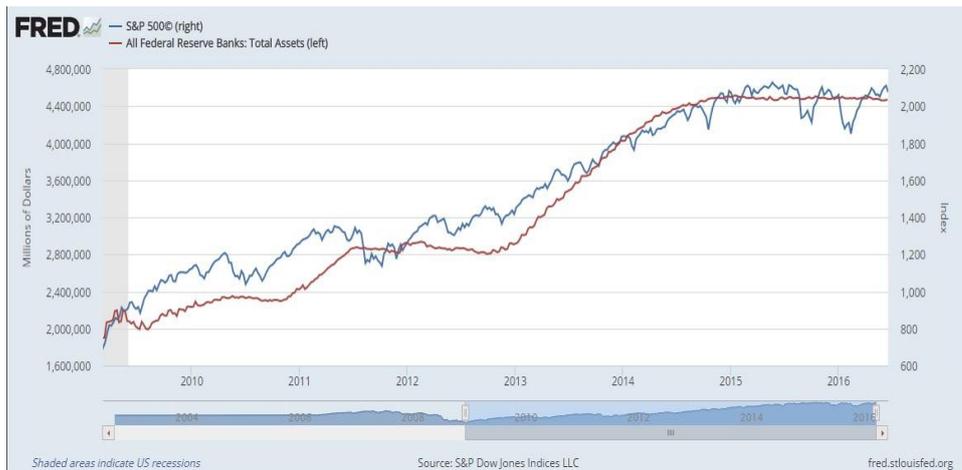
“Because it’s where the money is”

In 2007/8, as the global financial crisis hit, it was obvious to any Bulletin Board Moron that this was serious shit and, indeed, could be the end of the Western system. In 2007, I advised people, from an investment point of view, that the total lack of liquidity in the financial system was like waking up in your house by the ocean, looking out the window, and seeing that the ocean had gone. At that point you don’t actually need to do any analysis; you just get the hell out of there and, in investment terms, exit any assets likely to be affected: for me that included all world stock markets with the exception of my own companies. Lehman did not collapse until September 2008, so there was plenty of warning that everything was not as mother used to make it.

That crisis was never fixed: we are still in it. As the results came in on Friday I tweeted: “#BREXIT is just the excuse: markets were waiting for a reason to fall”. That is because after 8 years of quantitative easing, across the US and the EU, **none** of the underlying economic problems have been fixed.

I called the equity markets wrong in 2008 because I could not believe that the Western governments were cynical enough to rescue banks across the board, pump hugely inflationary funding into the monetary system and yet allow none of it to reach the middle and low end of the economy where it was needed. Instead they allowed a massive boom in world stock markets because all of that QE was shoved straight into the pockets of the financial institutions, which in turn stuck it in the stock markets.

Where the money actually went...



The above shows the S&P 500 relative to Federal Reserve Bank Assets (in other words QE). There is a correlation here, which is hard to ignore. All of that money went into boosting western stock markets to unsustainable highs: the S&P is now on an average P/E of over 20.

All across the world, from Barack Obama to David Cameron and the utterly cynical George Osborne (the Wallpaper merchant) via Angela Merkel and the fool Hollande, they have told you that the problem has been fixed. Just a little more tweaking here and there, we are on the road to recovery, just a touch of austerity (not for them mind you), left a bit, right a bit, still on course, etc, etc.

And look, here's FRED again on unemployment:



Looks pretty good right? I mean, if that isn't a success what is? Except that it is a lie: out there in the Grim North of England and the broken Rust Belt of Midwest America, in their hearts they know that nothing has actually been fixed. They know that they haven't got any money, their pensions are invested in government stock yielding nothing, they have just discovered the clause in their endowment mortgage that says the final payout might be insufficient to repay their mortgage ...

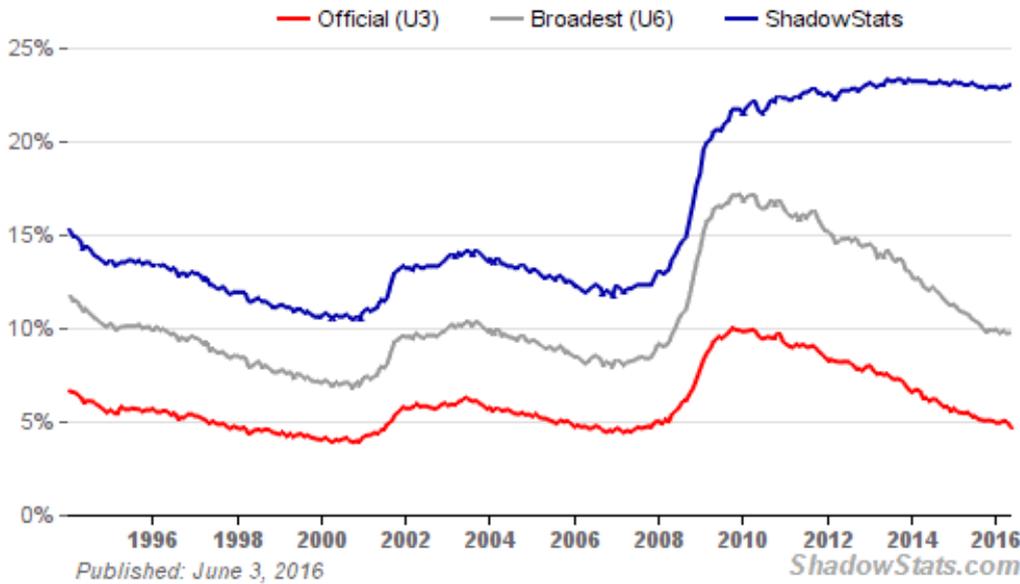
¹ FRED is Federal Reserve Economic Data <https://fred.stlouisfed.org/>

The Western economies have **not** been fixed. GDP has crawled back towards 2007 levels, which means eight years of going nowhere. This won't have affected the have-yachts but trust me it has been brutal for the have-nots.

But here's an alternative reality from the wonderful Shadowstats²

Unemployment Rate - Official (U-3 & U-6) vs ShadowStats Alternate

Monthly SA. Through May 2016 (ShadowStats, BLS)



Shadowstats does not have a direct equivalent in Europe but, as I have said many times before, Europe and the US move roughly in parallel except for the fact that if there is a bump in the road in the US it will be a f__k up in Europe.

So what Shadowstats is suggesting is that far from unemployment falling neatly to below 5%, as official data suggests, it has actually soared to nearly 25%. This is because official data **excludes** those in part time employment who want/need full time employment, it excludes self-employed philosophy graduates running a lemonade stand at the bottom of their drive, etc, etc.

So the reality of the Western economies is stagnation, unemployment and no sign of relief.

BREXIT was a protest vote on a massive scale

So there you have it: this was a vote against the lies, damn lies and the owners of wallpaper companies saying they will punish a "Vote Leave" with an emergency budget. There was an opportunity in 2008 to admit that the Western economies were in total meltdown and that dramatic restructuring was required. Instead, the talking heads claimed they could fix it and they have not. The direct result of this is BREXIT and Donald Trump, the fact that Austria has to all intents and purposes elected the Nazi party and Marine Le Pen now wants a FREXIT referendum in France. I expect you all already know that far fewer people in France are in favour of the EU (only 38%) than in the UK ... at least that is what the polls tell us.

The world is changing and you ignore it at your peril. At the beginning of 2015, I described the wreckage of the EU and the inexorable takeover of the world economy by the Chinese:

² Shadowstats <http://www.shadowstats.com/> Alternative economic data

(http://blackswanplc.com/download/BlackSwanLetter_2015.pdf) that is all going to happen **regardless** of anything done by the EU or the US short of massive reform. Even then it is doubtful that it can be stopped. Accordingly if the EU does not want to fix itself then our children (and we) should be focusing on the growth economies in the world because that is where the future lies for all of us.

You also need to take note of the completely unsustainable promises, which have been made by Western governments regarding benefits, welfare, health care, etc. in order to bribe their populations to vote for them. For details of this see the 2014 Black Swan letter here: (http://blackswanplc.com/download/BlackSwan%20New_Year_Letter2014-2.1.pdf)

What happens next? An awfully big adventure...

It is important to understand that the UK referendum was only “advisory”. In other words the government is not bound by the result. This is in total contrast to the 2011 “Alternative Vote Referendum” which contained a trigger legally obliging the government of the time to implement the result. The call for another referendum is thus totally misplaced: parliament can be asked to vote on BREXIT and can, quite legally, reject it.

Accordingly, if the other members of the EU want to keep Britain in the Club, Germany, as the de-facto leader, should immediately offer a reform package on the EU institutions and a properly re-negotiated deal for the UK. Then there need not be a BREXIT. But they won't.

They won't do it because now there is a scapegoat for the failings of the politicians and EU bureaucrats, the fouled up economies, the collapse of Greece, the 54% unemployment in Spain, the falling US markets, etc, etc. That scapegoat is the UK electorate and they are about to be punished big time for daring to disobey their masters. The FTSE fell less than the major European markets on Friday. The pound sterling only hit its 5,000-year low after Wall Street opened and the big US banks went to work on it. Prior to that it was actually recovering from the initial drop: I was watching the screens. I don't expect to see this reported by the BBC.

But also, I want to see the end of whining from those out there who supported the idiot Cameron at the last election. When he won I did not hear any of you saying: “We didn't want that result, let's have another election”. He *told you* he was going to go through with this stupid referendum so the time to whine about it was then not now. You have lost: live with it.

I have nothing but respect for the people who finally said, or rather, shouted: “**I'm mad as hell and I'm not going to take this anymore!**” on Thursday. So should everybody else and we should all work with the consequences; they were coming anyway.

Above all, everyone should remember: “In the midst of every crisis lies great opportunity.”³

Very best,



RP

³ Albert Einstein