A PEEK AT THE WEEK THAT WAS - November 9, 2013

Patient Capital.... Positioned for Profit

More than any other time in history, mankind faces a crossroads. One path leads to despair and utter hopelessness. The other, to total extinction.
Let us pray we have the wisdom to choose correctly.
Woody Allen, (1935 -)

Well...other than a bit of a hiccup on Thursday, Club S&P 1700 continues to rock on.

Once again, we try take a look at what the future may hold for Mr. Market and concede that we have little clue. After all, it's a wacky world.

For example, Ms. Bond was calm all week, until Friday morning, that is...when her 10 Year Treasury bond jumped 5% or so...up from 2.60% to 2.75%. That's a pretty steep jump for a stodgy old bond and shows just how nervous and reactive Ms. Bond has become, despite her outwardly quiet demeanor.

Around the same time as Ms. Bond's 10 year Treasury yield was jumping up, the shiny stuff over at Bill Bullion's Gold Bar was being pounded down. Right at the open, the sellers arrived...apparently with plenty of (paper) gold to sell. This is becoming a pretty familiar scene at Bill's and it's starting to bother some of the patrons...but not the ones who are continuing to buy the shiny stuff. They welcome the lower prices and continue to snap up what they see as a bargain. Everyone loves a bargain and the Chinese, especially, are no exception.

The chart below tracks the S&P, gold and 10 year Treasury bond yields and you can see for yourself what happened to bonds and gold when the market opened on Friday morning. From the stock market could logically have sputtered, but instead it starred.

The latest unemployment numbers came out and the market may have sniffed that Bartender Ben and Zesty Janet might stop pouring those fabulous Wealth Effect cocktails at Club S&P. We know that Ben can't resist tipping his elbow a while longer and we suspect that Janet will keep pouring too, because the real economy with real people living real lives is still really struggling.

The real unemployment / underemployment number, the U-6, is at 23.8%. The job participation rate is lousy. Close to a million people dropped out of the workforce last month, giving us the lowest worker participation rate since 1978. And the quality of the supposed new jobs is lowly...with median household incomes still stagnant. That may help to explain why retail sales data were limp and chain-store sales data flat. The once powerful American consumer is a sorry shadow of his or her former self.

But based on our weird and wacky Ben inspired world, the stock market should have sold off with the "good" jobs number on the fear of Ben cutting his pours. Instead, it was up strong...over 1% for the day (although for the week, it barely moved).   Perhaps the market is onto Ben and his tricks. It sure looks like the Wall Street whiz kids are.

Ahh...to be a high frequency trader...stuffing quotes and murdering muppets!

What to make of it all?

We have no idea, so this week we thought it might be helpful to tap the brains of some old heads who are even older than ourselves...and infinitely wiser. When things are wacky, it is wise to go with wisdom...and experience. We hope you will find it helpful as well.

If we have time, we'll trot down to that hotbed of hostility and repository of rancor....Washington DC....to peek at what the wily rascals and their banker buddies have been up to recently. You won't be impressed. In fact, you should be righteously indignant.

Finally, our chart of the week shows the bulls firmly in control of market sentiment...typically a danger sign.

Let's get started.

That is the greatest fallacy, the wisdom of old men.
They do not grow wise. They grow careful.
Ernest Hemingway (1899 - 1961) A Farewell to Arms, 1929

Perhaps Hemingway was right. Or half right. Perhaps certain men, especially those in the world of money, grow both wise and careful. And that is what makes them successful. In any case, given our currently wacky world of baffling bankers, we suggest that it is worth paying at least passing heed to what a few of them have to say.

The following quotes are all courtesy of King World News. To read the article from which the quotes have been extracted, simply click anywhere on the picture of the author or the chart.

Wherever emphasis appears in the quotes, it is ours.

Richard Russell has been quoted in our Peeks in the past but he is always worthy of more. He is one of the most famous financial newsletter writers and his experience with the markets spans 60 years.   You can read more about him on Wikipedia by clicking here.

When asked about Ben's wacky world and the party at Club S&P, he had this to day:

*"Despite the sluggish GDP, I believe **you will see a third phase speculative blow-off in this bull market**. Often in a bull market's third phase, profits are larger than anything seen during the first and second phases of the bull market. For this reason, my current thinking is that subscribers should hold gold and DIAs [ETF for the Dow]. The last thing investors are expecting now is **a profitable third phase explosion in stocks, and perhaps something close to hyperinflation in the money market.***

*I believe you see a phenomenon where **increasingly bullish retail buyers are coming into this market, while at the same time institutional money is taking profits and moving to the sidelines**. I expect this action to accelerate in the coming months, leading to **an upside boom in stocks, along with a good deal of churning action.** It is now* *recognized that the forces of deflation are pressing down on the US economy, and that more QE will be needed. This will halt deflation and gradually lead to inflation, finally being expressed as a boom in the stock market.*

*Thus **the great bull market will end as all bull markets do: with a massive entrance of the retail public and subtle distribution by institutional money**. Our subscribers' choice: going into what appears to be a growing stock market bubble, or remaining in the universe of gold, which is acting as though it is at a bear market bottom.*

*As for gold, China is accumulating all it can at these attractive prices. It seems to me that China is intent on creating the world's largest hoard of gold. The Golden Rule: "He who owns the gold makes the rules," and owns the reserve currency … I think the present system has, in effect, been destroyed by more debt than we can handle. **I think a new system will be required, a system based on gold, which will automatically put a brake on debt**."*

If **Art Cashin** looks familiar, it's probably because he is a regular on CNBC...but let's not hold that against him. He is also Director of Floor Operations for UBS on the NYSE (let's not hold that against him either).

Art Cashin

Stemming from humble beginnings, Art has been around the markets for over 50 years. He knows a thing or two and is wise enough (and careful enough) to recognize wackiness when he sees it. You can read more about him by clicking here.

Art on wackiness:

November 5 (King World News) - "Do We need A Dodd-Frank Rule For Central Banks? – I was paging through my friend, John Hussman's latest report and came across this rather astounding paragraph:

> *A brief update on the bloated condition of the Federal Reserve's balance sheet. At present, **the Fed holds $3.84 trillion in assets, with capital of just $54.86 billion, putting the Fed at 70-to-1 leverage** against its stated capital. Given the relatively long maturity of Fed asset holdings, **even a 20 basis point increase in interest rates effectively wipes out the Fed's capital.** With the present 10-year Treasury yield already above the weighted average yield at which the Fed established its holdings, **this is not a negligible consideration**.*

That becomes even more astounding when you add in this little tidbit from a recent Peter Tchir analysis:

> ***The Federal Reserve now owns 50% of all treasuries maturing between 10 years and 15 years.** Some further congratulations appear in order for that achievement. There are **barely $100 billion of treasuries outstanding for the public to buy**. No wonder so many companies are issuing 10 years and longer. **The Fed has created such a void of paper that pension funds and others that want somewhat longer dated assets need to fill with corporate debt.** It probably means that at some point the 10 year point of credit curves should weaken (go wider) but for now there is so much demand that corporate spreads will do okay even with the new issue.*

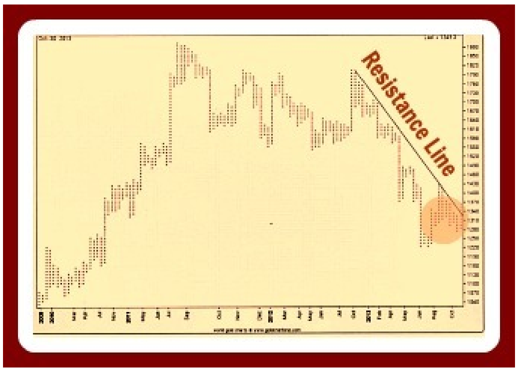
***Talk about distortions**. Bear Stearns and Lehman were **only leveraged at 30 to 1 but they collapsed like the house of cards they were**. Certainly the Fed is not a regular bank. It can print money. But **bank runs are not only about money, they are mostly about credibility** – and there is no printing press for that."*

Ron Rosen is over 80 years old. He has been around markets and finance for over 60 years. He is a

finance newsletter writer whose market timing commentary and general wisdom command great respect.

Read what he has to say about the shiny and sheeny stuff in the context of the accompanying graphs:

"...the readers around the world have to understand that even the avid followers of key sectors miss some incredibly important charts, and the two below fall into that category. The first one shows that gold is holding on to an extremely critical rising trendline (see above).



The second chart key chart shows that gold has already broken above a key resistance trendline and is now consolidating (see left).

I promise you ***the "Big Money" is very familiar with these charts, and they are accumulating all of the physical gold they can into the recent weakness.*** *They are long-term players and* ***they also understand that gold is heading many thousands of dollars higher from here****."*

Rosen added: For the silver bulls, all I can tell you is silver can be hell on buy-and-hold investors because you have to endure gut-wrenching corrections like we have seen for the past two years. But ***for those who can hang on, silver is headed into the stratosphere along with gold****.*

I'm 82 years old now, and for the benefit of most of your worldwide audience that is younger than I am, I can promise them ***this will be one of the greatest bull markets in history*** *before this is over. To hell with the Dow Jones, Nasdaq, and the S&P at this point -- let the gamblers at the casino trade those. Instead, just keep trading in your fiat money for physical gold and silver because it will be all that is left standing when the dust finally settles.*

I remember watching people who were destroyed financially because they held on to undesirable paper assets during the 'Great Inflation' of the 1970s. This time it will be much worse. This time we are looking at a true financial collapse. The bottom line here is that ***investors who are not invested in hard assets, such as gold and silver, will be facing a wipeout much worse than what the world witnessed in the 1970s****."*

Bob Fitzwilson is a 40 year veteran of the financial services industry. He is worried about the wackiness too.

Read on:

Logic tells us that the evidence of a grand plan is in the works. What else explains ***the massive transfers of gold from West to East****? There could very well be cabals of central planners or historic alliances of the major powers behind the scenes.*

On the other hand, we see ***periodic flash crashes in markets****. Is that stress testing of the system, as part of the overall scheme, or does it show us how* *tenuous the glue is that holds this central planning hare-brained scheme together? The decline in oil and commodities might also be telling us that the global economy is beginning to roll over. The moment when the massive printing by central governments loses the ability to keep economic activity and markets afloat could be at hand.* ***The grand planning could be losing out to the natural forces of economics.*** *Unleashed, those forces create and improve economies, but hobbling market forces guarantees that economic activity will decline and then implode at some point.*

The Fed's announcement of the continuation of $85 billion per month in Treasury and mortgage-related securities might reflect not so much of a grand plan, but simply that we are all trapped down an economic dead end. The figurative iceberg in the form of economic stagnation and mushrooming deficits lies ahead, and there is nothing the captain can do to stop us from certain disaster.

Very few people comprehend the danger that exists within the financial system *as well as the destruction that could be unleashed on global economies. This is likely to remain the case, and is consistent with history as well as human behavioral characteristics.* ***People panic in groups****. As long as the majority of the group does not see others panicking, calm will rule. Once the majority realizes that it is time to panic, it will be too late.*

Rather than reliving the wheelbarrows of cash that post-WWI Germans experienced, the most likely endgame is the so-called "fat finger" by millions of investors -- seeking to rush out of investments into cash. In an all electronic world, ***the majority of investors have been lulled into believing that cash is a mouse click away on their computer****. What they do not understand is that the institutions with whom they have their accounts would have to liquidate massive positions to allow them to convert to cash. With limited liquidity, even today, that is going to happen* ***under a disorderly situation****. The orders to sell will be generated, but there will be few executions.*

Despite a dysfunctional monetary system and bankrupt governments, companies and entrepreneurs continue to create hope and opportunity. ***Our portfolios need to protect against an abrupt loss of purchasing power, but also be looking beyond this mess toward better times****.*

James Turk has specialized in international banking, finance and investments for over 40 years.

He has written books and probably forgotten more about gold and money than most of us will ever learn. He worries about wackiness too and tipping points and bankers and burgeoning debt burdens.

"The reality is that ***Bernanke had his chance to taper in September and fumbled that opportunity****. So it looks increasingly unlikely that there will be any tapering before he leaves office. And when Ms Yellen takes over, it's a whole new ball game. She will be working with an economy that is rolling over, and confronted with a big divide in Washington regarding spending and the debt ceiling.*

My expectation is that that QE will be increased in Q1 of 2014*. She, like most of the FOMC members, believes that they can control long-term interest rates with QE, and that low rates help the economy. So even though it is clear that neither of these objectives are being achieved, I expect that she will try to keep the yield on the 10-Year Note below 3% with even greater amounts of Treasury paper being gobbled up with massive Fed buying.*

The really important thing is that ***the yield on the 10-Year Treasury Note is inching back up****. The yield dropped slightly after last week's FOMC announcement, but that respite was short-lived. Yields have been in an uptrend since May, and this trend is likely to continue.*

It is interesting to note that yields are following the same pattern that started with the May

FOMC meeting. Despite all the bond buying by the Fed which should create demand and therefore lower yields, the opposite is happening. ***Yields are rising, and it is relentless****. It is happening slowly, but surely, like a powerful locomotive chugging away, which I think is a good way to describe what is taking place.*

The locomotive is the market, and ***in the end markets are always more powerful than government intervention****. The locomotive is gaining momentum for the reason that I have been making since May, which is when the tipping point was reached. Since then there have been more investors willing to sell government securities than the Fed or other central banks are willing to buy. The consequence has been rising yields on the 10-Year Treasury Note.*

But ***interest rates are not rising in spite of QE, instead, since May they have been rising because of QE.*** *Interest rates are just way too low and do not offset all of the risks associated with holding Treasury paper. Therefore, Treasury paper is being sold, meaning that its supply is greater than the demand for this paper.*

Just before Nixon closed the "Gold Window" in the 1971 dollar crisis, Treasury Secretary John Connolly, speaking to the world, said "The dollar is our currency, but your problem." To paraphrase him today, he could be saying "Treasury paper is our debt, but your problem."

So **Richard Russell** sees the market exploding in one more big pop up. **Art Cashin** is worried about distortions and disastrous leverage at the Fed. **Ron Rosen** likes the look of gold and silver and believes the big boys do too. **Bob Fitzwilson** sees fat fingers taking the place of wheelbarrows of cash with similar sad results. **James Turk** sees Zesty Janet Yellen continuing Ben's pours but facing an increasingly feisty Ms. Bond.

So much wisdom. So much worry.

Well, we always have Cramer to cheer us up...Jim Cramer, of course. You can watch Jim recommending Bear Stearns in this comedic but rather tragic video from the last Great Recession by clicking here. Hmmm.

We suggest you skip the video and stay vigilant instead.

Something is rotten in the state of Denmark.
William Shakespeare - Hamlet (Act 1, Scene 4, Line 90)

Meanwhile, in DC, our devious despotic geniuses and their banal banking buds are at it again.

From ZeroHedge: Novemmber 5, 2013

> *The U.S. House just passed a bill called H.R. 992 —* ***the*** *Swaps Regulatory Improvement Act — that was literally written by mega-bank lobbyists.* ***It repeals the laws passed in 2010 to prevent another meltdown like the one that crashed our economy in 2008****. The repeal was cosponsored by a former Goldman Sachs executive and passed with bipartisan support from some of the House's largest recipients of Wall Street cash.*
>
> *In 2010, Congress passed the "Dodd-Frank" law to clamp down on* ***risky "derivatives trading"*** *that led to the financial collapse of 2008. Dodd-Frank was weakened by banking lobbyists from the start and has been under attack by those lobbyists ever since. Now a new law written by Citigroup lobbyists (we couldn't make this stuff up if we tried)* ***exempts derivatives trading from regulation****, and was passed this week by the House of Representatives with broad bipartisan support.*

In an illuminating and prescient article **before** the bill's passage, Forbes had this to say about it:

> *October 29, 2013—Later this week, the House of Representatives will be voting on a bipartisan bill to repeal financial bailout protections that Congress passed in 2010 as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The bill, H.R. 992 or the "Swaps Regulatory Improvement Act," would severely limit the reach of Sec. 716 in Dodd-Frank,* ***which requires banks that are eligible for Federal Deposit Insurance Corporation or Federal Reserve lending discounts to spin off their derivatives activities into separate corporate entities that would not be eligible for federal assistance.***
>
> *According to the New York Times, lobbyists from Citigroup played a major role in the*

bill's creation: "Citigroup's recommendations were reflected in more than 70 lines of the House committee's 85-line bill," Eric Lipton and Ben Protess write. "Two crucial paragraphs, prepared by Citigroup in conjunction with other Wall Street banks, were copied nearly word for word. (Lawmakers changed two words to make them plural.)"

Citigroup has given $503,150 to current members of the House of Representatives.
*Representative Jim Himes, D-Conn., has received **$66,450** from Citigroup, more than any other member of the House of Representatives. **Himes is a co-sponsor of the bill. Co-sponsors of the bill have received, on average, 16.8 times more money from Citigroup than have members of the House who have not signed on as co-sponsors.***

Speaker John **Boehner, R-Ohio, has received $917,500 from interests supporting the bill**, more than any other member of the House of Representatives.

*Representative **Randy Hultgren, R-Ill., the primary sponsor of the bill, has received $136,500 from the Securities and Investment industry, more than from any other industry***

Things may no longer be rotten in Denmark. in fact, they are undoubtedly sweet and pure. But in DC, they are indeed rotten to the core.

We will wait to see what the Wrinkle Brothers, Harry and Mitch do in the Senate, but the House, led by Team Tan...Johnny and Nancy...have already sold out.

We have often written about the intrinsic dangers of a derivatives dust up. This is shades of the repeal of Glass Steagall in 1999.

When will the bankers learn? And why must the name of every piece of legislation actually mean the opposite of what it seeks to achieve? **Swaps Regulatory Improvement Act** is what they called it. Hey...wait a minute...that's exactly what it did. It removed the regulatory oversight of derivative swaps...thereby improving them...**for the bankers**. An honest crook would have added the word "Removal" between "Regulatory" and "Improvement" so the title would read...***Swaps Regulatory Removal Improvement Act.*** Too transparent?

Ahh...these bankers. So devious. So clever. Ya gotta love 'em!

Well, we might as well...before too long we'll be paying for them...again.

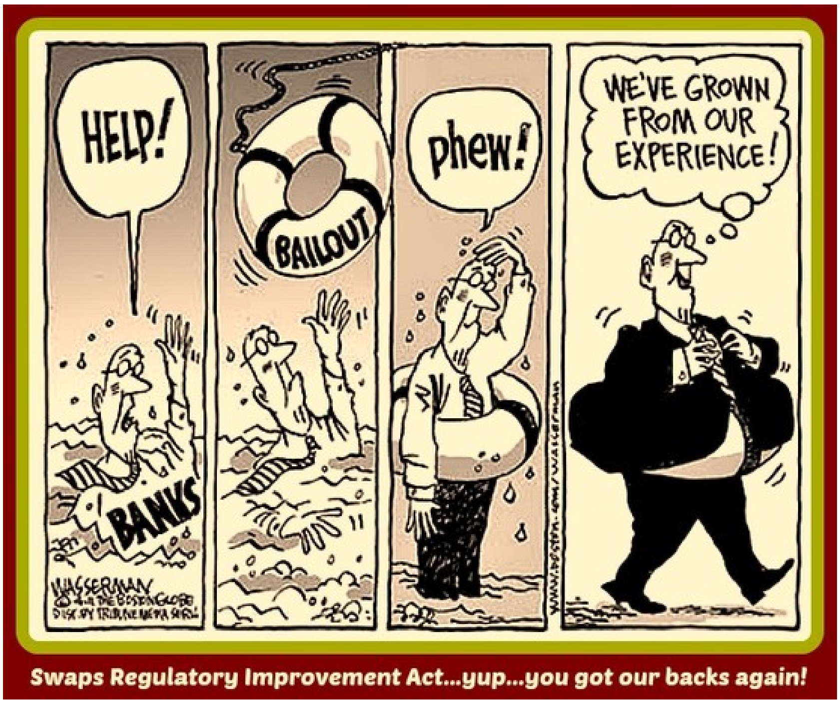


CHART OF THE WEEK

Anyone who thinks there's safety in numbers hasn't looked at the stock market pages.

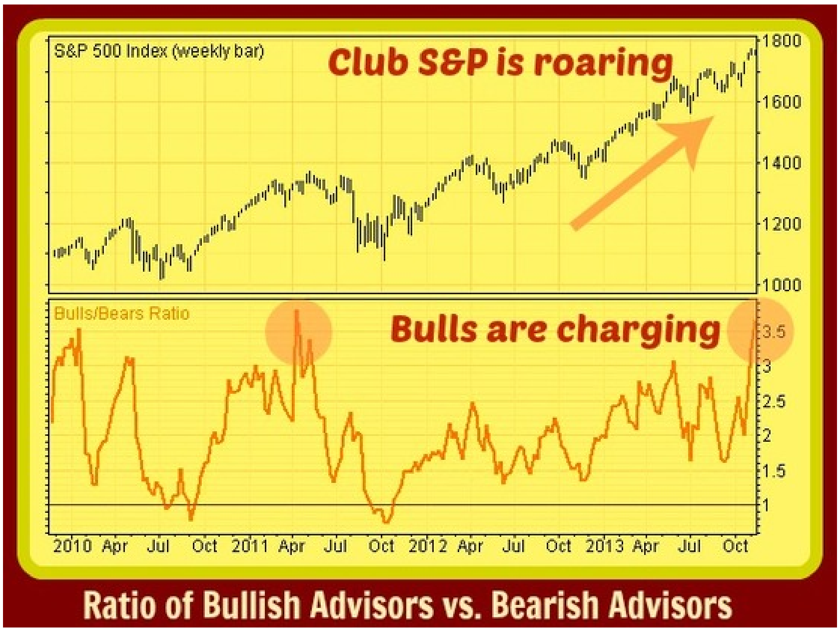
Ben is pouring. Janet is serving. The bulls are charging. Seems like everyone is happy again. Ain't it great. Or is it just dangerous?

In the financial advisor ranks, there are now 3.5 bulls for every bear. What does that mean?

Simply put, for every nervous financial advisor out there (yes, we would be one), there are three and a half brave souls who believe that Mr. Market has a lot more partying in him.

As our chart of the week, (courtesy of Investors Intelligence and King World News) shows, as the party at Club S&P switches into high gear, so does the confidence of financial advisors.

Everyone is right for a while and even a broken clock is right twice a day. But as the chart shows, such extremes or sentiment tend to be short lived and followed by sorrow. We would prefer to be long lived...and happy. Perhaps you should too!



Til next week...

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

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