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# GHOSTS OF WALL STREET PAST

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Human beings often like to delude themselves. Consider the US housing market for instance. Nothing is a better indicator of the state of the market than actual mortgage originations or in other words, how many people are actually buying homes. As demand increases, prices should be increasing. This is the economic reality, but right now we are far from it. The S&P Case Shiller Home Price Index has shown a dramatic rally of home prices since 2013, aiming to reach the highs of 2005 and 2006. Yet there are few who are actually interested in buying a home. JP Morgan Chase reported a 68% decline in mortgage originations in Q1 of 2014- only $17.0 billion worth of mortgages were issued, compared to $52.7 billion in the same period a year ago. The story is same at Citigroup where mortgage originations declined 71%. This could only mean that prices are rocketing without much demand from people who buy homes to live in tem. What one may conclude is that prices are rising due to none other than institutional investors and self-deceiving market participants.

What is worse is that it is bringing up the bodies from the past. In 2007, months before the crisis, this phenomenon was exactly what the world witnessed in the housing market. The current situation also looks very similar to what happened in the months leading up to the 1970, 1974, 1982 and 1991 recessions. Despite these numbers, the mood in the market is different. This may be because there is a belief that things are getting better, fuelled by the enthusiasm of the US central banker and watchdog politicians. But, if we are to adamantly believe that history shall not repeat itself, it is nevertheless a very troubling sign for the US, and the world economy.

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The boom in the housing prices is not the only ghost from the past. If there was one lesson to learn from the 2008 crisis, then it was this: too much debt is bad for everyone. But consider consumer credit in the US, which is spinning out of control and some 56% of it is subprime. During the fourth quarter of 2013, the US witnessed the largest increase in consumer debt in this country that we have seen since 2007. From September 2013 to January 2014, the personal saving rate in the United States dropped by an alarming 16 percent and in January 2014, real disposable income in the U.S. experienced the largest year over year decline that we have seen since 1974. As a result, major retailers are closing thousands of stores all over the US.

The rest of the world is also happily bathing in a debt shower. According to the Bank for International Settlements the total amount of debt in the world has increased by more than 40 percent since 2007 to about $100 trillion. Bloomberg says that "*...The jump in debt as measured by the Basel, Switzerland-based BIS in its quarterly review is almost twice the U.S.'s gross domestic product."* Many companies have taken advantage of low interest rates and piled up mountains debt in their books. The last year saw a rat race for junk bonds. What nobody asked was: who is going to pay it back (eventually)?

Disappointingly, regulation in the US and the rest of the world is still far detached from reality. The very banks that were at the root of the last crisis are now much larger than they were back then. In fact, the six largest banks in the United States (JPMorgan Chase, Bank of America, Citigroup, Wells Fargo, Goldman Sachs and Morgan Stanley) have collectively become 37% larger since 2008. Meanwhile, 1,400 smaller banks have gone out of business and only one new bank has been started in the US in the last three years. So the problem of "too big to fail" is now much worse than in the past.

A debt-fuelled Wall Street-engineered prosperity that we are enjoying now will not last forever, and when the next great financial crisis will strike, it is going to be absolutely disastrous. We will have to meet the ghosts of our past and many of us may not be able to cope with the shock of reality.