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## 2020 Year End Report

Dear Investor,

With the year of 2020 drawing to an end, we review in this letter some of the most noteworthy events that continue to shape the current state of affairs.

We start with a high level snapshot of the financial state of affairs, and a reminder of our earlier caveats that the system has grown excessively dysfunctional to still merit a traditional rational or technical analysis. Too many strikes against it over too many years can be listed, and which we'll keep outside this letter to avoid sounding as a broken record.

The year of 2020 started with a significant crash in the stock market nearing 30% in the S&P500 index, and which came as a precipitous drop after the official Covid-19 announcements.



Not only did such a crash expose the extreme overvaluation of equities at the outset, a sector which we have been very cautious about since the beginning of the 'QE Era', the more interesting part is what ensued after the crash.

The central bank wasted no time in starting a systematic repurchase of the entire index that traced an almost perfect upwards straight-line, and which would recapture the entire drop and then some.

The index recorded a new high in fact, against a backdrop of a supposedly deadly pandemic that was only starting, and with expected devastating effects to follow.

For the entire drop to be erased, and the entire index to be driven back up to a new high so quickly against all odds and logic, is another one of those acrobatic moves that have become more common to observe as of the start of the QE Era, and which continues to unfold.

Can currency counterfeiting by the Trillions help fill the gap and explain the total corruption and irrationality ruling the flagship index of the American economy?

One certainly does not need to be a financial analyst to reach such a conclusion.

We find ourselves again and again bored of reporting on such observations, and witnessing more fabrications and distortions of structural elements of the financial markets.

The manipulations of the precious metals and the commodities markets have been one of the main themes covered in our letter over the past 10+ years.

On that front, we were not unhappy to read in 2020 that JP Morgan agreed to pay a record 1 billion dollars fine for its admission of manipulating the gold market.

But then again, a billion dollar penalty is not an amount which is seriously felt by JP Morgan. Paying fines every now and then is a cost of doing business as far as JPM and most large banks are concerned, and for as long as the bank profits remain well above an occasional fine.

We were not surprised to learn hence that JP Morgan found itself facing 5 felonies in 2020. A felony is a legal technical term used to describe a crime of high seriousness, and that requires serving time in jail. Can we imagine seeing JPM's executive team behind bars for a change?

We remind the reader that last year, the US Department of Justice made an explosive public announcement, when it officially stated that JP Morgan was a criminal enterprise.

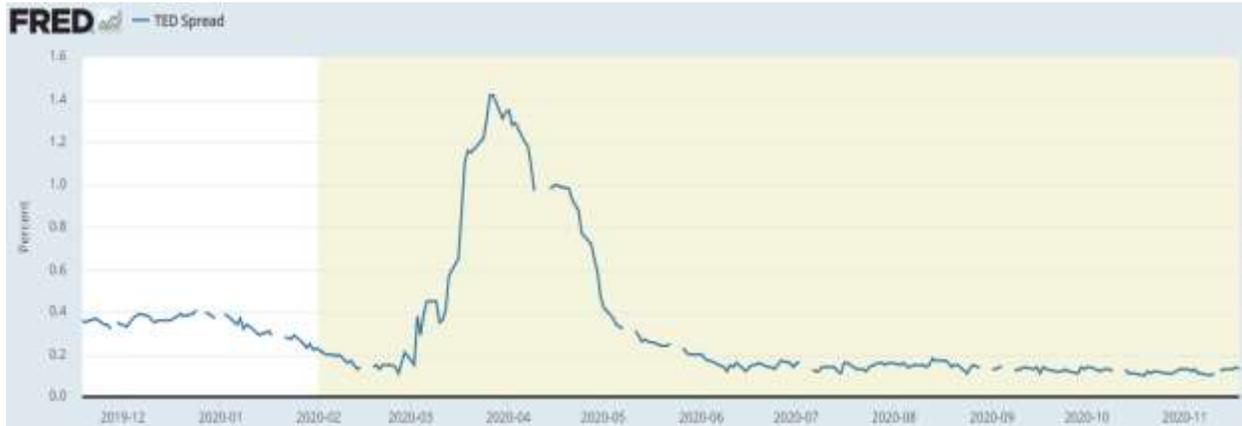
While many felt vindicated to hear so, the DOJ has been silent on this matter since then.

Given decades of banking fraud that continues to take place with impunity, we'd be positively surprised to see some senior bankers held accountable and facing justice. The trivial fines so far being administered have been referred to as essentially bribes to the regulators, in order to keep them looking the other way, while pretending to be doing their job.

Going back to the macro picture of the markets, nothing has been solved since the first pin of the credit bubble back in 2008. It has all been a string of interventions ever since, and papering over cracks and holes as they appear here and there.

Back in 2008, banks have lost their credit worthiness between themselves; no bank would lend money to another bank. The interbank market effectively seized and almost came to a standstill.

The chart below illustrates a quasi vertical move of the TED spread, namely the Libor rate minus the T-Bills rate, and which shot up almost 7 times within the first 28 days of March. Such a development spells extreme panic among the banks and an impending credit seizure.



With the big banks declared as sacred cows after their epic failure of 2008, and putting aside the morality of doing so, the Fed once again forged enough fiat to fill whatever holes needed to be filled.

Some could understand the position of the Fed at this stage, and given that it had already chosen a suicidal monetary policy of a 'print *ad infinitum*' coupled with 'helicopter money' for over a decade by now.

The Fed has had its back to the wall since then, and got to fight till death at this stage, or wait to be raided as an organization and have its printer seized.

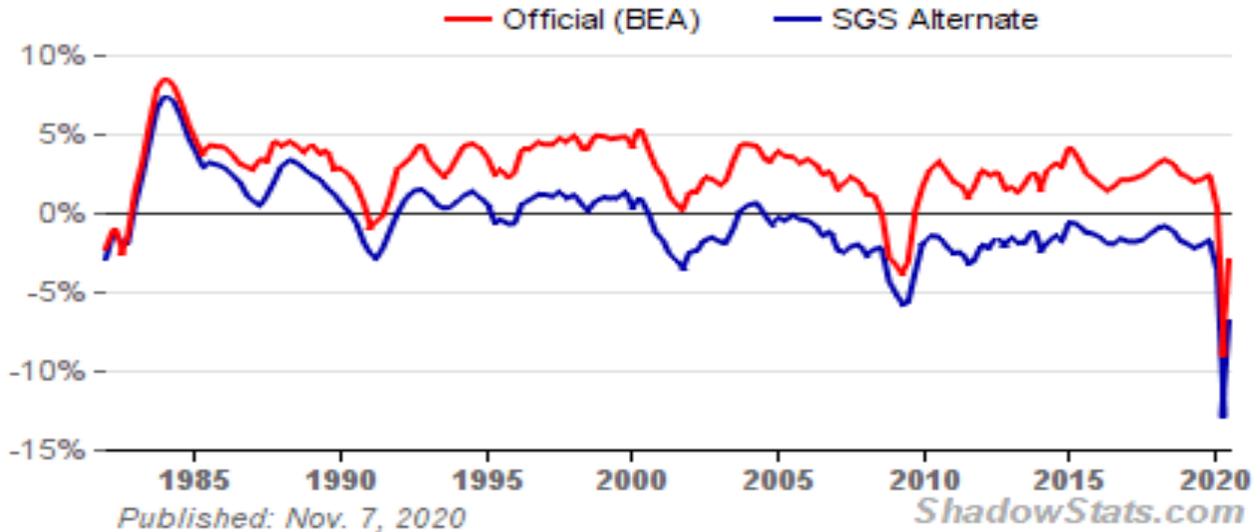
The central bank could be credited in that sense for at least being consistent with its fraudulently insane policy, and regardless how it is labelled, packaged, and sold to the public.

We inch forward for the time being, while well aware that delaying the inevitable is usually a bad idea, and that the iceberg is likely closer with each passing day.

Taking the pulse of the US economy, a look at the GDP annual growth shows a 5% drop or more year over year, while a check on the unemployment rate returns a 5% increase relative to last year. According to *ShadowStats*, the October reading is showing a very high rate of around 26%.

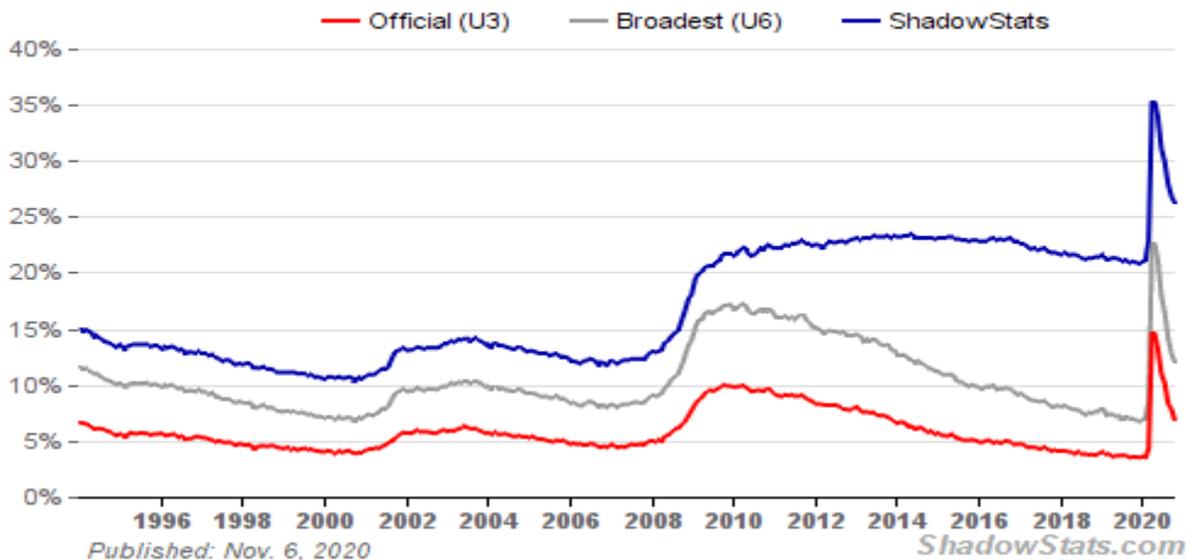
## GDP Annual Growth - Official vs ShadowStats

Annual Change through 2020q3 (ShadowStats, BEA)



## Unemployment Rate - Official (U-3 & U-6) vs ShadowStats Alternate

Monthly SA. Through Oct. 2020 (ShadowStats, BLS)



Equities, as proxies to economic health, are in appearance hitting new highs, but as discussed above, the S&P has lost a lot of its credibility.

In addition to the artificial purchases lifting the index, and while the S&P 500 has long been a good indicator of economic health and future expectations, it has grown to be less and less representative.

Being a capital-weighted index dominated by big capitalization stocks - dubbed as FANGs - such as Alphabet (Google), Amazon, Apple Computers, Facebook, Microsoft, Tesla, and Netflix, the S&P has become severely distorted by these, and is no longer representative of the majority of the public companies.

These big companies have hence decoupled from the real economy in which people actually live and work in, and their growth does not translate in jobs or benefits for the 99% of the people.

This has become more evident as these companies were the main beneficiaries of the Covid measures, and who basically took in all the sales orders from people and businesses being ordered to stay or work from home, and with no other options but to use their services.

With the FANGs further seeing their stock being lifted by the Fed's artificial purchases of the index, they are in a stronger position than ever, which now allows them to easily buy out private competitors that not only did not receive assistance from the Fed's money faucet, but more likely than not, have been significantly affected and pressured down.

Clearly, the Fed's policies have made the strong stronger, and the weak weaker, and continue to create a gigantic and alarming economic inequity and unfairness.

The Covid campaign, and added to the Fed's interventions, will effectively have helped the behemoths to further concentrate and monopolize their control over any remaining competitors, as well as the consumers now left with a dwindling number of choices.

The consumer found himself scared to consume in 2020, and even more so than previous years which were uncertain and lean for most.

The money velocity chart below, or the rate at which money changes hands, shows an around 30% YoY drop relative to Q4 of 2019.



This statistic is clearly showing a diametrically opposite signal to the one being broadcasted by the S&P. This divergence underscores once again the decoupling of the equities index from the people's day to day economy.

Stoking the 'animal spirit' to spend, something that Ben Bernanke kept wishing for for years, has suddenly been replaced with a feeling of fear and survival. This a 180 degree opposite effect to what the central banks have been wanting to see, and highlights another one of their blatant failures.

When the central planners embark the entire world on some top-down policies for over 10 years, just to obtain a diametrically opposite effect of what they were aiming at at the outset, they'd be lucky to still have an iota of credibility left.

The Fed's ability to deliver on their official mandate is very much in doubt, and it is high time to see them called to account and stripped from their powers.

The trillion dollar question is the Who can actually do so, and even more so given that the corruption in the establishment is so entrenched in almost every facet of the system.

The drop in the money velocity in 2020 is clearly huge, and its current level belongs to deflationary periods such as in the 1930's and during which economic activity almost came to a halt.

Elderly people who have survived the great depression of the 1930's continue to this day to save and reuse empty tin cans, plastic containers, and other trinkets, knowing their intrinsic value, after having experienced first hand many slow and painful years of lack.

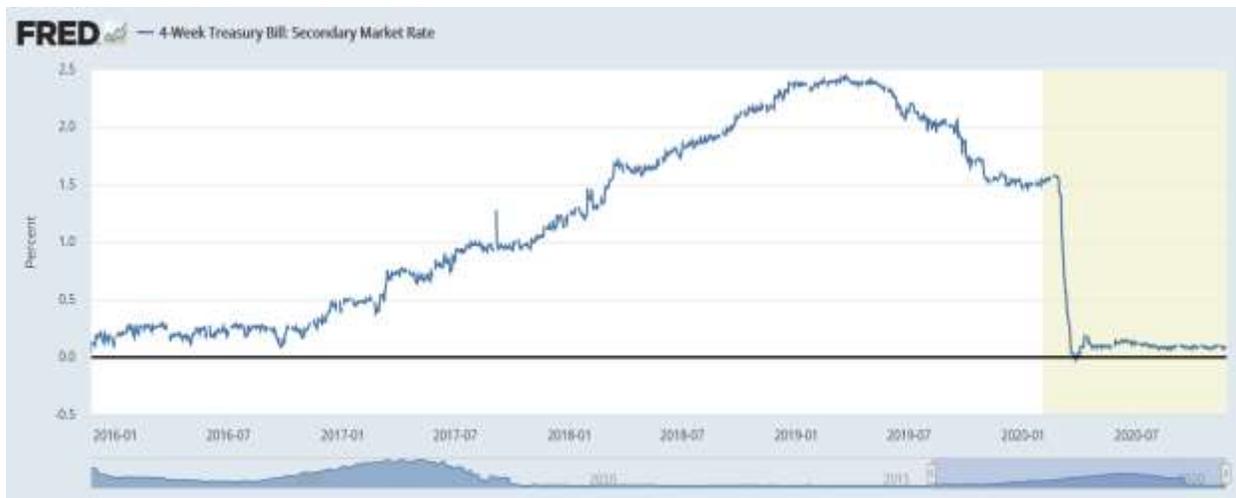
The money velocity in fact had started its major decline going all the way back to the late 1990's till the year of 2000, an era that was marked by the Nasdaq Bubble. It was during that time that the outsourcing and offshoring trend to China and Asia had started to accelerate, at the cost of hollowing out the American factories and replacing American workers with lower cost Chinese and South-East Asian labor.

The consumer spending spirit has taken a serious dive in 2020 hence. The personal savings rates in the chart below has exploded upwards post Covid, both due to the lack of opportunity to spend given the stores closures, but also due to a genuine fear that prompted people to start saving and paying down debt instead of spending on new purchases.



Paying down debt has a deflationary consequence. It reduces demand within the demand-supply relationship, and pressures price levels down. This could be one reason, among other, why most pundits talking about an imminent hyperinflation have been proven wrong for over ten years by now.

In the meanwhile, the 4 weeks T-Bills rate has dropped like a rock after the Covid shock, and bills are back to practically yielding a nominal zero percent.



Given a 10% annual inflation as measured by the independent Chapwood Index over at least the past 5 years, bank deposits continue to lose an effective 10% of their value and purchasing power every year. Most consumers would also agree that their consumption expenditures have been increasing by around 8 to 10 percent a year as well.

The Covid aftermath which comprised strict lockdowns on the populace, and that effectively acted as legal house arrests albeit without a court order, and added to the shutdowns on businesses and entire economic sectors, have inflicted a massive long-term economic damage.

It is now difficult to imagine a fast recovery or a quick normalization, and as the shock has taken many businesses and individuals to the point of no return.

Provided one buys into such a possibility, and where a larger percentage of destitute people is needed to attempt a Marxist international takeover, the economic take down was precisely the goal of the Covid perpetrators.

An inflammatory claim to some, but clear to others, the objective evidence continues to mount.

To those still stuck in the box, it all starts to make perfect sense when Covid is seen as a prerequisite of the 'great reset' being promoted by the globalists at the UN, the WHO, the IMF, the World Bank, the Club of Rome, and other shady organizations.

While some are promoting the idea of a fast V-shaped recovery, we'd reckon that the reality is closer to a more persisting financial blow which cannot be repaired in one, two, or three years.

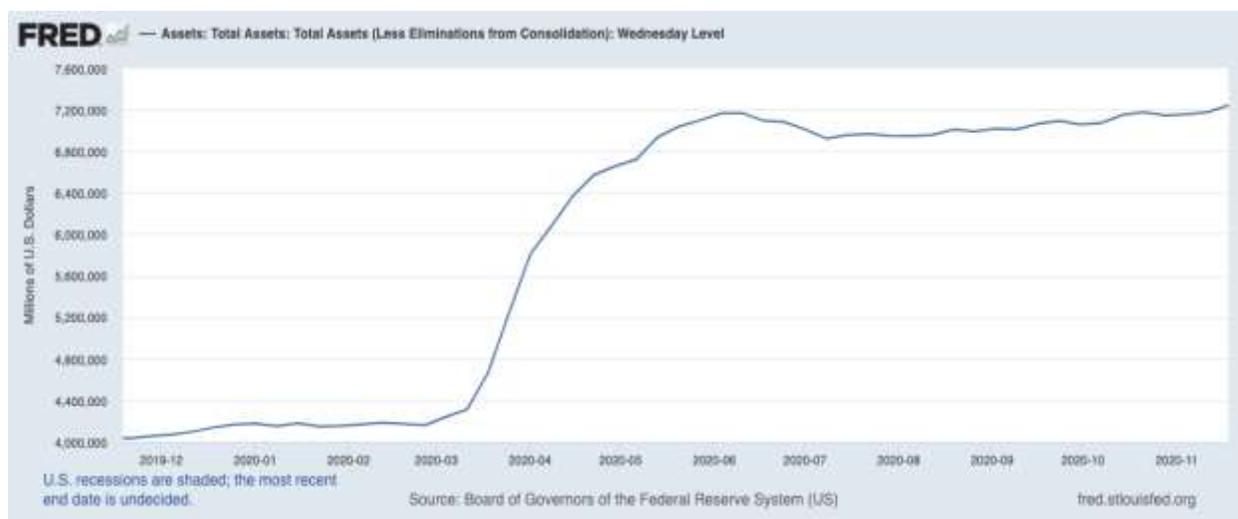
We'd expect many corporations to record a permanent loss of capital and an official write-down of assets.

We'd also expect many banks to be in or close to a 'negative-equity' situation given the defaults and delinquencies from both the corporate and household segments and which continue to accumulate.

Going back to the central banks, the Fed's balance sheet has reached a new all-time high in 2020 of \$7.2 Trillions or 7.2 x 1 Million x 1 Millions dollars if this helps better conceptualize a trillion.

The chart below shows how the Federal Reserve has created over 3 Trillion Dollars since the Covid crisis and the stock market crash that took place in the first quarter of the year.

Prior to that, it had taken the Fed 5 years, between 2008 to 2013, to create 3 Trillion dollars, and which took its balance sheet from around 1 Trillion to around 4 Trillion dollars.



And the Fed is not the only central bank to do so of course. Below are 2 charts of the Euro-Area Central Bank balance sheet, showing a similar increase since the beginning of the year, and a longer term trend starting 20 years ago.

Nothing assuring for sure, and a lot to be worried about.

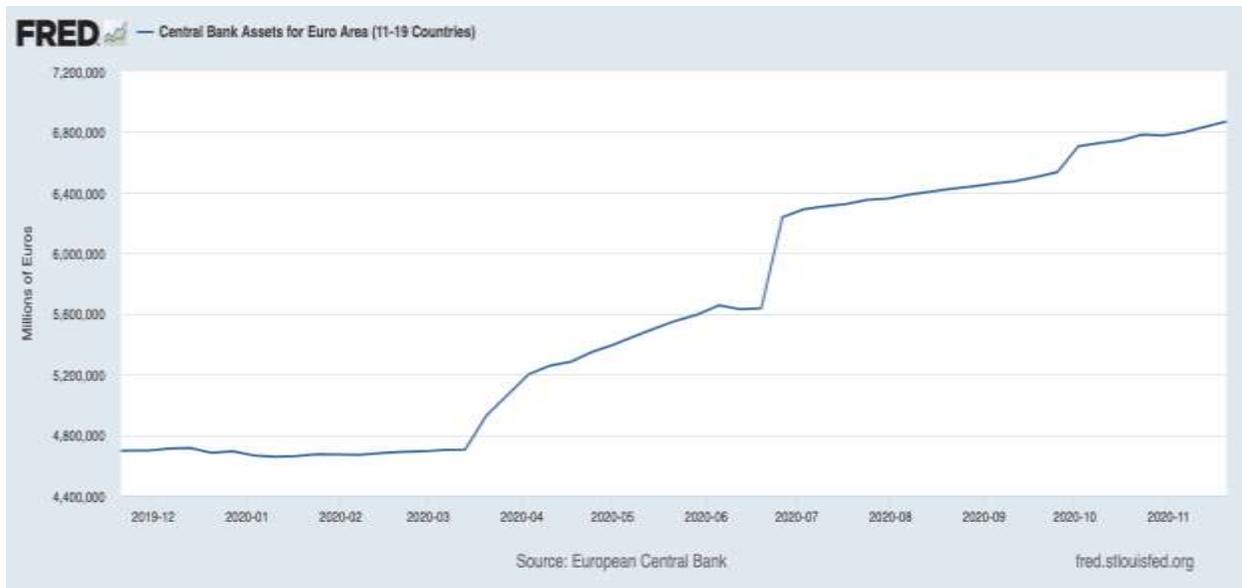
All this fiat being created in an obsession of not admitting defeat, and staying in control of the financial system for one more day can only end up in tears.

Added to the direct purchase of public equities and the stock market indexes, the trillions are obviously being used for a much larger scheme such as outright debt-monetization.

Did you really believe Ben Bernanke when he promised some sterilized fiat creation with a plan to mop up any artificially created liquidity at a later time? Or when he assured the market of no intentions at the Fed for any debt-monetization?

Over 10 years of evidence continues to prove otherwise.

The ongoing debt-monetization will eventually lead to a self-destruction and dissolution of the current financial system as we know it.



*European Central Bank Assets – Dec. 2019 – Nov. 2020. Source: Federal Reserve Bank of St. Louis*



*European Central Bank Asset – 2000 till 2020. Source: TradingEconomics / ECB*

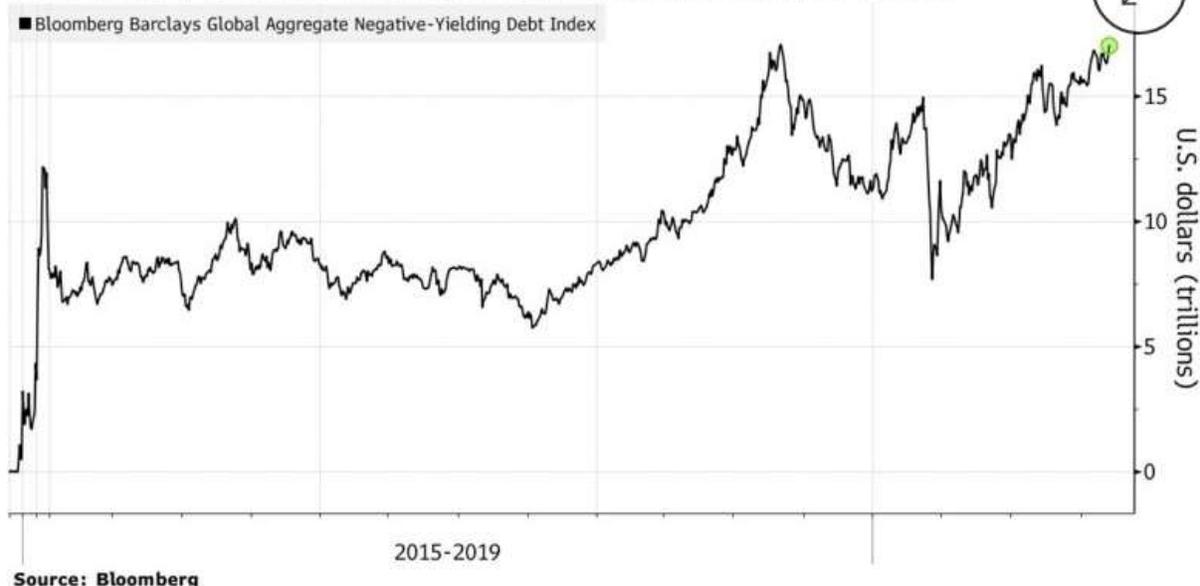
Despite all these astronomical and artificial fiat injections since the big crack first appeared back in 2008, and despite all the additional 'financial engineering', debt-monetization, and negative interest rates policies that followed, not much seems to have been accomplished for the real economy, or besides taking good money from the people's pockets and throwing it at the banks in order to avoid a systemic seizure.

Yet the hole remains wide open, twelve years past the official date of the crisis, and even more so post Covid with the central bank's debt exposure taking a vertical upwards trajectory.

World's negative-yield total debt has hit a new record in 2020 as the chart illustrates below:

## Less Than Zero

Global supply of bonds with negative yields hits record \$17 trillion



Most banking stocks have not managed to recover since 2008, and after the first big crack appeared, and which required an immediate \$700 billion dollar for Wall Streets banks to stay afloat.

That initial \$700 billion turned out to be small change relative to the many added trillions that followed in almost complete secrecy.

The Wall Street crisis was soon to be followed by the Eurozone Banking Crisis that remains also unresolved.

Much more recently, and as of last year, the 'repo crisis' of September of 2019 prompted the Fed to print an additional 500 Billion dollars to avoid a liquidity crisis; a large bank or financial institution had come to the Fed asking for help, for failure to find a willing lender for funding within the interbank market.

This caused the repurchase agreements rates to shoot up and take the financial system once again to the brink of illiquidity. While the details and the identity of that financial institution were not revealed, that event was eerily reminiscent of what triggered the 2008 crisis.

That was another massive bailout, and which received almost no coverage in the mainstream media.

All the above major financial events over the past twelve years are clearly telling us that the current system is on its last legs and cannot be relied upon going forward.

It is not a coincidence that a lot of talk around digital currencies has been taking place, and that a major cryptocurrencies rally was sparked in the midst of a presumable pandemic.

We also do not think that hints to a universal free basic income have been announced publicly just like that.

It is also not by chance that a formal pronouncement related to a 'great reset' was made at the World Economic Forum in the midst of the Covid crisis.

This small group of individuals who meet mainly behind closed doors and rarely share their views with the media or the public, exert a tremendous influence on the governments of most countries.

This group seems to operate similarly to the Chinese Communist Party (CCP), and is extremely careful about what to say, and what not to say.

We came full circle on that front with the Daily Telegraph revealing in December that the names of over 300 senior British bankers at HSBC and Standard Chartered have been found to be official members of the CCP, and who have taken a pledge of allegiance to China's ruling party.

At a time when the neoliberals and modern money theory (MMT) proponents have hit a brick wall as evidenced by decades of mounting unpayable debt and failed economic policies, they are left with no choice but to either admit defeat and go take a hike, or to clamp down at the public and morph their welfare state into an all out Marxist government - with them remaining in charge of course.

Famed financial writer, lawyer, and former governmental consultant James Rickards, has reminded his readers recently that anarchy does not necessarily have to come from below. This time around, the citizens of the world are dealing with anarchy coming from the top.

Covid had been likened to a global *coup d'état*, that took the form of a top-down thoroughly coordinated campaign, and which ordered nations and corporations alike to act in unison, and to obey the WHO dictates. Else? Face stiff financial consequences.

This 'great reset' is another name of an already failed old world order (OWO), and which had been a long held obsession of the globalists.

This shadowy group continues to aim at dissolving the national states, and to run the entire planet according to a despotically centralized regime within the UN and other non-democratically elected organizations.

Such a centralized and technology-heavy regime will essentially treat people like sheep, showing little to no respect to their previously known liberties. The model of the Chinese Communist Party could well be the globalists eventual outcome in all this.

There has been a tremendous top-down pressure to implement all these new and untested technologies, and as part of the 'smart' or AI theme, or the 'internet of things'.

The 'smart' grid has long been talked about, and is connected to a growing list of 'smart' devices, antennas, and possibly soon a myriad of satellites polluting the night skies and orbiting the earth.

These devices and antennas have been mushrooming rapidly and becoming more visible in city centers and all over the land like weed. 'Smart' phones, 'smart' meters, 'smart' appliances, 'smart' devices, and added to hazardous LED lighting continue to penetrate people's homes, offices, and lives.

All these digital devices acting as high-frequency emitters and receivers could well qualify as grave assaults on health and the environment, and once independent safety tests have been conducted.

While most of these devices remain widely unproven as to bringing any betterment to health, work, and life in general, they continue to be promoted by AI possessed individuals like Elon Musk and his ilk.

On the other hand, many have been already demonstrated to be damaging to the body and its cells.

Warnings about the introduction of some 'smart' powder made of metallic nano-particles in the body, and where the body and brain start interacting with nearby electronic devices connected to the 'smart' grid are not to be discounted early on or laughed at.

There is quite a bit of science it seems about these particles, and which could cross the body's natural defenses and start operating deeply within the humans' brain and biology.

Reports have already surfaced that some airlines have already started spraying these nano-particles as aerosols between flights, and without the passengers' knowledge or consent.

Permanent changes to one's DNA, and to his free will to think and act, are what those accepting the "vaccine" may well end up receiving.

Should a "vaccinated" person complain or harbor angry thoughts about the authority for instance, an electric shock could then be sent from the nearest cell phone tower or 'smart appliance', and which will dissuade him from that kind of thinking in the future.

The envisioned grid will practically track and monitor every person from deep within, and administer punishment on the spot whenever a person exceeds certain set limits.

It is rather strange that the erection of 5G antennas has been officially declared as an essential service that must continue despite the lockdown on virtually all other sectors in the economy. What is so essential about these towers mind you? Is the power grab unable to wait?

A growing list of credentialled scientists, immunologists, academics, therapists, and medical staff continue to break the silence and come forward to discredit the entire official Covid narrative, the testing procedures, the mask wearing, the social distancing, etc...

Names such as Nobel Laureate virologist Luc Montagnier, researcher Dr. Judy Mikovitch, immunologist and former Pfizer researcher Dr. Michael Yeadon, and added to many more totally debunk the official Covid narrative and refute the official measures being taken.

Over twenty medical doctors have walked out of a hospital in Madrid to denounce the giant hoax of Covid, yet received no mention in the controlled media. Even the hospitals' janitorial staff do not understand how come the hospitals are empty in a supposed pandemic.

Who wants to live in such a dystopian world being planned by deranged individuals?

Or who would care about building a business and a service if such a nightmarish scenario is ever allowed to occur, and where the most basic personal liberties and rights to personal property are taken away and transferred to the head of the communist party?

One may as well close shop today if not allowed to keep it in the future.

With one month left to go in 2020, and a heated environment post the contested US elections, all bets are off till the dust settles and a final verdict is reached.

We will not be surprised to see Trump remain in office, be it based on court hearings as to the claims of stolen elections, or based on some executive orders he may still be able to activate.

These US elections have been historic to the entire world in fact, and as the United States carries sufficient scale and might that would determine whether the world tilts closer to national self-preservation and independence, or whether it falls prey to a weird experiment of technocratic global communism that crushes humans and their spirit to live and be free.

The wagers have seldomly been higher.

So much hinges upon the final outcome of these US elections.

The current administration has done as much as it could so far to stem and reverse the authoritarian communists agenda planned for the world.

In 2020, Trump has continued to hit the breaks on globalization, by either disengaging the US from unfavorable agreements or renegotiating them to be mutually beneficial.

These benefits are far from being limited to Americans only, but aimed at restoring a multi-polar balance for the entire planet.

Should the work completed so far start being reversed, we'd be seriously concerned for the world. A replay of the Bolsheviks' revolution that sunk Russia for almost a 100 years is what is at stake at this ominous moment in our history.

As the year draws to an end, we can't help but notice how extraordinary and how singular the year of 2020 has been.

The party ain't over 'til the fat lady sings.

Sincerely Yours,  
Karim N. Taleb, Ph.D.