

The Sting



You asked for it, you got it!

In this case, that old Toyota tagline doesn't apply to a new car model but rather the publication of the full book *Bubble 3.0* for which so many of you have been asking. However, in our quest to please as many readers as we can, we will continue to publish the remaining chapters in installments for another week or two, for those who prefer it in bite-size portions.

One reason for choosing to do the early publication of certain chapters was my perception that some of the outcomes I was anticipating were beginning to come to fruition. As noted in the Publication Note at the beginning of the [complete book](#), my analysis going back as far as last fall that what I've been calling the Third Energy crisis was already unfolding. This is why we ran the chapter on the green energy bubble in early October via our weekly newsletter, the *Evergreen Virtual Advisor (EVA)*, which thousands of you receive — and have for many years. Hopefully, this encouraged readers to add some oil and gas exposure to your portfolio at the time, before their latest dramatic up-leg.

We also accelerated the publication of “The Insanity Bubble” chapter to early this year due to my belief that some of the formerly hottest market areas were cracking and would continue to do so. Our *EVA* newsletters late last year noted the dramatic below-the-surface erosion in a plethora of once highly popular — and extremely highly valued — stocks also as far back as last fall.

Actually, when I was writing this chapter in late 2021, the stock market was continuing to make a succession of record highs. Even today, in the wake of the horrific invasion of Ukraine, the S&P 500 remains in a mild correction... at least superficially. However, when you dig deeper you see some truly nasty damage has been done. This is particularly the case with what I've long called “The COPS”—Crazy Over-Priced Stocks. For example, with the NASDAQ, where some many of these trade, nearly half of its constituents are down 50% or more. Many of these once adored “disrupters” have been heavily disrupted themselves, falling as much as 80%.

The dazzling performance these stocks were producing in 2020 and 2021 created what I refer to in this chapter as *The Sting* effect. This is named after the classic con game movie of the early 1970s starring Robert Redford and Paul Newman. The most glaring example of this, at least with stocks (leaving aside cryptos, for now) was with Cathie Woods and her Ark Innovation Fund. She's certainly not a con artist but she did lure in tens of billions of dollars of investor capital at the worst possible time--when her disruptor stocks were priced light-years beyond perfection. Since February 2021, her flagship fund has flagged horribly, plunging over 60% even as the S&P remains up around 9% since then. Consequently, for her investors, who bought the most at outlandish prices, it's been a most painful sting indeed.

In early January of 2021 I put out one of my most controversial *EVA*s, suggesting that investors might want to book profits. The following week, to calm down those who incorrectly felt I had said to fully exit stocks, I pointed out there was still a long list of bargains to be had, particularly in cyclical stocks like energy. The object of my disdain in that *EVA* was the aforementioned COPS and, in reality, they generally topped out about a month later. This was exactly when Cathie Woods Ark Fund began to take on serious amounts of water. Since then, I've referred to that period as "Peak Insanity" and I believe it was truly the most insanely speculative event in U.S. stock market history.

As you read this chapter, please pay particular attention to the charts showing what I refer to as "CAPE Fear", in honor of another movie, as well as the Hussman Margin-Adjusted P/E, a related concept, monthly net purchases by individuals, and the "Buffett Yardstick". Considering the host of negative forces lining up out there right now, these are no longer to be blown off as it was possible, even advisable, to do for years.

As regular *EVA* readers know, it's been my hope that the US market would experience the oft-discussed "Great Rotation". This refers to a shift away from the Ark Innovation type stocks and toward those that have immensely more reasonable valuations. As I've often noted, this is what happened back in 2000 to 2002 as the "NAZ" tanked by almost 80% and "old economy" stocks actually appreciated.

However, the inexcusable and inhumane invasion of Ukraine has made a stagflation outcome more likely. This creates a much less hospitable investment environment. There will still be winners in this case — notably, U.S. energy and agriculture products producers—but it will probably be a much shorter list. Hopefully, a cease-fire will be announced soon and I'll be able to revise my outlook to a more bullish view.

In the meantime, pray for peace!

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