A PEEK AT THE WEEK THAT WAS - June 08, 2013

"Patient Capital.... Positioned for Profit"

FROM STRONG HANDS TO WEAK CLENCHED FISTS!

Last we for reasons why the bankers and bureaucrats were so keen to bail in depositors in order to bail out the TBTF banks. We discovered one thing that might be keeping some of them up at night...a huge deriviatives betting pool, funded with funny money and potentially empty promises. As some of our astute readers pointed out, we didn't even go into the whole leverage side of the game, where big bets are often backed by borrowed money. No surprise then that we find that hedge fund margin (borrowing) levels are back to the heady days of 2007.

There is a general perception that hedge funds are all very smart and usually get it right. The reality is that for the most part, the bulk of hedge funds are followers, not leaders. While a small minority of hedgies are really scary smart, they are a long way ahead of the herd. So the fact that many hedge funds have borrowed to the hilt is not necessarily a good sign for Mr. Market and the party at Club S&P 1700. Sure, it's more of vodka for the punchbowl. But it won't stop a fight breaking out in the corner...or some idiot yelling "fire".

So we need to take a look at what might happen if all those trillions of derivative dollars go up in smoke. Remember, it's all paper. Promises papered up here, promises papered up there and all backed by funny paper money. If and when that fire starts blazing and the **bail in sirens start wailing**, people will look for anything that is REAL. This brings us to our thoughts for this week...thoughts on a quiet transition of ownership of lucky #79 on the periodic table of elements...our favorite precious metal...**gold**.

Of course, we hear some of our readers groaning...*"here they go again...prattling on about that barbarous relic from bygone ages...why don't they write on something relevant...like the market's stellar performance on Thursday and Friday?"*

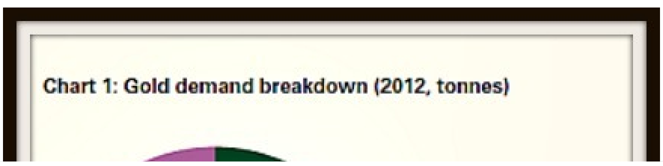
Sorry...but anyone can turn on CNBC and hear the crooners making sweet market noise. We are looking for the unusual and the uncovered. And **the transition of physical gold from purportedly strong institutional hands to purportedly weak individual hands is extremely newsworthy**...and will ultimately be hugely impactful to the bottom lines of astute investors the world over.

We are not concerned with conspiracies or contraband. At Craven Capital, our focus is markets and market opportunities. Disequilbriums between demand and supply typically create great risk / reward set ups. This one is shaping up as a classic for the ages.

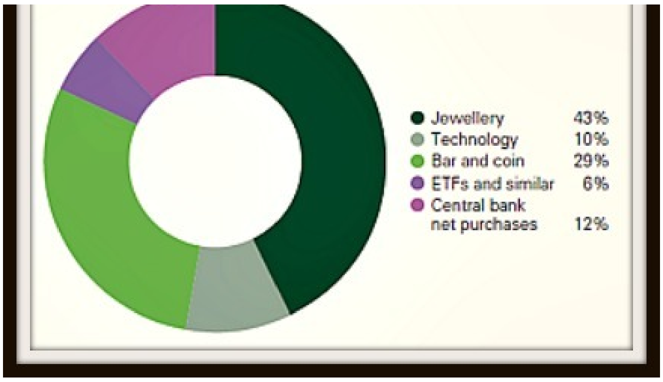
It may take us a few weeks to fully prove our case but if you bear with us, you will be much the richer for it. Turn off CNBC for a moment...you will not miss anything.

And trust as when we tell you that at some point, the price of gold being quoted on that same CNBC will have nothing to do with the real price of the real stuff in the real world. The paper and physical markets will literally go their separate ways...and that will not be the time to finally go looking for some shiny stuff for yourself.

Let's get started, shall we...



Take a look at this chart from the World Gold Council and you will see that gold has a relatively



compact clientele.

The large majority of gold demand is from "weak hands"...72% goes into making jewelery, bullion bars and coins.

Central banks are responsible for 12%, while technology literally gobbles up 10%.

Incidentally, for a fun and informative look at the broad array of uses for gold in technology, click here.

Finally, despite all the hoopla we hear about exchange traded funds (ETFs) like GLD, they accounted for just 6% of overall demand in 2012.

Let's take a quick trip around the globe to get an idea of how much demand there is for physical gold among the 72% crowd:

In **India**...the world's largest importer of gold, spot gold prices have risen by almost 500% in the last decade and demand continues unabated, depite the government's attempts to quell demand through increased import duties. From the Wall St. Journal...

> *India is the world's largest net importer of physical gold, which is popular for wedding gifts and as a store of savings for rural dwellers who have no access to banks and fear inflation will wipe out savings held in paper currency.* To read the full article, click here.

Standard Charterered Plc, which provides gold shipments to India, said that sales for the third week of April broke their previous record by 20%. Gold is a way of life in India. These are not speculators. These are hoarders. Don't expect them to sell any time soon. For more about this mentality, click here.

China - In previous Peeks, we've noted the Middle Kingdom's fixation for the shiny stuff. They produce more than anywhere else and they are prodigious importers...so much so that they are now giving the Indian's a run for their money. From Forbes....

> *Quarterly investment in bars and coins surged to a new record of 109.5 tons in China, compared with a five-year quarterly average of just 43.8 tons. While world gold demand is down, Chinese and Indian gold demand is rip-roaringly high. For instance, in India, gold imports jumped a 138% last month. Total demand in the first quarter was 257 tons, up 27% from the same quarter last year. Retail investment was up 52% while jewelery was up 15% from the same period last year.* Click here for the full article.

Japan - Over in the Land of The Sinking Fund, Mrs. Watanabe is giving Mrs. Wang a run for her money. The headline from the New York Times of April 17 reads...

Japanese See Gold as Hedge Against Stocks and Yen

The headline from Reuters a day before, tells a similar story...

As global price slumps, "Abenomics" risks drive Japan gold bugs

And Downunder in **Oz**, the locals have a bit of gold fever too. From The Age on April 14...

*Gold sales from **Perth Mint**, which refines nearly all of the nation's bullion, have surged after prices plunged, adding to signs that the metal's slump to a two-year low is spurring increased demand. "The volume of business that we're putting through is way in excess of double what we did last week," Treasurer Nigel Moffatt said, without giving precise figures. "There's been people running through the gate."*

IN GOLD WE TRUST?

So the world's largest gold consumer, India, is buying more. The world's largest gold producer, China, is selling none and buying more. The world's third largest economy, Japan is buying more. So how about the good ol' US of A?

Seems like a lot of Americans have the bug too.   According to Richard Peterson, acting director of the **US Mint**...

> *The appetite for US American Eagle gold and silver bullion coins is still at unprecedentedly high levels almost two months after a historic sell-off in gold unleashed years of pent-up demand from retail investors...*

The US Mint reported sales of over 5 tons in April which is more than the previous two months combined. They have completely sold out on 1/10 oz coins, a first complete depletion of its kind in the US gold market. The small denomination in coin purchase shows that this is a Main St. phenomenon as Joe and Jane Average show that maybe, they are not so average after all.

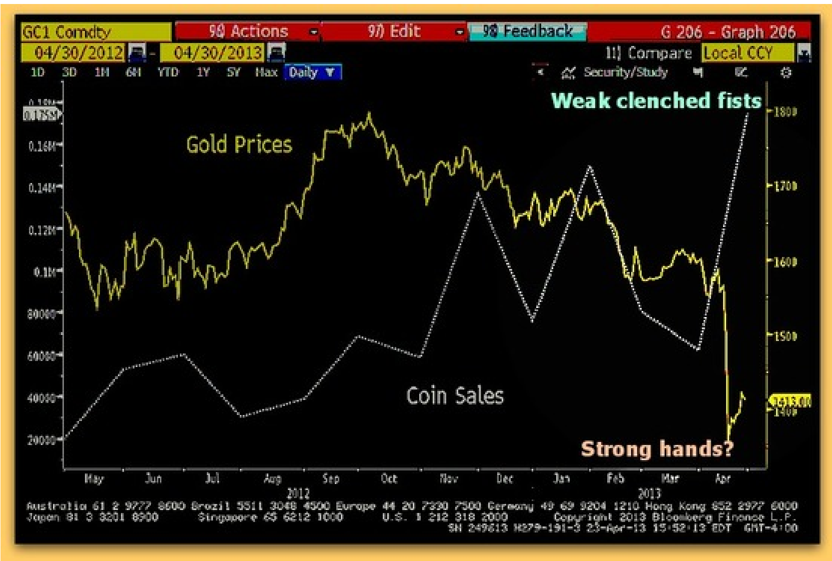
Across the pond to the Old Dart...those happy isles...whose best rugby manhood is banging heads in the Antipodes...**Britain's Royal Mint** has sold three times more gold in April compared with the same time a year ago. Shane Bissett, Director of Bullion at the Royal Mint, estimates that sales were up 150% compared with the previous month as a clearly increased demand for physical gold is apparent.

So what do we have going on here?

Elementary my dear Watson...the world's meek...from Main St. to Mumbai...are buying as much physical gold as they can get their hands on. And...for the most part...they are NOT selling. In other words...72% of the demand pool is not going away...and if anything...will continue to grow until the point where frequency becomes frenzy.

So what is the next biggest market segment...our friendly cadre of Central Bankers doing...apart from printing money? We'll tell you next week...and maybe...just maybe, set off some alarm bells in the process.

In the meantime, take a look at the chart below which map paper gold prices (the London "fix") against the real stuff...gold coins...from April 2012 till April 2013. Price goes down, demand goes up. There's those 72% at it again.



A HILARIOUS HITLERIAN TAKE ON CYPRUS

This video has been around in various iterations more times than we can remember, but this version on Cyprus has Adolf at his worst...or best. If you're in need of a chuckle then this is worth a click here....

Or if you would prefer the take on Cyprus by those dry witted Aussie duo of Clarke & Dawe, click here but beware, this is VERY dry humor...or humour...if you prefer.

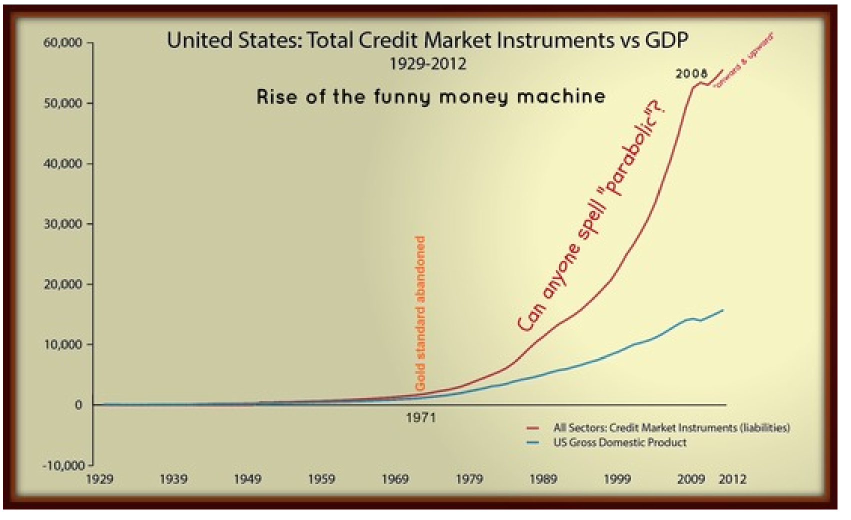
CHART OF THE WEEK

Next week, we will continue looking at the big gold dislocation and if we have time, we'll take a peek at Sallie Mae, whom we are told, is looking decidely bloated lately. We haven't forgotten Misu Bondo at Club JGB either...but there is only so much time.

Our chart this week once again comes courtesy of the great Grant Williams (and the not so great St. Louis Federal Reserve). It charts the rise in debt in the USA verses GDP. Notice how debt has taken off since Tricky Dick Nixon took the US off the gold standard back in August, 1971.

Charts like this makes us very nervous...not only because parabolic moves usually end in tears...but also because it underscores the fact that we are living on borrowed time...or more correctly...time borrowed courtesy of future generations. Fractional reserve banking, aided and abetted by the friendly Fed, has created an artificial paper world of easy credit...a world which feels very real, until it doesn't.

Off the charts credit, out of this world derivatives, out of control bankers, unfettered politicians...no wonder Main St. is buying gold and China is buying anything they can exchange Ben's funny money for.



Til next week...

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

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