

Financial Insights

March 2, 2018

- **December marked the top. The winds of change are upon us.**
- **Social media has transformed the speed at which mood flows into group action.**

Morning Glow – As I type, Federal offices in Washington are closed due to high winds. Not sure where they live, but somewhere the meteorological gods must be roaring with laughter. Talk about apt.

Mid-December, with its Bitcoin frenzy and rarified air of tax reform, marked THE peak – the calm before the storm, as it were. Now the winds of change are picking up. I can't emphasize enough how fast, far and wide they will blow.

On the political front, this is the beginning of what will be a very quick end for the presidency of Donald Trump. Unlike the Billy Bush video, Trump won't recover from the upcoming drop in sentiment. Like the aftermath of all turning points in overconfidence, the President's 2018 will be a crisis in parallel. The magnitude and volume of attacks will be overwhelming.

To understand why things will move so quickly, I would draw your attention to something the Heritage Foundation highlighted earlier this week. "64 percent of the policy recommendations from the think tank's 'Mandate for Leadership' were embraced by the Trump administration in its first year." (Washington Post) Conservatives got far more than they anticipated back on Inauguration Day.

With the President now wading into the unwelcome waters of gun control and trade, conservatives are going to quickly conclude that it is far better to take their 64% and go home than allow the President to stir up what is better off left unseen and undisturbed at the bottom of the pond. Midterm elections now loom large and Republican incumbents cannot afford for the President to bring front and center issues that will clearly – and more importantly, further – divide the Party.

Put simply, President Trump has now become a liability to the Republican Party and, with him now isolated, capricious, and unconstrained, they can't and won't tolerate his erratic behavior and a White House in chaos.

And we are already seeing signs of this. The once-friendly, editorial page of the Wall Street Journal took on the President on two fronts this week – Javanka and trade. Looking ahead the attacks will come fast and furious.

I expect that we will soon see a change in tone at Fox, too. "Pence'ian" principles will soon be espoused, making it clear that the station has moved on to a more traditional model of conservatism. Trump's heretofore overlooked peccadilloes will provide an easy contrast to Pence's family values.

I would also look for prominent military leaders to speak more and more openly – as we saw this week with the NSA’s Admiral Rogers – about Russia’s involvement in US elections and the President’s connection to Putin. With mood falling, accusations of treason will rise and resonate.

Finally, I would remind readers that authoritarian leaders require the perception of overwhelming force to remain in office. Behaviorally, they are akin to prison wardens. Their power is binary – all of nothing.

President Trump believes he has all. He doesn’t; and with changing mood, his political and business empire is a house of cards. As the wind now picks up, the entire Trump empire will soon collapse.

PS - While it is a topic for another day, the question of orderly succession is likely to be raised ahead. President Trump is unlikely to go down without a fight; and as a result, Vice President Pence is almost certain to be thrown under the bus at some point. For the Vice President – as well as the Speaker of the House – the question will be whether their political standing topples along with the President’s.

With scrutiny and confidence inversely correlated, the final answer to that question will be driven by how just low mood falls from here.

PS2 – If you think the winds of change are going to be big in politics, just wait until you see what happens in social behavior.

This week, Greta Gerwig became the fourth Time cover story in three months featuring women.



I can’t emphasize enough how much these covers – along with the recent covers featuring people of color – are signaling a major social turn.

The days of “male, pale and stale” are over and a new generation is rising.

To be clear, today’s insiders won’t go down without a fight. But the battle lines are increasingly clear: gender, race and age. Somewhere a young, woman of color leader is rising. Look for her to take the spotlight very soon.

PS3 – Having written extensively already about “xenophobic capitalism” I don’t have much to say about the President’s tariff pre-announcement, other than to say that it fits the mood of his base perfectly.

It also speaks to the zero-sum thinking that has taken hold. It has reached the point where doing something good for the base means doing something bad for everyone else.

Investors and the globalists in Trump’s cabinet believe that with the market dropping on the tariff news, the President will walk back his pre-announcement. He can’t and won’t – especially given what he said this week with respect to gun control. In the President’s mind, he is running for re-election. His base carried him in 2016 and he is certain it will carry him again in 2020.

President Trump is done running back and forth on the field trying to placate both sides. He can’t. He doesn’t play for a side. It is constraining, and you can’t cage Trump. Trump plays for himself.

Over the next several weeks, I expect that we will see a slew of White House zookeepers exit as they conclude that they never had influence they thought they did, and they never will. Mnuchin, Cohn and McMaster will be first. Kelly and Mattis will follow.

PS 4 – A month ago, I highlighted this image:

Jon Ostrower Retweeted

 **CNN** @CNN · Jan 31

The world's airlines have an insatiable appetite for new airplanes.

Boeing's 2018 goal: A new plane every 11 hours. cnn.it/2Eqnqs4



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This morning this was the image:

BloombergGadfly

OPINION | AIR FORCE ONE

Boeing Flies Toward a Trump Trade War

There's no U.S. firm more at risk from trade retaliation.

By **David Fickling**

March 2, 2018, 1:29 AM EST



Photographer: :AzmanL/Getty Images

I don't mean to wish the folks at Boeing misfortune, but the peak in confidence is in.

The Need for Speed – During the 2008 banking crisis, I spent a great deal of time reading history and how other panics and market crashes played out. Among the many articles I read was one on the Panic of 1857. In it, the author noted that unlike prior market crashes, which had taken place over the course of months, if not years, the Panic of 1857 took only weeks to play out. The author interestingly (at least, if only to me) attributed the change to the telegraph and how the new medium dramatically changed the speed and breadth of communication.

Over the past 160 years, communication has morphed from Morse Code to telephone to radio, TV, the internet and now to Facebook, Twitter and other social media tools.

Today, if we think something or see something, the world knows it now. Even more, when the world knows it, and is in the mood, the crowd acts on what we think or see, too. On a small scale, the result is a “flash mob.” When the crowd is larger and in a darker mood, we suddenly get an Arab Spring.

Just after the Parkland mass shooting, I wrote that gun control would move fast. Based on what I saw, mood and social media would unquestionably result in action. Now, three weeks later, I feel compelled to share that I, who thought things would move fast, woefully underestimated the velocity. Gun control has become an American Spring. Thanks to the power of social media, corporations have taken sides on a difficult social issue, like never before – both in terms of speed and volume. Reaction times have been cut not in half, but by 80 or 90%. An immediate response is now the expectation.

Are you with me, or against me? I await your tweet.

Looking ahead, I expect that we will see many more movements turn to social media for action. The success of the gun control movement hasn't gone unnoticed. Those impatient with the slow speed of Washington/the outright inability of policymakers to act will focus their efforts not on Capitol Hill, but on Facebook and Twitter.

And here things are likely to get interesting. The more policymakers are circumvented/caught flat-footed the more hostile they are likely to become toward social media in all its various forms. Just look at Marco Rubio this week, whose proposed “Stop School Violence Act” was all but ignored.

Washington is where old people used to get things done slowly. Today, young people can go directly to companies and individuals to get results now.

Finally, and related, I would not ignore what today's social media immediacy paired with today's current index-driven mania will mean for the markets. When they go to sell, investors won't want out of just one tree, but out of the whole forest at once.

As I look ahead, I expect that the ubiquity of social media today will have future historians writing that much like the telegraph contributed to the dramatic speed of the Panic of 1857, Twitter and Facebook (not to mention algorithmic trading) resulted in closed markets in the Panic of 2018.

Put simply, when the flash mob arrives – which I expect any day now, a flash crash will follow. Circuit-breakers will be tripped. Investors will be trapped. No one will be able to exit.

Peter Atwater

Position in SH, VXX; creditor of JPM

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