2013 in Review: Best of the "Silver Bullet" Awards

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Regular readers of my "Weighing the Week Ahead" series know that I occasionally give the Silver Bullet Award. This recognizes writers who take it upon themselves to debunk dangerously misleading financial analysis. Their often thankless work reminds me of the Lone Ranger, whose adventures often upheld the notion that "…that all things change but truth, and that truth alone, lives on forever."

Over the course of the past year, I included a Silver Bullet segment in my weekly post only a dozen times. As 2013 draws to a close, it seems fitting to revisit these highlights. Each is an important story that you might have missed.

April 21: Mike Konczal reveals key Rogoff and Reinhart errors

It is a long-standing position of mine that financial bloggers have a responsibility to put academic findings into a real-world context for our readers. This is precisely what Mike Konczal did when hebroke the story about a celebrated academic studyon the relationship between debt to GDP ratios and the rate of growth.

The authors, Rogoff and Reinhart, found that "median growth rates for countries with public debt over 90 percent of GDP are roughly one percent lower than otherwise; average (mean) growth rates are several percent lower." While financial media had a tendency to portray this result as a consensus within the field, Konczalpopularized a competing reportthat cast doubt on Rogoff and Reinhart's conclusions. Herndon, Ash, and Pollin - the authors ofthe new report- found a number of errors within the original study's methodology, concluding for themselves that " relationship between public debt and GDP growth varies significantly by time period and country…[therefore] the evidence we review contradicts Reinhart and Rogoff's claim."

May 5: Doug Short exposes a distorted ZeroHedge chart of real income

Zero Hedge reappears consistently as the source of many misleading financial "news." Doug Short earned a special mention after hethoroughly deconstructed an erroneous chartback in May.As I wrote at the time:

> *As usual, whoever was writing as "Tyler Durden" did not give a link to the alleged David Rosenberg comment, so we do not know if it is accurate. I get frequent questions from readers about ZH analyses and conclusions. The stories usually combine a smidgen of real data with severe distortion. This makes them difficult to refute, especially when the story appeals to the preconceptions of most readers.*
>
> *The latest installment takes a single month of real income, distorted by anticipated tax changes, multiplies the result by 12 to "annualize" and make it seem bigger, and then go for the scare. Doug exposes this methodically and carefully. Most readers will not want to consider the full refutation – and that is what "Tyler" counts on.*

May 11: Joe Taxpayer busts comparison of the S&P in 2012 to the Nasdaq in 1999

Josh Brown initially brought Joe Taxpayer'srefutation of this bogus chartto my attention.

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Joe explains: *" …the move from 1250 to near 1600 on the S&P is about 28%. In comparison, the Nasdaq move took it from about 1500 to 4500, a 200% increase. You can easily take any move in the market and with a bit of manipulation, create a chart as you see above. The key in this case is the two different scales, the S&P on the left, Nasdaq on the right. Had the charts been produced using the same scale, they'd show no resemblance to each other."*

August 4: Bob Dieli sets the record straight on part-time employment

Bob Dieli won the Silver Bullet award over the summer with a timely reminder on the correlation-causation fallacy. His analysis is now publicly available here, and below are my reactions at the time.

> *There is a deceptive theme about employment, disparaging the quality of the net jobs created. Some of the writers have obvious political motivations or enjoy reputations as leaders of the tin hat movement. What is alarming is that the theme has gained credibility with some mainstream pundits who spend too much time on the wrong websites. Egregiously bad was the John Mauldin article citing Charles Gave's analysis. Not only is this wrong on the part-time employment issue, it blames everything on QE. I tweet infrequently, but I managed a 140 character response to this one:*
>
> *To Charles Gave and John Mauldin: Blaming QE for the trend toward part-time employment is like blaming the firemen for the fire. #* ***causation***

August 17: Dave Altig tackles the link between employment and low paying jobs

A big thanks to Dave Altig for taking on the alleged link between employment and low paying jobs. As I wrote in August:

> [Dave's] creative use of charts and data reveals the truth about employment and low-paying jobs. There is a recurring theme that recent job creation has emphasized the worst jobs. Dave started with a recent WSJ story that captured mainstream thinking. I cannot possibly do justice to this post in a few words. There is a fascinating animated gif that shows wage changes by sector over time, so check out the full article.
>
> Meanwhile, the following chart illustrates one of the themes: The changes are part of a long trend, not a post-recession effect.

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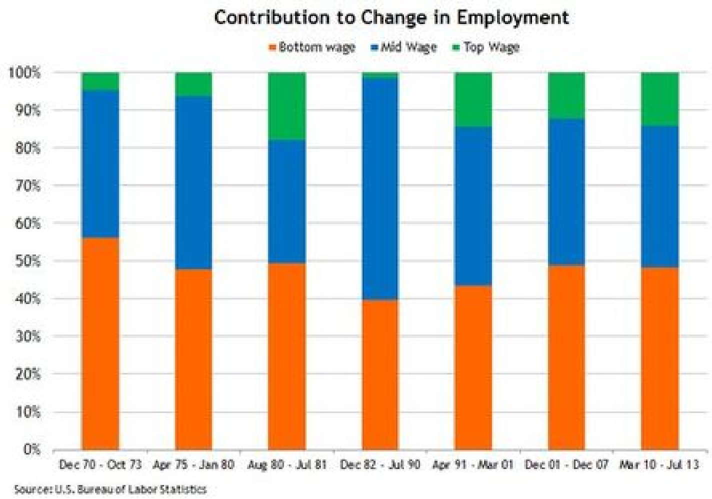

September 1: Derek Thompson calls attention to a key error in stats on youth residency

At the time, major financial media sources were abuzz with stories of how 1/3 of young adults were forced to live at home due to a tepid economic recovery. Derek Thompsonsaw past the gloom of doomand pointed out that college dorm rooms counted as "home" for the purposes of the study.Thompson writes:

> *It comes down to a very sneaky definition of "home." In the Current Population Survey that provides these figures, "college students in dormitories are counted as living in the parental home." Dormitories! This might strike you as absurd -- and it certainly strikes me as questionable -- but it's Labor Day Weekend, and I'm not going to waste it fighting with the folks at CPS, so there it is. Dorms = your parents' place, according to the government.*
>
> *This is a huge deal for the Millennials-living-at-home figures, because college enrollment increased significantly during the recession -- 39% of 18- to 24-year-olds were enrolled in college in 2012, compared with from 35% in 2007 -- and college enrollees are much more likely to be living at home (er, in dorms) than students who skip college, drop out, or finish early.*

October 19: Cullen Roche debunks "The Biggest Scam in Human History"

As a clever cartoon video on the evils of fiat currencymade its way around financial circles, Cullen Roche was one of the few people patient enough to provide a blow-by-blow refutation. Roche's full article is well worth reading, but here isa small excerpt:

> *…[the cartoon character] defines money in a very peculiar way so that it doesn't include anything that doesn't serve as a store of value. According to his definition money is a store of value, medium of exchange, unit of account, portable, durable, divisible and fungible. He then claims that gold fits this definition. But gold doesn't fit this definition! First off, you can hardly use gold to buy anything in the real economy. Try going into Wal-Mart with a bar of gold. They'll tell you to piss off. Better yet, try transporting all your gold around with you where ever you go. Gold doesn't even fit his own definition. In fact, it fails almost completely in money's most important function – as a medium of exchange.*
>
> *Of course, most of our dollars don't serve as a good store of value. In fact, holding paper currency or even bank deposits is a pretty dreadful way to try to maintain your purchasing power. Does that mean bank deposits and paper currency are not money? Of course not.*

November 3: Stephen Suttmeier and Barry Ritholtz on margin debt

Stephen Suttmeier and Barry Ritholz earned their Silver Bullet Award by addressing the idea that current margin debt levels indicate a market top. This had been on my agenda for some time, so I thought it warranted toa more thorough evaluation:

> *I have looked carefully at the charts and the variation seems largely coincident, with margin levels sometimes leading and sometimes following…*

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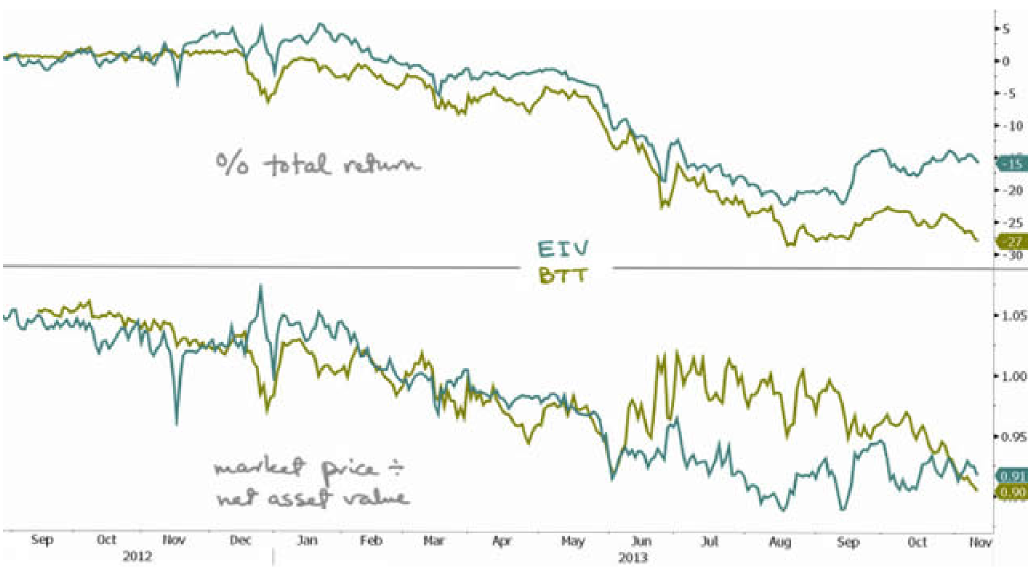
> *Merrill's Suttmeier includes the margin debt rate of change as an indicator of whether a rising market is peaking or breaking out. Barry notes, "If the rate of change data somehow corresponds to past shifts in secular markets from bears to bulls, this is potentially a very significant factor."*
>
> *This analysis is much more sophisticated than what you usually see on this topic. I would love to see more research here, but this provides some needed balance. Here is a summary chart of the basic relationship, but I recommend reading the entire post.*

November 16: David Merkel and Tom Brakke on the risks investors face on the quest for yield

David Merkel took on the subject of leveraged, closed-end municipal bond funds at the end of September. In combination with Tom Brakke's creative use of charts, it should be abundantly clear to individual investors what the risks are at play. I highlighted his conclusion in my post:

> *Big yields (especially tax-free ones) are so alluring and so dangerous. Most investors can't parse the risks and, frankly, many of those purporting to provide guidance aren't going to bother to educate them.*



November 23: Dan Greenhaus adds essential context to a chart by Andrew Wilkinson

This Silver Bullet award was likely the most complicated one of the year. For the sake of clarity, I have embedded the relevant segment from my Weighing the Week Ahead post below:

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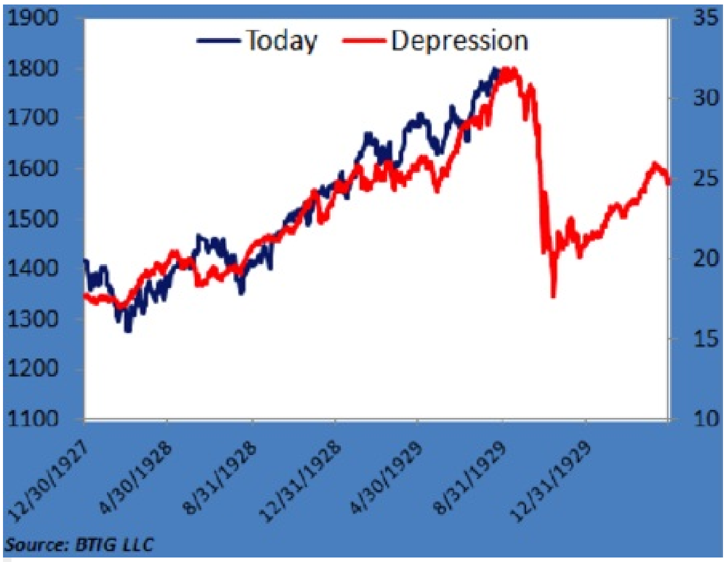
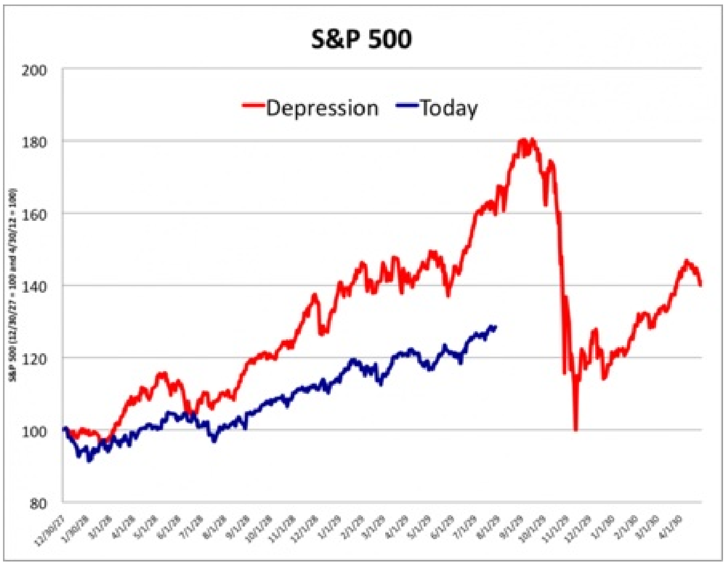
Dan Greenhaus of BTIG debunked the chart below and was featured by Joe Weisenthal. Greenhaus wrote as follows:

> > *Indeed, we recently devoted an entire conference speech to pushing back on the idea of an equity bubble. How do we know the story remains? The chart below, overlaying the S&P 500 today against equities in the 20s/30s is now starting to make the rounds. Without getting too personal, "chart overlaying" is lazy and this is no less so. But it does remind us that as much as everyone thinks everyone else is "all bulled up," these views still persist and have shown no indication they are going away any time soon.*



This was good work, exposing a typical bogus chart, but there was much more to the story.

It turns out that the original source was Andrew Wilkinson of Miller Tabak. He did the work to normalize the data, generating equal percentage changes. The result is a chart that is a fair comparison of the two periods. Business Insider also covered this story, in a nice post by Steven Perlberg and Andy Kiersz. Here is the comparison chart from Wilkinson's original piece:



The entire story illustrates one of the drawbacks of modern social media. People take something out of context and pass it around. The average person sees the message at face value.

*This may be our most complicated "Silver Bullet" story, but I found it fascinating. There was a lot of good work. Sadly, my guess is that **most recipients of the bogus chart never saw the refutation.***

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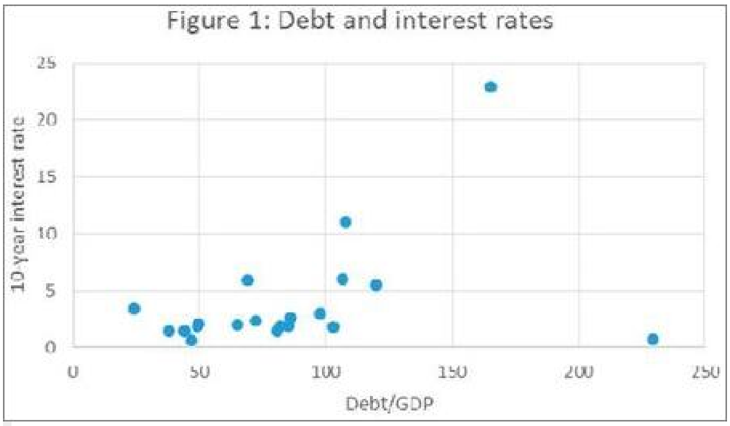
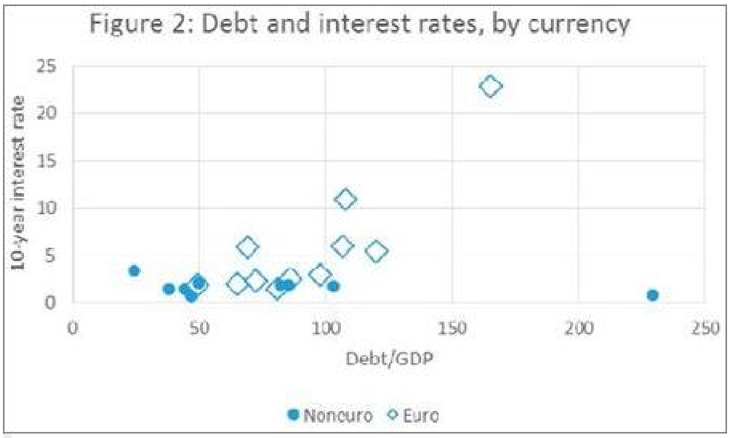
December 28: Paul Krugman and John Lounsbury on whether a debt "trigger point" exists

Most recently, John Lounsbury spent some time during the holidays to look over some old Paul Krugman papers. I explained to readers the imporance of keeping your politics and your investments separate, and John brought the point home with a couple key charts.

> *I know that many readers just tune out anything from Krugman, but this is poor practice for investors. One of the key stories of the year has been the austerity debate and the flawed work of Rogoff and Reinhart – still continually cited by those who think you are uninformed. A key question is whether there is a debt "trigger point" that causes a decline in economic growth. Once again, I care as an investor, not as a voter – despite the politically charge that has been applied to the issue. So here are the facts in two charts.*
>
> *The first shows the relationship with Japan as an outlier.*



> *The second shows the members of the EU with a different marker.*



> *See John's postfor the full explanation about why it helps to have your own currency.*

Conclusion

As always, you can feel free to contact me with recommendations for future Silver Bullet prize winners at any time. Whenever someone takes interest in defending a thankless but essential cause, we hope you'll find them here. Have a Happy New Year and a profitable 2014.

Originally posted at Jeff's blog:A Dash of Insight

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