

The Greatest Speculators

It's as predictable as birds flying south in the winter. When gas prices rise, politicians (most recently, President Obama), feign outrage and then threaten to "investigate" the "speculators." The irony is that these politicians are the real speculators – making a bet that they can use government to create wealth. No government in the history of the world has made it work, but they keep on trying – with other people's money.

In one sense, this is all about economic and financial literacy. *Of course* there are investors who speculate on energy prices. Thank goodness.

Many people have reason to hedge their exposure to changes in energy prices, either up or down. These include energy companies that find, process, or wholesale energy products. Or manufacturers, airlines, railroads, farmers – anyone who uses energy to provide a product or service.

In an ideal world, hedgers worried about a price drop would exactly equal hedgers concerned about price increases. But the world doesn't work that way. And so speculators – investors who take the other side of a trade even though they aren't involved in an energy-related business – fill the gap and make these markets function.

One reason speculators show up is that the government makes markets inefficient. Today, in the US, there is an effective moratorium on drilling in the Gulf of Mexico and a continued ban on oil drilling in northeast Alaska. At the same time strife in the Middle East and North Africa threatens oil production. So, supply problems exist at the same time the economy is recovering and the Fed is easy. Why investigate?

Or instead, maybe politicians would be better off investigating themselves. Government is playing the role of venture capitalist, particularly in the energy industry, picking winners among various competing technologies. When should the taxpayer expect a payoff from these tax breaks and subsidies? The government likes to call them investments, but they are using other people's money to speculate. And the energy produced from these emergent technologies costs more than energy produced using carbon-based technologies.

This is nothing more than crony capitalism, with well connected former politicians appearing to be disproportionately represented among those companies on the receiving end of government "investments."

Add to this the government's "speculation" that deficit spending will create wealth. Politicians, using spurious economic arguments, believe deficit spending will create growth and jobs. But this strategy has never worked. Countries that have employed this strategy have always fallen behind in the economic growth and job creation statistics. Free markets create wealth, not governments.

Think what you want of speculators in the oil markets – and we are sure there are many – they are at least doing it with their own money. Ultimately the fundamentals in the oil markets will dictate who wins and who loses, and those who speculate the wrong way will have to transfer purchasing power to those who were right.

This is certainly not the case for those who speculate out of the public trough. Their track record is abysmal and the taxpayer is left footing the bill every time.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-25 / 9:00 am	New Home Sales - Mar	0.280 Mil	0.275 Mil	0.300 Mil	0.250 Mil
4-26 / 9:00 am	Consumer Confidence - Apr	64.5	66.3		63.4
4-27 / 7:30 am	Durable Goods - Mar	+2.0%	+5.9%		-0.6%
7:30 am	Durable Goods (Ex-Trans) - Mar	+1.8%	+2.2%		-0.3%
4-28 / 7:30 am	Q1 GDP First Report	+1.9%	+1.8%		+3.1%
7:30 am	Q1 GDP Chain Price Index	+2.4%	+2.5%		+0.4%
7:30 am	Initial Claims - Apr 23	395K	394K		403K
4-29 / 7:30 am	Personal Income - Mar	+0.4%	+0.3%		+0.3%
7:30 am	Personal Spending - Mar	+0.5%	+0.5%		+0.7%
8:45 am	Chicago PMI - Apr	68.2	71.2		70.6
8:55 am	U. Mich. Consumer Sentiment	69.7	70.0		69.6