

Tuesday, October 30, 2007

## **Are economic cycles that easy to predict?**

I'm currently reading Joseph H Ellis' *Ahead of the Curve - A Commonsense Guide To Forecasting Business and Economic Cycles*. So far there are a couple of refreshing departures from conventional consensus, like his views on "recession".

The idea of an economic recession should be an objective measurement of reality, instead, in today's climate it simply isn't discussed in polite company. According to the politicians, it'll never happen.

Ellis argues that whether we are headed for recession is academic, because recessions are lagging indicators of a down cycle, not leading ones. By the time a recession hits, he says, a lot of the economic damage has already taken place.

What really matters, according to Ellis, are a series of leading economic indicators and a shift in the way we measure economic data....

In a nutshell: it all starts with consumer spending. Consumer spending drives business industrial output and services, which in turn drives capital expenditures which then drives jobs. Employment numbers then, are another lagging indicator. No need to panic if the numbers come out badly, he says, because it may really be indicating a trough in the cycle.

It seems simple, and common sensical. I'm looking forward to reading through but I find it hard to reconcile some of the underlying fundamentals from my doom-and-gloom bear mentality to normal run-of-the-mill business cycle thinking.

Ellis does acknowledge that there are some abnormal imbalances in the system now, like the large US deficits (and he wrote this book in 2004! They're much worse now), he considers them of secondary importance to the cycles, not prime movers.

The problems I see off the top of my head are these:

Interest rates have been artificially suppressed - far below normal market rates for far too long. So consumer spending in the US has not been driven by rising wages and earnings these last number of years. They've been largely driven by unnaturally accelerated consumer borrowing.

Employment statistics aren't real - these figures just aren't accurate.

"Jobs created" aren't actually derived from counting real job creation, they are largely statistical constructs based on "hedonic adjustments".

People whose unemployment benefits run out are no longer counted as "unemployed".

No matter what happens, the number always comes out as 4.5% anyway. If Ford, GM, IBM and GE fired everybody in their workforce tomorrow, next month's number will be 4.5%

Inflation is not reported accurately - with oil over \$90 a barrel and the US dollar at all time lows, pretty well everything costs more, much more to US consumers. Yet inflation figures are reported "ex-food and ex-energy". To make matters worse, in strict terms inflation describes an increase in the supply of money, but aggregate money supply M-3 reporting was getting too scary, so it was simply discontinued.

I'll be interested to see where Ellis goes with his reasoning that the abnormal imbalances are secondary factors that don't really perturb the consistency of the overall cycle, and perhaps he is right, it may just be a matter of degree and intensity when the cycle turns.

But given that of late, most economic data reporting produced by the government is subject to farcical adjustments and revisions that make the numbers more politically acceptable so as to not be out of line with the government party line on reality. It may be hard to track any business cycle based on economic data. Add to this the relatively new phenomenon of derivatives and we may really be into uncharted territory.

Posted by Mark Jeftovic in Armchair Analysis at 20:49

### **The web 2.0 VC Roadmap, as blogged by Rick Segal**

Just kidding Rick, I saw one of your posts the other day and couldn't resist. For those unfamiliar, Rick pens one of the premier VC point-of-view blogs at Post Money Value.

The CEO is way smarter than I am.

The CEO has built a team of people way smarter than he is.

The CEO has assembled an advisory board of incredibly smart people who just "get it". They're brilliant. Doc Searls, Rick Scoble, Seth Goodin, and Guy Kawasaki. Just to name a few.

The CEO works 16 hours a day, 7 days a week and is driven by total passion and intensity. He doesn't draw a salary and drives a 1983 Lada. He donated his founders shares to charity and his family hasn't seen him in nearly a year.

The first three funding rounds all took place at successively higher valuations.

The developers are amazing. You should see the mashups these guys are cranking out. They came up with a very neat facebook application that's going to be just killer!

The guy we brought in to replace the CEO made the company very attractive for subsequent funding rounds.

The revenue projections look very promising.

And then....

We sold the company for \$400 million, a great exit. Congrats to all involved.

or

Microsoft buys a 0.25% stake for \$200 million, valuing us at 800 billion dollars, not bad for a pre-revenue venture with oodles of mindshare.

Posted by Mark Jeftovic in Venture Capital at 16:35

Wednesday, October 24, 2007

### **Screw that customer, I'm on lunch**

Just a quick observation, I was just out running an errand and I was in a grocery store. As I was cashing out I heard a cashier behind me calling for a "carry out" for a customer. A few moments later, I heard it again. Then she called over to my cashier, "I'm having a hard time getting a carry out".

My cashier turned to a guy over a couple aisles and asked "Nick, can you do a carry out?" and he just shook his head, expressionless, "I'm on lunch" and started walking away, past the customer waiting for a carry out, past that cashier looking for somebody to do it. I here a yell from the back of the store "Tell Nick to do the carry out", and yell back "He's on lunch" to which I heard a retort from the back "How long have you been on lunch anyway?".

I actually don't fault the business itself for this absolutely disgraceful display of employee complacency. It's rampant almost everywhere (except, I am happy to report, in my company) and for the most part gets rewarded rather than penalized in today's business climate.

The customer seemed to accept it all in good humor. I wouldn't have. Being a dour crusty bastard I would have basically gotten my money back and left the store, leaving the goods in the checkout aisle.

But not only was this a slap in the face to the customer, it was an insulting act of disrespect to one's co-workers, and employer. Granted, it's probably some kind of union gig where being lazy, insensitive and devoid of initiative is not only tolerated but probably a requirement; it was yet another moment where I marvel at these blow-off levels of complacency and entitlement that saturates our culture.

I only lament this because I fear these easy breezy days of pink cloud economics are nearing an end.

Posted by Mark Jeftovic in [How to lose customers](#) at 15:44

Tuesday, October 23, 2007

### **easyDNS announces Guaranteed Lookup Privacy for easyWHOiS.com**

In light of the recent ICANN advisory on domain lookup frontrunning we've made the guarantee that your domain lookups on easyWhois have and always will be, private.

What is domain lookup front running? It is when an unscrupulous operator between you and a domain lookup tool, such as a whois lookup website, perhaps even the site operators themselves, monitor your domain name searches and then go and grab some of the available domain names you search on before you get the chance to.

I never thought anybody would be so brazen, but silly me, I once again underestimated the widespread use of sleazeball tactics on the internet.

You can read the easyDNS press release on the subject and our new Guaranteed Lookup Privacy Policy at easyWhois. We've also added SSL encryption to easyWHOiS to eliminate the possibility of queries being eavesdropped.

Posted by easyDNS: of Interest in via easyDNS blog at 15:45

Wednesday, October 17, 2007

### **Buy now, pay later, buy now, pay forever...**

Back in my previous life as a failed musician, I wrote a song called Multi-Media World and the title of this post were the closing lyrics in the outro of that song. Around the same period of my life, I had zero financial literacy, was being hounded by debt collectors for my student loans and maxed out credit cards and had zero prospects.

I realize in retrospect, I had no business having credit cards back then. I also realize that most people have no business having a credit card today. Easy credit destroys lives. I was lucky, because 1) I was a middle class brat who had financially solvent parents to bail him out and 2) I was young enough to have the luxury of time on my side when it came to rebuilding my life from near bankruptcy, and most fortunate of all 3) the scenario I foresee in our collective near futures hadn't transpired yet.

Having hit the big "40" this year, I understand that I'm not exactly young anymore, and I know people who are twenty years older than me who are swamped in debt, maxed out on credit cards, living in serially refinanced homes driving leased vehicles have no savings and I can't for the life of me think how they're going to bounce back from that, let alone have a shot at retirement. "My advice?" when asked, "you better become wealthy, somehow, and soon".

Since there are no courses in financial literacy in our schools or colleges, encouraging young people to watch documentaries like Maxed Out before they get that first credit card is a must.

I've been planning a series of blog posts called Bleak Future where I pontificate on the downside of today's burgeoning debt crisis and impending economic collapse. It isn't pretty and I hope I'm wrong, but one of the things I do see which I will elaborate on in a future post is the emergence of a new underclass, especially in the US, living a brutal cut below the "working poor" whom we'll call "the indentured servant class". They will be comprised of people who have dug themselves into debt holes so deep, and given the recent changes to bankruptcy laws in the US, unable to ever get out from under it, they will succumb to a form of effective slavery, owing fealty to their creditors and servicing it with labour, forever.

I can see a reduced set of rights for anybody in it: perhaps they won't be able to vote or own assets until their debt is discharged. They may be the first to be conscripted into military service. Have less access to medical and legal aid. It will be easy to institutionally dehumanize this new underclass because, the conventional wisdom will admonish "they got themselves into it".

To make matters worse, if today's public educational systems are any indicators, they will provide no tools, skills or education to our young people on how to avoid this fate. It will be up to us, the parents to make sure our kids are financially literate enough not to fall for the smoke and mirrors "buy now lay later" mania which is at the very core of our public awareness today.

I hope we're up to the task.

Posted by Mark Jeftovic in Financial Literacy at 12:33