

POLITICAL PULSE

DisTrumption: What I Saw In Chicago

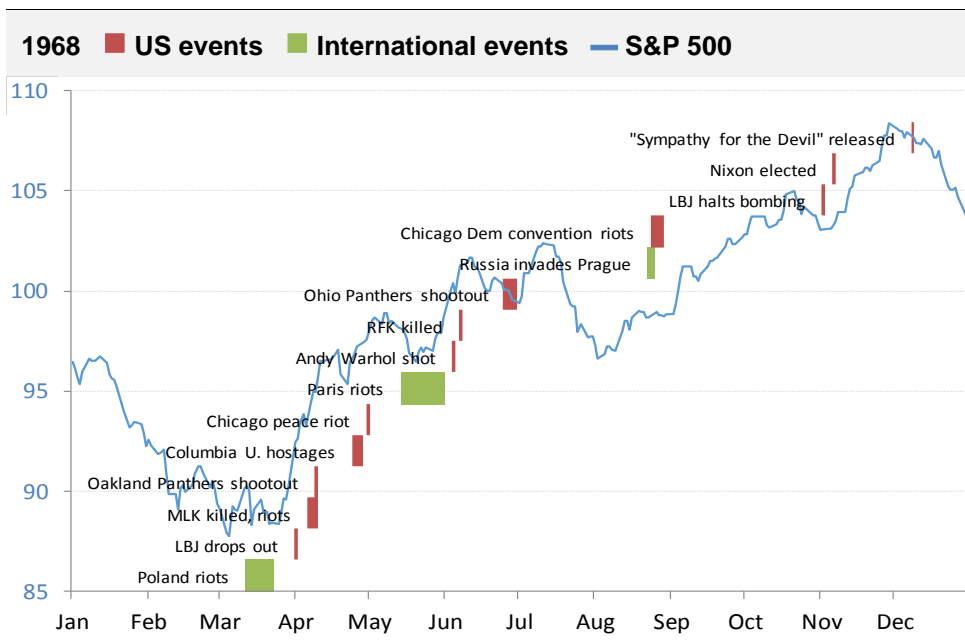
Monday, March 14, 2016

Donald Luskin

It was carefully staged, based on a stable game-theoretic position that works for all sides.

We said early on that Donald Trump would not easily fade from the political scene (see [“Trumped!”](#) December 14, 2015). Now, having survived and thrived under attacks from all sides for being racist, misogynist, isolationist, protectionist, and generally rude, crude and socially unacceptable, the latest is that he has fomented an atmosphere of violence – and with the disruption of his Chicago rally on Friday, it may seem he is finally [hoist with his own petard](#). But it’s not that simple.

- Setting aside the competitive dynamics of the electoral horse-race, this latest development raises the specter of escalating social chaos as the GOP convention and the general election approach. *There is a frightening Pandora’s Box element here – and it goes to our concern that the election is the major black swan risk for markets this year* (see [“2016: Two Charts, Six Words, One Man”](#) December 31, 2015).
- Before we panic, though, it’s worth remembering that in 1968 – a year of worldwide political and social incoherency – the S&P 500 rallied through all the craziness (please see the chart below).



Source: Bloomberg, Wikipedia, TrendMacro calculations

Update to strategic view

ELECTION MODEL, US STOCKS: With the disruption of Trump’s Chicago rally Friday, a crazy election year takes a disturbingly chaotic turn, reminiscent of the incoherency of 1968. But that was a pretty good year for stocks. And the Chicago event wasn’t as incoherent as it looked. I was there. It was definitely staged, with the UIC Pavilion deeply infiltrated by protestors who all simultaneously launched on command. Disrupting Trump is a stable game-theoretic position for all concerned – protestors get free publicity, and Trump gets to position himself as Reagan did in 1966 versus the UC Berkeley protestors, and as Nixon did in 1968 promising “law and order.” Analogies to the 1968 Democratic convention are false, because that demonstrated an internal schism, not action by opponents. Our election model shows the GOP candidate – whoever he is – winning by 170 Electoral College votes. The disruptions underscore our belief that the election could be 2016’s black swan for markets, but we don’t yet see this election’s crazy logic really getting any crazier.

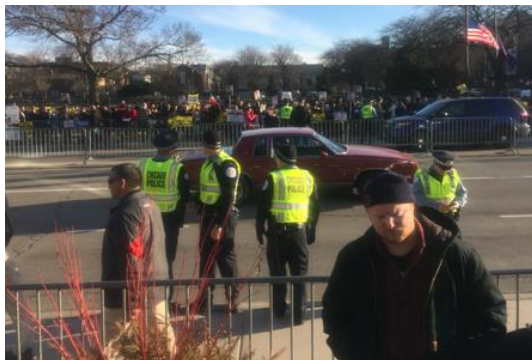
For what it's worth, I was inside the [University of Illinois Chicago Pavilion](#) on Friday, and saw the whole thing (I live in Chicago, and as a lark I decided to go, just to see the Trump phenomenon up close and personal). I can tell you that this is yet another example among many in my long life where I have been right in the middle of a newsworthy event – for example, the October 1987 stock market crash, or the October 1989 Loma Prieta earthquake in San Francisco – and seen it portrayed utterly falsely in the media.



The rally was scheduled to begin at 6:00 pm, so I showed up around 3:45, and went to the back of a line of people about eight city blocks long. The people in line were pleasant and relaxed. Protestors worked the line, shouting “Dump the Trump!” and other slogans, but it seemed both sides were just having fun. There was a strong Chicago Police Department presence, but there was nothing menacing about it.

By 4:15, I got to the front doors of the Pavilion. Here about 100 protestors were massed across a wide street, held back by

hip-high metal fences set up by the police, the type you'd see along a parade route. The protestors had signs with various slogans – some of them obscene. They were shouting “Dump the Trump” and “Trump is a Racist.” But, again, there was nothing menacing about it.



A sign was taped to all the Pavilion lobby windows, advising attendees that this was a private event, and that disruptors would be removed. Just inside the front doors, everyone went through an airport-type metal detector. US Secret Service agents were supervising, and TSA agents were inspecting all purses and backpacks.



I got inside by about 4:30, and at that point the 9,500-capacity arena seemed about one-third full, with seating concentrated at the east end of the arena where the stage and podium were set up. There were about 300 people standing in front of the stage – they had been admitted to that area by being issued orange wrist-bands,

presumably having identified themselves somehow. Most carried small cardboard “Make America Great Again” signs. From time to time they tried

Contact TrendMacro

On the web at
trendmacro.com

Follow us on Twitter at
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Donald Luskin
Chicago IL
312 273 6766
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625
tdemas@trendmacro.com

Michael Warren
Houston TX
713 893 1377
mike@trendmacro.energy

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[Donald Trump's Presidential Run Began in an Effort to Gain Stature](#)

Maggie Haberman and Alexander Burns
New York Times
March 12, 2016

[The Trump campaign speech that could beat Clinton this fall](#)

Charles Lane
Washington Post
March 11, 2016

[Obama's Job Approval at Highest Level Since May 2013](#)

Andrew Dugan and Frank Newport
Gallup
March 20, 2016

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to get chants of “U! S! A!” and “Trump! Trump! Trump!” started, but it never really caught on.

[The New York Times coverage](#) of the event the next day began with this description: “...thousands of people already packed into stands and music blaring to warm up the crowd...” Even by 6:00 pm, the arena was never “packed.” I’d say it was 80% full. Music never “blared,” and the crowd was never “warmed up.” In fact, listening to the old Elton John ballads and operatic arias played over the PA system at very low volume, I sat there wondering just what was going to be done to create a little excitement. *This was no Nuremberg rally.* The atmosphere was about as charged as the costume contest at the Renaissance Faire.



While I was in my seat waiting, there were three separate times in which individual protestors on the floor of the arena were gently hustled out by Chicago Police or private security. I do not know what they did to provoke this. Each time, a few people nearby in the crowd on the floor gathered around them, chanting “U! S! A!”

The *New York Times* evokes thoughts of lynch-mobs when [it reports](#), “To witness the crowd turn on the protestors in its midst is to watch a feverish body, bucking and writhing as it tries to eject an invading virus.” Such a characterization of what I witnessed is an absurd exaggeration.

After the third such incident, at about 5:45, an announcement was made over the PA system, which I quote from memory: *Mr. Trump deeply respects the first amendment, as he respects the second amendment. He respects everyone’s right to express their opinions. However this is a private event paid for by Mr. Trump, and anyone who disrupts it will have to leave. Mr. Trump urges all his supporters, if they find themselves near a disruptive person, to act peaceably. Under no circumstances touch a protestor in any way. If security personnel are not nearby, start shouting “Trump! Trump! Trump!” and they will come and help.*

I am unaware of any media report or utterance by a candidate that has mentioned this announcement. But virtually all have told the other side of

the story, citing Trump's [highly inappropriate off-the-cuff remarks](#) endorsing rough handling of protestors.

At about 6:30, 45 minutes had gone by without further incident. The rally was then 30 minutes past its announced starting time. A man dressed like a Secret Service agent came on the stage, and spoke from the podium. I quote from memory: *Mr. Trump has arrived in Chicago. However, due to security concerns, this event will be delayed.*

The moment that statement concluded – *instantly* – as though it had been an expected signal, protests broke out throughout the arena: on the floor, and in the audience. *The audience had been completely infiltrated. I'd estimate that about one in ten persons in the arena was a protestor.*

- About a third of the hundreds of persons standing on the floor in front of the stage – who had been admitted there with orange wristbands – stripped off their jackets revealing t-shirts with slogans such as “Trump is a racist!” “Dump Trump!” and “Stop Trump!” and producing small cardboard signs with the same slogans.
 - In the front row of the balcony, directly in front of me by two rows, six people sitting together whipped out a huge handmade banner reading “Trump = Hate” and unfurled it to hang from the balcony. They chanted “Trump is Hate!” waving raised fists, and the chant was picked up throughout the arena.
 - At the far end of the arena, protestors in the floor-level seats produced two very large flags – one of the nation of Mexico, and another that I did not recognize. Both were being carried on long flagpoles.



- About 50 of the protestors among the standees by the stage locked elbows and formed a human chain, forced themselves past police and the media, and joined a swarm of protestors at the far end of the arena clustered around the flags. The protestors, some of whom were now brandishing “Bernie” signs, began chanting “Bernie! Bernie!”
- It was these protestors who came as close as anything I saw to the *Times* description of “a feverish body, bucking and writhing.”
- Trump supporters for all intents and purposes didn't react at all. There was no bucking. No writhing. They looked stunned and



disoriented, and certainly disappointed that they weren't going to get to see the celebrity they came for. There were a few attempts to get a "U! S! A!" or "Trump! Trump! Trump!" chant going, but they were drowned out by the protestors' "Bernie! Bernie!" and "Trump is Hate!"

- About as violent as it got was when a protestor jumped up on the stage and tried to take the podium. He was gently wrestled away, resisting, by two private security officers. This scene is the one I have seen most often in televised coverage of the event.

This happened all at once. It was not a spontaneous little thing that grew. This was planned. This was coordinated.

After about 15 minutes, a recorded announcement on the PA system started, and repeated. From memory: *This event is over. Everyone must immediately leave the building.*



In only about five minutes, everyone had left the building. I was about the last one out. Outside the arena, the protestors behind the metal parade fences had about doubled in number from when I

had entered. They were taunting the Trump supporters leaving the arena. I saw only one who reacted to it at all, shouting at them "Filthy immigrants!"

What does this imply for the rest of the election?

- Both sides – the [Democratic candidates](#), and Trump's [GOP rivals](#) – are using this to demonstrate Trump's unfitness for office.
- As an aside, it's hard to see how it makes him *uniquely* unfit just because protestors disrupted his rally. Black Lives Matters protestors have disrupted many [Clinton](#) and [Sanders](#) rallies.
- But Trump is in every sense the front-runner – leading the GOP field in delegates, and both the GOP and Democratic fields in public fascination. He is, at this moment, the world's most celebrated celebrity. So anyone who wants a little publicity for himself or his cause can get it by disrupting him.
- *At the same time, Trump must relish this.* Among the "[moral foundations](#)" that motivate voters, [Trump appeals especially to the "authority-versus-subversion" dimension](#). To draw analogies both sacred and profane, his posture of strength in the face of protestors is similar to [Ronald Reagan's signature pledge](#) in his 1966 California gubernatorial run to "clean up the mess at Berkeley," or [Richard Nixon's slogan](#) promising "law and order" in his presidential run in the tumultuous year 1968. So disruptions like Friday night's just give Trump the opportunity to show what a mess the world is,

and say he's the man strong enough to restore coherency (see ["Sympathy for the Donald"](#) March 2, 2016).

- Should Trump be concerned that he can't campaign effectively if his live events are all disrupted? Perhaps they will draw larger crowds because of the element of the unexpected – the same way NASCAR draws fans hoping to see a spectacular crash. Or perhaps Trump will find he can get more publicity by cancelling events than by actually having them.
- *Put all this together, what happened in Chicago Friday emerges as a stable game-theoretic position for everyone.*
- In that sense it doesn't matter who staged it – [Move-on.org](#), the Sanders campaign, Black Lives Matter or even Trump himself. But it was most assuredly staged (otherwise, how did those flagpoles get in the arena?). *It was never for one instant out of control – that is to say, it was always in control. I just don't know by whom.*

This analysis would seem to suggest that campaign event disruptions will continue. It remains to be seen in whose advantage they will ultimately work.

One cannot help but think of the [Democratic convention in 1968](#) – in Chicago, with its "police riot" outside the hall – that arguably doomed Hubert Humphrey's candidacy. It is easy to think that, this year, campaign disruptions all the way to the Cleveland GOP convention on July 18, and beyond, would do the same thing to Trump.

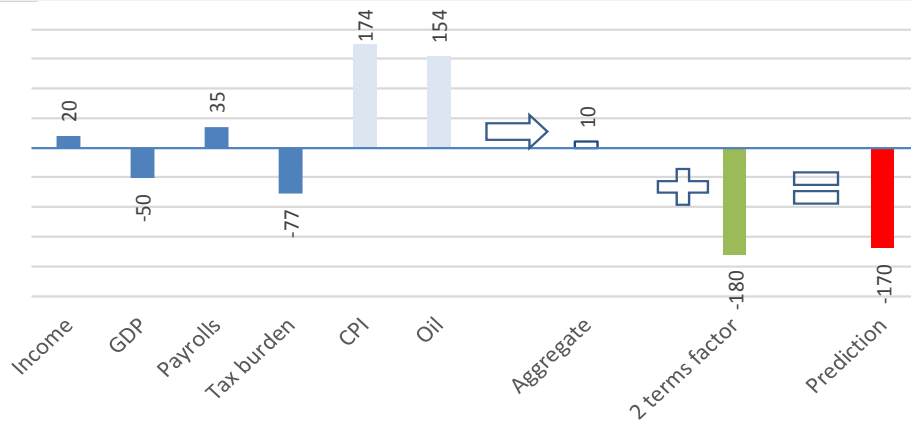
- But remember, Vice President Humphrey was running in the shadow of President Lyndon Johnson, whose Vietnam war position was so unpopular to have caused him to drop out of the race five months before the convention. Humphrey came into the convention having not won a single primary – only caucuses. Had Robert Kennedy not been assassinated two months before – releasing his delegates – it's not clear Humphrey could have even been nominated.
- Most critical, the protestors outside the hall in Chicago were fellow Democrats. The violence that erupted reflected an internal schism, not opposition from the other side. So coming out of the convention, he could not capitalize on the disruption by promising to crack down on the opponents who caused it.
- And Humphrey was running against the tide of history – in the modern era it's almost unheard of for either party to control the White House for more than two terms (see ["Modeling the 2016 Presidential Election"](#) November 12, 2014).
- If there is mayhem at the GOP convention in Cleveland in July, none of those conditions would apply. Trump is not tied to anyone's unpopular shadow. He is a demonstrated winner in primaries, who may indeed walk into the convention with the nomination sewn up. If there are violent protests outside, they will have been staged by the other side, and Trump can position himself as the strongman who opposes them (for that matter, it's hard to imagine protestors screaming "Hillary!" instead of "Bernie!" – so post-convention, when Hillary Clinton is the Democratic candidate, the protests may stop,

and Trump can claim credit for having stopped them). And *any* GOP candidate this year has the historical advantage of running against a member of a two-term incumbent party.

Right now our presidential election model shows a generic GOP candidate winning by a margin of 170 Electoral College votes. This margin of victory has been expanding all year as the economy has weakened, and now even more as oil prices have recovered (please see the chart below, and [“Have We Suffered Enough?”](#) February 26, 2016).

TrendMacro 2016 US presidential election model

Electoral college margin for incumbent party candidate



Source: Various, TrendMacro calculations

- For what it's worth, our model (in back-test) correctly predicted the 1968 election, in which Nixon's winning margin was a very narrow 110 Electoral College votes.
- One might not have expected such a close election, given Humphrey's manifest disadvantages. But our model was very close to spot-on, with a prediction of a GOP win by 86 Electoral College votes.

On the one hand, Friday's events up the ante on the election as a potential black swan for markets. But for now, we're going to operate on the assumption that this already crazy election year hasn't really gotten any crazier – it's just following the same crazy logic it always has.

Bottom line

With the disruption of Trump's Chicago rally Friday, a crazy election year takes a disturbingly chaotic turn, reminiscent of the incoherency of 1968. But that was a pretty good year for stocks. And the Chicago event wasn't as incoherent as it looked. I was there. It was definitely staged, with the UIC Pavilion deeply infiltrated by protestors who all simultaneously launched on command. Disrupting Trump is a stable game-theoretic position for all concerned – protestors get free publicity, and Trump gets to position himself as Reagan did in 1966 versus the UC Berkeley protestors,

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