Patient Capital.... Positioned for Profit

A PEEK AT THE WEEK THAT WAS - November 23, 2013

In individuals, insanity is rare; but in groups, parties, nations, and epochs it is the rule.
- Friedrich Nietzsche (1844 - 1900) -

Another wacky week, another record close for Mr. Market in the S&P and the Dow. In fact, the brand new Club S&P 1800 neon light is flashing bright for all the revelers to see. Mom and pop have to be impressed after this week...if they weren't before.

Last week, we took a look at a couple of reasons why Ben and Janet's party might continue for a while longer yet, sucking in more Harrys and Sallys as it moves to its inevitable zenith. When might that be, you fairly ask? As usual, we have no idea. But as usual, we will be on the lookout.

Ms. Bond continues to be a bit edgy. Her 10 year treasury shadowed 2.84% during the week, before settling back at 2.75% at close of trading on Friday. Her time to party will come.

The thugs descended on Bill Bullion's Gold Bar mid week to put the skids up all but the hardiest patrons. It was yet another 2 pm slam down, as a flood of paper gold sales knocked the shiny stuff down about $10 / oz...and froze the market, yet again! These are becoming a bit of a bore too. So vulgar and brazen...not slick and tricky like the high frequency trading algo guys. At least they have some finesse to their thievery as they stuff quotes and front run the average punter, making an honest buck a hard thing to come by in today's stock market.

But that's the world we live in right now. Wild and wacky...with a lot more to come. What to make of it...that's the question.

With the market hitting record highs, everyone must be making money aren't they? You would think so but unfortunately it's not as it seems.

So this week, we'll take a peek at who is doing great and who is getting grated. It really does seem like being prudent can make you poor these days in the topsy turvy world of Bartender Ben and his not so benevolent bankers. Hey, but that's the plan, Stan. Have another calorie (and nutritional value) free "wealth effect" cocktail. Enough of these and everything will look rosy.

Moving on and following a not so rosy scent, we'll do a bit of tripping around a world awash in debt, starting with the Old Dart herself, the UK, where a lot of Pommies are comparing their cricket team's performance in beautiful Brisbane with their own balance sheets and discovering that both look pretty ugly.

And then onto Venezuela, where that sovereign trainwreck may, yet again, impact the international price of gold. Finally, like a lot of the shiny stuff itself, we end up in China where those canny Confucians have built themselves a shiny brand new vault. And may have decided that paper is passe.

Last week, we also made the mistake of mentioning that there might be some money lying in a market corner for smart folks like Jim Rogers...and you...to pick up. Of course,some brave souls wanted to know exactly where that corner is. This week, we'll give you a few hints, as if you needed them.

Finally, our chart of the week continues our debt theme and really makes you wonder...and worry... about the Land of The Setting Sun.

Let's get started.

It's the divide that worries us..

All my businesses are scrupulously legal. Not because I have any moral problems with crime. It just makes my life easier to obey the law. Crime is for poor people; you don't need to rob the bank if you own it.

- Josh Lieb (1972 - _____) -

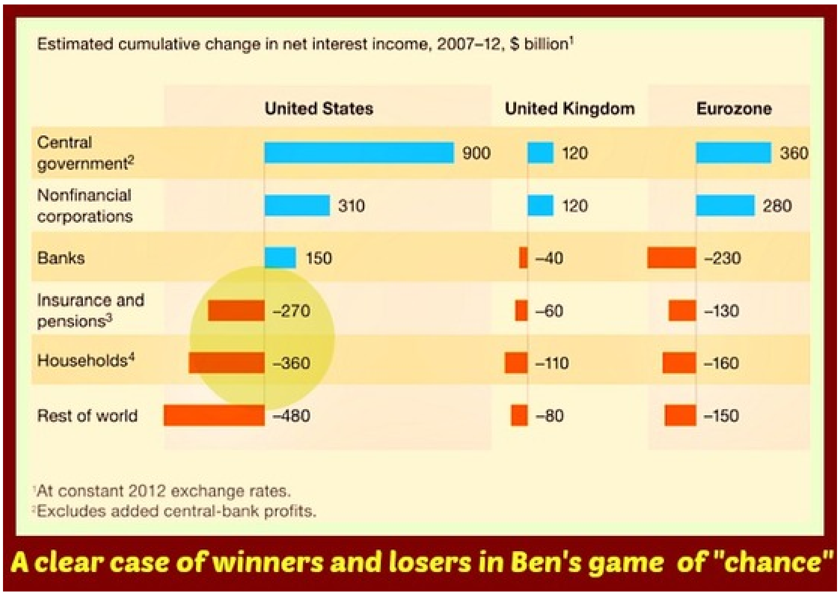
That quote is true enough Josh. But it seems like there are a lot more poor people these days than bankers. But those bankers are doing pretty well, thanks to the "little" people who both pay the taxes that supported their numerous bailouts and those prudent savers who have been pummeled by Ben's zero interest rate policy.

So...let's take a look and see who's done best since the last great banker inspired financial disaster just a short half decade ago.

Take a look at the graphic below, which is originally from a report by McKinsey Global Institute but tidied up in an excellent piece by John Mauldin. You can click here for the full McKinsey report and here for the excellent Mauldin article.

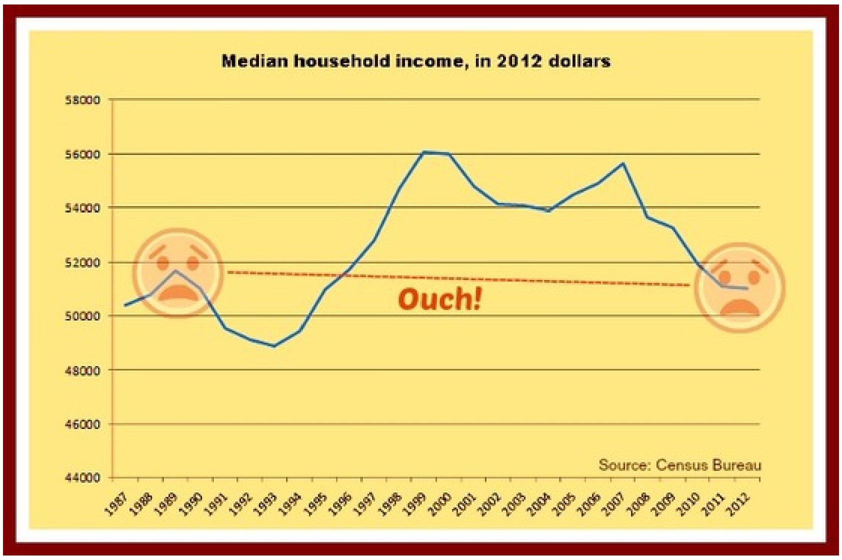
This graph clearly illustrates who is winning and who is losing in Bartender Ben Bernanke's game of unintended (or are they?) consequences as it tracks cumulative change in interest receipts between 2007 - 2012. Notice the winners...especially in the US. The Federal government is clearly the big winner. Corporations come in second and banks third. Low / no interest rates certainly have helped the big institutions that control so much of our lives.

The losers...insurance companies and households. Ouch on both counts as households often depend on their insurance and pension providers for income in retirement. No wonder it has been such tough slogging for the average worker, whose real income is back to where it was over two decades ago.



We've shown the graph below before but it's worth repeating. It is from the Washington Post back on September 17 and the link it here. It shows how real income has not grown for the average American household in the past 25 years. From the Post article author, Neil Irwin, who says it better than we ever could..

> *Nah, the most depressing result comes when you look at the longer view of household incomes in the United States. This chart shows real median household income over the past 25 years; that is, the money earned, in inflation-adjusted dollars, by the family at the exact middle of the income distribution.*



So prudent savers are being punished through the Fed's zero interest rate policy while workers' real incomes are stagnant. No wonder the "Wealth Effect" cocktail is so important to Bartender Ben's party plan at Club S&P. But like any "effect", it can disappear quickly with a market downturn, especially when up to 70% of the party action is in the hands of the notoriously fickle HFT gang.

And don't count on corporations or the banks to bail us out of this one. Both are hoarding their capital, just in case Ben and Janet's party comes to a grinding halt. Perhaps you should hoard a little too. You know...just in case!

The ultimate result of shielding men from the effects of folly is to fill the world with fools.
- Herbert Spencer (1820 - 1903) -

As we wrote last week, much of the developed world is awash in debt. And that is one reason why it's been so hard for Bartender Ben to inflate his way to prosperity. People are "borrowed out" so to speak. We know it is so in the good ol US of A where consumer credit exceeded $3 trillion in the second quarter of 2013. At $3.04 trillion, the total is up 22% over the past three years and as we have pointed out in the past, student loans are also out of control...up a whopping 61%.

Total US household debt is around $13 trillion, which is almost where it was in the halycon days of 2007. Given that interest rates are nothing and incomes are stagnant, is this any wonder?

But as good as we are at accumulating debt, it seems that the Pommies over in the UK are giving us a darn good run for our money. From the RT (Russia Today) website:

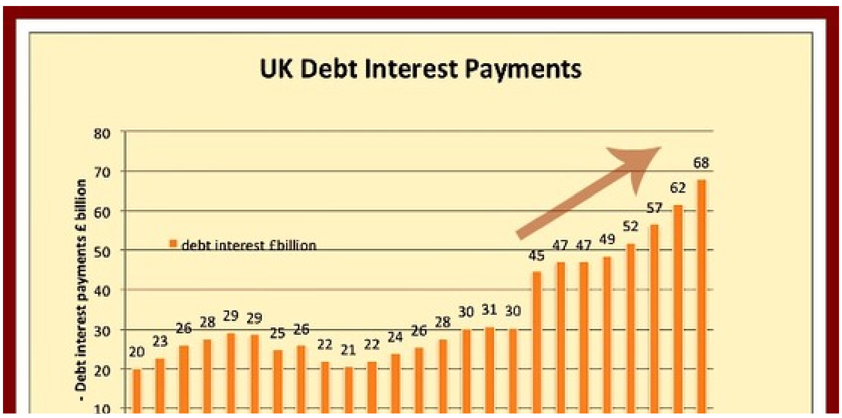
UK households 'pushed over edge' as personal debt reaches record £1.4trn
Published time: November 20, 2013 12:23

Total personal debt in the UK has reached record highs – 1.4 trillion pounds, a new report has shown. It means that households owe the equivalent of 94 percent of the UK's economic output last year.

An average household debt of 54,000 pounds is now almost twice the level of a decade ago, the report by the Centre for Social Justice (CSJ) think tank has found. Indebted households in the poorest 10 percent of the country have average debts more than four times their annual income.

"Years of increased borrowing, rising living costs and struggling to save has forced many families into a debt trap that is proving very difficult to escape," director of the CSJ, Christian Guy, explained, warning that problem debt can have a "corrosive impact on people and families," affecting their mental health, relationships and wellbeing.

"Some of the poorest people in Britain are cut off from mainstream banking and have no choice now but to turn to loan sharks and high-cost lenders," he added. [borrowing from English ankle busters is definitely not for the faint hearted]



This underscores the basic problem. Quite simply, there is just too much debt in much of the world and until this is resolved...either through inflation, liquidation or dislocation (none of them very good choices)...the developed world will be plagued with social and financial issues.

Meanwhile, in **Venezuela**, those sassy, overspending South Americans are about to do a deal with the devil.

> From Mineweb, November 20, 2013:
>
> > **Financially strained Venezuela reportedly cuts gold deal with Goldman Sachs**
> >
> > Standard & Poor's reduced the country's credit ratings to its lowest in eight years in June as the gold price weakened and compromised Venezuela's ability to pay its debt.
> > *Venezuela newspaper El Nacional reported Tuesday that Venezuela's Central Bank and Goldman Sachs are ready to sign an agreement to swap or exchange international gold reserves with a start date in October 2013 until October 2020.*

Of course, Venezuela is drowning in debt too but they do have their Vice-Ministry of Happiness. Perhaps they believe that real money, in this case, their precious gold, will buy them happiness...or at least toilet paper, which apparently was in short supply down there. It's ironic that their most gracious savior himself, Hugo Chavez (RIP), was the one who set off the last round of gold fever about two years ago to the day, when he demanded his gold stash back from its safe house in London. Read about it here.

We wonder now if the Golden boys at GS will try to use this deal to push down the price of the shiny stuff to complete their promise of a couple of months' back that gold was a "slam dunk sell" and would fall to $1,050. Ahh....those guys are cunning. Very few saw this Venezuelan deal coming. But so far, Venezuela is apparently only willing to dump a little less than $2 billion's worth. Still a handy sum in a tightly controlled, highly manipulated charade like the COMEX.

Given **China**'s voracious appetite for the shiny stuff, we wouldn't be surprised if, after the paper behind the Goldie - Venezuelan deal is sliced and diced, the physical gold ends up in the Middle Kingdom. After all, they just finished building their brand new vault.

> From Bloomberg, November 11, 2013:
>
> **Gold Vault Opens in China as Bullion Goes From West to East**
> *A gold vault that can store 2,000 metric tons, double China's projected consumption this year, opened in Shanghai this month as owner Malca-Amit Global Ltd. seeks to benefit from rising demand in Asia's largest economy.*

You can read the whole article by clicking here. You can watch the video and take a tour by clicking anywhere on the image below.

Meanwhile, in another part of China, its leaders are thinking twice about adding more paper.

> **PBOC says no longer in China's interest to increase reserves (click here)**
> Last updated: Thursday, November 21, 2013 10:30

The People's Bank of China said the country does not benefit any more from increases in its foreign-currency holdings, adding to signs policy makers will rein in dollar purchases that limit the yuan's appreciation.

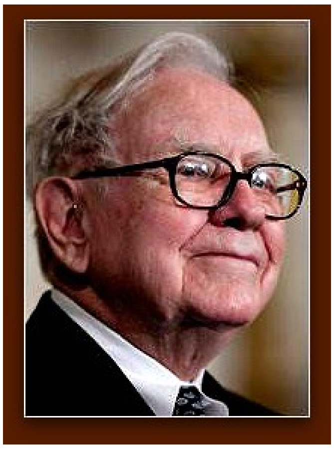
"It's no longer in China's favor to accumulate foreign-exchange reserves," Yi Gang, a deputy governor at the central bank, said in a speech organized by China Economists 50 Forum at Tsinghua University yesterday.

Hmmm...China has enough paper money reserves. They just built a brand new precious metals vault in Shanghai as well as just buying a perfectly good one in New York City (Chase Manhattan Plaza). We wonder if they know something many Westerners have long forgotten.

After all, she who has the gold, makes the rules!

The more original a discovery, the more obvious it seems afterwards.

- Arthur Koestler (1905 - 1983) -



That very sage and very rich Cherry Coke glugging Oracle of Omaha, Warren Buffet, has a famous quote which goes like this:

Be fearful when others are greedy and greedy when others are fearful

So let's look at where folks seem to be greedy on the one hand and morbidly afraid on the other. That might give us a hint as to where the Buffet style opportunities lie. The first of the two charts that follow is for SPY which is the ETF for Club S&P...or as we would say, Mr. Market.

As you will see, it has nowhere to go but up. Even though it has outpaced its 50 day moving average and even though the book value (click here for an explanation of what book value is) is 2.66, which means that on average, the companies in the S&P are valued at 2.66 times over their liquidation value.

Mr. Market is on a tear...time to be fearful or greedy?

The chart below is of GDX, which is the ETF for the larger gold and silver miners. As you will see, it is headed nowhere but down. It is trading way below its 50 day moving average and the sector positively stinks. People both loathe and fear GDX, even though its book value is .92, meaning that the underlying stocks in GDX are valued below their liquidation value.

Which corner is best for you? Corner "A" or corner "B"? We'll let you be the judge of that but we know which one we prefer.

These stocks are positively scary...and they stink to high heaven

---

GRAPHIC OF THE WEEK

Only two things are infinite, the universe and human stupidity, and I'm not sure about the former.
Albert Einstein (1879 - 1955)

We thought the quote from last week was so appropriate to this week, we'd leave it.

Last week we talked about those crazy Venezuelans and their belief in government mandated happiness.

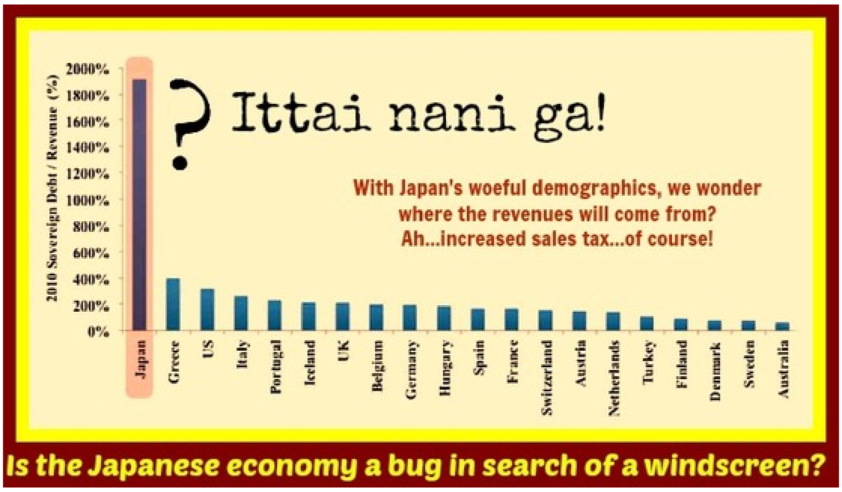
This week, we take a look at the global debt scene and wonder aloud about our friends in Japan. As we've seen, the Yanks and the Brits both have their debt dilemma but the Japanese leave us both dead in the global debt stakes.

How much debt can that tiny sovereign dynamo really handle? As we said earlier, debt has one big problem attached to it...called "interest". How long can the Japanese government get away with such a massive debt obligation?

They are indeed fortunate that most of that debt is locally owned and that their people are prodigious workers and savers. But at some point, Mrs. Fukunaga is going to need her money to support herself in old age and will be unable to lend more to her beloved government. In fact, she may even cash in her current JGBs (Japanese Government Bonds) as she struggles to make ends meet. Meanwhile, her daughters are increasingly declining marriage and the joys of parenthood. You can read more about this potential demographic disaster here.

Perhaps that's why the government is hell bent on increasing the national sales tax. If they can't make her kids have kids and can't get Mrs. Fukunaga's money for almost free through borrowing, then they'll tax the heck out of whatever she has to spend.

Ittai nani ga...indeed!



Til next week...

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

---

www.cravencapital.com 212 797 0217 bmacnish@cravencapital.com

Craven Capital is located at 11 Hanover Square, 6th Fl., New York NY 10005

11 Hanover Square 6th Floor | New York, NY 10005 US