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Crisis of Trust

TRIGGER$ - MARCH 2013

![Diagram showing the stages of a crisis of trust]

Gordon T Long
2/17/2013
CRISIS OF TRUST

When respect and confidence are lost it leads to a Crisis of Trust

What we presently have is:

Why We Have It:
LOSING TRUST

The World Economic Forum in Davos Switzerland with approximately 2500 of the world’s most influential leaders in attendance, demonstrated some interesting findings. Attendees were shown that these most influential people may be facing a crisis of trustworthiness.

While 50 percent of people questioned for the 2013 Edelman Trust Barometer, released in Davos, trust businesses, only 18 percent believe in their leaders. Many of these people were sitting in the audience. That is a 32-percentage point gap between the institution and the people in charge. The most trusted business sector is technology at 77 percent, while the media, financial services and banks lagged significantly.

It appears from the findings that the public trusts "Brewers" more than those who manage money.

My point here is, and I will show below, that we have a serious Crisis of Trust occurring.

When the foundation of trust is broken, confidence is eroded, uncertainty emerges and nervousness grows.

The mother milk of Investment is confidence. Uncertainty is its death knell.

Attendees were also shown from the exhaustive research conducted by the World Economic Forum, that Global Economic Risk is highlighted by:

- The potential for a major systemic financial failure,
- Severe income disparity and
- Chronic Fiscal Imbalances.

Living in the inter-connected global world which we do, it was highlighted that the most connected risks are:

- A Global Governance Failure,
- Severe Income Disparity, and
- Critical Fragile States.

It seems there was a pretty hard finger being pointed at the affluent audience in attendance.
Clearly, there is heightened concern that the world financial system is fragile due to imbalances and the message between the lines is that social inequality is a 'witches brew' for the status quo.

**THE PUBLIC DOESN'T BELIEVE WHAT THEY ARE BEING TOLD!**

The worry amongst the influential and affluent attendees however was Global Growth. The rate of growth continues to fall with the consequence of squeeze on profits, tax revenues, overall spending and the "family trust" earnings. Thereby, pretty well impacting everyone in the Davos audience. That is why they were worrying 'en mass'.

Uncertainty is directly related to hiring and it is simply not getting better ... or at least, fast enough.
NO EMPLOYMENT GROWTH MEANS NO REAL ECONOMIC GROWTH

28 Million Jobs Lost

39 Million "Discouraged" Drop Outs

= A 67 Million Jobs Gap Since the Financial Crisis

After dropping for the past two years, global unemployment is on the rise again according to the International Labor Organization, a UN jobs watchdog. 2013 is expected to top 200 million unemployed for the first time with the epicenter in the advanced economies as 28 million jobs have been lost since the onset of the crisis.

Critically, for the globalists, they unsurprisingly note that macro imbalances have been passed on to the labor market to a significant degree. Weakened by faltering aggregate demand, the labor market has been further hit by fiscal austerity programs in a number of countries, which often involved direct cutbacks in employment and wages, directly impacting labor markets. Far from the anti-cyclical response to the initial crisis in 2009 and 2010, the policy reaction has been pro-cyclical in many cases in 2011 and 2012.

Moreover, some 39 million 'discouraged' people have dropped out of the labor market as job prospects proved unattainable, opening a 67 million global jobs gap since 2007.
However, regions that have managed to prevent a further increase in unemployment have experienced a worsening in job quality, as vulnerable employment and the number of workers living below or very near the poverty line increased.

"These are people who, ... have given up hope, ... and therefore they are not counted as unemployed but more as discouraged."

Global unemployment may rise to 202 million this year, having increased by 4 million to 197 million in 2012. A third of Europe’s jobless have been without work for more than a year. About 13 percent of those under 24 years old globally have no job, rising to more than 55 percent in Spain and Greece. Those countries that retained apprenticeships, including Germany and Switzerland, had the lowest levels of youth unemployment at 8.1 percent and 7.2 percent respectively.

It should not be any surprise then, that the latest A.C. Nielsen Global Consumer report shows that Global Consumers continue to cut back at a fairly significant rate. Again this doesn't bode well for growth and is rooted in a loss of confidence in public policies being implemented to address problems stemming from the financial crisis.

ALL OF THE ABOVE IS NOT BEING REPORTED IN THE MAINSTREAM MEDIA, BUT THE PUBLIC SUSPECTS THE TRUTH!
**RISK AVERSION, NERVOUSNESS & UNCERTAINTY**

Seldom have we had such high levels of uncertainty and low confidence coupled to historic low levels of risk aversion. The Leuthold Group put out this graphic (below) which shows the unprecedented levels we are witnessing.

![Monthly Risk Aversion Index (RAI)](https://example.com/rai_graph.png)

Additionally, there is a growing degree of nervousness.

How do you explain Germany and the Netherlands (and it appears others) now repatriating their Gold Reserves from the New York Fed and Bank of England? After 50 years and the Cold War, what would trouble them now?

Maybe they are justified, after the Fed refused to allow Germany to audit their holding held by them. Now the NY Fed says it will take seven years to deliver. Obviously the gold is not there! This makes people nervous and skeptical. It fosters a Crisis of Trust.

**HIDING THE TRUTH**

**MUZZLING THE CREDIT AGENCIES**

How do you explain Europe passing legislation to muzzle the credit rating agencies with absurd restrictions like a "maximum of three days a year when they would be allowed to publish unsolicited assessments of governments’ creditworthiness."

OR

How do you explain the US banning Egan Jones from publishing credit ratings on Asset-Backed and Government Securities for 18-Month Bars. Egan Jones were the only one daring to take down US debt ratings.

I found it comical that the reason given (obviously after a government witch hunt) that Egan Jones, who have been in business for years, had falsely stated in its registration application years before, that the firm had been rating issuers of asset-backed and government securities since 1995 — when technically the firm had not. This does not foster confidence and trust in the "system".
CRISIS BRINKSMANSHIP
We seem to be playing one game of crisis brinksmanship after another.

What is lost it appears, that after crisis is temporarily alleviated we find government spending has actually gone up, our taxes have gone up and nothing has actually been solved but deferred to the next crisis date.

The government is now so practiced in this art form that it now establishes the crisis dates to force through more legislation, that I can assure you will involve more spending and taxes, but no solutions.

PAYROLL TAX HOLIDAY
Hidden behind the headlines that the crisis has been averted, are earmarks, pork and political graft.

How many middle to low income Americans know their taxes are going up after the Fiscal Cliff was averted? Likely few, because Obama said he was standing firm and tax increases wouldn't happen.

What happened is the biggest item, being the expiration of the payroll tax holiday, was left to expire. Your taxes go up, but technically he wasn't increasing taxes.

You have to be a lawyer to listen to the evening news.

This doesn't build confidence and trust.

PRESIDENTIAL SPENDING RECORDS
It seems the public can no longer trust the network news to give us the full story. Only a spun story. Of course then it depends on which network you listen to determine how you want it spun. Flip the channels between Fox and CNN on the same story and see if they even remotely resemble each other.

Gone are the days of Walter Cronkite and the facts you can trust. The media no longer reports the news but rather a position. They make that very clear to young journalists as the old timers quit in disgust. Positions are about the perceptions of demographic marketing 'spaces' and selling advertising. This doesn't build confidence and trust.

CORPORATE BUSINESS CONFIDENCE
Perhaps one of the most startling and telling charts, which few talk about, is the soaring difference between bank loans - traditionally the source of growth for banks and deposits - traditionally the source of capital banks use to fund loans.

Historically, and logically, the relationship between the two time series has been virtually one to one.

However, ever since the advent of actively managed Central Planning by the Fed, as a result of which Ben Bernanke dumped nearly $2 trillion in excess deposits on banks to facilitate their risk taking even more, the traditional correlation between loans and deposits has broken down.

A Very Taxing New Year
Tax increases that become law in 2013 under the 2010 Affordable Care Act and the bill that passed the Senate on Jan. 1.

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>2012</th>
<th>2013</th>
</tr>
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<tbody>
<tr>
<td>Top personal income tax rate¹</td>
<td>35%</td>
<td>41%²</td>
</tr>
<tr>
<td>Estate tax</td>
<td>35</td>
<td>40³</td>
</tr>
<tr>
<td>Capital gains tax</td>
<td>15</td>
<td>23.8⁴</td>
</tr>
<tr>
<td>Dividend tax</td>
<td>15</td>
<td>23.8⁴</td>
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<tr>
<td>Medical device tax</td>
<td>0</td>
<td>2.3</td>
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<tr>
<td>Payroll tax</td>
<td>10.4</td>
<td>12.4</td>
</tr>
<tr>
<td>ObamaCare payroll tax surcharge</td>
<td>0</td>
<td>0.9⁵</td>
</tr>
</tbody>
</table>

Notes: 1. Above $400,000 income for singles, $450,000 joint filers; 2. Includes effect of phase out of various deductions; 3. Exemption of $5 million; 4. Includes 3.8% ObamaCare investment income surtax; 5. Income above $200,000 for singles and $250,000 for joint filers

Source: U.S. Senate
The difference between deposits and loans has hit a record $2 trillion!

This is perfectly fungible cash which can then be used for any generic purpose: such as prop trading under the guise of "hedging" as JPM so vividly demonstrated a few months back.

The source of the cash for record deposits - i.e., the ever so incorrectly classified "cash on the sidelines" is debatable (but not much).

It appears the cash is being plowed into the stock and equity markets by the banks prop trading desks.

If that was all, it would be only a major concern.

But there is much more to discuss about this record excess of deposits over loans. And the "more" is something that was only recently discovered, courtesy of a massive blunder by none other than JPM's Jamie Dimon. It is important to expose the "more" as it is in stark contrast with the conventional thinking adopted by much of the mainstream media. The reality is that virtually half the balance sheet of US brokers can be repoed back to custodians, in the process leading to double, triple, and higher multiples of counting a single asset serving as deliverable collateral, and using and reusing (if need be), the cash proceeds, net of a token haircut (or no haircut in the case of English rehypothecation transactions), every single time purchasing riskier assets to generate a return on a return on a return of the original investment.

In short, the magic of off-balance sheet accounting which allows brokers to abuse their already TBTF status and lever any underlying asset to the hilt and beyond. Think of Shadow Banking as your own in house synthetic structured product, allowing virtually unlimited leverage.

This is a bomb that will go off eventually. Counterparty risk can be assured to be more than zero and always brings done these sorts of Ponzi structures.

The bank deposits explain where the capital investment went. It stopped and is being deposited for safe keeping.

No Capital Investment means no growth in Jobs. No Job Growth means low consumer demand. In a 70% consumption economy such as the US this is serious. T

There is a lack of confidence and trust being demonstrated here.
HISTORICALLY LOW CONSUMER CONFIDENCE

Meanwhile Consumer Confidence and Sentiment has recently started falling again from already historically low levels.
LOST CONFIDENCE IN "THE SYSTEM"

Even though we just finished an election when confidence is usually high it isn't. We have lost trust and confidence in our leadership to solve the tough problems.

CONCLUSIONS

We have lost confidence in the 'system'. We have a Crisis of Trust.

This is manifested or shown in the following:
Unfortunately, we are being witnessing a democratic society that is quickly BECOMING Un-Governable which a Crisis of Trust is going to accelerate. This is due to:

1. The Degree of political polarization,
2. Lost respect and confidence in the political process and its leadership,
3. Unwillingness to accept change,
4. The avoidance responsibility for matters that don’t directly impact someone personally,
5. A lost sense of civic responsibility,
6. Entitlement expectations,
7. Lack of education and interest to properly understand economic and financial issues.

We have a Crisis of Trust and everything that results from that is happening:

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