



Corrections Correct: Falling Icons and Rising Anger  
a lurch back toward integrity?

This is an observations based opinion piece. In this article I explore the case for an underlying trend as the single cause of a wide range of apparently disparate phenomena. Our analysis suggests that it is not merely excesses in stocks and real estate that are being corrected by this bear market. We first cite a wide range of excesses, delusions, failures, and transgressions that are currently being corrected by this bear. The implication is that the excesses of the culture of America are now being corrected. First let us take a look at a cross section of the excesses.

## **Woods scandal raises 'hero worship' issues**

Thursday, December 3, 2009 The Associated Press

Tiger Woods was different — or so he seemed — with his unmatched talent and carefully burnished image. Unlike some pro athletes, he had welcomed being a role model. He was, it turns out, too good to be true and his fall from grace calls into question the very idea of sports hero worship.

...Michael Phelps was photographed with a marijuana pipe. Marion Jones had her Olympic medals stripped for doping that she long denied. Roger Clemens and Alex Rodriguez faced dual allegations of steroid use and adultery. And so on.

Woods, however, seemed unique — a globally recognized brand name that evoked impeccability and historical greatness. His sponsors and handlers, his admiring chroniclers in the media and Woods himself contributed to the image-making.

## **Toyota Recall Reaches 9 Million Vehicles Worldwide**

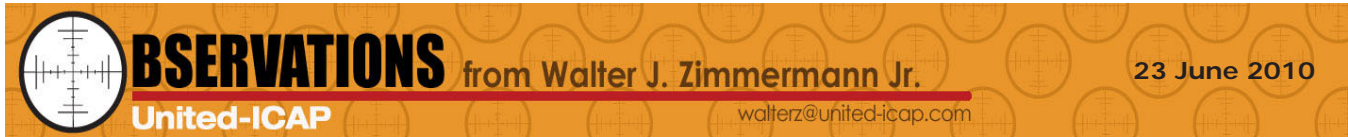
The New York Times 2010-01-29

DETROIT - Toyota said Friday that its recall of eight models in Europe could include up to 1.8 million cars, pushing the total number of vehicles affected by problems with floor mats or gas pedals to more than 9 million worldwide. That is nearly as many vehicles as was sold by all automakers in the United States in 2009

## **Toyota saved \$100M by delaying recalls and safety regulations, new documents reveal**

THE ASSOCIATED PRESS - Sunday, February 21st 2010, 8:15 PM

WASHINGTON — Toyota officials claimed they saved the company \$100 million by successfully negotiating with the government on a limited recall of floor mats in some Toyota and Lexus vehicles, according to new documents shared with congressional investigators.



## **Missed chances:**

### **How SEC let Bernie Madoff off hook with bungled probes going back to 1992**

By Bill Hutchinson and Larry Mcshane  
DAILY NEWS STAFF WRITERS

Sunday, September 6th 2009, 4:00 AM

Superswindler Bernard Madoff once bragged to bumbling federal investigators that he had nearly become their boss....The bizarre claim by the \$65 billion Ponzi scheme kingpin appeared in a scathing, 477-page report that paints the Securities and Exchange Commission as a confederacy of dunces.

The SEC internal investigation detailed a litany of missed chances to nail Madoff over a period of 16 years - and revealed that one investigator, after a failed probe, was even promoted.

April 16, 2010, 3:00 p.m. EDT

### **Goldman charged with fraud over Paulson CDO trade**

#### **Shares of investment bank drop 13% on news of SEC lawsuit**

By [Alistair Barr](#) , MarketWatch

SAN FRANCISCO (MarketWatch) — The Securities and Exchange Commission on Friday charged Goldman Sachs Group Inc. and one of its vice presidents with defrauding investors by misstating and omitting key facts about a financial product related to subprime mortgages.

“Once upon a time, Wall Street firms protected clients,” said Christopher Whalen, who heads the research firm Institutional Risk Analytics. “This litigation exposes the cynical, savage culture of Wall Street that allows a dealer to commit fraud on one customer to benefit another.”

### **SEC watching porn instead of financial industry**

#### **Wonder why they missed the financial crisis? Or Bernie Madoff’s Ponzi scheme? A government report obtained by ABC News reveals that SEC employees were focused on something else: porn.**

By Husna Haq, /Correspondent / April 23, 2010  
Christian Science Monitor

Just when it was beginning to repair its reputation with its high-profile case against Goldman Sachs, the Securities and Exchange Commission (SEC) suffers another major blow: Senior staffers there were surfing Internet pornography – as much as eight hours per day, in one case – when they were supposed to be policing the financial industry.

Perhaps this helps explain why the SEC didn’t see the financial collapse coming. Or did nothing to stop Lehman Bros.’ questionable accounting tactics. Or Bernie Madoff’s dubious “investing” strategy.”



## **Sex, Drug Use and Graft Cited in Interior Department**

By CHARLIE SAVAGE

Published: September 10, 2008

WASHINGTON — As Congress prepares to debate expansion of drilling in taxpayer-owned coastal waters, the [Interior Department](#) agency that collects oil and gas royalties has been caught up in a wide-ranging ethics scandal — including allegations of financial self-dealing, accepting gifts from energy companies, cocaine use and sexual misconduct.

...The reports portray a dysfunctional organization that has been riddled with conflicts of interest, unprofessional behavior and a free-for-all atmosphere for much of the Bush administration's watch.

...In one of the new reports, investigators concluded that Ms. Denett worked with two aides to steer a lucrative consulting contract to one of the aides after he retired, violating competitive procurement rules.

Two other reports focus on “a culture of substance abuse and promiscuity” in the service's royalty-in-kind program. That part of the agency collects about \$4 billion a year in oil and gas rather than cash royalties.

...The investigation also concluded that several of the officials “frequently consumed alcohol at industry functions, had used cocaine and marijuana, and had sexual relationships with oil and gas company representatives.”

The investigation separately found that the program's manager mixed official and personal business. In sometimes lurid detail, the report also accuses him of having intimate relations with two subordinates, one of whom regularly sold him cocaine.

## **Deepwater Horizon Inspections: MMS Skipped Monthly Inspections On Doomed Rig**

AP/Huffington Post First Posted: 05-16-10 09:07 PM

LOS ANGELES — The federal agency responsible for ensuring that an oil rig in the Gulf of Mexico was operating safely before it exploded last month fell well short of its own policy that inspections be done at least once per month, an Associated Press investigation shows.

Since January 2005, the federal Minerals Management Service conducted at least 16 fewer inspections aboard the Deepwater Horizon than it should have under the policy, a dramatic fall from the frequency of prior years, according to the agency's records.

Under a revised statement given to the AP on Sunday, MMS officials said the last infraction aboard the rig, which blew up April 20, killing 11 and spewing millions of gallons of oil into the Gulf of Mexico, occurred in August 2003, not March 2007 as originally stated.



## **FDA finds grime at J&J plant, urges use of generics**

(Reuters) - U.S. inspectors found thick dust and contaminated ingredients at the Johnson & Johnson plant that produces Children's Tylenol and dozens of other products that were recalled last week.

A Food and Drug Administration report released on Tuesday said its inspectors found thick dust and grime covering certain equipment, a hole in the ceiling and duct tape-covered pipes at the Fort Washington, Pennsylvania, facility that made 40 products recalled last Friday.

Inspectors also found raw ingredients contaminated by an unspecified bacteria, a lack of quality control procedures and poor handling of complaints, according to the report dated April 30. The findings were a further blow to J&J's reputation, as the FDA later on Tuesday urged parents to choose private label alternatives for the over-the-counter medications...

## **Maytag dishwasher recall - 1.7 million dishwashers!**

By Michelle Lincaster

New York City : NY : USA | Jun 03, 2010

Whirlpool Corp has announced a Maytag dishwasher recall in the wake of massive hazards regarding fire and damages. From several sources, it was reported that many of the dishwashers caused an electric failure in the heating element which further led to fires and extensive damages hence making the Maytag dishwasher recall an absolute necessity

## **McDonald's pulls 'Shrek' glasses for cadmium**

Fri., June 4, 2010

13.4 million collectibles recalled after tests reveal carcinogen in paint

The CPSC noted in its recall notice that "long-term exposure to cadmium can cause adverse health effects." Cadmium is a known carcinogen that research shows also can cause bone softening and severe kidney problems.

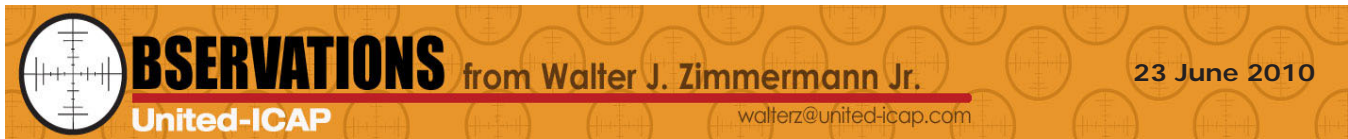
## **Former TBW Chairman Charged in \$2bn Fraud Scheme**

by Austin Kilgore

Wednesday, June 16th, 2010, 1:47 pm

The former chairman of failed mortgage lender Taylor, Bean & Whitaker (TBW) was arrested last night and charged for his alleged role in a nearly \$2bn scheme that ultimately led to the failure of TBW and Colonial Bank in August 2009.

"This alleged fraud scheme is an example of the damaging and destabilizing impact financial crimes can have on our nation's financial institutions. Individuals and companies that violate the law in a reckless pursuit of profits must be held accountable for their crimes," said assistant attorney general Breuer.



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## **Uh-Oh SpaghettiOs - 15 Million Pounds Recalled**

KTLA News - June 18, 2010

WASHINGTON - 15 million pounds of Spaghetti-Os with meatballs are being recalled due to fears of undercooked meat, Campbell Soup Company said. According to the company, a cooker at one of the company's plants in Texas malfunctioned, leaving the meatballs undercooked.

### Some Notes

- Human nature being what it is, there will always a steady stream of minor frauds from smaller players and small product recalls from minor manufacturers.
- But note the brand names that have been recently ensnared in their own misdeeds.
- Johnson & Johnson is not some shady, unregulated third world operations.
- Toyota engineering is not supposed to be reminiscent of Yugo engineering.
- There was once was a time when 'Investment Banks' were so named because they invested in America and individual investors made careful, prudent decisions.
- The SEC was originally formed to protect investors, not fraudsters.

And note what we have not included in our cross section of fraudulent behavior:

- Sexual liaisons in politics
- Drugs in sports
- Scandals in entertainment

We all expect these things, bull market or not. What we do not expect is a flood of criminal behavior from a representative cross section of name brands long associated with quality, safety, and reliability. Unless a long term bull market just ended and a major bear market has just begun.



### A Historical Perspective

The global financial markets have been in a long term up trend since the lows of 1932. The initial leg up persisted from 1932 into 1965. From 1965 almost twenty years of congestion passed until the up trend resumed from 1982. From 1994 this long term up trend entered into the final phase - the speculative euphoria phase. As outlined in Hyman Minsky's Financial Instability Hypothesis, in the speculative euphoria caution is thrown to the wind as investors typically take on unsustainable debt loads in order to leverage their speculative trades. Depending on the sector and the technical tools being employed there are valid arguments for a major long term peak of speculative excess into both March of 2000 and October of 2007.

### The Message of History

History has repeatedly shown that long term bull markets generate speculative excess. The history also shows that the ensuing bear markets uncover and correct those excesses. Or as Warren Buffett has reportedly and famously said, "It's only when the tide goes out that you learn who's been swimming naked." When speculative bubbles burst the previously overlooked excesses range from extreme optimism to outright fraud. The internet bubble that burst in 2000 certainly had its share of frauds. And the real estate bubble that began to deflate from 2005 was arguably the mother of all frauds. The stock market bubble that burst in 2007 wiped out many trillions of dollars. And the commodity market bubble that broke in 2008 compounded these losses. The argument of this article is that a speculative bubble is not merely a market event. It is a cultural phenomena, a condition of the collective consciousness whose dynamics and repercussions extend way beyond the financial markets.

### Financial Trends, Collective Consciousness and Cultural Norms

History tells us that an extended period of speculative euphoria in the financial markets is always followed by a period of collective emotional depression. Boom is invariably followed by bust. An excess of optimism and enthusiasm will be superseded by an excess of pessimism and anger. And the shifts in the collective mood from extreme optimism to maximum pessimism and back again are closely reflected by and measurable through price trends in the financial markets. However it is not only the financial markets that are impacted by these swings in the collective consciousness. As we outlined in our analysis of the Kondratieff wave, these swings in the collective mood have an over-powering effect on the content and quality of entertainment, sports, fashion, social mores, and standards of right and wrong. The enthusiasm generated excesses that the bull market thrives on quickly become intolerable and unacceptable in the atmosphere of anger and vengeance that the losses of a bear market generate. One of the themes that best illustrates this shift from the mood of a bull market to that of a bear market is the attitude towards regulation and enforcement.



**To Enforce or Not to Enforce? It depends on the long term trend.**

The attitude in the bull phase is that markets work best when they are least regulated. The reality that dawns with the bursting of the speculative bubble is that this 'laissez-faire' attitude spawns a wide range of fraudulent behavior with attendant massive financial losses. This cycle played out very precisely in this last go round. Greenspan, Clinton, and Bush wanted everything deregulated - including derivatives and exotic mortgages. As evidence for the role that a massive amount of financial industry lobbying dollars have played, and even with widespread public outrage, there has as yet only been talk of new regulations. Typically the barn doors are quickly closed once all the horses have run out. Incredibly, this has not occurred yet.

### **A Bull Market in Outrage**

As the preceding news stories attest, the rise in public outrage has begun to re-animate previously hibernating regulators. Enforcement has re-awakened. And what a public relations nightmare it has been for corporate America! The landscape is suddenly littered with fallen icons. Nothing is beyond reproach. Wrongs that were not righted because everyone was making quick riches are suddenly avenged when everyone is losing money. When the American dream is being inflated with a speculative bubble the line that separates right from wrong becomes hazy and obscured. But once the American dream is shattered by a collapsed credit bubble there is zero tolerance for mischief. Fraud is somehow less wrong when everyone is basking in fresh profits. Once losses begin to mount the resultant growing anger in the collective mood needs scapegoats. Revenge is required. The blame game begins. Tiger Woods learned this and more recently so did Tony Hayward. The wrath that is being generated by this bear market is the fuel that runs the Tea Party and the renewed outrage over the open border with Mexico. The pundits and talking heads are mystified as to where all the anger is coming from. Maybe they should take a look at their own IRA accounts. People get irate as they watch their profits vanish and their jobs disappear and their homes foreclosed. And this situation is likely going to get much worse.

The point we are trying to make in all this is that the news follows the trend. And the trend is determined by the content of the collective mood. And the collective mood swings in a generational cycle known as the Kondratieff wave. Without these insights the significance of current events cannot be fully grasped. And future events cannot be accurately forecast.

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