A PEEK AT THE WEEK THAT WAS - November 30, 2013

Patient Capital.... Positioned for Profit

History is a vast early warning system.
Norman Cousins (1915 - 1990)

In politics, the two most dangerous words are "**do something**..."
In renovations, the three most dangerous words are "**what if we**..."
In investing, the four most dangerous words are "**this time is different**..."

Many folks are starting to believe that this time it **is** different and that the stock market will continue its merry melt up ad infinitum. The bulls are everywhere.

Valuations are still relatively cheap, they claim.
Corporate profits are big and getting bigger, they boast.
The world has changed, they chatter.

So with all this noise, we have to ask ourselves...***is it different this time?***

We suspect that it is. Not different in terms of its ultimate and inevitably nasty outcome, but different in terms of the gravity of that outcome.

So...as the market charges ever upward, we'll take a peek at an increasing array of warning signs that many, if not most, are choosing to ignore. Of course, we know that there's nothing to be concerned about. Ben and Janet have our backs and it must be OK because the folks on CNBC seem very happy. But just in case, we'll take a peek anyway.

And hey...what about that Mr. Market? Despite a late day sell-off during a shortened trading session on Friday, Club S&P reached an all time high of 1813 intraday while the Dow hit 16172. But it was the Nasdaq that had the lovebirds on CNBC really chirping. It's not back to its looney highs of the turn of the century but it did bang past the elusive 4000 mark for only the second time in its history. And this time, those tech companies actually generate revenue...well most of them do. What's not to like?

However, if by some weird and totally unexpected turn of fate, Mr. Market does come crashing down with the chandelier at Club S&P, we suspect that his subsequent depression will be made far worse through the intervention of our friendly Federal Reserve and their incessant money printing. And speaking of the Fed, we are delighted to announce that one of their own,Tiny Tim Geithner, has just landed himself a nice plum posting. Good on you Tim. Hope you don't mind if we take another peek at how this wonderful racket actually works. In fact, as a sign of respect to the former Treasury Secretary (and occasional injudicious tax payer), we'll start out this week's edition by taking a look at Tim.

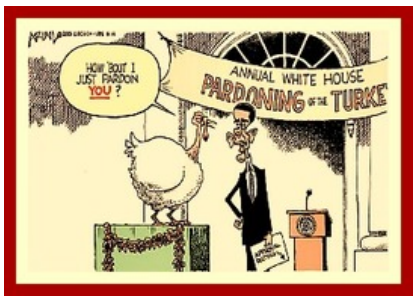
For her part, Ms. Bond closed out this week virtually unchanged from last week. Her 10 year treasury ending last week at 2.75% and this week edging 2.74%. But duing the week, the 10 year yield slunk below 2.70% before leaping back to 2.77% after the release of the FOMC minutes on Wednesday. Whoever says that Ms. Bond is not keeping a close eye on Bartender Ben and Zesty Janet Yellen is not paying attention. Ms. Bond is, that's for sure. And Ben and Janet know it.

Over at the Gold Bar and we discover yet another **market stopping slam down**. The only difference this time was the timing, with this week's action occuring during overnight futures trading. This is the 4th market halt in the last 3 months. Last week we said it was boring. Now we are thinking it is quite brazen...and it's got our attention...and the German regulators too. So please bear with us as we take another peek at the shiny stuff this week. If you follow along with us, we think it will be well worth your while.

This week also brought us joyous news that Barackus Caesar and some of his international cronies had struck a deal with the Ayatollah...which is akin to a deal with the devil himself...according to some unhappy Israelites and more than the occasional member of the House of Saud. Wow...who would have thought that the Israelis and the Saudis would be aligned on anything but this deal certainly has brought mutual disgust from both. For that reason (and something called petro-dollars), we think it's going to be worthy of a peek one day but sadly, not this week, as time and space...not to mention your patience...are in short supply.

But we do have time and space for something truly heartening and so...from our (admittedly all too infrequent) good news department, we bring you a video of something almost miraculous, which shows just how clever some humans can be...and how fortunate others become as a result. We think it is worthy of our chart of the week spot...even if it is a video. It is a video of hope and joy...and at the time of Thanksgiving, who can ask for more than that!

Let's get started. Right after these two Thanksgiving inspired cartoons, which we couldn't resist. A big thank you to Ed Steer for sharing them, along with his extremely valuable daily precious metals commentary.



History is past politics, and politics present history.

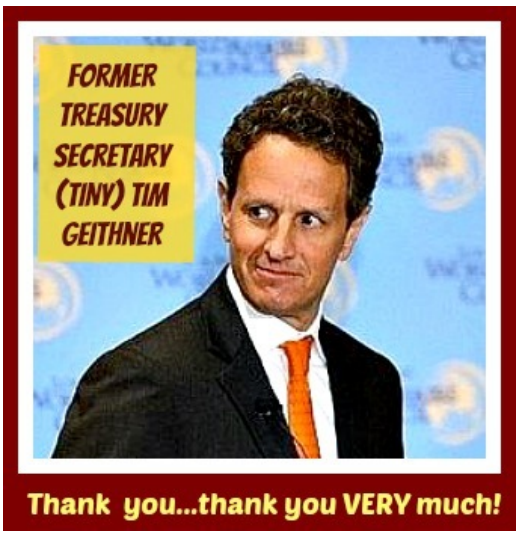
John Robert Seeley (1834 - 1895)

Several months ago we read and wrote quite a lot about the Federal Reserve. After all, it is their 100th birthday in December so we thought it was worth a decent peek. After doing so, we determined that the "Fed" influences the daily lives of Americans far, far more than it should. In fact, it virtually controls our existence. This might be scary enough if we felt confident that the Fed actually had our interests at heart. It might also help if they had an array of economic tools to help steer us away from the financial gales and rocky shoals that might otherwise sink our investment portfolio.

Unfortunately, our fabulous fair weather Fed has but one tool...the printing press. Despite its dual mandate to stabilize prices and safeguard employment, it really can do neither of

these,. as evidenced by its dismal results over the past 100 years. In fact, it has presided over the most tumultuous century in the history of the planet. Even its management of interest rates is dependent upon its ability to manufacture funny money, which, since 1971...but particularly since the roaring 90s...it has done with abandon, especially when necessary to fulfill its singular (un)stated purpose of ensuring the survival of the (too big to fail) big banks. Yes, folks, the Fed was set up to rescue bankers! If it makes some of them zillionaires in the process, then all the better.

Enter Tiny Tim Geithner.



Our tax averse former Treasury Secretary recently let it be known that he would be joining Warburg Pincus as its president. Timmy had plenty of offers from Wall St. because he had done his job so well.

Then why Warburg Pincus?

Well, looking back into the small historical world department, we recall that Woodrow Wilson was an opponent of bankers but suddenly became a big backer of the central bank concept. Perhaps it had something to do with the financing that his presidential campaign received via a Warburg family member...actually an in-law...but close enough. Woodrow unexpectedly became the 28th president and the Federal Reserve became the cental bank of the land. No surprise then, that Paul Warburg was appointed to the first Federal Reserve Board. It's a tight little circle really and quite natural that the former Treasury Secretary might end up at a firm bearing the Warburg family name.

Tim worked the system brilliantly. Starting with Kissinger Associates (yes, that Kissinger) he then moved to Treasury as a deputy assistant secretary (more impressive than it sounds). Under the guidance of familiar names like Robert Rubin and Larry Saunders, he moved up to undersecretary, before a stint on the Council on Foreign Relations, where (Daddy Warbucks) Paul Warburg, was a director some 90 years earlier. He then, predictably, joined the International Monetary Fund (IMF), after which he was appointed president of the Federal Reserve Bank of New York. In 2009, he succeeded Hank Paulson as Secretary of the Treasury. Hank was a Goldman guy, as was his predecessor, Robert Rubin. Tim's successor Jack Lew was a Citibank guy.

Why are we telling you all this? Because we want you to understand that the Fed is a central bank for bankers, first and foremost...and the US Treasury is a complicit partner. After all, with tax revenues habitually falling short, the US Government needs the Fed's printing press. In any event, when hell broke loose in 08, Hank convinced Congress to bail out most of the big banks and large institutions like AIG, upon whom they relied for many of their counterparty derivative hedges. He had to throw Lehman Brothers under the bus for gravitas but all the other important players were saved, including Goldman and Citibank. As president of the NY Fed, Timmy was instrumental in helping out. He arranged the sale of Bear Stearns when it failed. He helped push Lehman as the bus approached and he was very handy in the AIG bailout.

So when we see how things work and who gets taken care of in a crisis, we need to face facts. And we need to face this simple fact. From the very start, **the Federal Reserve was a central bank of the bankers, for the bankers, by the bankers**. Nothing has

changed since 1913, except the size of its balance sheet. It does not have your back or mine. Caveat emptor!

And don't blame Timmy...he's just collecting his much deserved and long promised reward for a job well done!

The lovers of romance can go elsewhere for satisfaction but where can the lovers of truth turn if not to history?

Katharine Anthony (1877 - 1965)

Yes, we love history. And truth. Romance is far more complicated but we try. Markets are complicated too...especially these days. That's why we spend so much time looking back in order to assess what may happen going forward.

With Mr. Market hitting historic new highs, we turn to two of the proven masters for insights. We have unashamedly quoted both in the past and will no doubt do so again in the future.

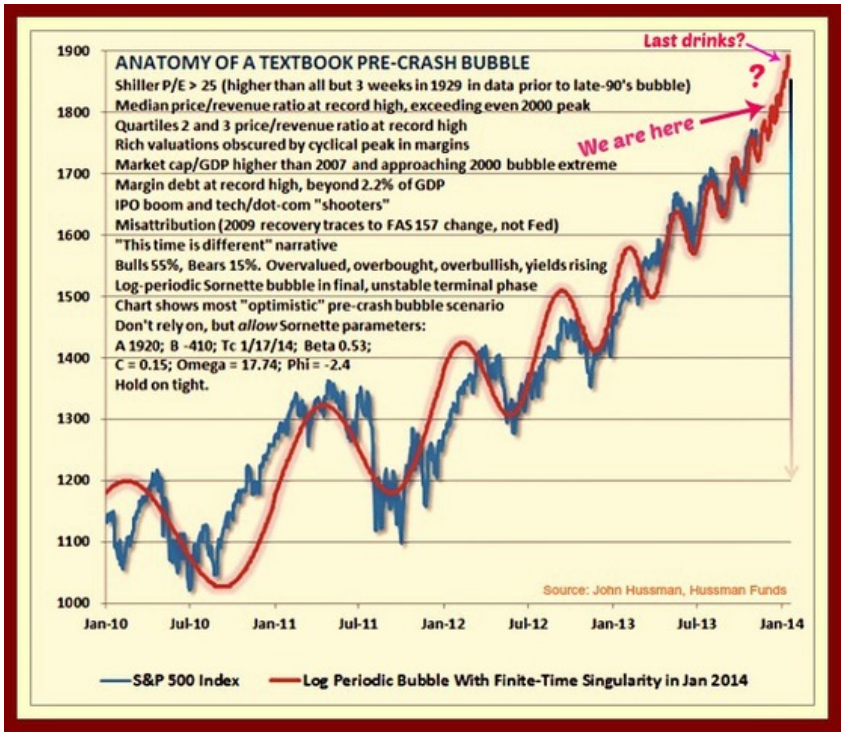
The first is John Hussman, of Hussman Funds. Dr. Hussman is a very smart and successful fellow, as you can see yourself by clicking here. But he is also an eternal optimist. Why do we say that? Simply because in his most recent Weekly Market Comment, he wrote an open letter to the Fed, trying to point out the potential error of their recent ways. That the article was both brilliantly contrived and frighteningly accurate is not disputed. But Mr. Hussman is simply whistling dixie if he expects Bartender Ben and his pouring crew to take any notice of his plaintive cries.

You can read the entire article by clicking here but we wanted to just draw your specific attention to a few key points which we found especially compelling. While we have not changed a word, we have reformatted the following paragraph for effect and the emphasis, where it occurs, is ours. Over to Dr. Hussman....

> *Along with this pattern, which has emerged with striking fidelity since 2010, we observe a variety of other features typically associated with **dangerous extremes**:*
>
> - ***unusually rich valuations** on a wide variety of metrics that actually have a reliable correlation with subsequent market returns;*
> - ***margin debt at the highest level in history** and beyond 2.2% of GDP (a level that was matched only briefly at the 2000 and 2007 market extremes);*
> - *a **blistering pace of initial public offerings** - back to volumes last seen at the 2000 peak and featuring "shooters" that double on the first day of issue;*
> - ***confidence** in the narrative **that "this time is different"** (in this case, the presumption of a fail-safe speculative backstop or "put option" from the Federal Reserve);*
> - ***lopsided bullish sentiment** as the number of bearish advisors has plunged to just 15% and bulls have crowded one side of the boat;*
> - ***record issuance of covenant-lite debt** in the leveraged loan market (which is now spreading to Europe);*
> - *and a well-defined syndrome of **"overvalued, overbought, overbullish, rising-yield" conditions** that has appeared exclusively at speculative market peaks – including (exhaustively) 1929, 1972, 1987, 2000, 2007, 2011 (before a market loss of nearly 20% that was truncated by investor faith in a new round of monetary easing), and at three points in 2013: February, May, and today (see A Textbook Pre-Crash Bubble).*

***Many of us in the financial world know these to be classic features of speculative peaks**, but there is career risk in responding to them, so even those who view the situation with revulsion can't seem to tear themselves away.*

The following chart actually appears before the above comments in his article but it follows here. It is busy and it is wonky because, after all, Dr. Hussman is a PhD. But you can get the point just by looking at where Mr. Market is going. Notice how the trajectory is steepening and becoming more frenetic in terms of rises and falls (hint: the waves in the red line are narrowing). Of course, the wise cracks in red are ours.



Reverting to the good Doctor, let's look at one more paragraph, which, in his comments, actually precedes this graph and the words quoted above. Yes, it's more wonk...but it puts the wonk in some perspective.

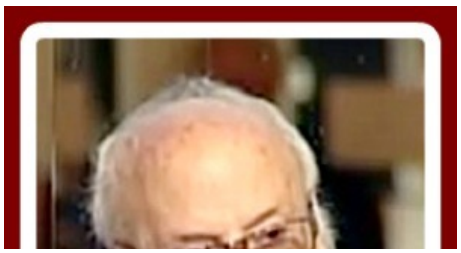
*As economist Didier Sornette observed in Why Markets Crash, numerous bubbles in securities and other asset markets can be shown to follow a "log periodic" pattern where **the general advance becomes increasingly steep, while corrections become both increasingly frequent and gradually shallower**. I've described this dynamic in terms of **investor behavior that reflects increasingly immediate impulses to buy the dip**.*

Who are those wild and crazy folks who are "buying the dip"?

We sadly suspect that it is all the moms and pops who missed the big run up to this point. And they may have some fun for a while because as that inveterate cigar chomping anarchist, Doug Casey, founder of Casey Research is wont to say...***"just because something is inevitable, doesn't make it imminent"***.

We know that Mr. Market can't stay high forever. Every party, even the doozy at Club S&P 1800, has to end eventually. But when? Of course, that's the $64,000 (not inflation adjusted) question. As usual, we have no idea, so let's turn to another wise man, Richard Russell, to see if he can help.

In a recent piece on King World News Blog, which you can read by clicking here, Mr. Russell offers the following insights and a very important graph which we display below (emphasis ours, as usual):



Remember that megaphone pattern in the Dow? ***We're now at the upper trendline****. This could take the* ***Dow as high as 17,000*** *to complete the pattern. Between the technical position of the market and the uncertain position of the fed,* ***we can expect erratic and hard to analyze action*** *in the coming weeks.*

At such a crucial area, I expect the market to be ***irregular and unstable****. Also, the Dow has just closed above 16,000 and this can act like a high wire. The main trend continues higher and the melt-up that I expect still lies ahead.*

Darn...even the legendary Richard Russell can't give us an exact date and time! But reading between the lines, we might assume that the Dow could have another 1,000 points and Club S&P, another 100 or so in them. After all, mom and pop will buy the dips...all the way to the inevitable top and probably beyond. Along the way, there will be plenty of high frequency traders and institutions ready to take advantage as this wily bunch edges closer to their getaway cars.

Call us chickens if you will, but we think we will continue to watch this last mad dash to the finish line from the grandstand.

Remember, the Fed does not have your back and the traders are not your friends. So...over the coming weeks or months, as you attend the inevitable holiday cocktail parties and your friends wax lyrical about this stock or that IPO, you can politely tell them that you are very concerned about the market being in a...***log periodic bubble with a finite-time singularity***...and then gently slip away. We assure you that you will be able to tell them that you told them so later. We're just not sure of the exact date and time.

"Simply your average broadening megaphone top depicting a typical log periodic bubble with a finite-time singularity...old sport. Nothing to be concerned about!"

We've shown the graph above before in the context of the European Stoxx 50 (their Dow). Now it is shown with our beloved Dow Jones Index. Notice how the market has risen way above its 50 and 200 day moving averages (the blue and red lines). And notice how the trading volume is decreasing as the top steepens. And Notice how the market is edging closer and closer to the upper boundary of the trend line. And notice how far the fall on previous occasions when that upper boundary was reached.

Of course, this time is different. Or is it?

We'll let you be the judge.

More history's made by secret handshakes than by battles, bills, and proclamations.

John Barth (1930 -),The Sot-Weed Factor

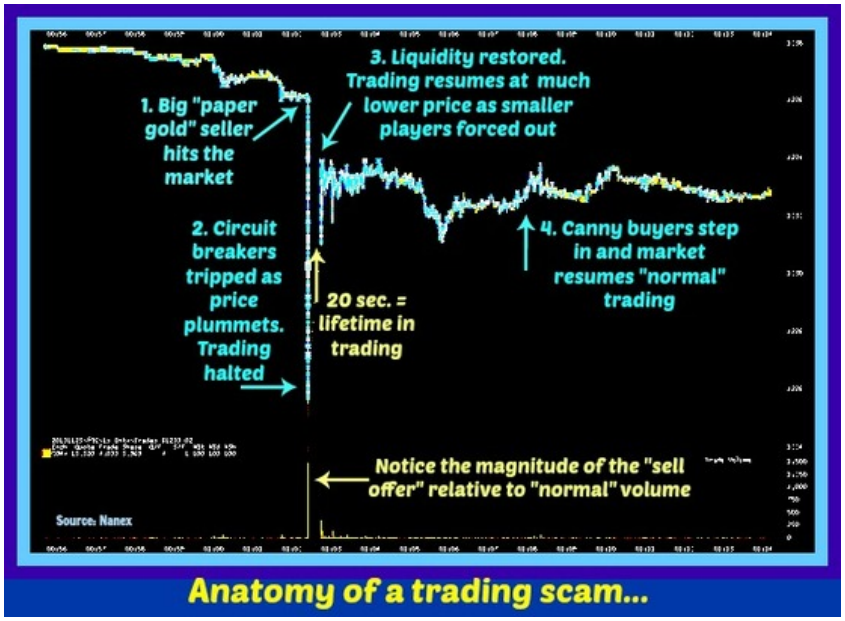
The Gold Bar is not a particularly happy place these days. The joint is pretty empty. The few patrons remaining are glum. Long John Silver is slumping in the corner. Bill Bullion has no funny money distillery out back and so he can't dispense the insanely popular and fabulously high octane "Wealth Effect" cocktails that are Bartender Ben's specialty over at Club S&P. Poor Bill's barely making his rent and struggling to stay open at all. Every time, his precious gold or silver brews get popular, someone offers to sell so many, so cheaply that the price drops through the floor.

And so it was again this week, when at 1 a.m. (after official closing time), someone decided that they would like to sell some gold...in fact...a lot of gold.

Call us crazy, but the idea of dumping 150,000 ounces of gold in one go doesn't seem to be the best way to extract the maximum possible sales price. Of course, that's not the objective. In fact, the opposite is true. By suddenly offering to dump approximately $185,000,000 worth of gold onto a relatively tight market, they are trying to extract the best purchase price.

They have no intention of anyone actually buying the gold at the price they are offering to sell it at. They simply want to depress the price so that others will have to sell as the price drops. That is the name of the game at the Gold Bar these days. Take a look at the graph below and notice how, after the slam down and trading stop, the price of gold settles back at a much lower price than what it was before.

This mischief is happening so frequently of late that some German regulators are now a tad inquisitive, especially after the LIBOR and EURIBOR (benchmark interest rate) price fixing scandals that have recently come to light.



And remember that Germany, with just over 3,000 tons, is the second largest (official) holder of gold bullion in the world, accounting for over 72% of their foreign reserve holdings. And they have asked for it back from France and the USA. We have promised to give them all their gold back...by 2020. Little wonder that they might be a bit perturbed about the price being "fixed".

Of course, it is "fixed"...twice daily in fact...via something called the London AM and PM Fix which is where 5 of the usual suspects (big banks...Barclays, Deutsche Bank, HSBC, Bank of Nova Scotia and Societe Generale...all upstanding and outstanding characters, of

course) get on the phone and decide on the spot...a fix..or spot price...for the shiny stuff.

The Germans and others are concerned about a few things, including people listening in on those daily phone calls and trading accordingly. You know...petty stuff...that might impact the price of their precious gold. You can read more about this by clicking here and here.

Like all things official involving the precious metals markets, this investigation will probably come to nothing and you should probably not care.

What you should care about is this...one day...and we know not when...that offer to sell a bunch of paper gold will be met by an order to buy the physical gold which the sell order technically and legally represents. In other words, at some point, someone with a lot of dollars and an unquenchable desire for the shiny stuff will match that trade. And when they do, all bets are off.

Let's use the two most popular ETFs (Exchange Traded Funds) for gold (GLD) and silver (SLV) as examples. And you can get this information from an excellent site called shortsqueeze.com if you really are interested. Simply, what it tells us is how many people have taken a position believing that the gold price is going down. Remember, being "short" means you want the price to decrease. Being "long" you want the opposite.

The current short position in GLD is the paper equivalent of 2.240,000 ounces, which is almost 70 tonnes. The current short position in SLV is the paper equivalent of 18,717,700 ounces, or around 540 tonnes of silver.
A short squeeze happens when those traders who are "short" the position need to purchase (go "long") that position to cover their bets. This happens when the price of gold or silver increases beyond their comfort zone. When they buy GLD or SLV shares "to cover", the ETF has to buy the physical metal under their legal mandate.

So any decent amount of short covering would create a lot of demand for the physical stuff...all at once. We saw it happen with silver some months back when SLV went up 25% from $18.83 on August 7 to $23.59 on August 27. We suspect that this is a very light precursor of what is to come. Finding a spare 18-19 million ounces of silver might not be as simple as it sounds.

Meanwhile, in another part of town, someone (or someones) are betting that gold will be $3,000 per ounce by or before December 2015. How do we know? Because the COMEX trading activity shows unprecedented demand, in the form of options to buy about 720,000 ounces of gold in time for Christmas, 2015. Hmmm...some present. Don't believe us...just click here for the Bloomberg report.

So, while we bring the noise of market manipulation, big betting, etc. to your attention, may we also suggest that you ignore most of it and like those canny buyers after last week's slam down, go pick up some of the shiny / sheeny stuff for yourself at bargain prices.

It may not be in the corner but if it isn't, it's pretty darn close.

VIDEO OF THE WEEK

He who can no longer pause to wonder and stand rapt in awe is as good as dead; his eyes are closed.
Albert Einstein (1879 - 1955)

Last week we talked about stupid Japanese politicians. The week before, it was stupid Venezuelan politicians.

This week it is time to talk about very smart doctors...and very sick children...and two horrible life altering diseases...and one miracle.

Whenever we tire of bemoaning the lunacy of our global "leaders" and their banal banking buddies, we step back and take a moment to revel in the rest of humanity. Whether we are riding crowded rails or winging our way between airport gates, we marvel at mankind. People, so full of purpose and hope...all over our lonely planet. Our little orb is increasingly connected, providing access for brilliant minds to coalesce, bringing hitherto unheard of solutions to seemingly insoluble problems.

This video is just one small example of where determined doctors used one killer to destroy another...and save a beautiful young princess in the process.

Take a look. Hug your loved ones. Be grateful for all you have. And enjoy some more turkey!

Happy Thanksgiving!

Til next week...

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

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