Patient Capital.... Positioned for Profit

A PEEK AT THE WEEK THAT WAS - October 26, 2013

In times of change learners inherit the earth; while the learned find themselves beautifully equipped to deal with a world that no longer exists.
- Eric Hoffer -

The government is back at work but as usual, no one is taking much notice. Except, of course, in the area of "health care" where Barackus Caesar, flush from victory over the elephants last week, has had to concede that he may need some help from the private sector's "best and brightest" to get his much publicized Obamacare technology actually working.

Wow...government cannot do things as well as the private, self-motivated free enterprise system? Who would have thought?

Well...we know one government department which realized it some time ago and has just offered a $2,000,000 bounty to any geek or gaggle of geeks who can come up with a super duper cyber security system. We've chatted about cyberware in our weekly Peeks so you know what we're talking about.

The dangers are real so we desperately need the kind of system that can think for itself and at a far higher intellectual and technological level than any mere mortal...or beyond mere...to the brightest of our mammalian bunch. A system that will defend us from all those evil hackers lurking in nasty places like Iran, Russia, North Korea, China, Syria or the backwoods of the south island of New Zealand. Or the north island of New Zealand for that matter. Or the remote island of Socrota, the largest pebble of a tiny achipelago which has been deemed "The Galapagos of the Middle East" Unfortunately for it, Socotra is part of the Rebublic of Yemen, a notoriously nasty place.

But it matters not where they are, these are evil men...staring intently at their screens and screeching on their keyboards...in sarongs, dressing gowns or turbans or all of the above. They want nothing less than to see us grievously harmed or mightily humiliated, or both. They must be contained...and ultimately eliminated by the nearest neighborhood drone... ideally before breakfast.

Sorry lads...no Armani suit, no Florsheim shoes...no due process.

To this end and to protect us from such dastardly deviates, DARPA wants to create a self aware cyber security system **"with reasoning abilities exceeding those of human experts"** that **"will create its own knowledge." Hmmm!**

You can read more about the DARPA (The Defense Advanced Research Projects Agency) bounty and maybe even apply yourself by clicking here or here.

So,substitute "SKYNET" for "DARPA"...and we recall that we've seen this movie before and it starred a hunky Austrian actor turned politician with an accent that we have ALL imitated at least once. Admit it...YOU'LL BE BAAACK! Is it just us or does anyone else wonder if all this DARPA drama is life imitating art just a tad too closely?

We wonder and worry about things like this. Perhaps you should too!

But back to the mundane world of finance and investments, we discover that the party continues at Club S&P 1700. Mr. Market is eyeing the chandelier, while the patrons pile on.

Ms. Bond is still not amused but finds no real necessity to intervene just yet.

Over at Bill Bullion's Gold Bar, the atmosphere continues to improve and one of the regulars, "Long John" Silver is tapping his feet and thinking about dancing a jig of his own.

Bartender Ben is pouring with a brave face, beyond which lie deep concerns...and even deeper relief. In a few short months, his shift will be over and he can return to the relative safety of academic isolation. **Ben knows that things are not as good as they appear.**

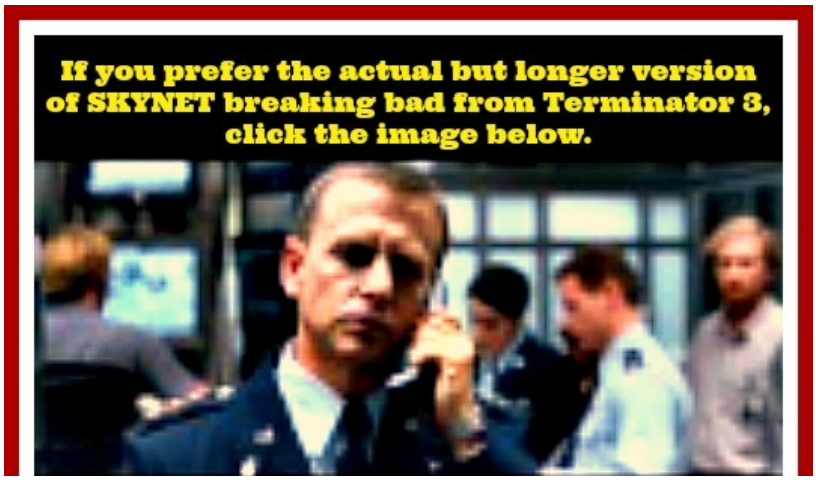
His employment numbers are lousy, the job quality is even worse. He will glady hand over the reins to Zesty Janet Yellen in January, knowing full well that the market will party on until then...in the Homeland, at least. As for Europe, he is not so sure, but who cares. In the classic and oft-repeated words of Lesley Chow, Ben is muttering..." not my problem". Zesty Janet and Super Mario (Draghi) can handle it.

So....this week we will take a brief look at the markets in the US and Europe;...and shake our heads just a little in the process. We will also look at precious metals, if only to continue to make our much belabored (and even more ignored point) that Bill Bullion's Gold Bar may one day be far more fun than the famous Club S&P.

We will also give you a real estate update and tell you the new owner of arguably the world's largest and best located vault. Finally, our chart of the week looks at the discrepancy between the price and available quantity of precious metals. Of course, it is aberrational. And therefore, we suggest, worthy of your attention.

Let's get started…

Here's the longer "real life" version...from Terminator 3...if you have a few minutes more.



There is nothing so disastrous as a rational investment policy in an irrational world.
- John Maynard Keynes -

As we stated, the party is a'rockin at Club S&P 1700.

But did you also know that there's a party all over the world?

It is truly an irrational world. Are you investing rationally?

Take a look at the chart below. It is an amalgamation of the world's foremost market indexes. As you can see, they collectively are in record territory...just like Club S&P. It is literally a Bartender Ben easy money stock market party all over the developed world.

Now...ask yourself..."does the current world feel entirely normal to you?". If it does, please party on. If not, please read on.

Of course, this should not be happening, at least in our humble and uneducated opinion. But to support our flimsy case,we offer Exhibit "A"...junk bonds.

We submit that these bonds are named "junk" for the simple reason that they are exactly that....junk. Junk bonds are issued by companies whose credit worthiness is, well, not quite Apple quality. And we are being kind.

They would normally have to pay a much higher rate of interest to attract lenders but Ben's zero interest rate policy (ZIRP) has muddled every model. Investors are chasing what is cruelly referred to in the industry as **"return free risk"**. So junk is looking like jewelry.

So they are getting away with paying their desperate lenders around 5% on average. During the subprime meltdown, they were paying 4 times this amount.

Moving on to Exhibit "B", as the following chart from ZeroHedge illustrates, wackiness abounds beyond junk bond interest rates.

Take a look dear jury member and ask yourself....why should corporate profits be so grotesquely out of whack with real employment statistics?

Yes...technology productivity enhancements help but can they alone explain this massive divergence?

Ben's cheap money helps too, but how long can he keep it cheap with Ms. Bond getting more edgy every day?

Accounting magic, as we discussed a few week's ago, can veil reality but not forever.

In simple terms, either corporate profits take a turn for the worse or the real employment landscape improves dramatically. We hope it's the latter. We suspect it will be the former.

But, having just two snippets of evidence from a file that is way too thick, we have to concede that **with Ben and his banker buddies worldwide printing like Keynesians on crack, the party will keep on rockin'.**

Why, even the newly elected conservative Aussie government is increasing their debt limit, but only by a palty $200 billion (which is actually almost doubling the current limit of $300 billion, but who's counting?). Treasurer Joe Hockey's not joking. He doesn't want some koala loving kook from the Greens getting in the way should he need to spend a bunch (which he undoubtedly will as the Lucky Country sputters).

But if somethin's gotta give, where is it going to give first...and when?

As usual, we have no clue, but if pressed, we would look for a surprise cracking noise in Euroland. Why?

Purely technical, old sport.

You see the Stoxx 50, which is the blue chip equivalent of the Dow in the US (click here for more info) is showing the same broadening megaphone pattern as we showed a few week's ago for the S&P...except that, unlike our own beloved Mr. Market, **the Stoxx 50 index has already breached its upper boundary**.

Unfortunately we have neither time or space for a chart this week, but possilby in future editions.

Of course, Club Stoxx 50 could keep jetting through the atmosphere until it hits the moon. But gravity....like market sentiment...is a powerful force.

As Mr. Market will surely find out as he leaps for that chandelier.

Better a fool lonely in love, than a wise man left wanting forever

- G.B . MacCrabhain -

And what is more lovable to your average Americano than an affordable burger at a reliable price? And what is more lonely than a burgerless brunch?

All other things may change but this is a given for America...a fat burger at a fair price...a staple of the modern masses.

Sorry folks...but Ben has other ideas. Or is it just another unintended consequence?

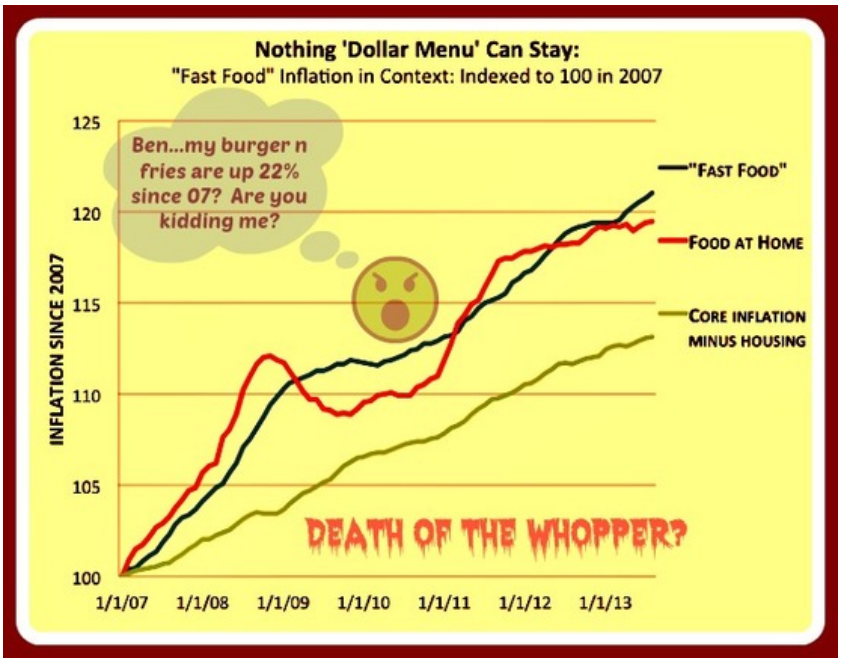
As the chart below illustrates, the cost of a mighty Mickey D burger has harpooned the once sacrosanct dollar mark. In fact, it is up 22% since 2007.

Result...in the US, the McDonald's miraculous "Dollar Menu" is DONE.

This is a travesty. This should not happen. This cannot happen.

We are sorry folks but it has happened. And it has happened because the central bankers are out of control. They are on crack and they will will break bad. No...they do not

buy one dollar burgers right now...but one day...they may wish that the miserly Mickey D munchable was still around.



Gold's father is dirt, yet it regards itself as noble

- Yiddish Proverb -

Back in our Peeks of several months ago we commented on Chase Manhattan Plaza being for sale. For some reason, we find this piece of dirt near and dear. Perhaps it is because we walk by it regularly to and from our humble office or perhaps it is because it rests comfortably next to the Federal Reserve building, replete, as it is, with menacing men in military mode.

We wonder now as we pass by shall we shudder or shall we salute.

Do we nod and say *gānbēi (*cheers) or better still...*gànde hǎo ! (*well done!)...or *gōngxǐ gōngx* (congratulations)....or maybe we'll just settle on *huānyíng* to simply welcome our new neighbors from the Middle Kingdom?

Yes...you guessed it. The Chinese purchased the Chase Manhattan Plaza.

Well...when you produce more gold and import more gold than anyone else in the world, it just makes sense that you might need a nice big impervious vault the size of a football field to store it in, especially if you are backing your currency with it.

And...even better...the Fed is right next door with a reputed tunnel linking their vault to that big atomic bomb proof safe 9 floors underground.

And they got all this, plus the skyscraper above, all for under a billion bucks...$725 mill in fact. Are you kidding? Too cheap indeed. Why, for what we owe them, they could buy at least another 150,000 of these buildings...if we had them to sell.

You can read it for yourself by clicking here. Or if you don't trust Chinese media...click here.

This is just too perfect for those canny Confucians. Perhaps we should politely nod and say to our new Chinese neighbors..*Sèngdàn Kàilè ! (*Merry Christmas!) for surely this must seem like it to them.

Every crowd has a silver lining.
- P T Barnum -

Long John Silver is getting restless again. And he's a feisty fellow when he wants to be and like PT Barnum, he loves to put on a show.

Back in our Peek of mid-August, we suggested that silver might rise...for a number of reasons, including short covering by speculators. And it did, only to get banged down again by the "market makers" not long after. This had nothing to do with demand for the metal, which remains robust.

But notice in the chart below that silver did not go as low as it did in June. **This is meaningful.** Silver got high hard with the big paper heists in April and then again in mid-year but it rallied hard too...up 20% from that nasty bottom in late June.

The chart now has a series of higher lows in place. And the price just climbed back above its 50-day moving average. The last time silver looked this interesting was in December 2008. The sheeny stuff gained 400% over the next 2.5 years.
So, if you hear that Long John is dancing a jig over at Bill Bullion's, you may want to buy a ticket to see the show.

CHART OF THE WEEK

Gold and silver, like other commodities, have an intrinsic value, which is not arbitrary, but is dependent on their scarcity, the quantity of labour bestowed in procuring them, and the value of the capital employed in the mines which produce them.

- David Ricardo -

Our chart of the week looks at all of the precious metals...gold, silver, platinum and palladium...and measures the amount of ounces held in physical form (not paper or promises...the real stuff) against their total value in Yankee dollars. Notice how, for the past several years, the dollars and the ounces have traveled for the most part in lockstep...until this year.

Somethin's gotta give.

As the quote above correctly states, precious metals are hard to get and have their own intrinsic value which is not reflected in this chart right now. We suspect that this aberration will correct itself...and perhaps just as violently as it was created.

Til next week...

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

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