



A PEEK AT THE WEEK THAT WAS - January 4, 2014

Patient Capital... Positioned for Profit

Each new day is a blank page in the diary of your life. The secret of success is in turning that diary into the best story you possibly can.

Douglas Pagels (1950 -)

Welcome to 2014! May it be all that you want it to be.

Bartender Ben wants it to be another blockbuster party at Club S&P, just like last year. Jaunty Janet Yellen wants that too. Whether they will get it remains to be seen but if they don't, it won't be for lack of pouring the strong stuff. We believe they have some challenges though, which we'll talk about in Part II of our Zed's Dead profile.

And let's not forget that even though we ostensibly have a budget deal in congress, the debt ceiling debate remains unsettled. Jumpy Jack Lew, the Secretary of the Treasury, issued an alert back on December 19, 2013 which no one seemed to notice. According to Jumpy Jack, Caesar's administration could run out of borrowing ability by February. You can read more about it from MoneyNews.com by clicking [here](#).

Does anyone other than us wonder about the absurdity of all this? There is no talk about actually balancing a budget or Heaven forbid, operating from surplus. It is all about the continuous creation of more debt. How much is too much?

Undoubtedly, we will find out. And about that time, Ms. Bond will bring her perfectly pedicured foot down hard. We know not when, but Jaunty Janet will probably feel the stilleto heel against her tender larynx at some point during her bar shift. After all, 4 years is quite a long shift. A lot can happen.

Over at the Gold Bar, the patrons are feeling a bit more plucky. They have made their new year's resolution to hold onto their drinks come hell, high water...or big bullion bank thugs intent on shaking the shiny shackles from their steely clutches. The few stoic patrons still remaining at the Gold Bar know the value of the real stuff verses the paper claims. We suspect that before the year is out, a lot more people will gain a similar appreciation. The Chinese already have. The Indians always have too. If you don't believe us, check out this Indian video, courtesy of ZeroHedge, by clicking [here](#). The Russians are catching on and eventually we will probably will as well.

Hopefully it's not too late by the time we do. And speaking of gold, we'll take a brief peek at

what we think might be the bankers' latest scam...trying to force the miners to hedge their gold at break even prices so that they can get their hands on the hard stuff for themselves....at cheap prices, of course. Will it work?

Given that it's the start of a new year, we'll also take a look at some of the numbers from 2013. They may surprise...or shock you. The mainstream media chooses to ignore them, as does most of the financial media. They prefer to report on Mr. Market's hijinx at Club S&P. But the numbers are there nonetheless, so you should, at least, be aware of them.

And to add just a wee bit of good news (at least, for those who don't mind a drink) we have an interesting report that might make the imbibers among us feel a little less guilty, if not outright gleeful. And we'll include a chart showing the world's favorite beverages. Trust us when we tell you that you may need the occasional stiff drink before this year is over.

Europe is also waiting for us to take a peek this week if we have time and space. It may have to wait another week. But trust us, there's plenty of stuff going on over there and not all of it is great.

Our chart of the week takes a peek at the much applauded corporate profit margins and notices that much of it is debt driven. Wow...another surprise!

Let's get started...with one last seasonal giggle...at Caesar's expense, no less! Thank you Ed Steer.

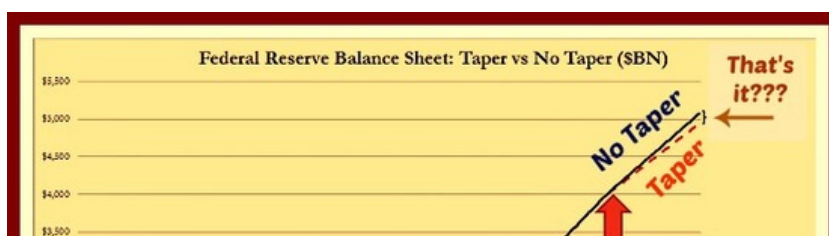


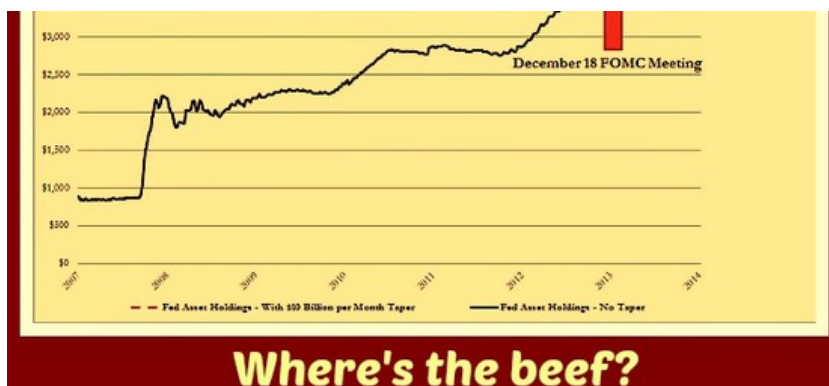
Zed's dead baby, Zed's dead! (Part II)

Butch Coolidge (Bruce Willis) - Pulp Fiction 1994

(click on Butch above to revisit that classic chopper scene)

The chart below comes courtesy of one of our favorites, Grant Williams, and it shows the impact of Bartender Ben's big \$10 bill a month taper...you know...the big announcement that got the party at Club S&P rocking even harder into the year end.





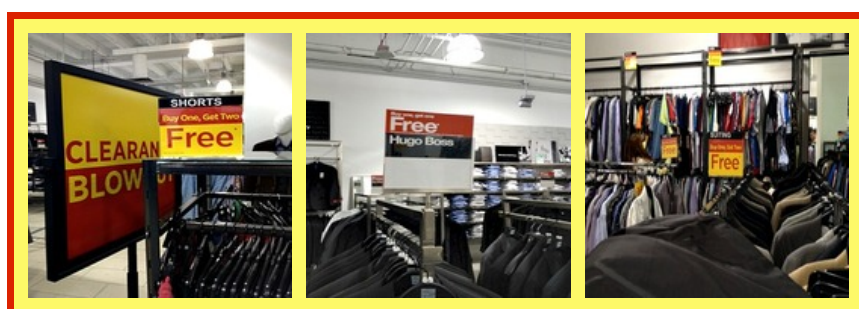
Notice the huge difference it makes in the pours. Oh...you didn't notice? No, neither did we. And we suspect that Jaunty Janet will go back to Ben's old tricks at the first sign of a market meltdown.

Last week, we talked about the Fed potentially doing it tougher in its second century than its first as it fights the good fight against the evil growth sucking slimeball, Count Deflation. As we learned last week, Bartender Ben is deathly afraid of the Count. And Janet seems pretty scared too. But the Count is what he is...a reflection of his times. And despite Ben and the bankers yearning for it to be otherwise, it is what it is.

So what is it? For a lot of people, it's tough...is what it is. And that is going to make Janet's job of stoking the fires of inflation that much harder. We have no doubt she will ultimately succeed and then all bets are off. Be careful what you wish for Janet. But in the interim, it will be tough sledding for our Janet.

Why do we think this is so? Well...Ben...and now Janet, want growth for growth's sake. Not real growth with real capital but phony growth with paper money. To them, it's the same. But already we've had so much phony growth, the average punter, at least in the developed world, is "growthed out". Let's look at some of the obstacles to consumer driven growth that Jaunty Janet will be facing as she attempts to maintain the intoxication level at Club S&P.

For one thing, the developed world has too much stuff already. We are at **over capacity**. You simply look at all the shops, in all the malls, with all their goodies and you marvel at how they survive. They already had so much excess stuff, the Outlet phenomenon was created. At the Outlet mall you can buy the same great stuff, even cheaper. Seems like from the post Christmas pics below, there's so much leftover stuff that everything is free, or almost free.

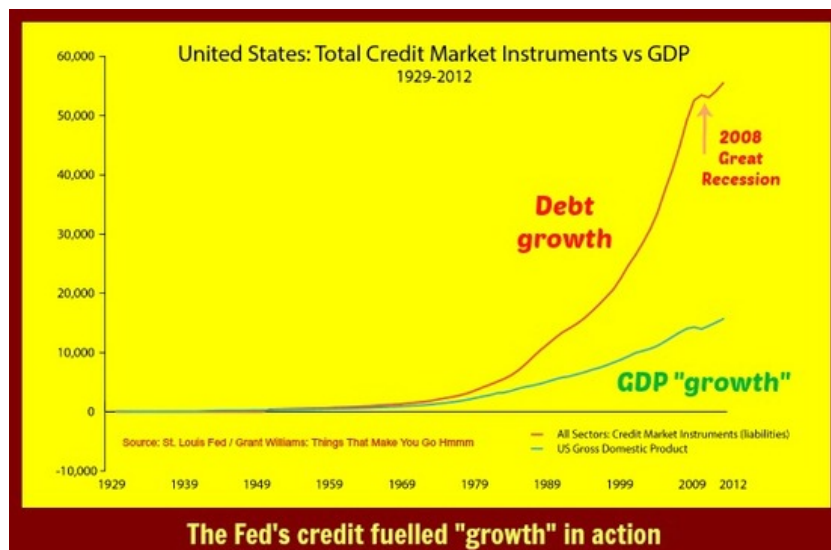


Overlay the Amazons, etc and all the online versions of the bricks and mortar retailers and outlets and you have ever more sources of even more stuff. Quite frankly, people

are stuffed.

Now think about how much of our existing stuff was acquired in the first place...by incurring **debt**. Whether it's in the form of home equity loans, credit cards or similar servitude, we have all supped from the cup of credit. And many of us are full and want no more of it. We don't need more stuff. We do need less debt.

Yet Bartender Ben and Zesty Janet Yellen desperately want us to accumulate more stuff. As the chart below shows, again courtesy of Grant Williams....who we will go to quite a lot this week...simply because his insights are so powerful, most of the good time growth of the past has come from credit. Count Deflation prefers cash because in his world, cash has value. In Ben's world, cash is for clowns. It's worthless, unless you put it in play at Club S&P or spend it at the malls..



Now let's talk a little about **demographics**...and the boomer generation...those fortunate folks born between 1946 and 1964. Guess what...they are getting old. And they constitute 25% of the US population. And an average of 10,000 are retiring every day, many without adequate retirement savings. What happens as people get older? They tend to consume less, not more. And with less money in their pocket, they are inclined to spend less and get rid of, rather than accumulate more stuff.

Of course, there may be some wealth transfer at the upper margins but Generation X is doing it tough too, not to mention Generation Y, who have been badly beaten up in the unemployment games since 2008. Then we have the mighty Millenials, who have not yet shown the same consumption tendencies as their generational forbears. Maybe Ben and Janet can convince them of the error of their ways but we doubt it. We have great faith in the Millenials. They will have a huge mess to clean up and we suspect that they will do it well...but we digress. The fact of the matter is that in the developed world, we are consuming less stuff. Conspicuous consumption is so passe. Sorry Ben.

And in the real world, across all demographics, **attitudes** are changing. Farmers have always known about and practiced sustainability. They have no choice. Sustain and survive. Eat the seed corn and die. Now recycling is the norm and sustainability is the catchcry. Yes, we still create massive amounts of garbage but increasingly that same stuff that would have gone into landfill or onto a nasty garbage barge, is being recycled, resuscitated and regurgitated as...you guessed it...more stuff.

So we using less and recycling more and we are getting better at it because ever expanding **technology** is making us even more efficient at creating stuff. Technological advances, including robotics, are creating jobless production efficiencies which in turn enables us to create even more stuff...just as many people's need and desire for more stuff

is diminishing.

So where are we going with all this?

Well, quite frankly, we think that the Fed is fighting an uphill battle in their quest for an inflation fest...but they are determined to win...and they probably will . Money is being printed. Wealth is being created, but only at the very top so far. Hence the hyperinflation in high end baubles like pink diamonds, fine art and flashy cars.

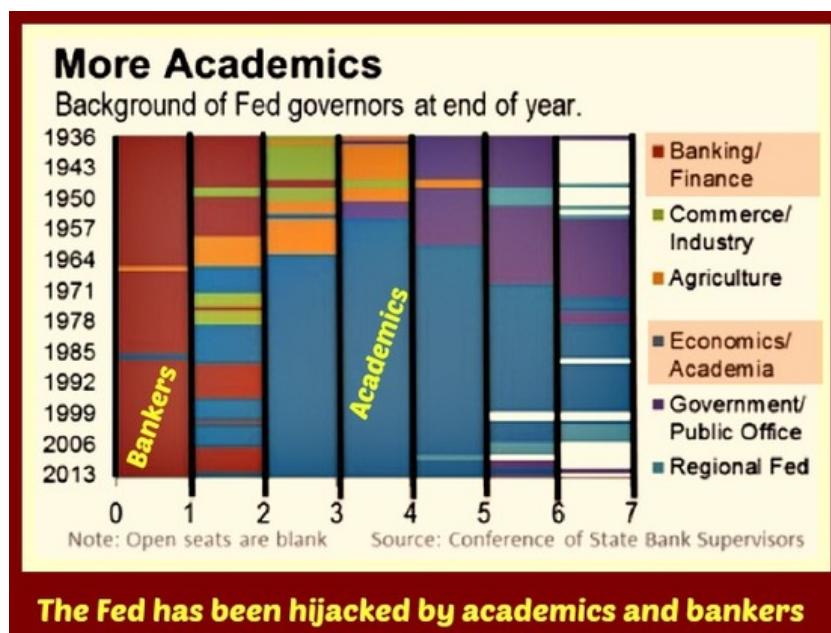
Presumably, however, if you print enough funny money, eventually some of it will have to fall into the hands of the "little people" and suddenly the very inflation that they are so desperate to create may in turn lead to their very destruction. We're not sure that Janet can ride the wild horse of inflation once it is out of the barn.

We would prefer to be guided by someone like Joseph A. Schumpeter and his doctrine of **"Creative Destruction"**. You can read all about our Joseph [here](#) but simply put, he was an Austrian American economist who knew reality when he saw it. Schumpeter concluded that, if left to its own devices, capitalism exists in the state of almost constant convulsion or fermentation...his so-called "creative destruction," with spurts of innovation destroying established enterprises and yielding new ones. Presumably, during such periods of innovative disruption, those enterprises which had been unduly unwise (like over-leveraged banks) or unwilling to adapt (like bloated car companies) would be most severely punished...the buggy-whip flogging, so to speak.

But the Fed will have none of this "creative destruction" nonsense. Central planning and manipulation is the way to go.

And that's why, these days, there are no true businesspeople, innovators or entrepreneurs at the Fed. It is populated by academics, with a sprinkling of bankers (after all, it is THEIR bank). Take a look at the chart below from the WSJ, which shows the proportion of academics and bankers as compared with, for example, "Commerce / Industry" and the disparity is painfully clear.

Of course, you couldn't have people who are productive and actually make something, have anything to do with a central bank. No...central banking is way too complicated and important to be left in the hands of real people!



Our Bartender Ben, an academic par excellence, could not possibly stand by and watch his beloved bankers get buggy-whipped as was likely in 2008 And certainly Caesar Barackus could not afford to see his heavily unionized General Motors go down, even though it

certainly deserved to...at least under Schumpeter's doctrine. So, in stepped the central planners and the politicians and entrepreneurial capitalism and the rule of law got shunted to the side.

Since 2008, the Fed and the Federales have been manipulating everything from interest rates to stock market returns.

But even somewhat constrained market forces eventually prevail. Just look at the centrally planned and life supported Soviet Union or any number of other artificial market constructs. They simply can't resist the organic impulses of real people as they go about their daily lives. The invisible hand of Adam Smith is constantly at work.

In the US, Schumpeter's creative destruction has not been laid to rest but merely delayed...with momentum building. The market will prevail. So, given all that is happening, we wonder how long the Fed can keep their poker face intact. In the face of so many obstacles, we doubt that they can hold it together for another 100 years.



"Not everything that can be counted counts, and not everything that counts can be counted."

- Albert Einstein -

We have written often about the undersupply of precious metals to meet both the physical demands of a voracious (especially Asian) market and the paper demands of the traders and speculators. It is our suspicion that, at some point, there will a dislocation between the physical and paper markets, where the price of precious metals in the real world will not resemble anything like the paper world. It has already happened to a small degree in places like India and China. It is also our contention that the central banks and large bullion banks are desperately trying to get their hands on the real stuff to replace their own inventories and have been deliberately and methodically manipulating the paper markets in order to do so.

The kind of continuous slam down of the prices of precious metals, especially gold and silver, that we saw in 2013 has a serious effect on the mining companies. These companies are facing increased costs of digging the stuff out of the ground and it is generally considered that the costs per ounce of extraction are around \$1,200 per ounce for gold...hmmm...about what the spot price is presently....just as the chart below, courtesy

of Seeking Alpha, illustrates. You can click on the chart for the excellent Seeking Alpha article supporting these numbers.

Gold Industry - Total Costs per Equivalent Ounce Hebba Alternative Investments LLC							
	2011	2012	Q2 FY12	Q1 FY12	Q4 FY12	Q1 FY13	Q2 FY13
Gold oz:	26,217,198	25,455,301	6,253,782	6,373,707	6,489,252	5,841,040	5,915,344
Gold Eq. oz:	30,105,245	29,294,817	7,244,798	7,353,748	7,456,957	6,715,543	6,825,413
Costs (w/o Derivatives):	\$ 35,690,842,911	\$ 42,480,441,940	\$ 8,056,926,674	\$ 8,399,749,738	\$ 18,331,284,155	\$ 7,867,501,269	\$ 24,964,078,177
Writedowns:	\$ 6,732,699,721	\$ 10,336,877,982	\$ 77,912,225	\$ 164,076,722	\$ 9,594,535,716	\$ 183,694,154	\$ 16,727,984,002
Pre-Revenue Costs:	\$ 454,192,000	\$ 422,760,000	\$ 105,200,000	\$ 113,979,000	\$ 99,290,000	\$ 95,933,000	\$ 102,871,000
Taxes:	\$ 4,950,418,145	\$ 2,245,057,149	\$ 1,060,285,363	\$ 1,314,145,983	\$ (1,100,684,000)	\$ 1,133,277,854	\$ (960,322,454)
Total Costs (Ex. Writedowns):	\$ 40,041,261,056	\$ 44,725,499,089	\$ 9,117,212,037	\$ 9,713,895,722	\$ 17,230,600,155	\$ 8,800,778,923	\$ 24,003,755,724
All Costs per Gold eq. oz:	\$ 1,345.13	\$ 1,541.17	\$ 1,272.97	\$ 1,316.44	\$ 2,333.99	\$ 1,324.79	\$ 3,531.89
Excluding Writedowns and S&R:	\$ 1,173.50	\$ 1,279.74	\$ 1,250.92	\$ 1,305.33	\$ 1,378.10	\$ 1,291.36	\$ 1,801.23
All Costs incl. Writedowns:	\$ 1,188.58	\$ 1,294.17	\$ 1,265.44	\$ 1,320.83	\$ 1,391.41	\$ 1,305.65	\$ 1,816.31
All Costs incl. Writedowns & Taxes:	\$ 976.98	\$ 1,111.67	\$ 1,115.86	\$ 1,135.43	\$ 1,139.34	\$ 1,128.69	\$ 1,221.75

The primary bullion banks such as Goldman Sachs, UBS, ScotiaMocatta, have recently doing the rounds trying to sell the idea that gold and silver will decline significantly in 2014. The primary targeting for this marketing is the producers, with the bullion banks trying to trick them again into forward sales at current low prices. Yes, indeed, the banker boys are trying to scare or cajole producers to jump on the hedging bandwagon before gold drops 'By another \$400, to \$800 in 2014.'

You can read more about this very plausible development by clicking [here](#).

The miners are under severe pressure, that's for sure. The pressure on the precious metals prices was brought to bear by the bullion banks through paper selling...probably with some help and encouragement from Bartender Ben as he tries to support the Yankee dollar. Will the miners yield? Well...they fell for this game not that many years ago and it cost them a fortune to unwind their forward hedges the last time. After all, why would you hedge at \$1,200 per ounce when that is basically your cost of production? So, for now, the miners are resisting. And who knows, maybe China or Russia will offer to buy their forward gold production at a premium. After all, they desperately want the shiny stuff.

It will certainly make for interesting times ahead at the Gold Bar.

***"May Light always surround you;
Hope kindle and rebound you.
May your Hurts turn to Healing;
Your Heart embrace Feeling.
May Wounds become Wisdom;
Every Kindness a Prism.
May Laughter infect you;
Your Passion resurrect you.
May Goodness inspire
your Deepest Desires.
Through all that you Reach For,
May your arms Never Tire."***

— D. Simone

Perhaps we need an inspirational poem to lead us into this section because the statistics that follow are not very inspiring. Unfortunately, the mainstream and financial media do not believe in bad news or reality checks. They interfere with the party at Club S&P and after all, who wants to be a buzzkill during such good times. We, on the other hand, believe that in order to solve a problem, one must first recognize that there is a problem to be solved.

Ben and Janet believe that the intoxicating impact of Ben's fabulous "Wealth Effect" elixir will solve all kinds of problems...both real and imaginary. We wish it were so but we suspect that it isn't. As we head into 2014, let's peek at some numbers from 2013 that Ben and

Janet and most of the media choose to ignore.

There are over 100 million working age Americans do not have a job. That number has risen by more than 25 million since the turn of the century. Only 47 percent of all adults in America have a full-time job at this point. There are 6 million Americans in the 16 to 24-year-old age group that are neither in school or working. If you assume that the labor force participation rate in the U.S. is at the long-term average, the unemployment rate in the United States would actually be 11.5 percent instead of 7 percent. Naturally, with so many not working, poverty is spreading dramatically in the United States. According to the most recent numbers from the U.S. Census Bureau, a record 49.2 percent of all Americans are receiving benefits from at least one government program each month and 82.4 million Americans live in a home where at least one person is enrolled in the Medicaid program. And let's not forget that student loans are up over 60% since 2010 or so.

And speaking of debt levels, the Bank for International Settlements says that total public and private debt levels around the globe are now 30 percent higher than they were back during the financial crisis of 2008. Well, that makes sense, because according to the U.S. Census Bureau, median household income in the United States has fallen for five years in a row. So if Ben and Janet get us all tipsy with the "Wealth Effect" and we're in a mood for spending and consuming and if we don't have any additional income to spend...we'll just borrow some more. Just like our famous Uncle Sam does. Simple.

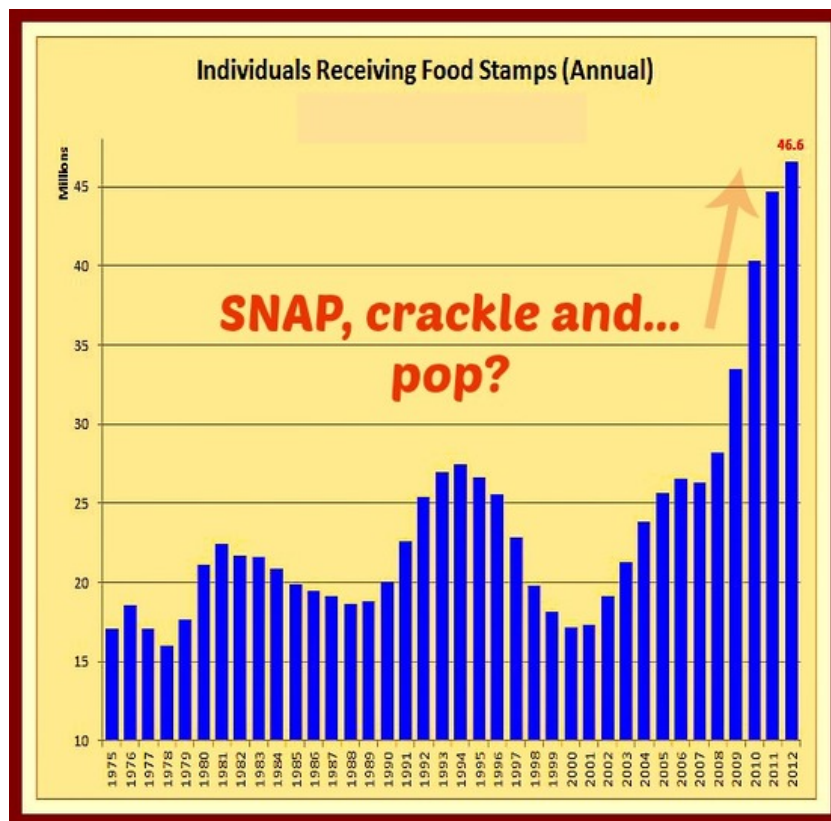
And where do we go for a loan? Probably to one of those fabulous big banks we bailed out during the last disaster. The five largest banks now account for 42 percent of all loans in the United States.

Why is that? Well in 1985, there were more than 18,000 banks in the United States. Today, there are less than 7,000. Big regulations suffocate small banks. That's why the six largest banks in the United States (JPMorgan Chase, Bank of America, Citigroup, Wells Fargo, Goldman Sachs and Morgan Stanley) have collectively grown 37 percent larger over the past five years.

Looked at a different way, the U.S. banking system has 14.4 trillion dollars in total assets. The six largest banks now account for 67% of those assets and all of the other banks account for only 33%. In fact, JPMorgan Chase is roughly the size of the entire British economy. Think about that for a moment and ponder the "too big to fail" syndrome. Jamie Dimon is no dolt.

And while we are talking about big banks and slick bankers, we notice that Pinterest is currently valued at more than 3 billion dollars even though it has never earned a profit. Ahhh....profit, smofit! Who cares, the market was up over 30% last year. Never mind that Twitter, a seven-year-old company, has never made a profit. It actually lost over \$64 million dollars in its last reported quarter. But Mr. Market thinks that this baby is worth over \$36 billion. That other darling of the market, Facebook is trading at a valuation that is equivalent to approximately 100 years of earnings, and it is currently supposedly worth over \$133 billion. We're not sure the hipsters will stay loyal enough for long enough for us to earn our investment back on this puppy.

And let's talk about the wealth divide for a moment. There are 1.2 million students that attend public schools in the United States who are effectively homeless...a number that is up by 72% since the last meltdown. The number of Americans on food stamps has grown from 17 million in 2000 to more than 47 million today. Effectively, that means that one in every five households in the United States is on food stamps.



The number of Americans on Social Security Disability now exceeds the entire population of Greece, and the number of Americans on food stamps now exceeds the entire population of Spain. Those are big numbers but perhaps the ever burgeoning wealth divide is best illustrated by the following:

Wal-Mart recently opened up two new stores in Washington D.C., and more than 23,000 people applied for just 600 positions. Meanwhile, the six heirs of Wal-Mart founder Sam Walton have as much wealth as the bottom one-third of all Americans combined.

Hmmm...we're no Marxist but there seems to be something out of whack in the formerly great republic. Perhaps Caesar and Empress Michelle should stop eating cake in their inner sanctum and pay more attention to the pressing needs of the average punter.

America is still the greatest country on the planet, with more natural and human resources than any other place on mother earth. But until we recognize that we have some serious issues and seriously start to address them, we move inexorably closer to cataclysm.

Now, after reading the above you may need two things...some good news and a stiff drink. Read on.

"May the New Year bring you courage to break your resolutions early! My own plan is to swear off every kind of virtue, so that I triumph even when I fall!"

- Aleister Crowley (1875 - 1947) Moonchild -

According to some clever Longhorns at the University of Texas at Austin (which, as everyone knows, is not really a part of Texas, at least according to the locals), **"regular but moderate consumption of alcohol makes you healthier and happier than total abstinence."** Apparently, having the occasional beverage also adds years to your life expectancy.

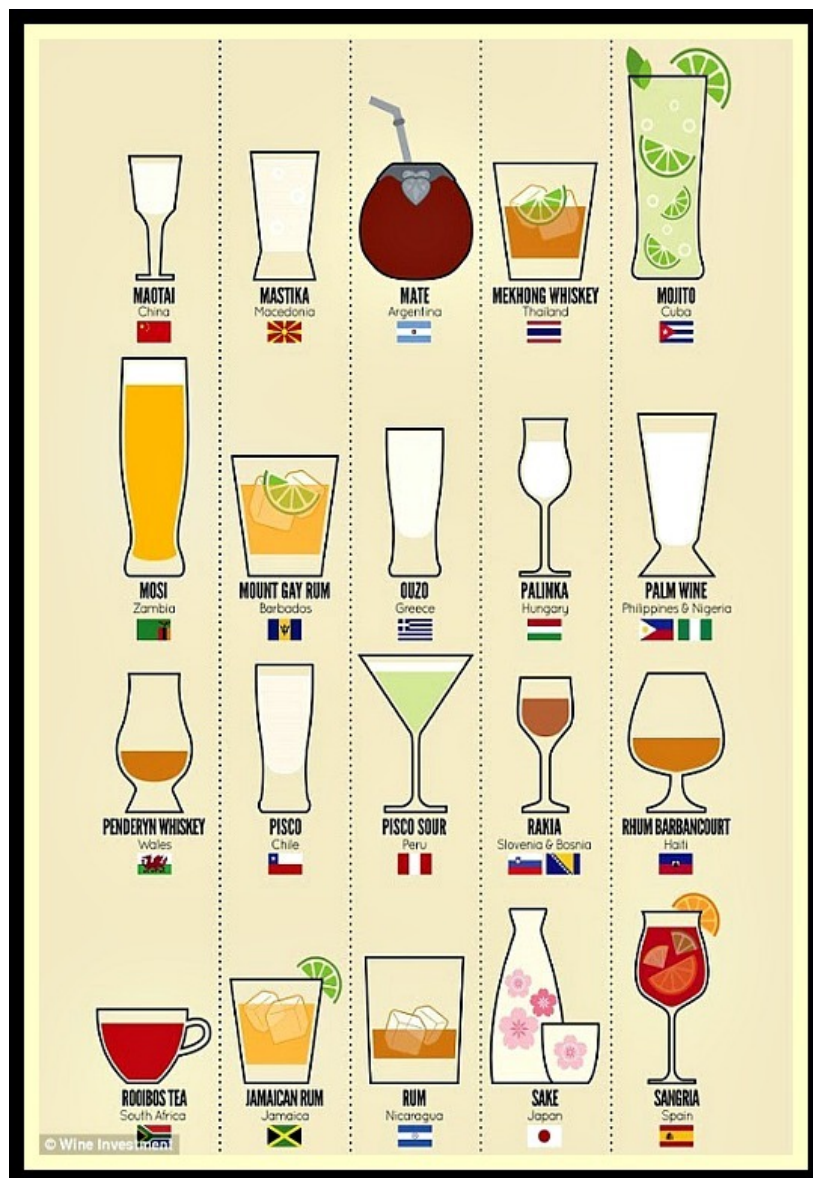
These are conclusions from a 20-year study carried out by scientists at the University of Texas. They published their results in the latest issue of 'Alcoholism: Clinical and Experimental Research'. This was not widely reported in the US but those every hopeful Russians picked it up with glee.

Dr Vadim Drobiz heads the Moscow-based Alcohol Market Research Center:

"There is no doubt that moderate alcohol consumption is beneficial in cardiovascular cases. Alcohol also acts as an antidepressant, helping moderate drinkers live longer lives. Sport, too, helps you cope with stress. But I have serious reasons to believe that a forced three-mile run, especially combined with emotional distress, will do you much more harm than 40 milliliters of good vodka."

The good doctor may have a point. And if you decide to take a round the world tour this year and would like to sample each country's favorite beverage (most with, but obviously some without alcohol) the following diagram could be helpful. No, no, no...Janet...you stay exactly where you are! Club S&P needs you now, more than ever.





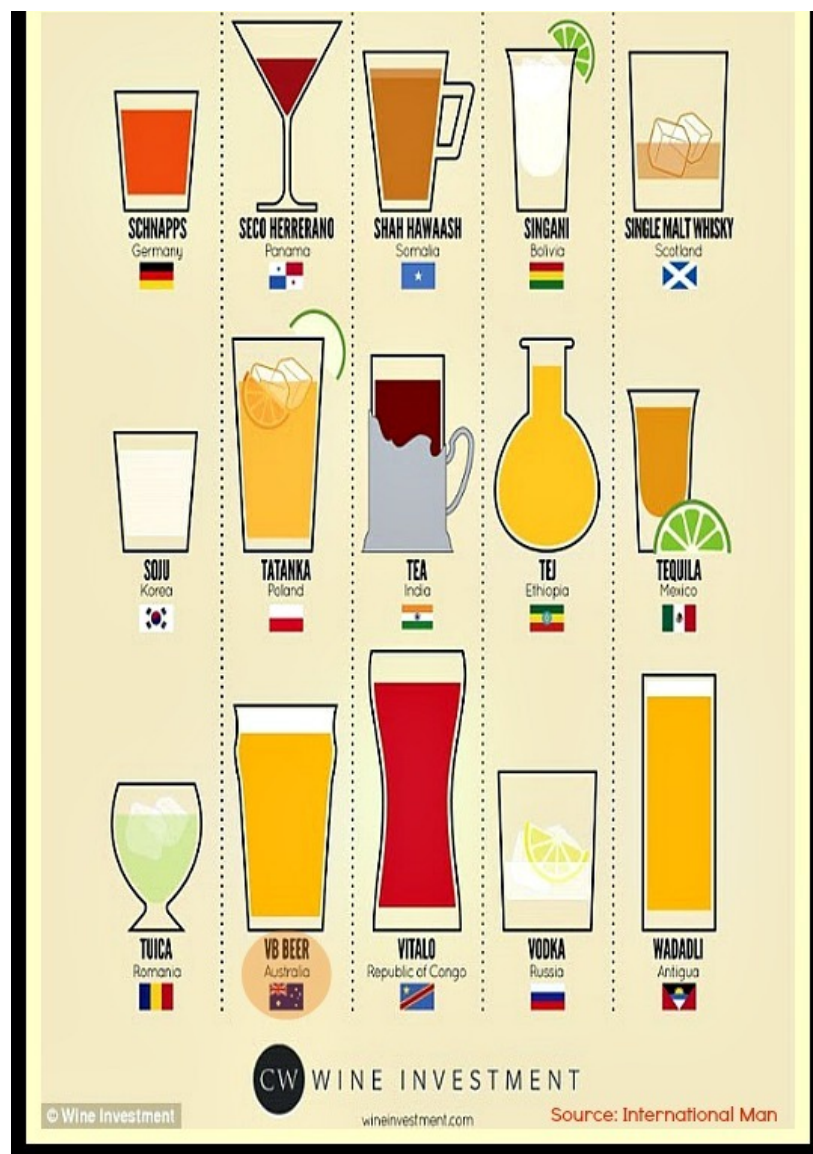


CHART OF THE WEEK

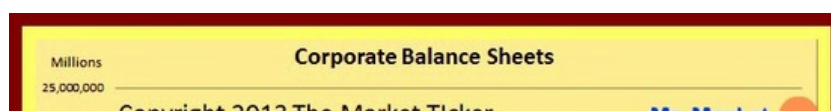
*A jest's prosperity lies in the ear
Of him that hears it, never in the tongue
Of him that makes it.*

William Shakespeare (1564 - 1616) - "Love's Labour's Lost", Act 5 scene 2

Take a look at the chart below, again courtesy of Grant Williams, with due attribution to the original source, [The Market Ticker](#). Yes, it is busy but it's illuminating too. During 2013 we heard a lot about the magnificent corporate profits and how much money corporations are making. And, yes...on the face of it, corporations are doing well. But much of it is hinged on debt, which they are able to obtain cheaply right now because Ben has artificially suppressed interest rates.

The blue line at the top shows what Mr. Market thinks. He is exuberant, of course. The green line represents the tangible assets of the companies. The red line represents the liabilities of the same companies. Finally, the purple line shows the real value of the companies, once their debt (which has to be repaid at some point) is deducted from the asset line. As you can clearly see, there is a pretty large chasm between what Mr. Market thinks these companies are worth, compared to the reality.

And reality eventually bites!





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

The information above is not and is not intended to be considered or treated as legal, tax or investment advice. Please consult your own lawyer, accountant or investment advisor on such matters.

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

