[JTC: Stockman has long criticized cryptos, for very good reasons. Some of his comments on current market events (boldfaced by JTC) are especially relevant.]

Back To Square One

By David Stockman

David Stockman's Contra Corner **May 16, 2022** [LewRockwell.com]

[JTC: This is an *excerpt*. The original article's Introductory discussion of the Year-over-Year Producer Price Index increase, and concluding remarks, have been *omitted*.]

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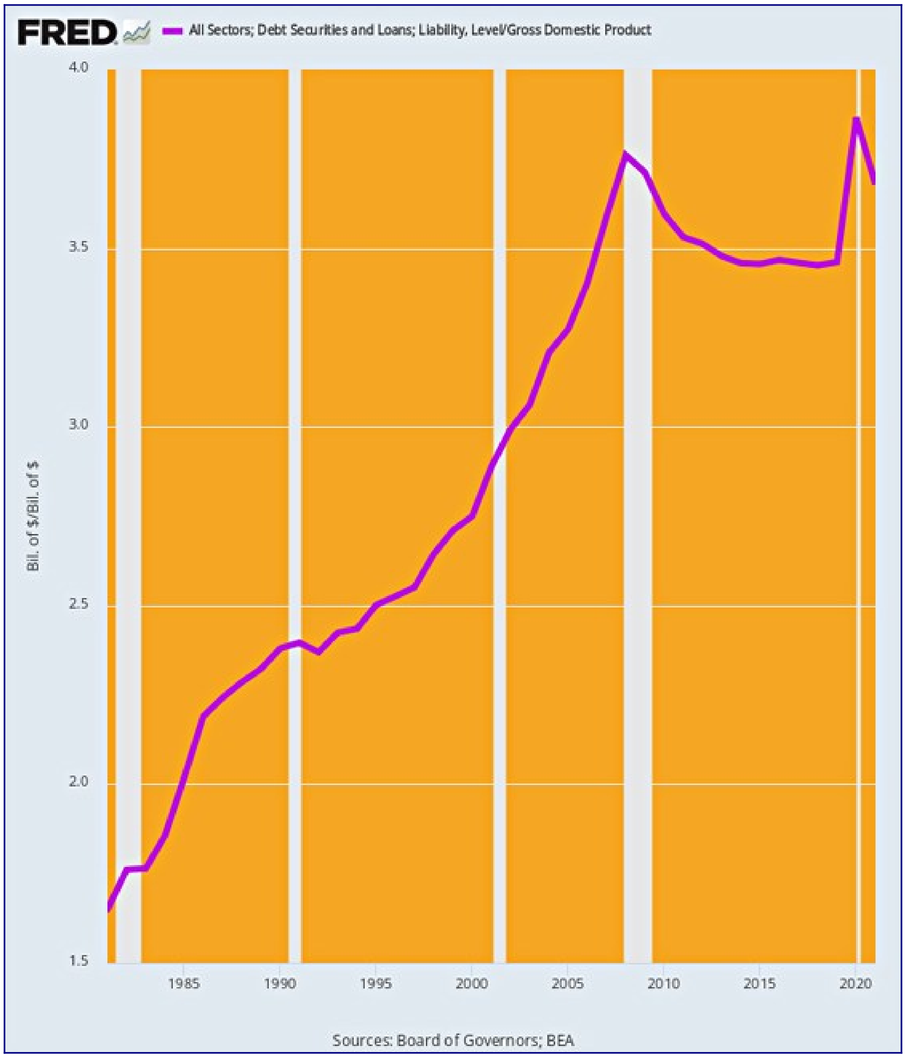
In round terms, therefore, the US economy is freighted down with ***$50 trillion*** more of debt relative to income than prevailed in early 1981. No wonder the denizens of the Eccles Building are so cowardly: They are deathly fearful of the debt-ridden LBO'd economy they have fostered over the last four decades.

National Leverage Ratio: 1981-2021



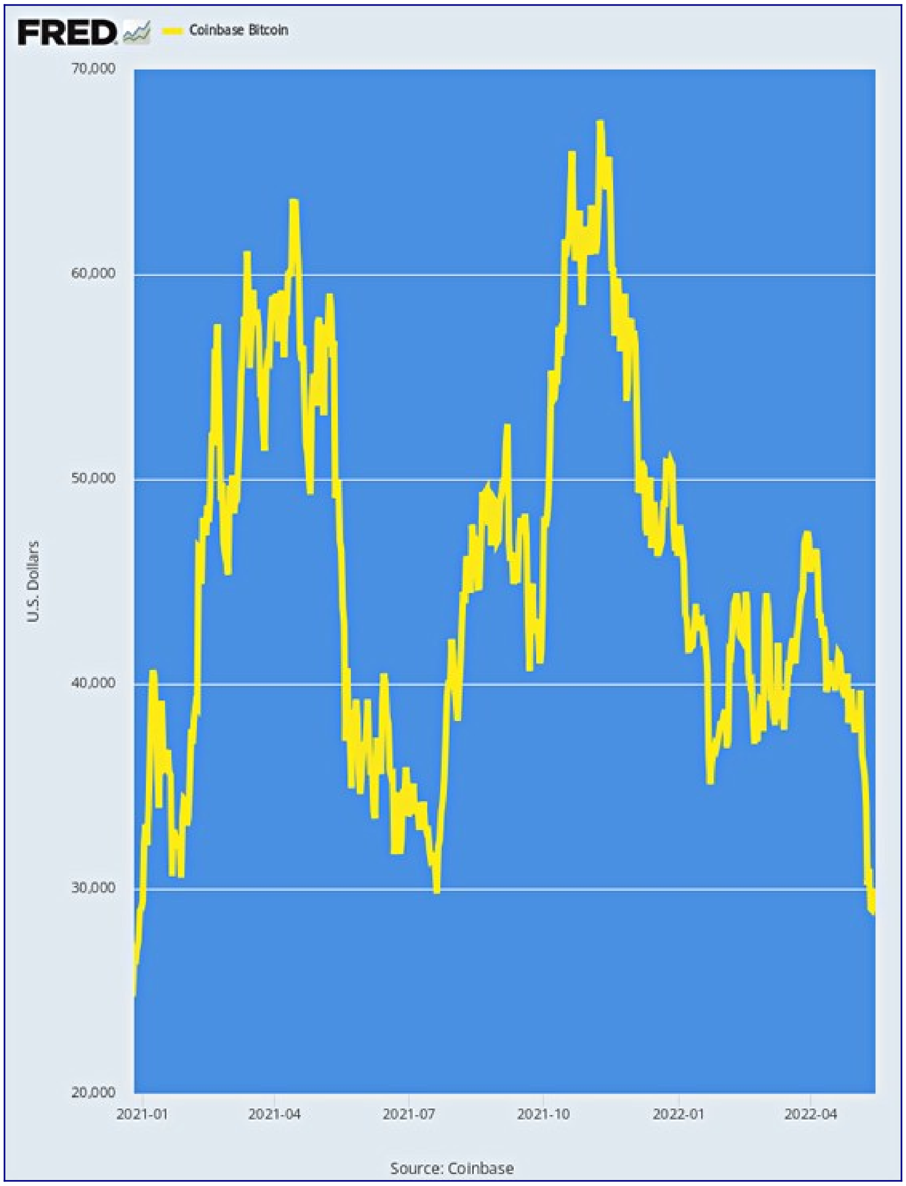
Perhaps these realities are beginning to leach into even the BTFD precincts of the casino, where "Risk Off" has suddenly become a thing again.

What comes to mind in that regard is **the cryptoverse, which has gone into meltdown mode during the last 48 hours,** with Bitcoin itself touching ***$25,401.05*** in the wee hours this AM.

That brought the price of Bitcoin down 22.4% in the last five days alone, and by 47% since the beginning of the year and 62% from its all-time high (ATH) of $67,500 six months ago on November 8, 2021. Altogether, this morning's low completed the below depicted round trip since December 26, 2020.

Some "store of value"!

Bitcoin Price, December 2020 to May 2022



As we have said all along, **cryptos are not new money aborning. They are just the latest "risk asset class" to be seized upon by the casino** and homegamers under the delusion that 25%, 100% and 1000% accretions to wealth are possible in a virtual investment heartbeat with no more effort than hitting the "buy" key on shiny objects that are momentarily rising.

To be sure, we are all for private money gestated outside the clutches of the state and its central banking arms. But we also fear that central banking has gone so far off the deep-end that it has corrupted and polluted nearly every good invention and innovation that has come down the pike of what remains of private capitalism.

For example, Google was one hell of an innovation in the advertising space when it comes to efficient targeting of dollars spent. But it was never worth its peak market cap of $2.0 trillion touched last November 19th, or even the 25% lower $1.49 trillion at which it closed today. Those inflated valuations were the work of an unhinged casino intoxicated on central bank liquidity.

Likewise, Apple is undoubtedly the greatest tech products machine ever invented, but it was never worth the $3.0 trillion market cap it touched on January 3rd or even the $650 billion lower valuation at which it closed today.

That's because the implied PE multiples at those valuations of 29X and 23X, respectively, are not sustainable owing to the iron laws of GDP growth and large numbers.

As it is, Apples LTM net income growth rate had slowed to 10.5% during the seven years since 2015, and rose sequentially at only a 5% annualized rate in the March 2022 quarter just ended.

Needless to say, a market which cannot rationally discount the future earnings streams of two profit monsters that posted combined LTM net income of $175 billion in the March quarter, doesn't have a snowballs chance in the hot place of properly valuing **crypto coins, which have no earnings and no apparent uses as money.**

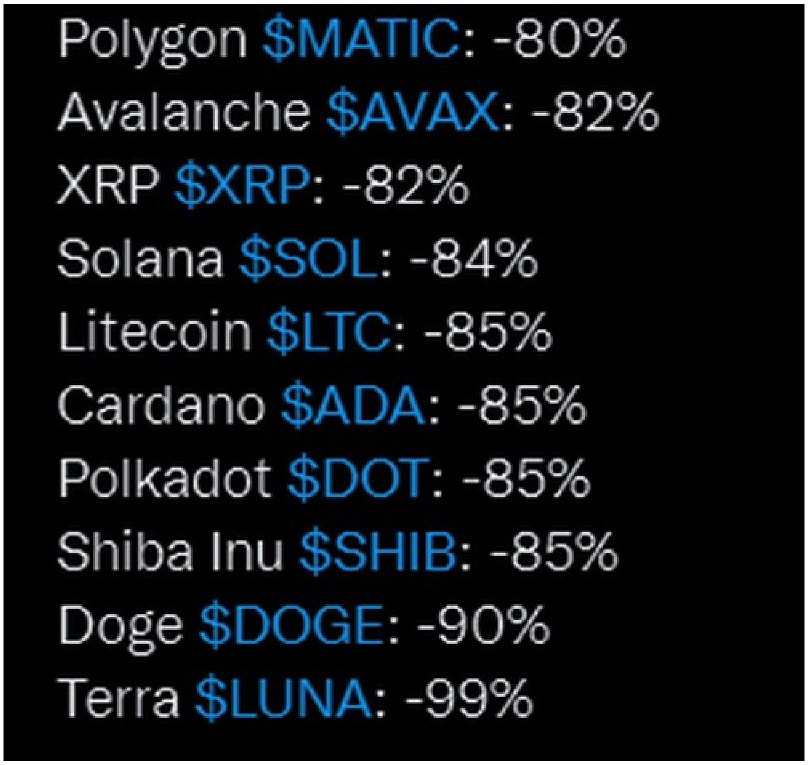
After all, there are now 19,410 different crypto coins traded on 526 exchanges with a combined market cap of $1.12 trillion. But given the history of the past two years, you could have done better throwing darts at the wall than trying to fish the future winners out of the frenzied crypto-swamp fueled by the Fed's insane money pumping.

Thus, two years ago on May 10, 2020, the combined market cap of the cryptoverse weighed in at *$240 billion*. That figure then exploded by *12.1X*until it reached *$2.91 trillion* on November 9, 2021.

Alas, the crypto-tree didn't grow to the sky, either. At today's market close the combined market cap of the 19,410 wanna be moneys was down 60%.

Of course, we have heard no one on bubble vision today admitting to losing three-fifths of their investment in six months. But the fact is that $1.7 trillion of alleged crypto value has vanished from some several million block chain accounts since last November. Among them might be the holders of these much ballyhooed coins.

% Change From All-Time High



The truth is, the **cryptos have been just a gambling sidecar to the most speculative precincts of the stock market all along.** After the surge of 2020-2021 especially, they began to move in exact lockstep with the NASDAQ as fast money hedge funds and family offices entered the space.

We don’t know whether the chart below embodies a correlation of precisely 1.0, but we’d say its close enough for government work.

And **we’d also say that such correlation has absolutely nothing to do with the birthing of honest money. To the contrary, the cryptoverse has been fatally infected in the cradle by the bad money of the Fed and other central banks**.

Correlation Between NASDAQ and Bitcoin Since February 1, 2022

That the cryptoverse has become polluted with speculative madness should have been evident all along, but with the spectacular collapse of the TerraUSD “stablecoin” in recent days all cause for doubt has been removed.

To be sure, **the very existence of so-called “stablecoins”, which are just fake dollars created for the purpose of facilitating crypto-coin wagers on the blockchains, should have been a red flag. That is, if Bitcoin, Ethereum and their ilk are actually money, why did you need fake dollars to intermediate the trading of one money for another?**

The answer, of course, is that the coins themselves are too volatile to trade bilaterally, so we ended up with a super-money in order to shuffle the wanna be money. Accordingly, most of the popular **stablecoins such as Tether maintain their fixed rate to the US dollar with assets that include dollar-denominated debt and cash.**

However, TerraUSD went the next mile. It was what is known as an ***algorithmic*** stablecoin, which relied on financial engineering to maintain its link to the dollar. That is to say, it amounted to a Jr. Fed on steroids.

TerraUSD therefore kept its $1 price by relying on traders who acted as its backstop. When it fell below the peg, traders would burn the stablecoin – removing it from circulation – by exchanging TerraUSD for $1 worth of new units of a crypto coin called Luna. That action reduced the supply of TerraUSD and raised its price.

Conversely, when the value of TerraUSD rose above $1, traders could burn Luna and create new TerraUSD, thus increasing the supply of the stablecoin and lowering its price back toward $1. This might otherwise be considered the equivalent of doing chin-ups from a sky-hook.

Alas, when a run on this ***algorithmic*** stablecoin developed a head of steam in recent days, it was all over but the shouting. The arbs apparently were induced to buy TerraUSDs at such a fantastic rate that they sold Luna into oblivion. Consequently Luna has traded down to 3 cents, representing a 99% plunge from its price just 24 hours ago.

That’s right. As recently as April 3rd, Luna had a market cap of $41 billion. So in the very best imitation of the South Park episode when Stan went to the S&L to invest the $100 he got from his grandma, we can now say with the bank manager, “and its….gone!”

Nor is the carnage in the cryptoverse all that has been triggered by the sudden realization that the money-printing jig is up. As Bloomberg recently documented, the new homegamers who entered the meme stock space 15 months ago may have “never seen a market that wasn’t supported by the Fed.”

Now they have. These clueless gamblers lost all the gains they made in the Dogecoin, AMC and GameStop rallies, and are now exactly back at square one.

Yet with inflation pushing into double digits and the Fed taken hostage on its own petard, regressing to square one is not even remotely the end of it; it’s barely a start.

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