



A PEEK AT THE WEEK THAT WAS - April 27, 2013

"Patient Capital.... Positioned for Profit"

A SEVERE CASE OF TWITTER JITTERS?

As we continue our weekly bark at the economic moon, let's look at the week that was. While it was (thankfully) far less tragic than the preceding seven days, it nonetheless, had its moments..

Looking at the markets...the Dow traded within a 137 point range, the S&P 22 or so and the Nasdaq, a measly 55. Pretty ordinary, range bound trading stuff really!

Wall St: *Nothing to see here folks...move along!*

Main St: *Hey...hold up a minute buddy...what's that I see? Looks suspicious.*

Wall St: *Oh that...it's nothing to be alarmed about...just some twits having a lark. Everything's under control! Just keep buying and you'll be fine.*

Unfortunately, we suspect that everything is not under control and that if we just keep buying, everything and everyone will NOT be fine.

Because on Tuesday, April 23rd around 10.00 a.m. this happened:



And then this happened....



The markets went into temporary freefall. Of course, explosions at the White House and injury to the Commander in Chief are big deals. But this was a tweet for gosh sakes! You can read more [here](#) and [here](#) but it's important to understand why this is [an important blip on the radar](#).

We have written and spoken often on what we consider the three D's of potential market destruction

- Derivatives
- Darwinian Deathwish Trading (read HFT...as in High Frequency Trading)
- Diabolical Debt

The three are not unrelated.

Constant money printing (debt) provides liquidity which is harnessed by super slick bankers who hire super smart engineers (who should be building bridges or designing rockets) to create super complex algorithmic formulae which are loaded onto super fast computers located super close to exchanges in order to place super sized trades on the US and global markets, often via super fragile derivative structures.

What could possibly go wrong?

This is not the first time something like this has happened...in fact, it happens all too frequently, but such is the speed of the action that few outsiders ever notice. But what if this was just a first foray of malevolent hackers to "test the market"? Studies have shown frailties in both the hardware and software of high frequency trading systems both in the US and internationally (ask the folks at Knight Capital, if you don't believe us). One of these days, April 23rd's rebound may not be so robust!

And, if nothing else, Tuesday's little Twit Fit has shown the power of social media to all, including the Darwinian traders, some of whom will be figuring out a way to take advantage of its obvious influence in the future. After all, survival of the fittest is no easy business...especially on Wall St. To learn more about the vulnerabilities of high frequency trading, click [here](#) and [here](#). Like taxes and political ineptitude, this may be a gift that also keep on giving. **Caveat emptor!**

THE GREAT GOLD HEIST (Cont.)

We look back on last week's gold action and see it as a seminal moment in the shiny stuff's secular bull market. While the futures (paper) markets were melting down, the physical market was melting up, as retail purchasers flooded bullion sellers from Miami to Mumbai. Maybe that explains the relatively strong rebound in the spot price this week.

We suspect that the heisters will think twice before exposing themselves to the possibility of physical delivery next time they decide to go massively short. We also think the gold story has a long way to go so we're making it the focus of our upcoming [Monthly Market Musings](#), expected to hit your in box next week. A lot of fascinating stuff. Stay tuned.



Finally...some interesting tidbits from the week gone by

Aussies like Chinese - During the week, Australia and China announced they would soon trade in each other's [currency](#), bypassing the U.S. dollar. Australia's central bank is committing to plunk down 5% of its foreign exchange reserves on Chinese government bonds. To us, this is one of those small things that no one notices in a vacuum but when you plunk it down with stuff like [this](#) and [this](#)...you start to wonder about the longevity of the US dollar as the default reserve currency of the world at large. While Ben prints, others

ponder...and partner.

Meanwhile, one Chinese national is launching her own currency war - As if poor old Inventive Ben doesn't have enough on his mind with budding currency wars between Japan and South Korea...now he has to deal with Liu Hua, a presumably feisty lady from Yunnan province who has dared to assert that the Fed has been devaluing the US dollar and therefore doing irreparable harm to the economic efficacy of the US\$250 deposit she made in 2006. How dare she? Let her eat cake Ben! The last thing you need is a few hundred million Liu Huas forming the largest class action lawsuit in the history of womankind.

And one bet you just can't lose - They say that there are three things in life that are certain:

1. Death
2. Taxes
3. Central Bankers will print money until they can't.

But we think you can add this one as a sure #4. It's called Term Limits for Congress.

Nevertheless, one Kentuckian, US Rep. Andy Barr is having a go with his House Joint Resolution 26. Good on him and we wish him well, but if anyone is taking odds on this passing, please let us know as we would like to place a bet...against. Meanwhile, closer to home in the Empire State (of course), we have US Rep. Jose Serrano proposing that presidents should be forever via his House Joint Resolution 15. Such is the sorry state of politics in our formerly great republic that we would certainly not bet against such an outcome. Caesar Barackus anyone?

Til next week...

"Ignorance is the curse of God. Knowledge is the wing wherewith we fly to Heaven."
William Shakespeare



www.cravencapital.com



212 797 0217



bmacnish@cravencapital.com

Craven Capital is located at 11 Hanover Square, 6th Fl., New York NY 10005

The information above is not and is not intended to be considered or treated as legal, tax or investment advice. Please consult your own lawyer, accountant or investment advisor on such matters.

PO Box 140 | New York, NY 10027 US

