



# Everyone Has Nothing

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After experiencing the *WORST* December stock market in over eighty-five years, we had the *BEST* January in thirty years.

That's right, after dropping over 9% in December, the S&P 500 gained 8% in January. Not quite back to even, but enough to help nervous investors sleep better.

But before those investors get too comfortable, we should point out that January 2018 started out quite well (up 7.5% in the first 26 days) and the year finished negative (-4%).

And if that didn't get your attention, check this out: The stock market in January of 1987 increased 13.5%, which seems very impressive and encouraging. However, October 19 of that year saw the market *crash* 23% in one big, ugly day.

So don't assume that this is a case of: "As January goes, so goes the year."

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Socialism always *sounds* great but never seems to play out very well. In the history of our planet, socialism has failed repeatedly. The latest socialist disaster is in Venezuela. And it is a disaster of epic proportions.

What used to be a prosperous country with a generous amount of oil reserves started down the path of socialist self-destruction many years ago under Hugo Chavez. Chavez passed away in 2013 after naming Nicolás Maduro as his successor.

How has Maduro done in his 5+ years? Let's see . . .

- It is estimated that over 85% of the Venezuela population lives in poverty
- Inflation has exceeded 10,000% (capitalistic United States is having trouble mustering up inflation greater than 2%)
- Caracas is now the murder capital of the world
- More than half of the families in the country are starving



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The crisis exploded under Maduro's watch, but this disaster has been a couple of decades in the making. The socialist government was able to exist for years by redistributing profits from the country's massive oil reserves to the people. But as is the case in every "utopian" society, those in power were distributed a greater share.

Unfortunately, the gift of abundant oil became a curse. Because of technology (fracking), the global energy landscape has changed and Venezuela's economy has not been able to change with it. It is dependent on a world of high energy prices that no longer exists.



Juan Guaidó



Nicolás Maduro

On January 23, 35-year-old opposition leader Juan Guaidó unilaterally declared himself the new interim Venezuelan president, which, under most totalitarian regimes, would normally result in a swift death sentence. However, President Trump formally recognized Guaidó as the new leader of Venezuela and placed sanctions on the shipping of crude oil to the United States, making Maduro less and less popular to the starving people of Venezuela.

When the president of the most powerful nation in the free world says Guaidó is the new leader of Venezuela, it makes others pause. And many other major powers have joined America in its hard-line stance against Maduro. Of course there are a few exceptions (the usual suspects): Russia, Turkey, Iran, and Syria all support the current regime, and China, with its commitment to "non-interference," essentially does as well. We predict that Maduro's days in Venezuela are numbered (the number being less than 365).

The bad news is that, even after Maduro is gone and democracy is restored, getting Venezuela back to "doing poorly" will take years.

When someone touts socialism as some cure for a country's economic ills, we are reminded of the San Francisco cab driver with the thick Russian accent in our November 2011 Commentary ([Toma La Calle](#)). He said:



These people think they want socialism. They don't know what socialism is! Socialism is when everyone shares nothing because everyone *has* nothing! This is the greatest country in the world. I came here thirty years ago and if somebody wants to work here, they can get to the top!

Everyone shares nothing because everyone has nothing. Just ask Venezuela.

Capitalism is a flawed economic system. It's just better than all the others.

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### **Deadlines Looming . . .**

Ninety days goes by quickly. Just this past December, President Trump and President Xi Jinping of China agreed to a "trade truce" until **March 1**, at which point stringent tariffs on both sides are supposed to be enforced. In essence, they kicked the can down the road until the beginning of March, at which time they will probably kick the can a little farther. Sometimes deadlines are deadlines and sometimes they are an opportunity to create another deadline. Don't hold your breath.

Which brings us to . . .

The United States government was officially shut down for a little over a month recently. Had you not been told about it, you might not have known. But had it gone on much longer, we are confident that most people would have begun to notice the things that our government does for us. And if the government shuts down again **this Friday**, negative effects will probably become more apparent more quickly.

*As we are writing this, it appears that (barring a presidential veto), Congress has found a way to fund the government at least through September.*

Having said that, we have to confess that not much in our daily routine was inconvenienced because of the shutdown. Maybe we don't need as much government as we sometimes think we need.

Our biggest concern is how the shutdown could affect economic growth. At this point, it's entirely possible that we can recapture most of the economic activity that was "lost."

To the extent a shutdown persists, and economic activity *cannot* be recaptured, it's estimated the U.S. economy loses about 0.1% of growth every week. However, it has been difficult to interpret how the economy did during the shutdown because the agencies who report on that were closed. Why? Because they are staffed by federal workers who weren't working! We're still waiting to get the official reading of how the economy grew in Q4 of 2018.

This recent spat over funding the government will go down as the longest ever in U.S. history, but we will most likely look back and view this event as just a blip on the radar. (Can you say Y2K?) It is a symptom of the real problem (massive debt), and delaying government spending for a month or two is not going to solve things.

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At BCWM, our expectations have not changed. We continue to expect interest rates to remain low and ultimately trend even lower. Global economic growth is slowing and inflation is remaining way under control.

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