



A PEEK AT THE WEEK THAT WAS - February 1, 2014

Patient Capital... Positioned for Profit

The incestuous relationship between government and big business thrives in the dark

Jack Anderson (1922 - 2005)

Jack Anderson was a brave man and not just because he was a war correspondent during 1945. It was what he did after World War II that defines him as truly brave. He took on the government of the time and exposed graft and corruption for what it was...theft of money, privacy and power from the average citizen...to the benefit of the "establishment". The Washington DC-based "Investigative Columnist" (when that description had meaning) made many enemies during his colorful career.

Of Swedish / Danish descent, he was the kind of tough, truly investigative journalist so lacking in today's instant gratification, breaking news world of the trite and the trivial. He was not frightened to question authority and to take on figures of fearsome reputation, like the infamous head of the FBI, J. Edgar Hoover. Anderson understood the incestuous link between big government, big banking and big business. He had an eye for corruption and crony capitalism and the misery that is manufactured from this unnatural alliance. From [Wikipedia](#):

Jack Anderson was a key and often controversial figure in reporting on J. Edgar Hoover's apparent ties to the Mafia, the Watergate scandal, and the John F. Kennedy assassination. He also broke open the investigation and harassment by the Nixon administration of John Lennon during the fight to deport Lennon, the search for fugitive ex-Nazi officials in South America and the savings and loan crisis. He discovered a CIA plot to assassinate Fidel Castro, and was credited for breaking the Iran-Contra affair, though he has said the scoop was "spiked" because he had become too close to President Ronald Reagan.

We wish he were here and in his prime today, for we suspect that he would be up in arms at what is going on in the formerly great republic. A minor case in point...Barackus Caesar's state of the union address on Tuesday evening.

We weren't sure if we were on Capitol Hill listening to Barackus or in the Roman Senate, listening to Julius. It seems that both are intent on ruling in a dictatorial fashion.

Barackus. like Julius, is a powerful orator.

Barackus, like Julius, is the commander in chief of a vast, yet increasingly difficult to control, empire.

Barackus, like Julius, dislikes being "reigned" in by useless and inconvenient elected representatives.

And thus, Barackus has made it clear that in his declining years as head of the modern equivalent of ancient Rome, he will govern by "executive order" as and when it is necessary to do so.

Example numero uno...**MyRA**...aka...*the US Treasury Bailout Plan!*

From CNN Money, January 30, 2014 [emphasis ours, as usual]:

In his State of the Union address, President Obama announced plans to create a new 'myRA' retirement account aimed at helping millions of Americans to start building a nest egg.

*On Wednesday, **Obama signed a presidential memo directing the Department of Treasury to create the government-backed retirement accounts.***

*The accounts are targeted at the millions of low- and middle-income Americans who don't have access to employer-sponsored retirement plans. That **includes roughly half of all workers and 75% of part-time workers.***

*The White House says it will **"aggressively" encourage employers** to offer the program, noting that they won't have to administer or contribute to the accounts. myRAs will initially be offered through a pilot program to workers whose employers sign on by the end of the year.*

*But **unlike traditional Roth IRAs, the accounts will solely invest in government savings bonds.** They will also be backed by the U.S. government, meaning that **savers can never lose their principal investment.***

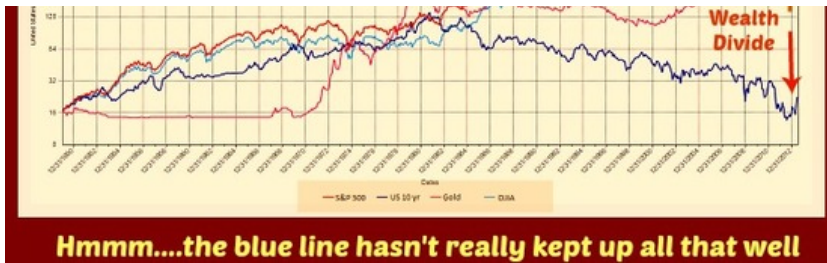
This is such baloney that we are baffled by the lack of ballistic blow back. We guess that it is just not "breaking news" enough!

But we knew it was coming. What better way to find a market for all those treasuries manufactured to mask Bartender Ben's money machine. And what better way to do it than via an executive order creating a mandatory savings plan for poor saps who will never understand...let alone question it? Why bother with silly and time consuming things like congressional approval? Caesar has decreed that this edict is clearly for the "public good" (just like Obamacare) and so it shall be.

Those slack savers shall now be forced to purchase US Treasuries...**which, of course, cannot lose value.**

What? Of course they can. Take a look at the chart below, courtesy of Barry Ritholtz and [The Big Picture](#), which tracks the performance of the stock market (Club S&P), the Dow Jones, gold and the US 10 year Treasury from 1950 to 2012. As you'll see, the stock market has been volatile but at least has been ascending, as has the shiny stuff. But the 10 year bonds have been pretty lousy by comparison.





And buying 10 year Treasuries which currently pay 2.67% interest when the official inflation rate in December (if you are silly enough to believe that) is running at 1.90%. This leaves the average punter with a 0.77% return.

And as any good financial planner can tell you with an average return of .77%, under the famous rule of 72, it will take you just 94 short years to double your money...which is about the same time that our fabulous Federal Reserve took to reduce the value of the Yankee dollar by 95%.

Don't believe us...click [here](#) for the CPI and [here](#) for the Rule of 72 Calculator.

But who cares, Barackus has created, by executive order no less, a mandatory market for all those Treasuries, which are to be sold by force to unsophisticated savers. What could be better?

The sad reality is that there is a big **BUG** currently devouring the flowering promise of America.

Big...as in

- B**usiness (led by big banking, of course)
- U**nions.
- G**overnment.

The little guys and gals are getting squeezed...which is a pity because they have always been the lifeblood of a healthy republic and a hearty economy.

In 2008, we witnessed what happens when big businesses like banks and car manufacturers become too big to fail.

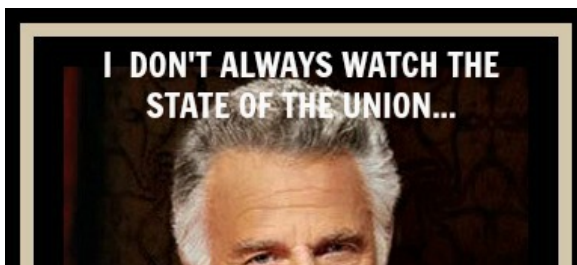
Big government steps in. Big unions are coddled (General Motors, anyone) and the little people pay...and pay as big banks are also bailed out. It's all too

sad but if you want to have some fun and watch a clever personification of the **Big Bug** problem, you can **GET KONNECTED** by clicking [here](#) or on your friendly super-antihero, Bankor, to view one of Washington DC's favorite animated features...**The Kronies**. It's very cute and all too true.

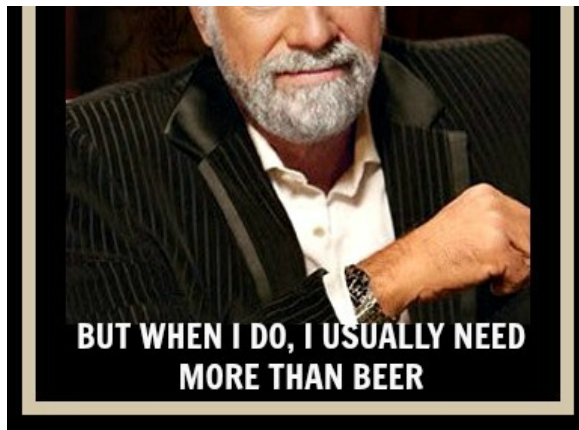


And yes, we are in a bit of a state...no pun intended.

And so we lament again...where are the Jack Andersons when we truly need them?



While Caesar decreed, Mr. Market swayed. All week long, he was up and down, never quite sure if he was in a good mood or a foul mood. Bartender Ben declared that henceforth



his replacement bar keep, Jaunty Janet Yellen, would continue to pull back the pours. That is certainly dampening the spirits in emerging markets and making Club S&P look a little nutty right now, as we can clearly see in the chart below from Yahoo Finance. Sadly, this is what happens when you

have a Fed infused market and the infusions are reduced. The junkies have less dope. The highs and lows become more pronounced. As we've suggested before, we think Mr. Market will make one last attempt to swing from the 1900 chandelier, but the fall thereafter will be less than graceful.

In the meantime, Ms. Bond's sober habits have been attracting former party-goers at Club S&P, who are finding the quiet sobriety of Ms. Bond's teetotal parlour somewhat soothing, even though her returns are quite dour.

But better to suffer a small 2.66% interest on one's hard earned money than live through more of Mr. Market's frenetic gyrations, they surmise. And it seems like a lot of the remaining party-goers are starting to hum that old Englebert Humperdinck tune...you know the one that starts with...*I wonder should I go or should I stay*...oh no...you've started humming it now, haven't you? Yes...it's the Last Waltz. Might as well listen to the whole thing now that it's in your head...just click, on Mr. Market's frenetic graph below. It's waiting for you.

Go on....we double dog dare you to click.



Hey...and don't forget that to those people exiting Club S&P, this Engelbert Humperdinck song is probably preferable to his other great hit... [Please Release Me](#)...which is what a lot of party-goers may be screaming at Mr. Market one day in the not too distant future.

Meanwhile, over at the Gold Bar, Bill Bullion and the gang were doing OK but kept expecting the inevitable weekly slam down. They are used to it by now but it still gives them the jitters. The attacks are always so sudden, vicious and unprovoked. Each time, it's the same. The thugs come in with their phony paper and try to hustle all the patrons out of their hard earned and harder grasped precious metal.

And month end seems to be the worst...because that's when the traders are rolling over their futures contracts...and the impact can be most dramatic. And so it was again this week.

On Thursday, around opening time at the COMEX bar, in walk the thugs and start dumping. You can see it on the graph below. Up till then, the shiny stuff had been holding its own, but these thugs are determined and persistent and still intimidating to some. But one day soon, we suspect, no one will be intimidated and the thuggery. The sturdy patrons at Bill's Gold Bar pay them little heed these days anyway and pretty soon no one will. Until that time, we'll just keep watching...and holding tight...to the hard stuff. We suggest you do the same.



Moving along, this week we'll be mercifully quick as we take a sleek peek at a few things that got our attention, beyond Barackus Caesar's decrees, that is.

In the Middle Kingdom, they blinked. In Denmark, the vampire squid is being confronted by a bunch of angry Vikings. In Germany, the Bundesbank let slip something about a "capital levy" just in case the bail in is not enough. Argentina is an uproar. Back in the good old US of A, we'll introduce a video of the great James Grant. It's short and too the point and in our opinion, worth the 2 minutes of your time. And it helps to explain why Mr. Market is increasingly erratic.

Our graph of the week tracks the gold miners verses the price of gold and suggests opportunity in them thar hills.

Let's get started....after another poke at the emperor, of course.





***The gentleman understands what is right, whereas
the petty man understands profit***

Confucius (551 - 479 BC)

In the Middle Kingdom, pettiness prevailed last week. Faced with the prospect of the half-billion dollar collapse of the Credit Equals Gold No. 1 trust, the Chinese bankers blinked. So it appears that those canny Confucians have opted for petty profits over market discipline. Isn't it just great how all investments are now guaranteed to perform...seemingly all round the world?

Things go wrong, investors cry foul, bail out! But just as Confucius states above that the "gentleman understands what is right", so does the market. And the market will be proved right as it always is. Delay merely increases the ultimate pain.

Think about it for a moment. If a supposedly successful, expanding and increasingly wealthy economy like China, with it's trillions of foreign reserves, is not prepared to risk contagion from a few fearful investors, are they really as strong and resilient as they presume to be?

Well, if you care to ponder that question and want to know how long you will need to wait for an answer, we suspect that it won't be too long. Take a look at the list below, courtesy of a BOA-Merrill Lynch report (delivered via [ZeroHedge](#)) which makes the following observation:

We suspect that, at a certain point, the involved parties will be either unwilling or unable to bail them out [again], which may trigger a credit crunch...The underlying problem is a corporate sector insolvency issue... there may be many more products threatening to default over time.

Sooo....it appears that there may be no shortage of other dodgy Chinese trusts that could ultimately part the petty from their profit. We suggest you stay tuned. And never forget, especially when with a lady...always be a gentleman!

Size (Rmb mn)	Issuer	Distributor	Maturity date	Assets	Location	Potential resolution
940	SDIC Trust, Jilin Trust	Not disclosed	Dec-12	Painting	Beijing	Investors were repaid with asset disposal proceeds
200	Jilin Trust	Not disclosed	Mar-12	Property	Nanjing	Jilin Trust delayed the payment, Huorong AMC took over the assets
1,000	China Credit Trust	Not disclosed	May-12	Property	Beijing	Huorong AMC took over the assets
547	Huaxin Trust	CCB	Sep-12	Agriculture	Shandong	Ongoing
140	China Credit Trust	Not disclosed	May-14	Lead and zinc mining	Sichuan	Ongoing
310	Xinhua Trust	Not disclosed	Mar-13	Property	Shandong	The trust company has sued the developer
196	CITIC Trust	Not disclosed	Mar-14	Property	Chongqing	The municipal government is coordinating for a solution
48	Dongguan Trust	Not disclosed	Oct-13	Property	Guangdong	Ongoing
280	CICC	COFCO Trust	Aug-13	Property	Nanjing	CICC repaid the primary beneficiaries. An unnamed company may take over the assets
359	CCB Trust	Not disclosed	Jun-13	Financial	NA	CCB Trust extended the trust product for 18 months
200	SDIC Trust	ICBC	Jan-14	Coal mining	Shansi	Ongoing
645	Huaxiao Trust	Not disclosed	Dec-13	Property	Dalian	The developer agreed to repay investors
385	Zhongrong Trust	Not disclosed	May-12	Property	Qingdao	The assets were auctioned off to repay investors
710	CITIC Trust	Not disclosed	Aug-12	Property	Qingdao	CITIC Trust repaid investors and put the collaterals on auction
400	Anxin Trust	Not disclosed	Apr-13	Property	Wenzhou	An unnamed developer took over the trust product to repay investors
100	Sichuan Trust	Not disclosed	Mar-13	Property	Zhejiang	An unnamed Zhejiang company took over the trust product to repay investors
31	Zhongta Trust	Not disclosed	Jan-13	Property	Shanghai	Not disclosed
850	Xinhua Trust	Not disclosed	Jan-14	Property	Shanghai	Xinhua Trust repaid investors
870	Zhongrong Trust	Not disclosed	Jul-13	Property	Hebei	Zhongrong Trust repaid primary beneficiaries in advance
627	Anxin Trust	Not disclosed	Sep-12	Property	Jiangsu	Anxin Trust repaid primary beneficiaries. The court ruled that the developer should repay the trust company
150	Jilin Trust	Not disclosed	Mar-12	Limestone mining	Shandong	Jilin Trust repaid investors
3,712	CITIC Trust	Not disclosed	Jul-20	Coal mining	Shansi	Not disclosed
570	Shaans International Trust	Not disclosed	Two products, Apr 2013 and Jul 2014	Fertilizer	Henan	Shaans International Trust repaid investors
1,334	CITIC Trust	Not disclosed	Jan-13	Steel	Hubei	An unnamed company took over the trust product to repay investors
1,140	CRC Trust	Not disclosed	Dec-13	Coal mining	Shansi	CRC Trust extended the due date for one year
1,300	China Credit Trust	Not disclosed	Jul-14	Coal mining	Shansi	Ongoing
3,000	China Credit Trust	ICBC	Jan-14	Coal mining	Shansi	Ongoing
1,000	Jilin Trust	CCB	Two products, Nov and Dec 2013	Coal mining	Shansi	Ongoing
336	Changan Trust	Not disclosed	Feb-15	Coal mining	Shansi	Ongoing

Source: Various news flow, both Merrill Lynch Global Research

Never walk away from home ahead of your axe and sword.

You can't feel a battle in your bones or foresee a fight.

The Havamal

The Vampire Squid (Goldman Sacks to the unknowing) landed on the fair shores of Denmark, seeking as usual, to sack and pillage. Those gentle goldies, claiming only to be doing God's work, quickly overcame the Danish politicians and bureaucrats brandishing just their coddling words and comforting numbers. Seems like the squid squad were after a chunk of Denmark's state owned energy enterprise called Dong Energy (interesting name) which needed capital. Of course, the squid has plenty of capital these days, even though it was dead on its tentacles back in late 2008...before the US taxpayers provided a government mandated infusion.

In any event, the average Dane was upset by the invasion...and 191,000 of them were upset enough to sign a petition opposing the sale. In fact, a recent poll found that 80% of the population was against the deal. That's a lot of angry vikings but nevertheless, at present, the score seems to be: Squid 1, Vikings 0. Perhaps this game will have a replay as the Danish government alliance splinters apart. We certainly hope so.

But it is illustrative of the fact that governments these days will simply ignore the interests of their electorates, if and when it suits them to do so. Of course, the citizens ultimately pay the price...but that's how the system is rigged. If interested, you can read more about the Danes vs. Vampire Squid game from the Financial Times by clicking [here](#) and the Economist by clicking [here](#).

Meanwhile, down the track a little to Germany and we find more evidence that the punter is the most likely to be punished. The Bundesbank (Germany's central bank) let slip that a country's citizens should ultimately be responsible for the financial fiascos of their governments. From [Reuters](#), January 27, 2014:

*Germany's Bundesbank said on Monday that countries about to go bankrupt should **draw on the private wealth of their citizens through a one-off capital levy** before asking other states for help.*

The Bundesbank's tough stance comes after years of euro zone crisis that saw five government bailouts. There have also bond market interventions by the European Central Bank in, for example, Italy where households' average net wealth is higher than in Germany.

*"(A capital levy) corresponds to the **principle of national responsibility**, according to which tax payers are responsible for their government's obligations before solidarity of other states is required," the Bundesbank said in its monthly report.*

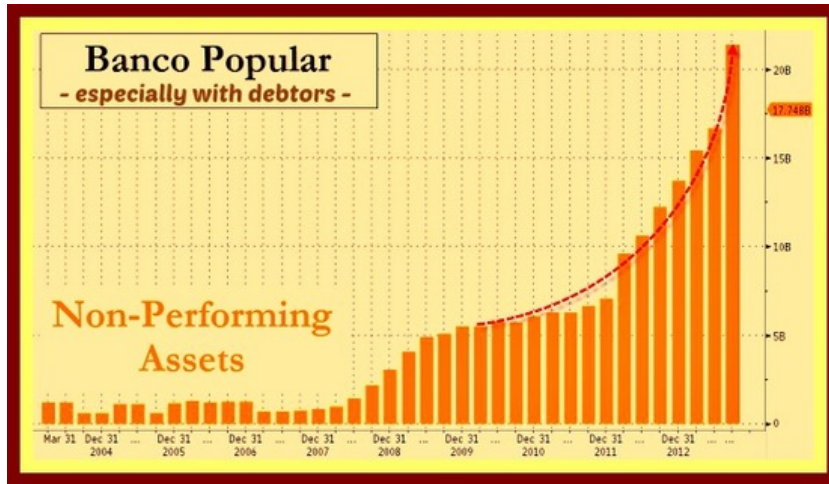
*It warned that **such a levy carried significant risks** and its implementation would not be easy, adding it should only be considered in absolute exceptional cases, for example to avert a looming sovereign insolvency.*

*The International Monetary Fund discussed the option in a report in October and said that reducing debt ratios to end-2007 levels for a sample of 15 euro area countries, a **tax rate of about 10 percent on households with positive net wealth would be***

required.

Capital levies, Cyprus style bail-ins, US style bail-outs, executive decrees, mandatory savings. We wonder and worry...where will does all this forced redistribution of real wealth end? Perhaps we should not be wandering too far from our axes and our swords?

Oh...and while we're peeking around Europe, let's pop down to Spain where we find that their big Banco Popular is increasing its popularity...at least among borrowers who are not paying them back. Take a look at the chart below, once again courtesy of ZeroHedge. As a banker, you really don't want to see this kind of "growth". We saw a similar thing happening in Italy last week and we believe that you can expect more of these types of graphs from other Eurozone banks going forward.



Wall Street people learn nothing and forget everything

Benjamin Graham (1894 - 1976)

James Grant, of Grant's Interest Rate Observer, is one of the most respected men in finance. He has been around a long time and observed many things, including interest rates. But Mr. Grant is more bemused than usual.

Watch the video below as he talks to CNBC's Rick Santelli and you'll get a decent hint as to why.



In just over 2 minutes, Grant explains that we **"live in a valuation hall of mirrors"** as we wander through the land of unintended consequences created by our Friendly Fed. Ben and Janet have their **"fingers and thumbs on the scales of finance,"** as the Fed **"insists on saving us from 'everyday low prices'"** - the evil Count Deflation. In so doing it creates **"redundant credit"**...aka funny money which does great mischief in the markets by creating illusions of wealth. Mr. Grant concludes with a degree of certainty in an uncertain world... **"there is no suspense as to how [this will] end... [it will] end badly."**

Click on the image to your right to view it.

CHART OF THE WEEK

The contrary investor is every human when he resigns momentarily from the herd

and thinks for himself

Archibald MacLeish (1892 - 1982)

This is a quick and easy one. The green line is the price of gold. The white line is the stock price of the HUI gold index, which is basically the gold miners. Notice how for most of the period since 1996, the price of the miners and the price of gold have tracked each other pretty closely. Now notice how they have drifted apart in the latter years, especially since around 2011.

If history is any guide...and we know that it is...then gold and gold miners will come back together at some point. That means that the price of gold will go down or the price of the gold mining companies will go up. You can decide for yourself but we suspect that you already know what we're thinking. Yes...both will go up but the miners will play catch up to the shiny stuff in spectacular fashion.

Oh...and another prediction...while we have a very soft spot for Seattle, it's Denver by 4 points tomorrow. Good luck to you all!



Tracking the price of gold from the gold miners since 1996

Til next week...

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

William Shakespeare



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