Patient Capital.... Positioned for Profit

A PEEK AT THE WEEK THAT WAS - August 3, 2013

Last week it was interesting for gold. This week, it is interesting for the markets.

Club S&P 1700, boosted by Bartender Ben's promise to keep the vodka flowing finally lived up to its 1700 moniker.

Good for you Ben! On Wednesday, our #1 bartender basically promised not to take the punch bowl away...ever! Well, at least not during his shift, which is shortly coming to an end. He'll even keep refilling it at his accustomed rate of 85 billion quarts each month.

This is just the type of party that the retail brokers and their mom and pop clients have to be at. It's now very "in". But, as we'll see this week, Mr. Market's appeal may be wearing off for some of the more seasoned clubbers. And we'll check in with the ever sober Dr. Copper to get a sense of whether he's thinking about joining the party or not.

We'll also take a look at one of the few reasons that it may be better to be over 55, than under 25. But in either case, we don't think it's good for Barry's Obamacare or for the general welfare of the Great Republic.

Thankfully for most of you, we're off the gold trail for a bit. We think we've made our point, but we can't resist one little snippet which may prove that some unusual folks are starting to notice the shiny stuff.

Finally, and moving to the deep south, we'll check in on the Aussie dollar and see how much more expensive it has become for the Ockers to travel. That precipitous slump certainly qualifies for our chart of the week.

MOM AND POP GO A'CLUBBIN'...

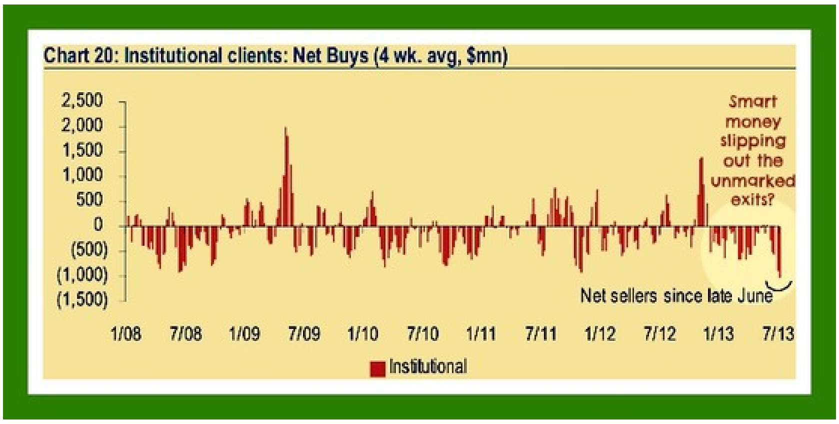
At Mr. Market's Club S&P 1700, the party is in full swing. Bartender Ben is serving his swill, the music is pumping, Mr. Market is dancing on the marble bar and the crowd is loving it. They can't get enough of the intoxicating aura of Ben's exclusive cocktail...the "wealth effect". Before too long the CNBC band of renown will be playing their old favorite Prince song...***Party Like It's 1999***....remember those heady days? We do. The moms and pops were flocking to Club S&P 1500, as it was then called. Allan (the Artiste) Greenspan was pouring the booze back then. Not nearly as affable as our Ben, but he could prime the punch bowl pretty well for an old geezer.

We're sure it was pretty similar back in 1929 too. So let's hope the CNBC favorite doesn't end up sounding like this classic Prince parody...***Party Like It's 1929.*** C'mon, have a laugh. You'll enjoy it...and Ben has assured us it will never happen again. Click here for the giggles!

Anyway, as we'll see, some folks are slipping out the back door of Club S&P. In so doing, they're making enough room for those late arrivers out front, desperate as they are to get through the velvet ropes and past the burly bouncers.

They are finally in Club S&P. It feels good. And they are texting their friends and telling them to come on down. This party may go on for quite a while longer yet.

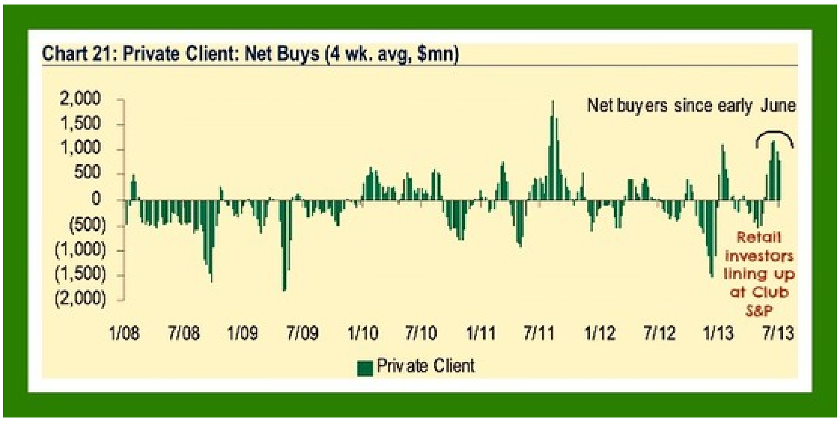
OK...with the party in full swing, let's take a look at who's who in the clubbing zoo! Well, no surprise here. To us, it looks like the so-called smart money...the big institutional clients are easing out the back door. Perhaps they've had enough of Mr. Market's moves for now. The chart below, courtesy of BOA-Merrill Lynch, shows that for the past six months and increasingly in the last month, there have been many more institutional clubbers leaving the party, than joining. Quite a lot more.



In the meantime, the private clients...the retail folks who refuse to buy when things are on sale...have decided that it's time to party again like it's 1999. No doubt their brokers are delighted. They love to see their clients get all juiced up. It's good for business. Better for bonuses.

As you will see below, again from BOA-Merrill Lynch, in recent times the moms and pops are eagerly lining up to join the party at Club S&P. And they have plenty of money to plop down on what they see as a risk free deal. Of course, the market is going to 2000. We can party like rockstars and there will be no hangover. Ahh....that wealth effect feels good, doesn't it!

Folks...we're sorry...but the simple fact is that if you consume too much vodka in too short a time...a hangover is as inevitable as death, taxes and imbecilic central bankers.



When we look at a comparison between the weird and wonderful world of Mr. Market and the real world of Dr. Copper, we see another divergence of opinion. If we track the party performance of the exuberant Mr. Market against the dour Dr. Copper, from the beginning of the year, we see that Dr. Copper is definitely out of favor. So while everything in the paper party of Club S&P is going up, the demand for the real stuff that is used to make real things has gone down, reflected in a price drop from over $3.70 per pound down to around $3.17.

In other words, while the price of admission to Club S&P is up almost 20% year to date, the price of copper is down almost 15%.

Which leads us to a few questions for Bartender Ben...

> *Q1. Ben, if everything is going so wonderfully in the economy, why do you feel it necessary to keep printing $85 billion each month?*
>
> *Q2. If things are as great as Mr. Market would have us believe, how come there is not more demand for real stuff?*
>
> *Q3. How many calories are in your famous "wealth effect" cocktail and does it have any nutritional value whatsoever...or is it, as we believe, just another sugary intoxicant?*

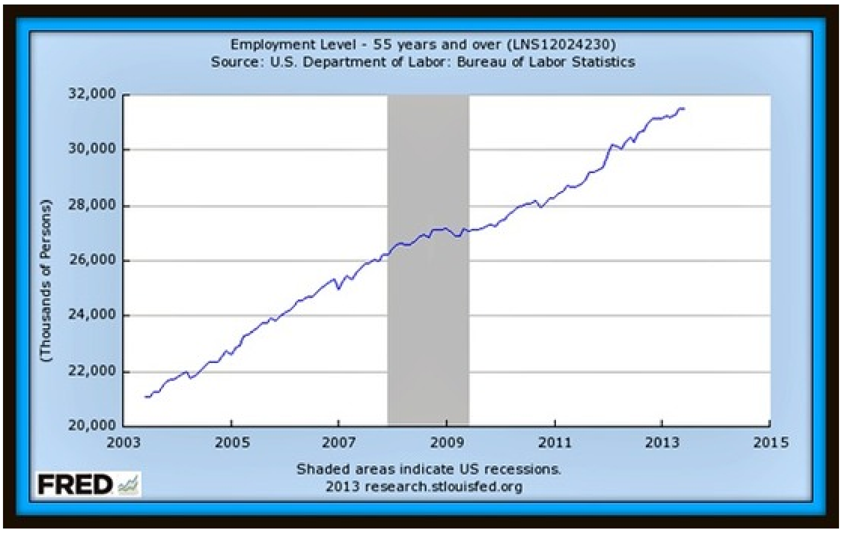
Just asking...

**IN THE EMPLOYMENT WORLD, BOOMERS RULE...MILLENIALS MEANDER...
AND IT'S OK TO BE STUPID!**

That enigmatic Irishman, GB Shaw is credited with saying that ***youth is wasted on the young***. How true. We are credited with coining the phrase what while ***aging in mandatory, maturity is optional.***

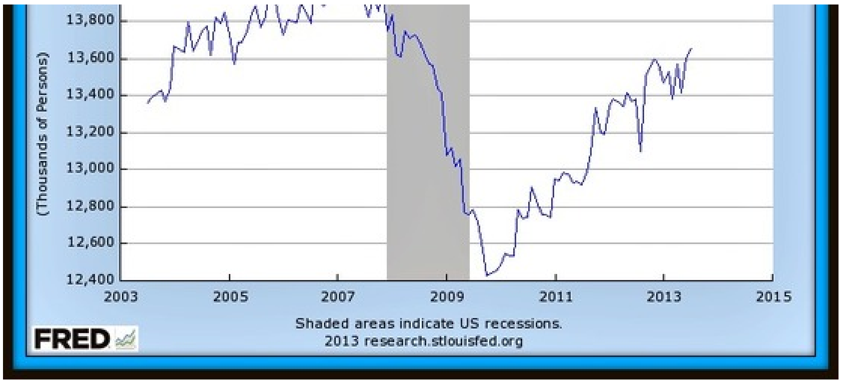
We prefer optionality. But when it comes to the US job market, it seems that age, if not maturity, has its advantages. While the hip youngsters struggle to find gainful employment since the so-called Great Recession, the bustling boomers have fared pretty darn well. Take a look at the two graphs below, inspired by the inimitable John Mauldin and courtesy of the St. Louis Fed. (or Fred, as those friendly central bankers are fondly known).

The grey area marks the Great Recession. The blue line tracks unemployment. Notice how those over 55, some of whom gleefully act like they are 25, virtually cruised through the 2008 debacle and continued to accelerate up the employment curve.



Now let's look at how those lucky under 25s. The chart below tracks how those aged 20-24 have fared in the employment stakes. Remember, these are our best hope for the future. Barry's Obamacare depends on legions of these healthy, young, fit (we jest, of course) whipper-snappers signing up for his medical insurance scam so that the system can afford to provide cover for all those aging boomers who insist on partying like its 1999.

The fact of the matter is that these kids often can't get jobs because they simply can't add value...other than flipping burgers **or blending a Venti, triple-shot non-fat, sugar-free, cinnamon dolche latte, with whip**...*actually hold the whip...my jeans are tight enough already!*



Let's face it...those jobs numbers that came out Friday (if you believe them) were not stellar. As we've said, you need 150,000 new real jobs every month just to keep up with population growth. Take out all the BLS BS (birth / death ratios, etc.) and the162,000 number is insipid at best. But that's not even the worst of it. The quality of the new jobs is just not there.

From Yahoo Finance...August 2, 2013:

> ***We Have Become a Nation of Hamburger Flippers***
>
> *According to (Westwood Capital's Dan) Alpert's analysis, 69% of the jobs created in the second quarter – and 57% in the first half of 2013 – were in the three lowest-paying sectors of the economy: retail trade, administrative and waste services, and leisure and hospitality. These jobs, which account for 33% of all private sector jobs, pay an average of $15.80 per hour.*
>
> *"What you're seeing is now the spreading of low wage growth," he says, noting those trends continued in Friday's July jobs report. "Really we have become a nation of hamburger flippers, Wal-Mart sales associates, barmaids, checkout people and other people working at very low wages."*

To read the piece and watch the video interview...click here.

The sad reality is that since the 1960s, the US has suffered massive deflation in our educational standards while the "educators" have inflated the grade levels so that everyone is seemingly an A student. It matters not that they cannot put a sentence together and that much of their conversational ability is restricted to texting.

But not to worry, former presidential hopeful and current Secretary of State, John Kerry, says that it is the right of Americans to be stupid.

From the Mail Online...August 3, 2013:

> ***John Kerry says Americans 'have a right to be stupid'***
>
> *Kerry told the story to a group of young people in a packed Internet cafe in Berlin as he defended U.S. freedom of speech laws, saying that 'In America, you have a right to be stupid.'*

We kid you not. We checked the founding father's eternal formative document and could find rights to freedom of expression and association and due process and arms....but for the life of us, **we could not find a right to stupidity**. Maybe we are too stupid to find it. We probably couldn't learn to make a fancy coffee either.

You can watch the Secretary's little gem of a speech here. And just for fun, you might want to compare Kerry 2013 with Kennedy 1963. Both were speaking in Berlin but that's the only similarity. To travel back to June 26, 1963 for a taste of what was the excellence of America's promise...and hopefully one day will be again...click here. It is a classic.

OH NO...NOT GOLD AGAIN???

Well, just a wee bit. Only because to us, it's interesting.

From the NY Times, Business Today...July 27, 2013

> ***Budging (Just a Little) on Investing in Gold***
> ***By N. GREGORY MANKIW***

This is an interesting read, with some interesting facts on gold, most of which have been presented here already...much to our readers' chagrin, we imagine. But the critical part is not so much the content but the contributor. You see Nicholas Gregory Mankiw is an American macroeconomist and Chairman and Professor of Economics at Harvard University. He is one of those New Keynesian chaps who was on George W. Bush's Council of Economic Advisers. He is influential and he is finally recognizing that a little bit of gold may be a good thing. One day, a lot of regular folks are going to conclude the same thing and all those 2% weigtings are going to add up. He concludes the article with...

In the end, I abandoned my initial aversion to holding gold. A small sliver, such as the 2 percent weight in the world market portfolio, now makes sense to me as part of a long-term investment strategy.

Now, admittedly he's not buying canned beans and ammo. But then, neither are we!

And neither is the legendary Richard Russell, author of the oft revered Dow Theory Letters. He has noticed that GDX was, at least until Friday, trading above its 50 day moving average (DMA) which he thinks is bullish for bullion, on the basis that the miners tend to move ahead of the price of the shiny stuff itself. Unfortunately for Mr. Russell, GDX closed Friday slightly below its 50 DMA. It will be interesting to see what where it goes from here...but we have our suspicions.

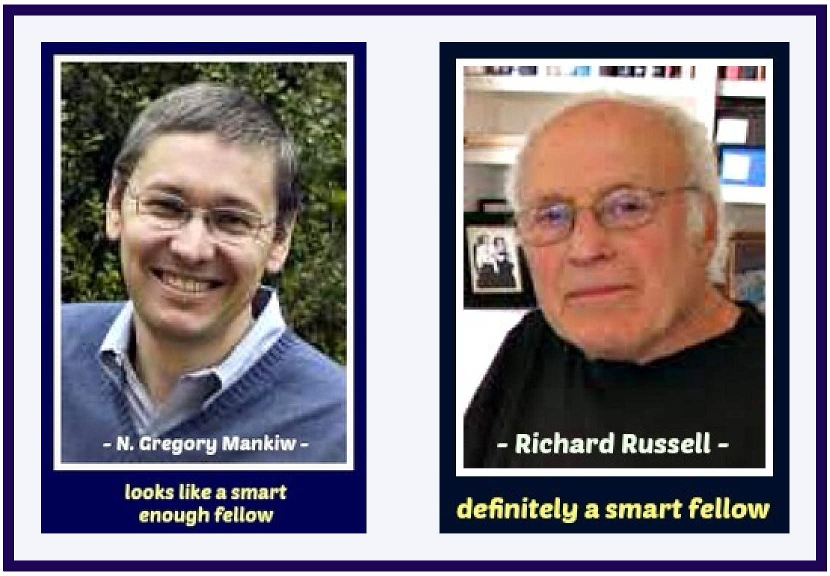


CHART OF THE WEEK - ANOTHER LOOK AT THE OCKER DOLLAR

In our May 25 Peek we made a comment about the Aussie which a lot of Ockers were not happy with. At the time, the Aussie dollar was around 98 cents against the US dollar. Last week, it popped down to 89 cents. We suspect that the slide is not over.

Why would we say that? Let us count the ways:

1. The AIG-PwC Australian Performance of Manufacturing Index (PMI) for July dropped -7.6 pts to 42.0. Over 50 is growing. Under 50 is contracting. By the way, AIG is not AIG of almost bankrupt, then bailed out and now robust insurance fame. It stands for Australian Industry Group. PWC is Price Waterhouse Coopers of course. They conduct surveys of industry. For the latest one quoted above, click here.

2. Respondents to the survey mentioned things like weak local demand, poor confidence and political uncertainty as the things on their mind. Australia goes to the polls soon, amidst a lot of political rancor...nothing new there!

3. Only 1 of the 12 industries covered in the survey (Food & beverages)) is now expanding. More burger flipping and coffee drinking...well...maybe some beer too, knowing the Aussies.

4. The survey notes that "there are particular challenges for manufacturers selling into **construction supply chains**, or bidding for **public sector contracts**, and, most recently, **demand for mining services has slumped**. In fact new orders deteriorated in all subsectors in the month. Not good at all.

So even with a cheapening Aussie dollar, conditions in the manufacturing sector remain very challenging and likely to remain so over the coming months. We also suspect that come the election, there will be a new conservative government. They will then start looking under the hood (actually, it's called the bonnet in Oz) and conclude that the former treasurers, especially Wayne Swan, were cooking the books and that the numbers are far worse than anticipated. They will declare that drastic action needs to be taken to save the Antipodean world.

So unless the Chinese suddenly need or want more of what the Aussies typically dig up, we suspect that international travel for the locals will continue to be expensive for a while to come, and may get more so.

Til next week...

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

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