



postcards from the florida republic
An independent and profitable state of mind.

Sunday, August 20, 2023

SL: "Bring Me a Fire Truck" - Steve Winwood

Dear Fellow Expat:

My daughter is driving me insane..

She has been singing "I'm Still Standing" by Elton John since Thursday.

But only the chorus... *on repeat.*

And when she isn't singing that song...

She's singing Steve Winwood's 1986 hit "Higher Love" - but only the words: "Bring me a higher love..." repeatedly...

Occasionally, she'll swap the words...

And just sing across the house...

"Bring me... a fire truck.

Bring me a fire truck... Whoa oh...

Bring me a fire truck...

Bring me a fire truck..."

We've also watched the movies *Sing* and *Sing 2* at least thrice this weekend.

We're an hour or so from bed.

Plenty of time to listen to *I'm Still Standing*, again... at least seven more times. Let's just get to the week ahead...



Garrett Baldwin
Financial Adventurer

Index Momentum

S&P 500

Nasdaq

Russell

RED

RED

RED

Too Much Long Drink?

The cure for too much Long Drink in the morning is a combination of this elixir.

- 1) Pepto Bismol
- 2) Two Motrin.
- 3) 48 Ounces of Water
- 4) The song "Someone Like You" by Adele at full blast.
- 5) A sauna (they're \$150)
- 6) And hour of 100% silence.
- 7) No blue screens either.
- 8) Avoid your entire family and tell them that your stomach really hurts.
- 9) Repeat all steps.

We'll discuss what events to follow... and put those events into Republic Speak.

The Week Ahead with Negative Momentum

Monday Events: Zoom Communications (ZM) will report earnings.

Republic Speak: Who is still paying for Zoom? Who is having meetings beyond 40 minutes that require a subscription to a video chat service? I assume these are the same people who are still paying \$8 a month for America Online.

Zoom is one of those momentum stocks that I mentioned last week.

When momentum is positive, it rallies. When momentum is negative, it sinks. This is the AOL Instant Messenger of digital communications. It's unprofitable, and its book value is \$22.00. That's where the stock should be trading. Not at \$66. But this isn't a rational market, and Zoom is a gambler's stock.

Tuesday Events: The BRICS summit starts in Johannesburg, South Africa. WTI crude oil monthly options expire.

Republic Speak: Tuesday is a lot to unpack. First, WTI options expire. Energy is the only sector that has held up in this negative momentum environment. Natural gas prices have slumped over the last two weeks, but oil is the biggest question. If oil prices sink around the September futures expiration, this could fuel a dramatic selloff across the global market. As I've told everyone - sell calls on your energy positions that would out into October 2023, when all this uncertainty should end.

Meanwhile, there's no greater hype now than this BRICS summit and the idea of a global currency moving the world away from the dollar. This meeting is happening while China's economy is under stress, and Vladimir Putin will join "over Zoom" because he'd be arrested in South Africa for war crime allegations by the International Criminal Court.

The key thing to consider is what happens if many emerging market nations want to join this collection of global markets. The U.S. oil standard (the petrodollar system) cooled after the first Iraq War. The U.S. pivoted and created immense demand for the U.S. dollar by hooking emerging market nations on dollar-based debt. But over time, the "dollar swap system" became politicized by Bush, Obama, Trump, and Biden.

Here's the question. Do these nations abandon the dollar and pile into a currency that doesn't have the Seigniorage of the dollar? A "gold-backed currency" would likely run the members at a loss since a commodity-based currency system vastly differs from a fiat-based one.

What is Seigniorage: Seigniorage is the difference between the stated value of a currency, such as a \$10 banknote or a 25-cent coin, and the costs linked to its production. In straightforward terms, the cost of creating a country's currency tends to be lower than its prevailing market value, resulting in a surplus usually acquired by the governing authorities in charge of issuing the currency. Due to the Seigniorage of the U.S. dollar, virtually every tree in the world is worth more than \$40 based entirely on the possibility that its pulp could be converted into dollars, according to Michael Howell's book *Capital Wars*.

Wednesday Events: NVIDIA will report earnings.

Republic Speak: The hottest stock of 2023 will try to keep defeating financial logic. Its executives - to pump the stock thanks to stock-buying, sentiment-driven algorithms - will say: "Artificial Intelligence" or "AI" about 435 during the earnings call. That word triggers buying and short covering very quickly in this market environment. AI is a red-hot topic that will continue to drive sentiment among robots that don't know or care about inflation or the threat of a future recession.

This doesn't change the fact that NVIDIA has slumped since China's crisis fueled the latest negative momentum event... Nvidia is the market's most irrational stock right now - trading at 225 times earnings... and a staggering 41 times sales.

Now - let me explain what these two numbers mean. To justify 225 times earnings, the company would need to pay its investors 225 YEARS of profit. That's not uncommon for a major growth stock that can cause massive economic disruption.

But it's the price-to-sales ratio of 41 that is insane. By that definition, the company must pay its investors 41 years of revenue to justify its current price/valuation.

Revenue is every dollar that comes in the door. So, that would mean no money for salaries, no money to pay taxes, and no money to pay for new research and development. People buying this stock believe that the company will "grow into that valuation"

and that these valuations will fall over time. But the problem is that it reduces the upside for the stock. These numbers are the old way of looking at finance, and most people can't shake them. This is a video game stock -typically, the endgame is always a massive price decline. They are only one bad earnings report from the stock falling by at least 40%.

If you want a better AI stock - buy Deere (DE).

Thursday And Friday Event: The Kansas City Fed will also host its annual Jackson Hole, Wyoming symposium.

Republic Speak: The people responsible for high inflation and the boom-and-bust cycles of the 21st century (and every other problem facing the middle working class) will try to convince us that they are doing a good job. The event's name is "Structural Shifts in the Global Economy." That sounds like a thesis written by a New Mexico State University graduate student.

The event starts Thursday, but the critical part comes at 10 am on Friday when Jerome Powell speaks. Last year, Powell blew up the market with a sternly worded commitment to fight inflation.

Unfortunately, the Fed will likely need to move interest rates higher in the future - as our inflation is a great reflection of our largest trade partner's epic meltdown. The Fed needs to stop worrying about interest rates, tell Congress to reign in spending, and commit to ensuring financial stability now and in the future. That's the job. There are 200 Ph.Ds. who work at the U.S. central bank, and somehow none of them have the guts to tell their boss that inflation is the fault of the Fed and Congress (monetary policy and fiscal policy, respectively.)

Whatever those "structural shifts" that the Fed highlights, understand that there are only four major trends that you need to focus on over the next decade to make money. These are **De-Americanization, Dirigisme, Decarbonization, and Digitalization.**

I've covered the bones of these trends in previous Postcards.

But we'll revisit them in the weeks ahead.

That's it for Sunday.

If you'll excuse me, I need to pray to *The Lord* for a Fire Truck.

Stay positive,

Garrett Baldwin