This week's Outside the Box is a little different. It's a stroll down history lane and thoughts on confidence, from Grant Williams, in the form of an introduction to his letter *Things that Make You Go Hmmm*. Grant currently resides in Singapore, and I find him a very thoughtful read and a wonderful resource. Sit back, relax, and enjoy.

And for those interested, I think I am scheduled to be on *Marketplace* on your local NPR Radio station on Tuesday, which is today for most readers. Good to be back home for a few days! And now, let's think about confidence in a little different way.

Your Congress is making me less confident analyst,

John Mauldin, Editor
Outside the Box

The Confidence Game

"O, swear not by the moon, the fickle moon, the inconstant moon, that monthly changes in her circle orb, Lest that thy love prove likewise variable."

– william shakespeare

Doyle Lonnegan: "Your boss is quite a card player, Mr. Kelly; how does he do it?"

Johnny Hooker: "He cheats."

– The Sting

"In today's regulatory environment, it's virtually impossible to violate rules ... but it's impossible for a violation to go undetected, certainly not for a considerable period of time"

– Bernard Madoff

On May 12th 1849, Thomas McDonald was walking along William Street in New York City when he was hailed by a 'man of genteel appearance' who proceeded to strike up a conversation with him. After a brief exchange between the two the friendly stranger turned to McDonald and asked matter-of-factly "have you confidence in me to trust me with your watch until tomorrow?"

Despite being unable to place the stranger, the familiarity of the simple request was such that McDonald presumed the man to be an old acquaintance not recollected and happily handed over his $110 pocket watch.

The dapper stranger strolled off in good spirits, never to be seen again - but for a strange quirk of fate.

On July 7th of the same year, McDonald was walking along Liberty Street (sans timepiece) when he happened upon the stranger once again. Recognizing him as the same man who had relieved him of his watch weeks earlier, McDonald hailed Officer Swayse of the Third Ward who just happened to be nearby and, after a short chase and an even shorter struggle, the man had his hands bound and was marched to the nearest police station.

Upon having the thief brought before him, Justice McGrath recognized the felon as one William Thompson, an old offender and 'graduate of the college of Sing Sing' and remanded him to prison for further hearing.

It transpired that Thompson had been wandering the streets of New York City for several months and using the same method to relieve trusting strangers of a significant number of valuable watches. In that time, he had become known to the constabulary as well as a headline-hungry press as 'The Confidence Man'.

William Thompson, while by no means the world's first trickster, but he happened to time his escapades with the rise of the print media and so, consequently, with the New York Herald looking to sell more newspapers, both a nickname and an anti-hero were born.

Through the years, the term 'Confidence Trick' has been shortened to 'con' (also known as a bunko, flim-flam, gaffle, grift, hustle, scam, scheme, swindle or bamboozle) and has become a catch-all for any ruse designed to dupe someone into believing something that isn't true in order to relieve them of something of value.

Very rarely, when hearing the word 'con' these days, do we immediately associate it with the longer word from which it originates. A 'con' has immediate connotations of the negative kind (the most high-profile in recent memory perhaps being that perpetrated by inmate 61727-054 of Butner Prison, North Carolina: a Mr. Bernard Lawrence Madoff), whereas the word from which it derives is generally used to convey a sense of the positive.

And yet...

Every month, all around the world, financial mavens scrutinize the collective confidence as a means to interpret both the mood of the populace and as a predictive tool for the future.

The various Consumer Confidence numbers released for economies around the globe are used as a barometer by analysts and investors to try and determine which direction and to what extent markets will move. Will declining confidence affect consumer spending? Will it lead to reduced investment? Just what DOES the prevailing mood of the public at large tell us?

Of course, the fact that these figures are distributed monthly allied with the ability of the average human being to change his (or her... I definitely do NOT want to exclude the fairer sex from THIS example) mind many times during an extended period such as that, makes them a somewhat unreliable indicator - or at least, one subject to sudden reversals based upon external factors.

This past week, we have seen the release of a number of confidence figures throughout the world and a perusal of those numbers makes for an interesting exercise:

First up, the United States:

(March 25): Consumer sentiment in the U.S. dropped more than forecast in March, damped by higher gasoline costs and the effects of Japan's natural disaster.

The Thomson Reuters/University of Michigan final index of consumer sentiment decreased to 67.5, the lowest level since November 2009, from 77.5 in February, the group said today. The median forecast of 67 economists surveyed by Bloomberg News projected a reading of 68.

Then to Korea:

(March 25): South Korean consumer confidence fell to the lowest level in almost two years, damped by Japan's strongest earthquake and political unrest in the Middle East. Retailers' stocks dropped in Seoul trading.

The sentiment index declined to 98 in March from 105 in February, the fourth monthly drop...

“Consumer confidence worsened so sharply, boding ill for private consumption and also economic growth,” said Park Sang Hyun, chief economist at HI Investment & Securities Co. in Seoul. “If oil prices stay above $100 a barrel for another month, sentiment will deteriorate further, prompting the central bank to pause interest-rate increases next month.”

How about the UK?:

(March 18): U.K. consumer confidence fell to a record low in February as Britons grew more pessimistic about the sustainability of the economic recovery and the outlook for jobs, Nationwide Building Society said.

An index of sentiment dropped 10 points to 38, the lowest since records began in 2004... A measure of whether now is a good time to spend dropped 18 points to 52, also the lowest since the survey began.

A gauge of consumers’ future expectations fell 14 points to 50 and an index of their view of the present situation slipped 3 points to 20, the lowest in 18 months, the report showed.

“High inflation has led many to expect interest rate rises by the summer, which may in turn have fanned concerns about mounting pressure on household budgets,” Gardner said. He sees rates on hold “until the back end of 2011.”

France?:

(March 25):French consumer confidence fell to an eight-month low in March as surging energy costs sapped spending power and President Nicolas Sarkozy readied a new wealth tax.

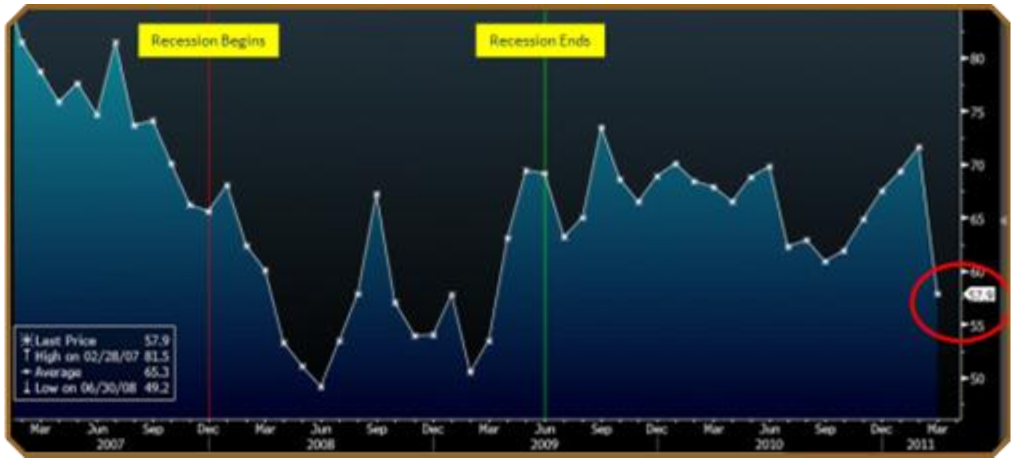
An index of sentiment fell to 83 from 85 in February, national statistics office Insee said today in an e-mailed statement. That was the lowest reading since July.

With oil prices up more than 40 percent in a year, French motorists are paying more for gasoline while the government is planning electricity-price increases for later this year. That’s slashing spending power at a time when joblessness remains stuck near a seven-year high.

So it seems fair to say that the average consumer is not necessarily feeling quite as confident about any ‘recovery’ as governments around the world would like them to. Soothing talk of improvements which will lead to the return of the good times can be heard from Finance Ministers, Prime Ministers, Presidents and Kings across the globe; but why is it so important to watch these confidence figures? Surely, if things ARE, in fact, getting better then the confidence will return organically?

With interest rates at all-time lows, housing prices in many places (though definitely NOT here in Singapore) significantly lower (and by extension, affordable) than they were a few short years ago, the unemployment situation stabilizing and the meltdown of the financial system averted by a courageous ‘Band of Brothers’, what the hell is everybody so worried about?

A look at the University of Michigan Consumer Expectations Index paints another worrying picture as it nose-dived last week to levels below those seen when the recession was still uppermost in people’s minds back in the dark days of 2009. The drop was the 5th largest on record.



SOURCE: ZEROHEDGE/BLOOMBERG

As a sidebar, it's interesting to note that the first month after the recession officially began back in 2008 saw a positive jump in expectations, while the first month after its end saw the opposite reaction. Fickle things, humans.

Now, it seems quite reasonable to assume that, ultimately, at its base, this is all about confidence. If people are confident about their own prospects as well as those of the economy as a whole, they will be happier to spend their money. If they spend that money then other people will make more 'stuff' for them to spend it on which, in turn will put more money in the pockets of those making that 'stuff' who will then go out and buy 'stuff of their own. Everybody ends up with a lot of 'stuff' which makes everybody happy. Stuff equals happiness. There. Economics for Dummies.

At this point in the proceedings, a quick trip back to the aftermath of 9/11 and an article in the National Post (Canada) proves quite educational:

(September 28, 2001): Western leaders, worried about the possibility of a recession fuelled by terrorist attacks in the United States, are urging their citizens to spend money, take vacations and buy new cars and homes.

Jean Chrétien, George Bush and Tony Blair yesterday all called on consumers not to be spooked by the cataclysmic attacks of Sept. 11.

Mr. Bush urged Americans to "get on the airlines, get about the business of America" as he announced improved security measures on commercial flights.

Mr. Blair used a news conference at 10 Downing St. to appeal to the British public to return to everyday life, including their usual spending habits, to fend off recession.

"People in this country ask what should they do at a time like this," Mr. Blair said. "The answer is that they should go about their daily lives: to work, to live, to travel and to shop -- to do things in the same way as they did before Sept. 11."

And Mr. Chrétien urged Canadians to face down terrorists with their wallets...

Mr. Chrétien observed that interest rates have been cut to the lowest level in years, "so it is time to go out and get a mortgage, to buy a home, to buy a car."

Some American officials are even calling a trip to the mall an act of patriotism as the United States tries to rebound and rebuild.

Rudolph Giuliani, the Mayor of New York, has said that his battered city needs “the best shoppers in the world” to return to restaurants, Broadway shows and shops.

And local officials in Florida have declared this weekend “Freedom Weekend,” a time for people to do their patriotic duty and spend money.

“Go out and contribute to the economy,” Alex Penelas, the Miami-Dade County Mayor, said at a news conference yesterday. “As my wife said, it has never been more patriotic to go shopping.”

The problem comes when, despite plenty of talk about things getting better from those elected to make us all happy, despite us being told that disaster has been averted, that unemployment lines are getting shorter and that things are definitely on the up, confidence wanes and people just stop believing. When that happens, the trouble begins.

Just yesterday, London saw the biggest union-organized protest in 20 years as over 250,000 peaceful protesters marched from Westminster to Hyde Park to demonstrate AGAINST austerity measures being enacted by the coalition British government. The march was, perhaps predictably, hijacked by youthful ‘anarchists’ who had clearly decided either that Top Shop was the number one villain in the corporate world, or this was a tremendous excuse to don a hood and a bandana and have a day out in London smashing things up - I know what I think to be the truth of the matter.

But I digress.

The pictures of violence and confrontation will no doubt garner the headlines around the world, but to me, this picture (left) is far more illustrative of the problems facing not just the UK, but the world at large.

Here we have 250,000 people, all of whom are seeing their standard of living steadily reduced as first recession, then inflation (yes, inflation - not 'core' inflation but man-in-the-street inflation: 'Cor!' inflation if you will) and now austerity have swept over them in waves.

These people want things fixed. They want petrol and food prices lower, unemployment queues shorter, wages higher and, if not Hoover's 'chicken in every pot' then at least a Hoover and some nuggets in every freezer.

The problem is - as the placards scream - they want all this with 'No Cuts'.

As I have said from the outset of the ongoing efforts to fix the problems facing the world; austerity is a dish best served to somebody else, and we are now seeing that writ large in countries all across the world. Austerity doesn't HAVE to be about cuts in services or public sector wages. It simply means extreme economy and, if that means not being able to afford food then it is just as likely to result in violence and uprisings as slashing public pension benefits or laying off teachers.

This unrest and dissatisfaction with the enactment of measures designed to eventually bring back the good times is sweeping the world and is rapidly getting out of control. Governments are being faced with stark choices. Continue down the path of austerity in the knowledge that it is the right thing to do for the electorate, but face up to the fact that you will be ridden out of town on a rail at the first available opportunity, or cave in to such populist anger and turn on the printing presses once again.

Until now, the second of those options has been far and away the popular political choice, but with the soaring cost of staples - a direct cause of this monetary largesse no matter what ANYBODY tries to tell you - starting to bite, the options - as well as the time - are running out fast.

In any confidence trick, there are two parties. One is the ‘confidence man’ or ‘grifter’,the other is the ‘mark’. according to wikipedia:

Confidence men or women exploit characteristics of the human psyche such as greed, both dishonesty and honesty, vanity, compassion, credulity, irresponsibility, naïveté, and the thought of trying to get something of value for nothing or for something far less valuable.

Look around you today and you will see an endless stream of politicians, Central Bankers and Heads of State telling us that things are on the mend and that we should be confident about the future. These people are most definitely trying everything they can to appeal to the human psyche.

And as we know, there are two parties to every confidence trick...

HMMM……