YOUR Money AND Family Today
AMERICA'S TAX SOLUTIONS® NEWSLETTER
FEBRUARY 2021

ROBINHOOD ROBBING FROM THE RICH AND GIVING TO THE POOR

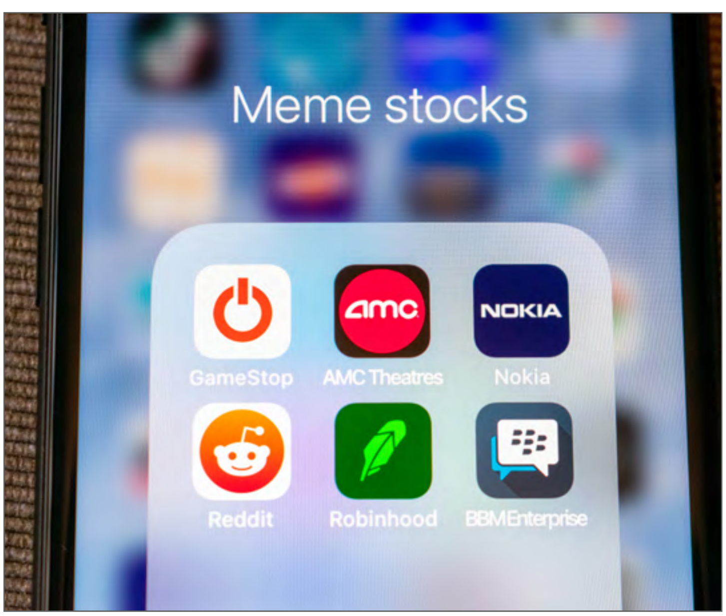
Turns out, today's Robinhood robs from the poor and gives to the rich. Consider the events of the past two weeks and all the revelations about Robinhood and the shady backroom deals with major hedge fund companies.

GameStop mania didn't happen in a vacuum. It's just the most glaring example of the bubble-like behavior running rampant in the financial markets.

Long before an army of Reddit traders sent GameStop (GME), AMC (AMC) and other stocks "to the moon," evidence of extreme market speculation had been mounting.

Shares of Airbnb, DoorDash and other unprofitable startups have gone straight up on their first day of trading. Shell companies with no operating assets have raised gobs of money thanks to a phenomenon known as SPAC mania. Tesla (TSLA) is now worth nearly $800 billion—more than every other major automaker combined.

"It's going to be extra humiliating when the bubble pops."
ECONOMIST ROBERT SHILLER



None of this is normal. Rock-bottom interest rates are forcing investors to take extraordinary risks—and for some, this will end badly.

"I think we've had a bubble for some time. This is just icing on the cake," Richard Fisher, the former president of the Dallas Federal Reserve, told CNN Business. "When things get out of control like this, it is a sign that you should be very worried."

GameStop has skyrocketed about 1,700% this year as traders on the Reddit board WallStreetBets helped push it sharply higher—and that's after losing nearly half its value on January 28th. The CEO of the money-losing video game retailer is now worth nearly $1 billion.

"Someone is going to get hurt," Fisher said. "As happens with crowd behavior, you end up having people come in at the end at a very high price and getting burned."

Indeed, the SEC warned January 28th that "extreme stock price volatility" has the potential to cause "rapid and severe losses" for investors and to undermine market confidence.

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'Blow-off Top'

Robert Shiller, a Nobel Prize-winning economist, said the Reddit movement is being driven by not just historically low interest rates, but by social trends, too.

"It has something to do with Trumpism," Shiller told CNN Business. "There is a pass-it-on mentality. A sense that 'those experts are just self-important; they don't know anything.'"

He added that there is a desire to outsmart those experts and prove them wrong.

"I can imagine that story being contagious at this time in history," Shiller said. "It's going to be extra humiliating when the bubble pops."

Fisher, the Dallas Fed president and a former hedge fund manager, agrees there is a social dynamic and hint of populism at play.

"They have seen the rich get extremely rich by taking advantage of cheap money and they want to get their piece as well," Fisher said. "This is sign that we are getting a blow-off top."

Goldman Sachs warns of 'bubble-like sentiment'

FOMO (fear of missing out) has helped drive an enormous amount of money into bitcoin and other cryptocurrencies. There remains a massive divide over the future of bitcoin, but establishment figures such as BlackRock are increasingly voicing support—and throwing money behind it.

Yet, Bitcoin can at times move dramatically for reasons that may seem dubious. The leading cryptocurrency surged 20% early January 29th, for example, after Tesla boss Elon Musk added the hashtag #bitcoin to his Twitter bio.

Meanwhile, special purpose acquisition companies, or SPACs, are all the rage. Once reserved for the back waters of Wall Street, major companies including Virgin Galactic, DraftKings and Playboy are all going or have gone public through SPACs.

Collectively SPACs have raised $16 billion during the first three weeks of 2021 alone, easily surpassing the $13 billion that was raised in all of 2019, according to Goldman Sachs. In 2020, 229 SPACs raised a staggering $76 billion.

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"Bubble-like sentiment surrounds SPACs," Goldman Sachs analysts said in a recent research report.

Fisher agreed that SPAC mania is another concerning sign.

"What you're doing is throwing money out there—and hoping to find an idea," he said. "It's another indicator that money is too cheap."

Lofty market valuations

Cheap money has set off a V-shaped recovery in the broader stock market as well. Even after a sharp sell off January 27th and another significant retreat January 29th, the S&P 500 is not far off its record highs. That's despite the fact that the United States remains mired in a once-in-a-century pandemic.

To be fair, investors are looking through the ongoing health crisis and focusing instead on the prospect that vaccines will allow a swift reopening of the economy.

Still, market valuations have rarely been as lofty as they are today. Shiller's CAPE (cyclically adjusted price to earnings ratio) for the S&P 500 is at 35. The only other times it's ever been above 30 were in 1929, just before the Great Depression, and during the late 1990s dotcom bubble, according to Loup Ventures, a venture capital firm.

The frenzy has gone mainstream. Even sports franchises are tweeting about the market.

"ZACH LAVINE TO THE MOON," the NBA's Chicago Bulls tweeted, with a stock chart-like graph showing the shooting guard's rising point totals.

"There are certainly some pockets of the market exhibiting bubble-like behavior driven by retail speculation, but who knows when they'll pop," Doug Clinton, managing partner at Loup Ventures, wrote in a report January 28th.

That's the thing about bubbles: they can continue—and get much bigger—until they don't.

"No one can time these things," Fisher said.

For his part, Shiller doesn't think the overall stock market looks all that out of whack, mostly because interest rates are so low. That makes stocks a more attractive option compared to other assets.

"It's not a great time to buy stocks," he said. "But it's maybe OK to stay in."

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Are We in Another Housing Bubble?

Low interest rates and dwindling supply are driving housing prices during the pandemic. Major financial institutions including UBS and other housing analyst are taking about another housing bubble.

Since November 2012 housing prices are up 60% while wages just 20% and rents 30%. The result is that home buying is more and more out of reach for people each year.

Clearly 10–15% growth annually is unsustainable. Who gets hurt in a bursting bubble? Really everyone but especially the people that buy now who have little chance of appreciation.

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