36 South Views

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DEC16

The value of everything

We know the value of everything, the price of nothing…

If capital were free for everyone what would be the price of everything?

Answer: everyone would pay an infinite price for everything. It would not matter…

If capital were free but only for certain parts of society, what would be the price of everything?

Answer: for those who have access to this capital, they would pay an infinite price again. For those without access, there will be those who discern the mind-set of the former and borrow, seemingly recklessly, in order to acquire assets which the former will end up buying at any price. For those who are not tuned in to this mind-set, they will buy timidly if at all.

The net result over time in nearly ALL scenarios is infinite prices, hyperinflation.

What if the underlying macro environment does not support the current prices?

It really doesn't matter; prices are on the way to infinity. The fact that a share has an earning slump becomes irrelevant. Somebody with access to free capital will find it attractive at ANY price.

Those with access to capital will end up owning everything.

> *Speculation on the stock exchange has spread to all ranks of the population and shares rise like air balloons to limitless heights… The population was now engaged in evading taxation and devoting their money to speculative purchases… Shares in respectable concerns which had paid a 20% dividend, were pushed higher and higher till the final holders could not expect a return of even 1%.*
>
> Adam Fergusson[1]

The only possibility of prices not rising is due to the political risk that those without access to this capital or asset bases overthrow the system by force, or that the Central Bank raises interest rates to make capital difficult to access for everyone thus creating asset bust and concomitant recession/depression.

The probability of this happening rises as social inequality grows with financial inequality, but most people need a serious crisis before galvanizing into action.

Therefore, the most likely scenario (unless Central Banks change tack on interest rates) would seem to be a hyperinflationary depression.

> *According to Wikipedia, in Zimbabwe's depression of the 2000s, their hyperinflation rate peaked in November of A.D. 2008 at 89,700,000,000,000,000,000,000%. Lessee—lemme count the sets of three zeroes—we have hundreds, thousands, millions, billions, trillions, quadrillions—what comes after quadrillions? "Sextillions"? I don't recall. But Zimbabwe had a peak annual inflation rate of almost 90 thousand quadrillions!*
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> *There are just over 31 million seconds in a year. If we divide Zimbabwe's peak annual hyperinflation rate (90 thousand quadrillions) by the 31 million seconds in a year we learn that Zimbabwe's peak hyperinflation was running at nearly 3 quadrillion percent per second. In the time it took to say, "I'll*

[1] Fergusson, A. (1975) When money dies: The nightmare of the Weimar Collapse, accessed at http://thirdparadigm.org/doc/45060880-When-Money-Dies.pdf

> *give you 5 billion Zimbabwean dollars for that Snickers bar," the price could've risen by several quadrillion times. That's not "inflation," or even "hyper-inflation"—that's a kind of economic madness on speed and LSD.*[2]

Thus we know the value of everything and the price of nothing. Is a company worth $1 million or $1 billion? With interest rates at the lower bound, no-one knows for sure.

It is no wonder that hedge funds, which make a business of knowing the price of everything in their circle of competence, are made to look stupid. The global macro environment is awash with risk and looks increasingly fragile – asset prices should be going lower to discount this risk but they are not; they are rising faster than before! Thus the traditional hedge fund managers are getting it wrong. They are like Olympic swimmers swimming upstream in a fast-flowing river getting nowhere. To the onlookers on the shore they look as if they cannot swim at all.

This whole process since 2008 looked like a slow moving train crash. This has changed.

Donald Trump, the cheerleader for debt fuelled growth, has significantly raised the odds of global nominal price rises.

We will still know the value of everything, but the price… who knows.

2 Accessed https://adask.wordpress.com/2014/07/13/the-foundation-for-hyperinflation/