By KEN KURSON

# The End of the World

THERE'S A STORM COMING. BATTEN DOWN YOUR MONEY.

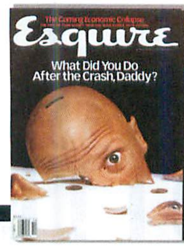
THIS IS NOT A COLUMN I have looked forward to writing. But things are spinning out of control. ¶ When you work for guys who are in the single digits on the *Forbes* 400 list, they make you sign barbed-wire nondisclosure agreements. So I can't go into detail about a project from which I recently was "separated." But I can tell you that I wasn't the right fit because the absurdly wealthy fellow who wanted me to write his memoir believes that everything is cyclical and can be explained by examining past economic cycles. And I don't believe that. I believe that everything is going to shit.

Actually, one of the things that make me so bearish on the world economy is exactly that—cycles. People are set up to believe that however things have been is the way things will always be. And they seize on every new economic-policy pronouncement from Beijing and every report of a slowdown in money outflow as evidence of stability returning. If China is growing at 8 percent a year, then people think there's some thermodynamic law that commands China to continue to grow at 8 percent a year.

But there are real reasons that's not true, including the increasing realization that China's numbers were officially exaggerated. And the fact that the world's number-one growth engine is not just slowing down but crashing is troubling.

According to Felix Zulauf, the owner of Zulauf Asset Management, a hedge fund based in Zug, Switzerland, with $1.7 billion under management, the situation in China is as worrisome as the U.S. housing market was in 2007. He told CONTINUED ▸

Last time Ken thought the world was ending, we did this cover. — DMG




**CONTINUED ▸** *Barron's* magazine that China's phony currency propping will have to end soon, what with holders of capital there trying desperately to ship their money out of the country. He predicted "a decline of 15 percent to 30 percent" and went on to say that a "global recession" is imminent.

Maybe you think he's too negative. But his assessment doesn't even cover the disastrous collapse in oil prices. If you're excited to pay a buck-eighty a gallon, imagine how unexcited Russia, Venezuela, and the Middle East are to see the main thing they have to offer the world fall from $110 a barrel to $27 in less than two years. If that seems like their problem, bear in mind that in 2014, the U. S. surpassed Saudi Arabia as the world's number-one producer of oil. But the bad news is not just the sudden evaporation of revenue for the oil producers—it's the worldwide bank panic that is already slowly setting in as those who gave money to exploration projects start to realize they're never going to recoup their investments.

> "Just as the rise in subprime-housing-loan defaults presaged the collapse of 2007, the sudden defaults on subprime auto loans indicate that our willingness to keep buying shit can't lift us out of this pickle."

The picture is even bleaker for stocks. Here's why: According to Bill Priest, the CEO of Epoch Investment Partners, 56 percent of the S&P 500's 72 percent gain from 2012 through 2014 came from PE-multiple expansion—meaning investors were willing to pay more for a dollar of earnings than they had been previously. When it takes more dollars to buy the same thing, that's inflation. And the reason there were more dollars available is purely artificial: the "quantitative easing" strategies of central banks.

Those strategies have been defunct for a little while now. And there's nothing to replace them—even after the Fed's first pipsqueak interest-rate hike in a decade late last year, rates have remained near zero; there's nowhere in the system to get more money. Companies that have reliably thrown off gobs of cash are suddenly finding themselves unable to sustain the profit margins—or even the sales—that they could just a few years ago. Apple appalled its fanboys in January when it announced its first expected year-over-year revenue decline since before the economic collapse, bracing investors for a 9 to 14 percent drop in revenue, from $58 billion to between $50 billion and $53 billion.

**This isn't just stock-market** fantasy football. People treat every rise in the S&P 500 and reports of increases in monthly jobs as a sign the home team is coming back. But those numbers by themselves don't mean much. In the real world, here in the U. S., signs of a deepening recession are already forcing a reevaluation. One of my favorite little-known indicators of the "real economy" comes from bankruptcy attorneys. When business is good for them, it's bad for you. Charles M. Tatelbaum, of the firm Tripp Scott, handles all kinds of retail-bankruptcy situations, including representation of the lender in the largest motor-vehicle-dealer bankruptcy in U. S. history.

After the announcements in March that Sports Authority would be seeking Chapter 11 protection and Staples would be closing an additional 50 stores (on top of the 242 it's closed since 2014), Tatelbaum noted to me that those high-profile shutterings are just the tip of the iceberg. "New York regional grocer Fairway announced that it was on the brink of default. Those announcements, coupled with the bankruptcy filings of seven significant retailers at the end of 2015, including A&P, Hancock Fabrics, and American Apparel (as well as Walmart's announcement of the closure of 154 stores), reinforce not only the perception but also the reality that traditional retailing in the United States is in trouble, and our economy cannot support the aggressive retail expansion that occurred following the so-called economic recovery."

That doesn't even account for Sears and Kmart, which give off a pungent odor of not making it through 2016 in a form that we recognize. Tatelbaum explained how the ripple effect works. "Many of the Sears locations are in older shopping centers or shopping malls, and the closure of a Sears store as anchor could be the death knell for the entire mall or center."

And just as the rise in subprime-housing-loan defaults presaged the collapse of that market in 2007, the sudden defaults on subprime auto loans indicate that the American willingness to just keep buying shit can't lift us out of this pickle. Delinquencies on bonds consisting of subprime auto loans rose to 4.7 percent earlier this year—their highest rate since 2010. The general default rate for all subprime auto loans jumped from 11.3 percent to 12.3 percent in just a month—exactly the kind of "can't pay my bills" phenomenon that triggered the housing collapse.

**This all points to** a big storm on the horizon. If you're looking for a clean "What can I do?" suggestion, there aren't many. That's part of what makes this environment so difficult. Yes, look at funds that short junk bonds and stay the hell away from going long on any oil explorers. But that's the problem here—too few good investment ideas. Guess how many companies went public in the U. S. in January? Zero. The IPO market is having its slowest start since 2009.

A *New York Times* headline on February 25 read GLOBAL FINANCE LEADERS MEET AS ECONOMIC SKIES DARKEN. The story described a meeting of the G20 countries and their central banks with leaders in Shanghai. It didn't go well.

With the second-largest economy in the world committed to artificially propping up an unstable currency while the most important commodity in the world experiences total collapse, things will get worse. And they might stay worse for a while.