A PEEK AT THE WEEK THAT WAS - September 14, 2013

Patient Capital.... Positioned for Profit

You cannot simultaneously prevent and prepare for war

Albert Einstein

In last weeks' Peek, we took a look at currency wars, wild turkeys, the Fed's folly of trying to stop booms and busts and why America's resources pretty much ensure that it will be great again.

During the week just passed, war was again the popular subject...with gamesmanship a popular second.

Caesar Barackus went before the nation with a plea to save all of us, especially the children, from insidious chemical weapons. In the meantime, clever Vlad Putin was out-maneuvering the CIC in an international game of political chess with serious implications.

> Result...for those who can remember...**Spassky 1, Fischer 0...or in more modern terms...**
> **Czar 1, Caesar 0.**

Valiant Vlad then went to the Great Gray Lady, the New York Times to crow a little...or a lot...with his " Plea For Caution" oped piece. Russians pleading caution and peaceful solutions...a bit like Count Dracula asking for extra garlic on his spaghetti ala olio, don't you think?

But who are are to blow out Vlad's victory candle, for these are fascinating times indeed.

If you want to laugh at the absurdity of it all...and we should all take time to laugh (while it is still legal)...then take a moment to view this satirical look at the social media's approach to supporting Caesar in the next great conflict...**World War III**.

Trust us...it will be worth a couple minutes of your valuable time (3 3/4 minutes to be exact). And remember...this is satire folks...although it could be all too real one day...as tragic as that may be.

Click here for the cynical giggles. And be fast...Barry's minders are hell bent on getting this off the web ASAP. And by the way, if it appears that we are picking on the President this week, it is only because he happens to be electively in charge. We are equally dubious of all elected representatives of any political persuasion.

Moving on to more serious stuff, this week we accept the Fed's mea culpa on booms and busts (via one of their own) and we'll suggest a couple of new reasons why you should buy some shiny stuff as the price comes under recent pressure.

We'll also take a peek at a novel way for the US to solve its upcoming debt ceiling problem by taking a note out of the Polish playbook.

In the interests of time and space, we'll have to shelve our continuing coverage of the raging currency war for a week or so but don't worry, it has a long way to go.

Our charts (actually very informative pictures) of the week will serve to underscore why we cannot believe everything...or anything...we read in the Main St. media.

Oh...and a bonus piece of fun, we've thrown in a quick quiz for those dim-witted enough to read to the very end. Of course, if you read that far, then you clearly have too much time

on your hands and will want to test your knowledge of current affairs. We bet you can't score 100%.

"While boasting of our noble deeds we're careful to conceal the ugly fact that by an iniquitous money system we have nationalized a system of oppression which, though more refined, is not less cruel than the old system of chattel slavery."
-Horace Greeley

Indeed, many believe that we are slaves to the system. And true it may be. Certainly, we seem to be at the whim of the market. And Mr. Market has been in a good mood this week as bad news is deemed good news because it lessens the likelihood of Bartender Ben reducing his generous pours.

In fact, his minions are dusting off the "1700" sign with a view to hanging it back up at Club S&P next week in anticipation of the upcoming Fed policy setting meeting. The sign may go up but we maintain our conviction that it will not stay up for long and will thereafter be nowhere in sight for a significant period of time.

Such are the way of booms and busts, bubbles and bursts, triumphs and tears.

Last week, we took a look at how well the Fed had done in controlling Mr. Market's moods over the past century. If we had to grade it....then let's just say that the Fed would not be in the graduating class of 2014. And by way of timely vindication of our admittedly sarcastic assessment, one of the Fed's very own has come out and confessed that...well...yes...when it comes to controlling booms and busts, the Fed doesn't have a clue.

This confession comes from none other than John C. Williams, President and CEO of the Federal Reserve Bank of San Francisco, in delivering a paper to the National Association for Business Economics on Sept. 9, 2013.

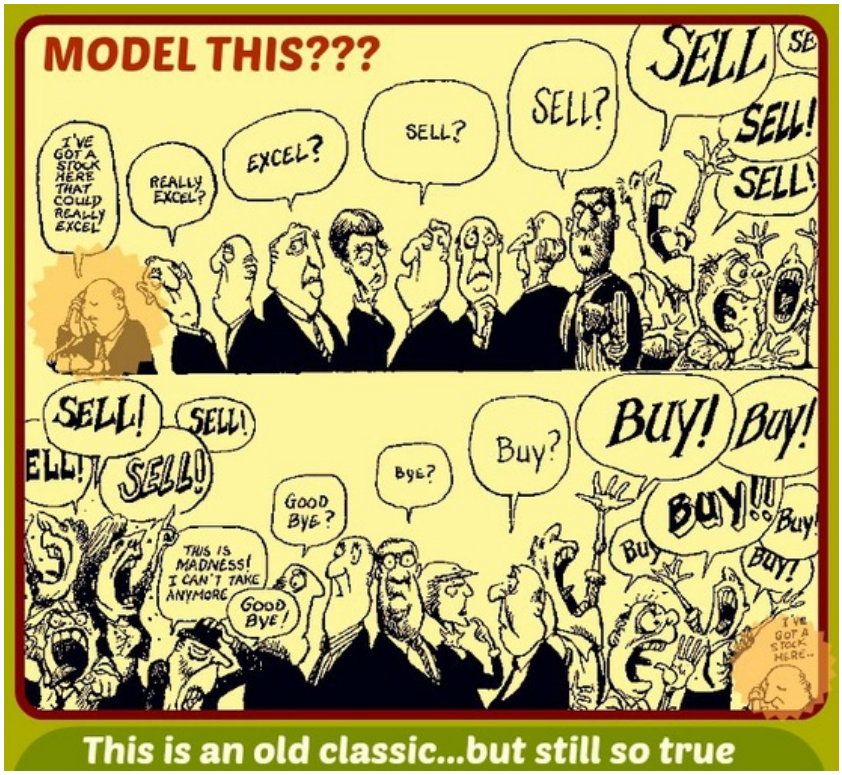
The paper (which you can read by clicking here) was full of the usual rationalistic babble but most importantly for us, concluded by saying...[as usual the emphasis and snide comments in red are ours]...

> *The lesson from history is clear: **asset price bubbles and crashes are here to stay**.[oh really?] They appear to be a **consequence of human nature**. [How can that be? You economists told us that this was all science...math and physics and stuff like that...now you are saying that human emotions play a part? Wow! Who knew?] And the events of the past decade demonstrate the **enormous human costs of asset price bubbles and crashes** [Oh no...don't worry..we're getting along fine, espeically us boomers].*
>
> *To understand the past and avoid a recurrence of the devastating events we lived through so recently, **we need to acknowledge that investors and financial markets do not behave the way rational asset price theory implies** [gasp...you're kidding us?]. We need to **incorporate these channels into the models we use for***

forecasting, risk analysis, and policy evaluation *[oh yeh...those models worked just peachy in the past didn't they?]. This opens up a world where actions, including regulatory and monetary policy measures, may have* ***unintended consequences*** *[careful...we believe those two words are on Ben's banned list]—such as excessive optimism, risk taking, and the formation of bubbles—that are* ***assumed away in standard rational models*** *[why not ditch the models....hey...why not ditch the Fed?].*

Of course, this is a difficult task, and successful models are likely to be far more complicated than the simple and elegant rational models we have relied on in the past. But, it's essential if we want to ***design policies that foster robust economic performance in the future*** *[might we suggest a re-read of Adam Smith and Ayn Rand instead].* ***Thank you*** *[for at least the admission, Mr. Johnson, if not the proposed solution...more of the same models...hey...why not add focus groups...you can't do any worse?].*

OK...so we know that the Fed was not created to stop booms and busts...but they keep trying anyway. Next week we'll look at what Congress said they should focus on and see how they went on those. Stay tuned.



This is an old classic...but still so true

"There's fool's gold—pyrite—and then there's fool's gold—gold owned by idiots willing to trade it for worthless dollars. "

— Jarod Kintz, This Book Has No Title

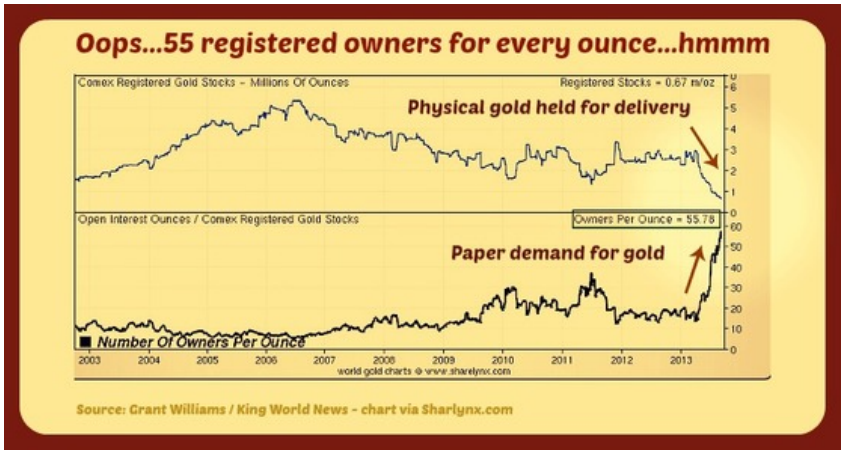
Oh no...not gold again. Well...yes. But only briefly. The shiny stuff and it's sheeny little sister, silver, have both copped a bit of a pounding in the last week or so, while Mr. Market has gotten back up on the bar room table. A number of our good readers send us dire warnings on the price of gold, which we appreciate greatly. For example, Goldman's price target for gold in 2014 is $1,050 and they think it might shoot lower than $1,000. You can read more here. Another article, which you can read here, challenges gold's effectiveness as a safe haven and as an inflation hedge.

To our friends at Goldman and others, we would say...phooey! We do not think that gold has even begun to be tested as a safe haven or as a hedge against inflation.

In fact, while most still believe in Bartender's Ben's baloney, it will not. But belief and confidence, as we have said many times before, are flimsy at best. And when they change, they change quickly and widely. But let's just say that Ben is right and all is well with the world. We think it matters little because when we look at the shiny stuff and the sheeny stuff, we see the issues as pure supply and demand.

Quite simply, precious metals comprise a small market that has tight supply and a tendency to manipulation. Supply is relatively constant. Demand is extremely variable and is driven by both emotional and fundamental factors. The charts below show how both may play out in the future.

The chart immediately below tends to reflect the emotional / trading side as it shows the increase in demand for paper gold verses the ability of the COMEX in this case, to deliver physical gold. If, at some point, the paper demand must be satisfied in physical gold, the lid has to come off. Look carefully at the chart below and you will see that as paper demand for gold increases, the market's ability to deliver the physical stuff decreases...to the point, where every ounce of gold has over 55 claimants. Someone is going to be disappointed.



In the meantime, with advances in medical science happening literally every minute of every day, the world's most precious metal is becoming more precious...not only as a historical store of wealth...but as a life saver.

Is this the highest and most noble of uses for the world's most noble metal? Perhaps. It remains to be seen.

From Mining.com, September 4, 2013

Discussing the role of nano gold in targeting prostate cancer via radiation treatment, Professor of Radiation Oncology at Newcastle University in Australia, Jim Denham, said the following:

*"To me it's one of the best things that's happened in my medical practice. It's rare to see something that **works so dramatically**."*

*"We didn't realise it was going to produce such a **massive reduction in side effects**.'*

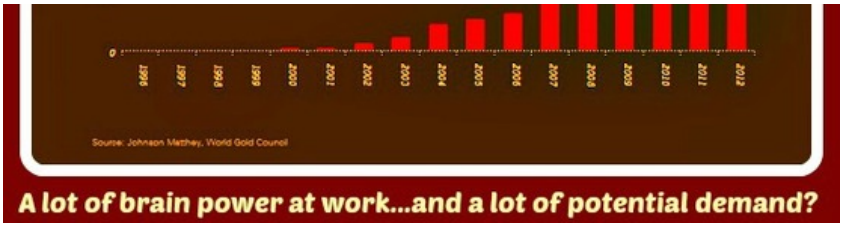
And on the role of gold nanoparticles in cleaning a range of chlorinated compounds out of groundwater, including carcinogens, Professor Michael Wong of Rice University said the following:

*'We didn't believe it at first, because the gold-palladium nanoparticles were just so much more efficient – a **hundred times more efficient.**"*

But if one looks at the sheer number of patents being published in the gold nanotechnology field, one has to be impressed. It is literally a nanotech patent " gold rush". The chart below, courtesy of Johnson Matthey and the World Gold Council, graphically illustrates the trend.

Of course, our MOTU mates at Goldman might rightly point out that nano is...well...pretty darned tiny. In fact, a single walled carbon nanotube is about 100 times smaller than a strand of hair. But, hey, gold is valuble in small pieces too and this is an entirely new use and potentially huge market.

Oh...in case you were wondering...MOTU stands for Masters Of The Universe.



You [should] not examine legislation in the light of the benefits it will convey if properly administered, but in the light of the wrongs it would do and the harm it would cause if improperly administered

Lyndon Johnson, former President of the U.S.

Sometimes the law defends plunder and participates in it. Sometimes the law places the whole apparatus of judges, police, prisons and gendarmes at the service of the plunderers, and treats the victim -- when he defends himself -- as a criminal

Frederic Bastiat, "The Law"

Over in Poland, plunder is the order of the day.

From Investment Watch, September 6, 2013

Cyprus 2.0 – Hidden In The Chaos – Bail Ins Continue – Poland Confiscates Half Of Private Pension Funds To Cut Sovereign Debt Load!

While the world was glued to the developments in the Mediterranean in the past week, Poland took a page straight out of Rahm Emanuel's playbook and in order to not let a crisis go to waste, announced quietly that it would transfer to the state – i.e., confiscate – the bulk of assets owned by the country's private pension funds (many of them owned by such foreign firms as PIMCO parent Allianz, AXA, Generali, ING and Aviva), without offering any compensation. In effect, the state just nationalized roughly half of the private sector pension fund assets, although it had a more politically correct name for it: pension overhaul.

No...this is not some sick Polish joke. This is sick Polish reality. And don't feel bad if this is the first you are reading about it. It was not big news in the Main St. or Wall St. press. Truly important things rarely are.

But why would the Poles, who for so long labored in Soviet semi-slavery, embark on such silliness. Well...it seems that they have adopted the same Keynesian capers that are so beloved of "developed" governments these days.

From Zerohedge, September 6, 2013 (emphasis ours)

By shifting some assets from the private funds into ZUS, ***the government can book those assets on the state balance sheet to offset public debt, giving it more scope to borrow and spend.*** *Finance Minister Jacek Rostowski said the changes will reduce public debt by about eight percent of GDP. This in turn, he said, would allow the lowering of two thresholds that deter the government from allowing debt to raise over 50 percent, and then 55 percent, of GDP. Public debt last year stood at 52.7 percent of GDP, according to the government's own calculations.*

To summarize:

Government has too much debt to issue more debt
Government nationalizes private pension funds making their debt holdings an "asset" and commingles with other public assets
New confiscated assets net out sovereign debt liability, lowering the debt/GDP ratio
Debt/GDP drops below threshold, government can issue more sovereign debt

And of course, once Poland borrows like a drunken sailor using the new window of opportunity, and maxes out its new and improved limits, it will have no choice but to confiscate more assets, and to make its balance sheet appear better...

This is brilliant stuff, until it's not. As a government, we'll just nationalize private assets, add them to our balance sheet so that we we will appear to be a stronger borrower.

With our own national debt ceiling falling in on us in the US, why don't we do the same? Let's confiscate the social security retirement assets. Wait...we already did...and borrowed pretty much every last cent out of that for "general obligations".

What else is left? How about all those IRAs and 401ks? They've got to be worth something.

According to our friends at the Fed, who seem to know everything when it comes to money...as they should...given that they make it...in 2011 investors collectively held **$4.87 trillion in IRA accounts and $3.88 trillion in private-sector defined contribution plans like 401(k)s**.

Wow, 2011 was a pretty lean year too so those retirement accounts must be pushing 10 trillion by now. If we can confiscate those, just think how much more we can borrow. And after all, those accounts would be much safer invested in our treasury bonds and agency securities than with that drunkard, Mr. Market. Sounds like a plan, especially if the market were to tank again and the good people would do anything to preserve what they had left.

Trust us when we tell you folks...this is not mere conjecture. Cyprus was a test case for bank bail ins. Poland is the petri dish for pension account confiscation. Be warned.

CHART(S)...ACTUALLY....PICTURES OF THE WEEK

All media exist to invest our lives with artificial perceptions and arbitrary values.
Marshall McLuhan

Look folks...the weather on our lonely planet has been doing what it has been doing for millions of years. We humans have only been serious about studying weather and weather patterns since WW II. So after 60-70 years of study, our genius scientists, in what can only be called hubris of gargantuan proportions, purport to be able to accurately predict Mother Nature.

Sure...they may be able to figure her out over the next 24-48 hours but trying to how this tempestuous lady might behave over longer periods is proving both difficult and embarrassing.

As such, the following two pictures are instructive. They come from the Mail Online and you can read the whole story by clicking here.

The first picture shows the prospective news...what is going to happen...based on the "scientific" assumptions of an array of "experts". How many people embraced the concept of global warming and how many government representatives and officials ensnared that same concept for their own purposes? We know they did. A lot of them.

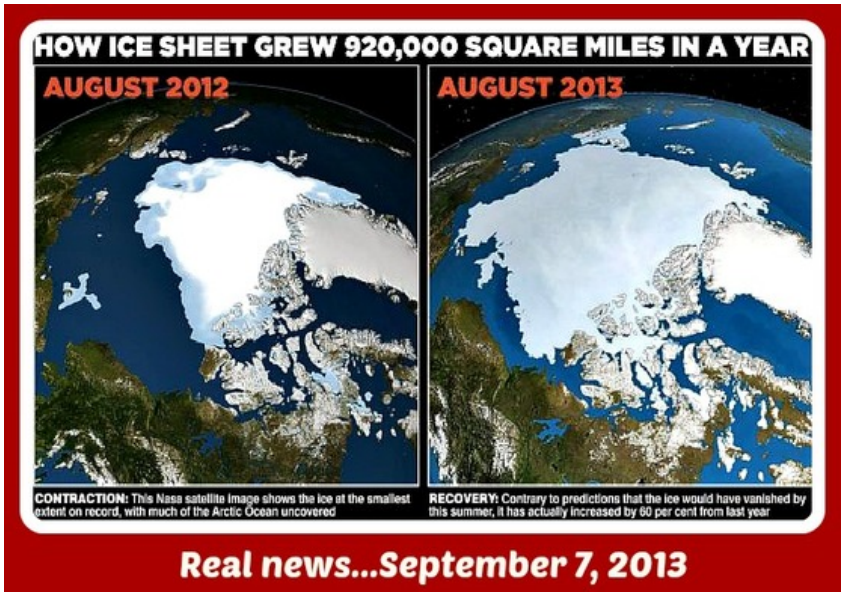
But as the second picture shows, the actual news was far, far different from the prospective news. Instead of global warming, we seem to have global cooling. Hmmm...that makes it difficult for those who are blaming carbons and humanity's use of them for global destruction via an uncontrolled heating of our orb. Of course, once that cat was out of the bag, they conveniently changed their mantra to "climate change".

Of course the climate is changing. That's what it does...always has, always will and we don't know but we suspect that our human impact on dear old Mother Nature is a lot less

than our arrogance enables us to imagine it is.

But why are these pictures so relevant? We think it is because they underscore what we have said often....you cannot believe everything you read. Channeling and paraphrasing Ronnie Reagan...**trust nothing, verify everything**...especially when it is prospective in nature and proffered by experts. This is doubly true when it comes to your money and investments.

Fortunately, no one has ever come near to deeming us experts in anything, except, perhaps, writing too much. Adios! And don't forget to take the quiz below.



Get the facts, or the facts will get you. And when you get them, get them right, or they will get you wrong.

Dr. Thomas Fuller, Gnomologia, 1732

YOUR FIVE MINUTE QUIZ

For your quick Pew Research quiz...it should not take you longer than five minutes....click here! Good luck and do let us know if you score 100%. The current best is 96% (12/13).

Til next week...

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

William Shakespeare

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