

An example of major pension fund underfunding - CalPERS (the California Public Employees Retirement System for its 1.2MM employees & 0.6MM retirees) has AUM of US\$300BN, is the US' largest pension fund and has been called "one of its most powerful shareholders' bodies in the US" & "a recognized global leader in the investment industry". Be that as it may, last week it reported that during the fiscal year ended June 30th, 2016 it had an inflow of US\$13.8BN in new contributions (27% of it from employees & the rest from the employers), that, while it operated for actuarial purposes on the basis of a 7½% Rol assumption, the Rol on its investments had actually been just only 0.61%¹ and that as of its fiscal yearend it was 73.6% funded – *no doubt part of this lousy Rol is a function of the Fed's deliberate super low interest rate policy..*

Four conservatives' assessments of Trump's speech (*three days later on Fareed Zakaria's July 24th GPS program on CNN*) :

Four conservatives' assessment of Trump's July 21st speech at the convention (on Fareed Zakaria's GPS program on CNN on July 24th) :

- **Bret Stephens** (age 43), Pulitzer Prize-winning WSJ foreign affairs columnist & Deputy Editorial Page Editor : "A consistently hate-filled speech";
- **Stephen Moore** (age 56), who in 2014 became the Heritage Foundation's Chief Economist & a year later a Distinguished Visiting Fellow, and is an adviser to Trump : "so effective"; he had "commanding presence";
- **Danielle Pletka** (age 53), Vice President for Foreign and Defense Policy Studies at the American Enterprise Institute : "he'd make "a great Commander-in-Chief ... for Russia";
- **David Frum** (age 56)², Bush 43's Canadian-born speech writer who as such among others coined the term "axis of evil" & has since morphed into a 'neoconservative writer' : "a catastrophe ... deserves to lose".

The common thread in the three negative views seemed based on what they believed to be a loss of "historical GOP values" in the speech (& the campaign?).

IBM - Of the 26 analysts that cover it, 14 rate it a HOLD, 5 a BUY & 2 a STRONG BUY. Be that as it may, its current share price is in the US\$161+ range, almost double its December 2008 low but only marginally above its year ago level & well off its March 2013 high of nearly US\$215. The company has had 17 quarters of negative revenue growth; while the Second Quarter's 3% negative YoY revenue growth rate was a far cry from the negative 14% revenue growth rate in

¹ And that in relative terms wasn't even bad performance; for in the year ended March 31st, 2016 the world's largest pension fund, Japan's US\$1.3TR Government Pension Investment Fund, had actually been **down** 3.8%

² Who subsequently said that he didn't know how he would vote, except that "it will not be for Trump" (echoing a sentiment a while ago by another diehard Republican, John Mauldin, who wrote that the 'only person who could make me vote for Hilary would be Donald Trump'), that the Republican soul was having a "very dark night" & that the marketing of Trump's speech as an update of Nixon 1968 "silent majority" address was false, offering the following excerpts from them in evidence : **Nixon 1968** : "We extend the hand of friendship to all people, the Russian people, to the Chinese people, to all other people in the world. And we shall work towards the goal of an open world - open skies, open countries, open hearts. open minds" & **Trump 2016** : "Our goal is justice for every American, If we are to have respect for the law in America, we must have laws that deserve respect. Just as we cannot have progress without order, we cannot have order without progress, and so, as we commit to order tonight, let us commit to progress."

last year's Third Quarter, this year's Second Quarter's revenues were inflated to some extent by the fact that in the First Half the company spent US\$5BN buying companies whose revenues had not been included in last year financials. The Company also reports its financials of a "pro forma" rather than a "GAAP" basis so that the reported Second Quarter EPS were US\$2.95, rather than US\$2.61. While the company reported its cash hoard had grown YoY from US\$7.6BN to US\$10.6BN, this was the result of new borrowing (rather than free cash flow from operations) that saw its debt load grow from US\$33BN to US\$44.5BN in the past year. And in the Second Quarter it had a "burn rate" of almost US\$6BN (with US\$1BN going into capex, US\$2.8BN to new acquisitions, US\$1.3BN into paying dividends & 800MM into share buybacks). Small wonder that its shares have been targeted by short sellers; at last report shorts amounted to 21MM (2.41% of its shares outstanding & 40+x the number of shares held by insiders).

Undue police violence ... in Canada? - At 9:30 a.m. on July 24th a call came in from a coffee shop about (a 37 year-old) man causing a disturbance & touching a woman patron. He got scared when police arrived & ran to the apartment building just three blocks away where he had been living since he arrived from Somalia in 2009, in front of which he was "forcefully arrested", handcuffed & hit by officers in front of building residents yelling from their balconies. According to a witness, Shukri Samatar, "he was bleeding from the head, He didn't have a weapon, he wasn't violent"; she also said that he was "not well" & surmised that his mental health issues & a language barrier may have prevented him from understanding what the police were saying.

He later died in police custody. The incident is now in the hands of Ontario's Special Investigations Unit (SIU), that investigates incidents of civilian deaths or injury involving police, with jurisdiction over 53 police forces with 26,000 officers, & that in fiscal 2014-2015 investigated 266 cases, with criminal charges laid in 13 (4.9%)³. This altercation involved a total of seven police officers, two of whom are now being seriously investigated, one of whom because he was reported by witnesses to have hit the man in the face, on the head & in the neck with his baton - This is the same police department the head of whose union took offense at-, & unsuccessfully demanded apologies from-, a criminology professor at the city's Carleton University for showing a video to his students of six unarmed British 'bobbies' dealing with a mentally disturbed man with a machete without anyone getting hurt

GLEANINGS II - 669
Thursday July 28th, 2016

OIL FUTURES DROP AS U.S. CRUDE SUPPLIES BREAK 9-WEEK STREAK OF DECLINES
(Marketwatch, Myra P. Saefong)

- On July 27th oil futures fell to their lowest level in three months after it was reported that US crude inventories had grown for the first time in weeks (*by 1.7MM bbl, 1.1MM bbl of it at Cushing, Okla. alone, whereas the market had expected a 2.6MM bbl decline*), gasoline stockpiles had risen (*despite this being the 'driving season'*) & domestic crude production had gone up. So John Macaluso, an analyst at *the New York-based*

³ But whose work should be facilitated in this case by the existence of at least two videos that had recorded the event, one of which has already been published on line but only begins after the arrest & alleged beating shows him laying handcuffed on the ground & bleeding, while the other, that does record the arrest, has not yet been made public.

commodity-trading advisory firm Tyche Advisors, opined that the “continued strength of the US dollar and increased US production could spell another lower leg for oil prices.”

The concern now is that a gasoline glut could prompt refineries to cut their crude purchases & create more downward pressure on oil prices; as it is, Brent crude, after recovering from its US\$34 low last February to US\$54 six weeks ago, at last report was trading at US\$42.85.

SOME OF THE HIGHEST PAID CEO’S IN THE WORLD RUN THE WORST-PERFORMING COMPANIES (news.com.au)

- A new study has found that some of the highest-paid CEOs run some of the worst-performing companies. MSCI (a NYSE-listed, New York City-based provider of equity portfolio management tools) looked at the pay of CEO’s at 429 US companies & compared it to the total shareholder returns of those companies. It found that \$100 invested in companies with the highest-paid CEOs would have grown to \$265 over the next decade whereas the same amount invested in companies with the lowest-paid CEOs would have grown to \$367 over the same period. Furthermore, that “even after adjusting for company size and sector, companies with lower total summary CEO pay levels more consistently displayed higher long-term investment returns.”

So much for the idea that “you must pay up to get good people”

CHRISTINE LAGARDE TO STAND TRIAL OVER TAPIE AFFAIRS AFTER APPEAL FAILS (The Guardian, Kim Willsher)

- Last December she was ordered in court for her role, *while Minister of Finance in the Sarkozy government*, in the 2008 decision that resulted in damages of 400+MM Euros being awarded to Bernard Tapie in his case against Crédit Lyonnais (*that since the bank had gone TU, had come out of taxpayers’ pockets*). On July 22nd, two weeks after she started her second five-year term as IMF Managing Director, France’s Paris-based ‘court de cassation’ (*its court of final appeal for all civil & criminal matters*) ended eight years of legal wrangling by ruling that she should face accusations of “negligence by a person in a position of public authority.”
- Bernard Tapie is a one-time popstar & racing car driver turned business man (& *judging by his track record a ‘nasty piece of work’*). In 1993 Crédit Lyonnais advised him in the 315.5MM Euro sale of the Olympique de Marseilles football club (to avoid a conflict of interest after being offered a ministerial post in the Mitterrand government), while one member of the group that bought the club one year later bought out the rest for 701MM Euros. So Tapie sued the bank. And the case against Lagarde rests on whether she, as Sarkozy’s Minister of Finance, allegedly in exchange for Tapie’s public support of Sarkozy, had, against her officials’ advice, referred the case to a three-person arbitration panel, instead of letting it proceed through the court system (in France being found guilty of negligence in the use of public money has a one-year jail sentence & a 15,000 Euro fine).

The second French IMF Managing Director in a row to make the headlines for the wrong reasons.

OBAMAS BROTHER PLANS TO VOTE FOR TRUMP (Reuters, Duncan Maurer)

- His *quinquagenarian* half-brother, Malik ABOMEY, is a US citizen with *an accounting designation from the University of Nairobi* who has been a (*part-time?*) resident of Washington, DC since 1985. He says he will vote for Trump in November because he likes him & his stance on security, and is unhappy with his brother's leadership, saying "He (*i.e Trump*) appeals to me and I also think he is down to earth and speaks from the heart and is not trying to be politically correct. He's just straight-forward" (& that his stance against Muslims coming to the US is understandable even to Muslims like himself). He is critical of his brother's record in the White House because it hasn't done much for the American people or for his extended family & says he is not going to be put in a box just because his brother is the President of the United States.

Once best men at each other's weddings, they appear to have grown apart (& Malik may not have benefitted enough from his brother's status, with this being his last chance to 'cash in?').

EX-KKK LEADER : 'MY TIME HAS COME' (AP)

- Former Ku Klux Klan leader David Duke, an avowed white supremacist, on July 22nd signed up to run for the US Senate next November, declaring "the climate in this country has moved in my direction ... my time has come ... The people of this country, the patriotic, decent, God-fearing people of this country are now ... with me" & saying the principles he espoused for years are similar to themes the Republicans are *now* supporting.

While the GOP was quick to denounce his Senate bid & Samuel Le Doux (age 24), a Hispanic Republican delegate from New Mexico, said he hadn't heard racial overtones in Trump's speech & "I think people are reading too much in it", Ian Handy Lopez, author of Dog Whistle Politics : How Coded Racial Appeals Have Reinvented Racism And Wrecked The Middle Class & the John H. Boat Professor at Law at the TOFC (Berkeley), said Trump's speech surpassed even the coded racial language of Richard Nixon in 1968 while others pointed out his "America First" slogan originally had once been that of the America First Committee⁴, an isolationist, anti-Semitic group whose primary goal was to keep the US from joining Britain in the fight against Nazi Germany.

DISCORD BETWEEN CHINA'S TOP TWO SPILLS INTO THE OPEN (WSJ, Linguine We)

- Earlier this month both President Xi & Premier Li issued instructions on how to reform the country's ZOE sector. But they conflicted : the former called for "stronger, bigger, better" DOES, with the Communist Party having a central role in their management, while the latter stressed the need to "slim down" the sector & "follow market rules" in restructuring it. This is a departure from the united front Chinese leaders traditionally have sought to present & will add more uncertainty to the proposed restructuring of the economy. While in the short run this cannot help but result in inaction, the *more important* longer-term question is what might be its political impact; for conflict within the leadership has hallmarked modern China's most tumultuous periods, from the Cultural Revolution to Tiananmen Square.

⁴ Founded on September 4th, 1939 [the day after Britain (& France) declared war on Germany two days after it had invaded Poland] it peaked in its short life span (it was disbanded on December 10th, 1941, three days after Pearl Hjarbour) at having 800,000 paid-up members in 450 chapters.

- Since the 90's the custom has been for the president to be party chief & head of the military as well & for the premier to be responsible for managing the economy. But under Xi decision-making has been centralized in committees headed by him, incl. one responsible for the economy, on the grounds that under previous leaders the party leadership had weakened & administration become corrupt, and that a strong central figure was needed to maintain public support. But Xi's detractors say he has taken on too much at the expense of Li & other more qualified economic stewards. Earlier this month Xi held a meeting with a dozen plus of the country's top economists & analysts to which Li was not invited while two days later Li held a round-table discussion with a separate group of economists, strengthening rumours he may not serve a second term as Premier starting in 2018..
- The first evidence of discord came in May when the People's Daily published a long front page interview with an "authoritative person", purportedly drafted by Xi's top economic advisers, criticizing the heavy role of credit in First Quarter growth⁵, with Li partisans maintaining he had merely sought to meet the leadership's growth target & ensure high enough growth for economic reform to succeed. According to Arthur Kroeber, co-founder of the *Beijing-based* China-focused research firm GaveKal Dragonomics "It's increasingly clear ... China's economic program is not very coherent" & the big risk now is that the needed economic changes will stall, while Barry Naughton, the So Kwanlok Professor of Chinese Affairs at the TOFC, San Diego, opined that "Li ... has been placed in an impossible position ... Economic policy has moved in a fundamental way into Xi Jinping's shop ... and it is hard to see how the Xi-Li relationship can be maintained under these conditions".

Xi & Li are an 'odd couple'. Xi is an engineer by training & his father, Xi Zhongxun, was a revolutionary hero; so he is a "princeling" with close ties to the rest of that cabal (many of whom have profited hugely from their status & thus have become prime targets of his anti-corruption campaign). And he is a party man through & through, determined to maintain the pre-eminent status of the Party in the country, who does not want to preside over a nightmarish loss of power of the Communist Party as occurred in the Soviet Union after Gorbachev's attempt at 'glasnost' ⁶. Li has a less illustrious pedigree, came up through the ranks of the Communist Youth League & has a Ph.D. in economics from Peking University. The Economist last fall, called him "the weakest Chinese Premier in decades" although it conceded that this was likely due to "impotence" rather than "incompetence". And Li has, possibly quite unjustifiably so, been blamed for much of the blame for the government's chaotic response to the turmoil in China's stock market's last year. On the other hand, the more 'impotent' he is in economic policy-making, the less reason there would be for Xi to risk formally sidelining him.

MORE THAN 100 CHINESE MUSLIMS HAVE JOINED IS (Foreign Policy, Nate Rosenblatt)

- A July 20th report emanating from the Washington-based New America think tank, based on 4,000 (leaked) registration cards of foreign fighters who joined IS between mid-2013 & mid-2014 (that asked questions like origin, travel history, level of education,

⁵ This may well be right, albeit for the wrong reasons; for while the banks have been encouraged to pump out credit at a great rate & companies have been willing takers of more loans, they have, *like their counterparts elsewhere*, been content to sit on cash, rather than spend it (*so much of this Keynesian-like 'pump-priming' effort has been for nought*).

⁶ "Open government"

employment history & previous jihad experience) found that at least 114 Uighurs had entered the Islamic State's territory during that time.

The documents came from contacts made during the author's various stays in Iraq doing research. This should be unwelcome news for President Xi.

AL-QAEDA CHIEF URGES KIDNAPPINGS OF WESTERNERS FOR PRISONER SWAPS (Reuters)

- According to the Bethesda, Md-based SITE Intelligence Group on July 24th al-Qaeda chief Ayman al-Zawahiri, who supposedly is holed up in the Afghanistan-Pakistan border region, in an audio interview online called on fighters to take Western hostages so as to be able to exchange them for jailed jihadists, saying they should not rest "until they liberate the last Muslim male prisoner and the last female prisoner in the prisons of the Crusaders, apostates and enemies of Islam".

He has periodically made similar calls for two years, seemingly without much effect, possibly because most jihadists are killed in their terrorist undertakings & dead men cannot take hostages.

SUICIDE BOMBER IN GERMANY PLEDGED ALLEGIANCE TO ISIS LEADER (News4jax.com⁷, Frederik Pleitgen)

- Mohammad Daleel, the 27 year-old Syrian suicide bomber who on Sunday evening July 23rd injured 15 people near a music festival in Ansbach, left behind a video pledging allegiance to ISIS leader Abu Bakr-al-Baghdadi & announcing that his was "an act of revenge against Germans, because they obstruct Islam."

Daleel was known to the authorities. He had twice attempted suicide & spent time in a psychiatric clinic, had twice since December 22nd, 2014 been scheduled to-, & on July 13th had been told he would be-, deported to Bulgaria (where he had filed his first claim for asylum). The July 25th Al-Nabaa, ISIS' weekly online magazine, said he had fought in Iraq & Syria with a branch of al-Qaeda & ISIS before coming to Germany two years ago as an asylum seeker, and had been working on his bomb for three months, once even having successfully hidden it moments before police raided his asylum shelter on an unrelated matter. Last week was a bloody one in Germany. On Monday 18th, a 17 year-old Afghani wounded five people with an ax on a train near Würzburg before being shot & killed. On Friday evening an 18 year-old Iranian born in Germany (who had "obsessively" researched mass shootings & who in school had been bullied) used Facebook to lure people to a McDonalds where he killed nine in a shooting spree near a Munich mall with a converted replica gun of Slovakian origin bought on the 'dark web' before turning it on himself. On Sunday morning July 24th a 21 year-old Syrian killed a pregnant Polish woman co-worker with a machete, ahead of the Ansbach suicide bombing. And, despite what Al-Nabaa said, the Ansbach doer may not have planned well; for he was refused admittance to the nearby Ansbach music festival, where he could have done real damage, since he didn't have a ticket, & ended up exploding his device in a nearby wine bar, in the process only killing himself. The only possibly positive aspect of all this was that only two of these four incidents had an ISIS connection. And to add to the rising tide of popular anti-Muslim feeling in Germany, earlier this week half a dozen young men, fluent in both German & Arabic, invaded a

⁷

A Jacksonville, Fla.-based TV station.

nude swimming pool in the German state of North Rhine -Westphalia, yelling “Allahu Akbar” & threatening to “eliminate” the women because they were “sluts”.

-0-0-0-0-0-0-0-0-0-0-

WHAT THE FAILED COUP MEANS FOR TURKEY (Epoch Times, Emel Akan)

- ***Erdogan’s crackdown on alleged plotters & government opponents since the coup attempt*** has been so swift & far-reaching as to suggest he sees it as a *convenient* opportunity to expand his power, which raises questions as to what this it means for Turkey’s democracy⁸. For while he is blaming Fethullah Gulen, whose followers are still entrenched in the military, education & judiciary, the crackdown is going well beyond the Gulen movement. But the speed of arrests didn’t surprise Reva Goujan, Stratfor’s VP of global analysis⁹, who said Erdogan had been collecting intelligence on Gulenists well before the coup & “The military was the most critical threat. *But* Erdogan knew ... he had to do this [the purge] incrementally because the coup was exactly what he was afraid of. *While* he just did not feel capable of doing that in one fell swoop ... now he has the reason to do it.”
- The Turkish military has long deemed itself the guardian of the (*Kemal Pascha Atatürk*) secular constitution, *on several occasions* taking over as the pendulum swung in the other (*Islamist*) direction. But even long-standing critics of Erdogan condemned the plot as dangerous for democracy, and observers claim that, while Erdogan has been accused (*with significant justification?*) of undermining the secular foundations of the Turkish Republic & the coup will bolster his autocratic ways, the blow to democracy would have even been more severe, had the Gulenists taken over. That’s why even opponents of the president and the opposition parties united against the plot.
- According to Murat Seyrek, a senior policy adviser at the Brussels-based European Foundation for Democracy “Being against the coup does not automatically make you a democrat and that’s why we need to see the next steps of Erdogan”, Reva Goujan believes that, in view of the weakened state of the Turkish military “Kurdish militants, radical leftist groups and the Islamic State will be able to use Turkey’s extreme vulnerability to carry out more attacks and feed the forces polarizing the state” &, that, with (public) trust deteriorating as a result of Erdogan’s crackdown, Turkey may be turned into a police state while Dani Rodrik, a professor of Turkish descent at Harvard’s John F. Kennedy School of Government, opined that “Erdogan’s recent, somewhat skin-deep reconciliation with Russia and Israel was likely motivated by a desire to restore flows of foreign capital and tourists. Such hopes are now unlikely to be realized ... the failed coup reveals that the country’s political divisions run deeper than even the most pessimistic observers believed. This hardly makes for an attractive environment for investors or visitors”.

Erdogan’s moves so far have not been encouraging. And any weakness in Turkey’s economy will only exacerbate his already precarious status.

TURKEY INVESTIGATES THOSE WHO SAY THE COUP ATTEMPT WAS A HOAX (al-Jazeera)

⁸ To the point where some of his detractors claim that he had instigated it himself.

⁹ the well-regarded global intelligence firm based in Austin, Texas,

- There has been speculation on the Internet that Erdogan *himself* engineered the coup attempt so as to rally support & increase his power, and Justice Minister Bekir Bozdag said prosecutors are investigating people who alleged on the social media that the July 15th coup attempt had been a hoax carried out by the government & told Kanal 7 TV on July 17th that anyone who did so likely had been involved in it¹⁰. And his colleague Ismet Yilmaz, the Minister of Education, talked of plans to hire more than 20,000 teachers to replace those dismissed, as well as those in private schools with alleged links to Fethullah Gulen. Turkey has also disbanded the Presidential Guard after detaining 300 of its members suspected of having been involved in the plot, has detained Muhammet Sait Gulen, nephew of Fethullah and declared a three months state of emergency that gives President Erdogan the power to impose decrees without parliamentary approval, while according to Erdogan more than 13,000 people have been ‘detained’, incl. nearly 9,000 military, 2,100 judges & prosecutors & 1,485 police (these numbers are significantly lower than reported by other sources), and the government has closed & seized the assets of 15 universities, 934 other schools, 109 student dormitories, 19 unions and 35 medical institutions as well as ‘numerous other associations & foundations suspected of links to Gulen’s movement.

Whatever it may have been, it seems unlikely that it was some nefarious plot on Erdogan’s part.

WHO IS THE MUSLIM CLERIC ACCUSED OF ENGINEERING A COUP IN TURKEY (Epoch Times)

- Fethullah Gulen is 75 years of age & has lived since 1999 in self-imposed exile in the US, most recently in Saylorsburg, Penn.¹¹, Trained as an imam, he came to prominence in Turkey in the 1960's by promoting a philosophy that sought to blend a moderate form of Islam with education & interfaith dialogue, with his followers starting 1,000 schools in over 100 countries (incl. about 150 taxpayer-funded charter schools in the US) & becoming deeply enmeshed in the running of universities, hospitals & charities in Turkey, as well as a bank & a large multi-media empire. In 2000, i.e. after Erdogan had ceased to be Mayor of Istanbul in 1998 & before he became Prime Minister in 2002, Gulen was accused by the then government of setting up an illegal organization to undermine the secular foundations of the Turkish Republic and after Erdogan came to power in 2002 worked with him to charge the secular order of the state, and helped him consolidate his power. The conflict between them started a few years ago due to different views on foreign policy & peaked in 2013 over the state’s closure of university-preparation schools that had been a prime revenue source for the Gulenists, with Erdogan accusing Gulen of orchestrating an anti-government protest & seizing Gulen’s assets in Turkey, incl. the bank, & starting to dismiss his followers from the government service, saying the group was a “terrorist organization”.

The end of a political alliance is often like an ugly divorce

¹⁰ Taken by some as evidence of the increasing restrictions on the freedom of speech in its wake.

¹¹ An unincorporated community of 1,100+, 290 miles East of Pittsburgh, 90 miles North of Philadelphia & about the same distance West of New York City.