We're Being Gaslighted

- The word "Gaslighted" means manipulated into not seeing reality
- Forecasts of 2021 security returns are gaslighting investors into believing the future is bright
- The reality is that market corrections are highly likely in this decade of the 2020s

Oxford Dictionaries named "Gaslighting" one of the most popular new words in 2018. The word originated from a 1938 mystery thriller written by British playwright Patrick Hamilton called *Gas Light,* made into a popular movie in 1944 starring Ingrid Bergman and Charles Boyer. In the film, husband Gregory manipulates his adoring, trusting wife Paula into believing she can no longer trust her own perceptions of reality. Accordingly, gaslighting is the act of undermining another person's reality by denying facts, the environment around them, or their feelings. Targets of gaslighting are manipulated into turning against their cognition, their emotions, and who they fundamentally are as people.

We are being gaslighted

Investors are being gaslighted by the investment management community (Wall Street) into thinking that there are no bubbles in stock and bond prices, that the Fed is our savior, and securities markets will always go up.

This is the season for forecasts of next year's returns. As usual, they are uniformly positive and not too far from historical averages, although they generally acknowledge that the world will still be recovering from the current pandemic. Some even see double digit returns in 2021.

By contrast some, including me, are forecasting serious losses on the order of 50%. How can these outlooks be so radically different?

What is happening

Most readers of this publication are being inundated with webinars and articles that go into great detail to explain why 2021 will be good for investors. Many of the presenters have PhDs so we think they're smart. We watch and read, and forget about the current threats because they are not mentioned. Earnings are the focus. Investors buy the future earnings streams of companies, discounting those earnings back to the present in order to get a "fair" price. Because earnings of many companies are currently depressed due to the pandemic, they are expected to surge in the 2021 recovery. Plus, the Fed has promised to keep interest rates near zero for at least 3 years, so surging earnings are discounted at an incredibly low rate to produce prices that are significantly higher than today's prices. It's all very rosy.

It's important to keep the incentives for these reports in mind. Wall Street gets paid on assets under management – the higher the stock and bond market rises, the more they earn. Wall Street has to gaslight you if they want to maintain their luxurious styles of living . It's like the research report that says sugar is good for you, sponsored by the Sugar Institute.

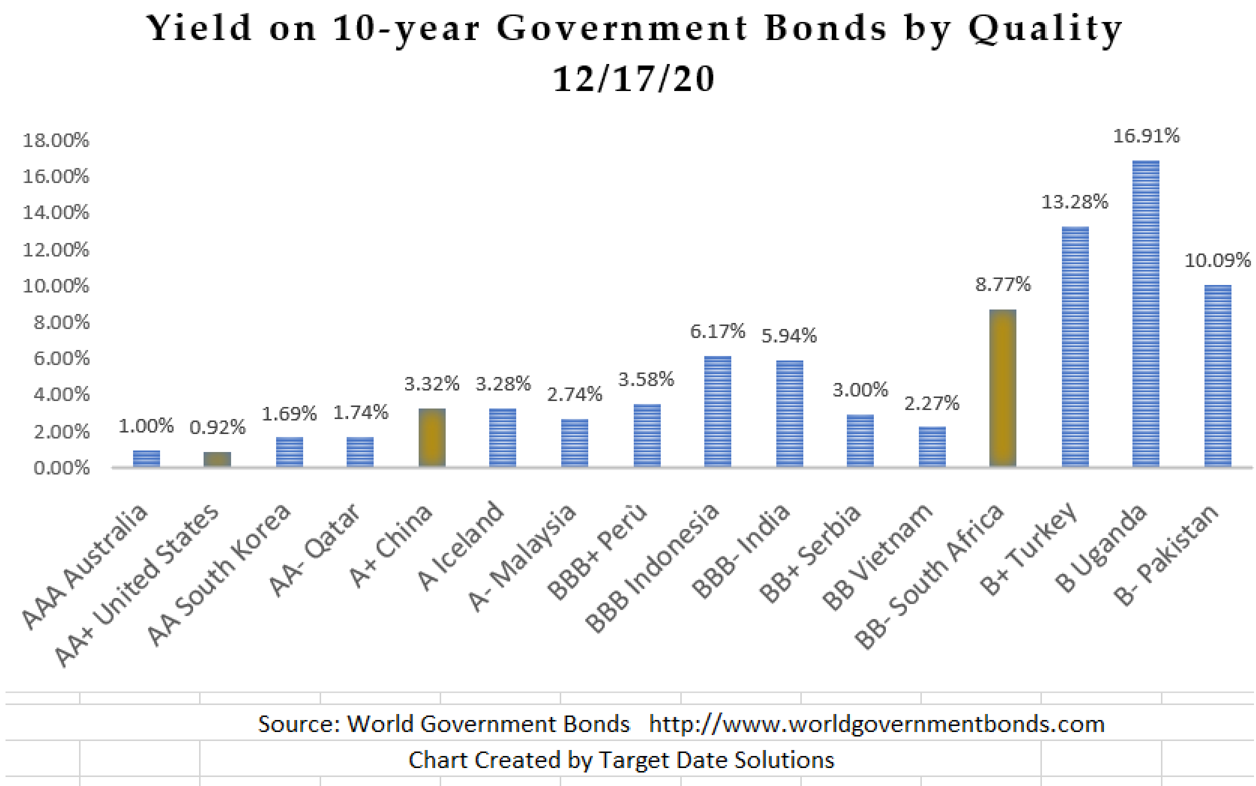
The reality (as I see it)

Two of my most read articles are [Baby Boomers Should Not 'Stay The Course' Because Most Are On The Wrong Course] and [The stock Market Will Reconnect With the Economy.] And our most watched videos are [Ten Threats Facing Investors] and [The Stock Market Will Reconnect With the Economy]

These might not convince you but it's important to see the world through another lens. My lens sees 78 million baby boomers in jeopardy because (1) they are taking too much risk in the Risk Zone transitioning from working life to retirement and (2) it is highly likely that stock and bond markets will correct in this decade of the 2020s. Baby boomers should move to safety now. They are invested 60/40 stocks/bonds on average, a high-risk allocation for someone in the Risk Zone.

My lens sees at least [10 reasons] that markets will correct in this decade. Bond yields are being manipulated to ZIRP: zero interest rate policy. I estimate that the decrease in interest rates over the past decade is responsible for increasing stock prices by 50%, about one-fifth of the total 250% price increase. The rest of the increase is due to $8 trillion in Fed easing combined with investor euphoria because they're being gaslighted.

These bubbles will burst, and it could start with bond yields. The Fed is controlling the short end of the yield curve, letting investors price long-term Treasuries. At the time of this writing, 10-year US Treasuries yield 0.92% and are rated AA+ by S&P. By comparison, Chinese governments yield 3.32% and have an A+ rating, and if you'll move down to a BB- rating you can earn 8.77% in South African treasuries. Yields increase with lower quality, but you don't have to lower much.



The Fed might discover that they can't suppress interest rates forever. In the fourth quarter 2018 we got a hint of what happens when the Fed stops easing: stock markets plunge. Can the Fed ease forever?

When interest rates rise, as they should, the whole house of cards collapses.

- Stock prices plunge because future earnings are discounted at higher rates.
- Interest payments on the debt take away from other government programs, like welfare and military
- Inflation is likely because $trillions have already been printed and more is likely to be printed to monetize the debt

Conclusion

We are being brainwashed – gaslighted – into ignoring current threats; into believing that these threats are not real. As long as markets keep going up, our gaslighted "misperceptions" are confirmed – all is right with the world. Feel had?

For more guidance, please see *How to Minimize the Impact of Inflation, Recessions, and Stock Market Crashes*