4 Reasons Why Investing Isn't What It Seems

I have learned, earlier than most, that you cannot convince sheep.

Young people will continue to pay for over-priced worthless liberal arts degrees. Suburbanites will buy brand new cars they neither need, nor can afford, just to impress the neighbors.

Americans will spend thousands just to see The Super Bowl (which will not be any tangibly different than any other football game). And the sheeple will always and religiously stand in lines for hours during "Black Friday."

But every once in a while I think I find a new insight, a new viewpoint that is so clear, so simple that even your rank and file American sheeple might be convinced of it. That this insight is so cunning, and so simple it could revolutionize the way people think for the better.

And so I hope (though am not hopeful) to convince many of you why investing in the stock market today is fundamentally stupid and on par with standing in line on Black Friday.

Let us understand what the stock market ORIGINALLY and TRULY was at its core – it was a place for companies to raise money.

Entrepreneurs, innovators, and businesses wanted to start or expand their business and did not have the funds readily or personally available to finance these ventures. Investors who had said funds, but did not necessarily want to start their own business, were looking for returns on their money.

And just like we meet today in a "farmers ***market***" to exchange money for goods, these people met in the "financial ***market"*** where these entrepreneurs and investors would exchange money for an investment in a company.

THAT IS IT!!!
THAT IS ALL!!!
THAT IS ALL THE POINT AND PURPOSE OF A STOCK MARKET THERE IS!

Businesses, entrepreneurs and innovators were looking for funding.
Investors were looking for investments.
They met in the middle and businesses were created, launched, or expanded.
Business is thus concluded.
End of story.

But an interesting twist occurred after the sale of some stocks, the issuance of some bonds, or perhaps the sale of some preferred shares. Though the primary purpose of these transactions was accomplished (financing businesses) the shares (be they stocks or bonds) still remained.

And the original owners of these shares could and did start selling them to each other. This “secondary trading” or any trading done AFTER the original investment that was made was done so on what is called the “secondary market.” These trades were done NOT to finance new businesses or launch new companies, but was merely speculatory in nature.

The owner of some original shares of GE decided he wanted to buy a house. So he sold them on the secondary market (aka “the stock market”) to somebody who thought perhaps GE’s shares were a bit underpriced. The owner of some original shares of Ford wanted to raise funds to invest in a new company being launched by Thomas Edison.

So he would go to the secondary market and unload his Ford shares on some pension fund manager who thought Ford shares were trading a bit under par. Or perhaps some astute young go-getter had some insight into the telephonic industry that nobody, not even the telephonic industry itself had. He realized that under new legislation coming through congress telephone companies' profits would triple, and thus he runs out to the secondary market and offers a premium to buy Bell Communication shares.

Notice ALL of these trades do not bring about a single penny in new businesses, new profits, or new production. They merely are swapping out money for shares that have long existed, the original productive investment of which happened long ago when they were first sold to raise funds for the original company.

In other words, the billions of trades that happen every day on the stock, bond, mutual fund, option, derivatives, and other financial markets are NOT investing, but rather mere speculation.

And that means ALL of your 401k's, IRA's, 457, 403b's, RRSP's, and pension "investments" are not investments at all, but mere speculation.

This MASSIVE misunderstanding of what investing truly is has resulted in an illogical creature called today's modern stock market. It's illogical because in theory those "super duper smart" Ivy League graduates at Wall Street should have priced the original shares at their "true value." And what I mean by "true value" is the value of all the future profits the company would have generated condensed into a single price at that time the original shares were sold. Sure, they would have to discount it a bit to leave some meat on the bone for the original investors to part with their money.

And yes, the changing outlook and fortunes of a company would change the price of those shares on into the future in the secondary market. But over the past several hundred years and the hundreds of thousands of companies that had been launched during that time, in theory on average the lions' share of any profits and gains would have gone to the original investors leaving little to no room for the perpetual, let alone exponential price increases that magically are funding all your retirement plans today.

The Question is "Why?"

So then why has the stock market perpetually and exponentially gone up, meaning the original investors should NEVER had sold their original shares and/or the entrepreneurs WOEFULLY underpriced theirs?

There are certainly some logical (and real) explanations.

One is that in the past investors and entrepreneurs underestimated the population growth their businesses would inevitably sell to. Not just domestically, but internationally as well. Bob's Farm Buggy Corporation probably didn't think they'd sell farm buggies beyond the agricultural prairies of the United States in 1890. But John Deere sells a good third of its tractors overseas in 2017.

Two, they lacked the vision to see all the practical applications their product would lead to. This isn't necessarily their fault because often it is not until a product is created is its full potential realized. The PC was largely a hobbyist toy for nerds and proto-computer geeks in the 1970's. Now you have 2 of them for every person, 4 if you consider tablets and smart phones.

But while these are possible and legitimate reasons for investors to underpay (and companies to underprice) their shares, in reality it is the changing behavior of the NON-INVESTOR class that is driving up prices beyond what they're worth. It is the secondary market where not a penny of actual investment is occurring, but pure and mere speculation (and hope) that "the stock market just keeps going up."

First, despite what your professors and teachers tell you, capitalism has brought about an amazing increase in the wealth, leisure, incomes and lifestyle for the average sheep. You’re not dying of diphtheria. You’re living nearly 80 years.

You have vehicles that can (for an insanely cheap price compared to horses) drive you across the country in a mere few days. And if that’s not good enough for you, for *even cheaper* you can FLY across the country in a mere few hours. Oh, and then there’s that “world’s complete knowledge available to you at your fingertips” device you’re likely holding right now.

Regardless, the point is billions of people now have trillions of dollars more to spend on nick nacks, clothes, grills, rims, sushi, and overpriced iPhone X’s. But some of that also finds its way into the stock market.

Second, the government effectively has paid people for the past 40 years to invest in the stock market through its various retirement programs. 401k’s, IRA’s, 403b’s, you name it, there’s a program that incentivizes you with tax breaks to ~~invest~~ speculate on stocks you know ABSOLUTELY nothing about.

“Tee hee, I just give it to my HR department and they do the investing for me. I don’t know what I really invest in. I just, you know, buy and hold.”

Third, technology has advanced that trading stocks is no longer relegated to the rich or upper middle class. Instead of needing $10,000 minimum and being willing to pay $90 in commission per trade, a poor college student can open up a brokerage account for $500 and trade for $7.95 in commission. Now I have my barista with her Masters in English telling me about how she’s buying Apple and Google as I get served my morning coffee.

And then there’s monetary policy. Though not the fault of the sheeple, nearly every central bank in the world has kept rates very low, not to mention tripled their money supplies. These monies have to go somewhere and inevitably because of the fungible nature of money, finds its way into the stock market. Be it freshly printed money or artificially low interest rates people and corporations are awash in cash and have to invest it somewhere. So people throw it into the stock market and corporations borrow trillions in leveraged corporate buy backs.

All of these variables have flooded the stock market with trillions of dollars that would have otherwise not been there, driving the PE ratio of the stock market to nose bleed levels and dividend returns on stocks to a pathetic 2%.

To any normal thinking person, a rate of return of 2% on ANY investment would simply not be worth it. Heck, some months that doesn’t even beat inflation. But remember, the world is no longer populated by normal-thinking people. It’s populated by sheep. And the sheep just line up like their HR counselors told them to and ~~invest away~~ speculate away with the brilliant strategy of “well I just hope the stock market goes up.” And lucky for them it has because it’s a self-fulfilling prophecy where we print off money and people keep piling into the market.

The problem, however, is what happens when economic and demographic trends change or simply stop?

For example, when the baby boomers start selling out of stocks to pay for their retirement, do you think the debt-laden millennials or the mortgage-and-children-burdened Gen X’ers are going to pick up the slack?

What if a non-Keynesians head up the world’s central banks, stop printing money and stop keeping interest rates artificially low? Where will all the new money come from to keep “the stock market going up?”

And have you noticed the slow-down in population growth in the 1st world? What growth there is, is largely coming from immigrant classes, and whatever your opinion may be about immigrants, they do not have the disposable income to invest in their 401k’s that the native population does.

I personally don’t think any of these things will happen. The government will continue to print money and keep interest rates low to keep the party going. Baby boomers so woefully saved, they’ll continue to work and contribute to 401k’s until they’re dead.

But let there be no doubt, there is no genuine NEW investment going on. There are no actual rates of return. There is (bar that whopping 2% dividend yield or .0003% you get on your savings account) no underlying profit being returned to you as an investor.

Ergo,

Just like Beanie Babies.
Just like baseball cards.
Just like Dotcoms in 1999.
Just like tulip bulbs in the 1600’s.

The vast majority of people are speculating, NOT investing.

The question then is where does one invest if nearly every stock, bond, and mutual fund is overpriced and over-flooded with non-investor-sheep money?

Where do you find a rate of return that not only holds the promise of providing an adequate retirement, but ensures your investment is not some overvalued bubble about to burst.

And while a glut of central bank money has made nearly every asset class a bit too pricey for the discerning investor, there are some places you can still get a good return on your investment.