Secular Wisdom of the
Bad Dalai Lama
Prophesy & Advice from the World's Worst Religious Leader

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Imaginary Wealth

the Root of Every Economic Crash

By Glenn Campbell
Latest Incarnation of His Badliness

Most of the wealth of the world is imaginary. It exists only to the extent that people believe in it. Once people stop believing, the wealth vanishes. If this happens on a large-enough scale, the whole economy crashes.

When economies crash, people lose their jobs and can't pay their bills, but the reason the jobs are gone is that imaginary money has evaporated. People who once thought they were wealthy suddenly realize they aren't, so they stop spending real money on things they don't need. The people who once supplied those imaginary needs are laid off, and they stop spending, too, leading to a death spiral.

Am I confusing you?

Imagine you earn more money than you need. (Lucky you!) There are two things you can do with the extra money: leave it in the bank or buy an asset. Since interest rates at the bank are so low, most people buy assets, hoping they will appreciate in value.

An asset is anything you can buy that you believe you can later resell. Assets include real estate, equipment, stocks, bonds, precious metals, fine art and many other tradeable items. The value of an asset is whatever someone is willing to pay for it. If you own your own home, and similar homes in your neighborhood have recently sold for $350,000, you assume your home is worth the same.

This is a flawed assumption. I once owned a house in Las Vegas that I bought for $132K in 1998 and sold for $285K in 2006. The next owner sold it for $357K, but the owner after that got hosed. After the 2008 crash, he sold the house for only $127K, losing 64% of his investment.

So an asset is worth what someone is willing to pay for it, but only at the time you are willing to sell. How much is the house really worth? Who knows! Its value is mostly a matter of perception.

You can try to do rational analyses to determine if an asset is a good investment. For example, you can look at the history of housing prices in my neighborhood. In early 2007, you would have seen steadily rising prices for the previous 10 years. Based on this "data," you might have been willing to pay $357K, thinking the value of the property would soon top $400K.

As they say in financial disclosures: "Past performance is no guarantee of future results." People sign the disclosure but disregard the advice. They worship past performance believing it means something, and they purchase assets accordingly.

Today, in mid-December 2018, asset values are still sky-high in the United States, even after a significant stock market correction. As of now, markets have given up all their gains for 2018, but that doesn't mean a bottom has been reached. Asset values are driven up and down by emotion. All it takes to trigger a catastrophic collapse is enough people losing faith.

If homes in your neighborhood are selling for $350K and your mortgage is only $150K, you may think yourself wealthy. If home values suddenly drop to $125K, your mortgage is suddenly "underwater" and you feel very poor. If you haven't sold your home, this change is purely in your mind, but it still alters your behavior.

What happens when people go from feeling wealthy to feeling poor? They hunker down and stop spending. This change in attitude is truly disastrous for the economy, more so than the rise and fall of asset values.

The truth is, most of the economy is discretionary. Everyone needs to eat, but no one needs high-end restaurants. No one needs a new home, car or smartphone if the old one works just fine. When people are under economic stress, they put off home renovations, which throws the home renovators out of work. These workers, in turn, stop buying stuff, and the cycle feeds on itself.

The same thing happened in 2008. Governments and central banks saved the economy through lower interest rates and stimulus spending. Interest rates nearing 0% meant wealthy investors had free money to play with. Stimulus spending meant governments went deeply into debt to fund new projects.

These strategies saved us in the short term but set us up for a new disaster in 2019. All the free money contributed to a run-up in asset values. Meanwhile, government debt has ballooned to the point where even under the rosiest scenario, the debt can never be repaid. Even the seemingly solid asset of government bonds doesn't seem so solid anymore.

So now we're just waiting for the faith to drain away. Assets will plunge; imaginary wealth will vanish, and everyone will suffer.

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