Patient Capital.... Positioned for Profit

A PEEK AT THE WEEK THAT WAS - February 15, 2014

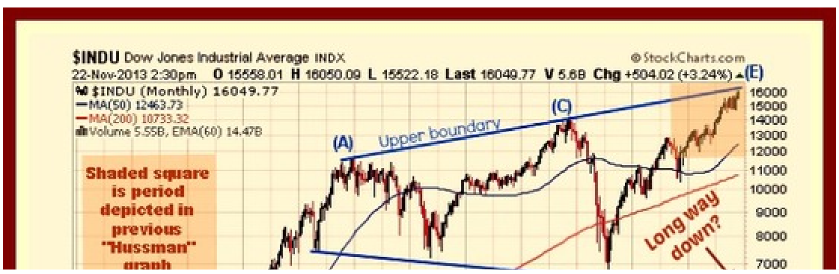
Every once in a while, the market does something so stupid it takes your breath away

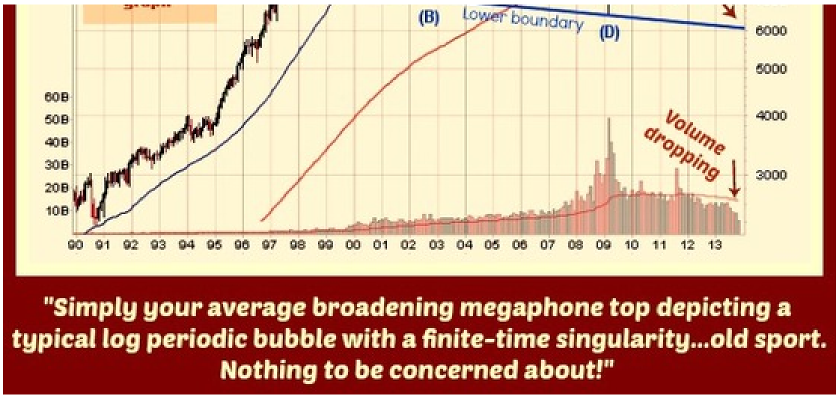
- Jim Cramer (1955 -   ) -

Jim Cramer went to Harvard undergraduate and Harvard Law School so presumably he is no dummy...although he is arguably one of the most annoying of the chirping lovebirds on CNBC. We're not sure when he uttered those now famous words quoted above, but to us they are certainly relevant now.

Mr. Market is on a tear. Jaunty Janet proclaimed publicly that she has his back and will continue pouring booze into the punch bowl. Mr. Market knows that with enough punch, he can take out that 1900 chandelier. The 1800 neon sign is once again flashing outside Club S&P. Those folks who were intimidated by the bright lights before are now flocking to the party. There is plenty of booze. The famous Bartender Ben "wealth effect" has folks feeling good. Why...just look at the graph below from this week...and the one from last week as well. This baby is going to the moon and beyond.

Our fear is that Mr. Market will indeed do something so stupid that it will take Mr. Cramer's breath away again...and with it...the hard earned dollars of all the late coming mom and pops to the crazy party at Club S&P. From a technical analysis perspective, this is playing out a bit too close to script for our liking. We've written about something called the "Jaws of Death" pattern before. Here is the graph from our November 30 Peek of the Week in case you need a quick reminder.





Since then, Mr. Market has gyrated around a little but now seems intent on taking out that upper boundary. Perhaps the pattern is simply wrong. Maybe Mr. Market will just keep going up forever, just as Bartender Ben intended. After all, $65 billion a month being pumped out by Jaunty Janet can provide a lot of fuel for the party. And mom and pop still have a lot of cash sitting on the sidelines that they can thrown on the roulette table underneath the 1900 crystal chandelier. And for evidentiary support we have the great JPMorgan stock strategist Tom Lee declaring this week to the assembled chirpers on CNBC...

> *“This could be only the middle innings of what could be one of the longest bull markets in history," Lee said in a "Squawk Box" interview. "There is a lot of firepower to fuel this rally. There is a lot of cash on the sidelines, consumers have delevered."*

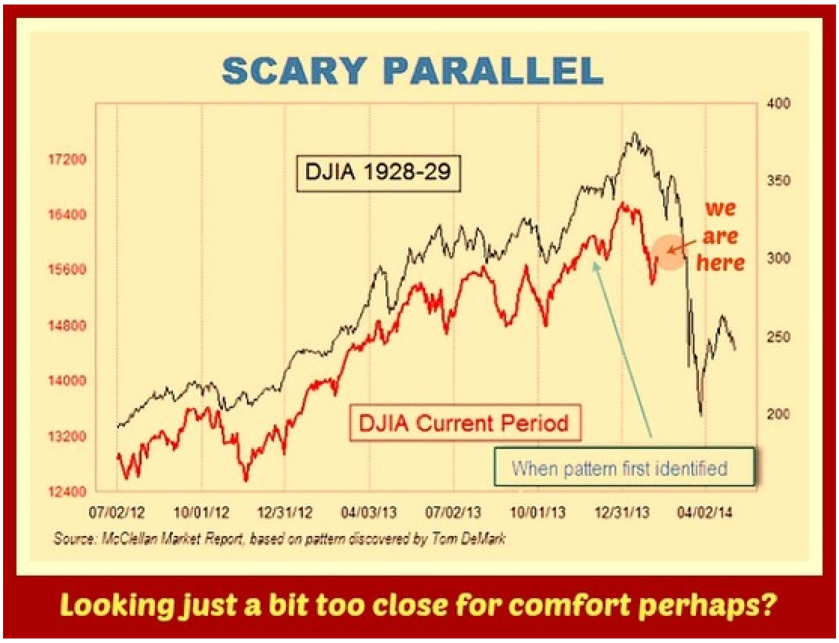
Well, JP Morgan is not EF Hutton but we suspect that some people were probably listening to Mr. Lee's sweet, soothing siren song as they called their friendly Morgan Stanley broker (you see EF Hutton became a part of Smith Barney which became part of Citigroup before being ultimately spun over to Jimmy Gorman's mob at Morgan Stanley...that's the gobble up factor of Wall St. in action...but we digress). Where were we? Oh yes..."buy, buy, buy" say the mom and pops, now fearing that they may be missing the action. We sincerely hope it all works out well for them but we fear that history is not on their side.

Let's take a look shall we? Oh, but before we do...and to save you the time of finding it yourself, you can click here to see that classic EF Hutton advert on You Tube. Presumably, that kind of group interaction on a modern commercial airliner would now be banned under some TSA or FAA regulation. Go on, click here. It's a great ad.

Anyway, onto the history part...there has been a chart floating around in recent months that has stirred a bit of controvsary among the financial folks. Basically, it purports to track the Dow Jones Industrial Index (you know...the "Dow") from 1928 - 29 in comparison with Dow 2013 -14. The tracking characteristics are uncanny in their cohesion and point uncomfortably towards calamity in the ensuing months. Of course, no one can tell how Mr. Market will behave. Even he doesn't know from day to day and ***"just because something is inevitable, doesn't make it imminent"*** (thank you, Doug Casey).

But as you peek at the chart below, you may want to consider exercising some caution if you are "long" the market and may even consider some defensive "shorts". With Janet pouring, the market roaring and the potential for a bear clawing, **a long / short strategy may make sense**.

OK...to save you looking it up again...click here for the definition of being "long" and here for being "short". Now...consider where you are in light of the chart below. If you want to read more on this chart and its attendant notoriety on the MarketWatch website, just click here.



Meanwhile, as a lot of mom and pops are jamming into Club S&P, it seems like a few other folk are slipping into Bill Bullion's Gold Bar just down the street. Bill's is a small place...more like your friendly neighborhood pub rather than the flashy nightclub where Mr. Market hangs out. But Bill's patrons are solid. The newcomers are nice to have around but the regulars wonder how frightened they might be when the thugs come by to deliver their customary "slam down". You see, these newbies like the fact that the shiny stuff seems to be glistening again. Gold has had a solid week, starting out around $1,260 and ending well over $1,300...$1,318.40 in fact...and it's been quite a while since the shiny stuff has seen daylight above $1,300.

Of course, there was the routine slam down on Tuesday but the recovery was swift and solid. Take a look at the chart below. The regulars at the Gold Bar sense that another slam down is coming...bigger thugs, more paper selling...but they don't care. As the thugs shake the shiny stuff from the latecoming...and potentially more susceptible speculators, the regulars will be there to scoop it up. Why? Because they know the day is coming when the thuggery will be over and gold may not be there for the scooping at what they see as bargain prices.

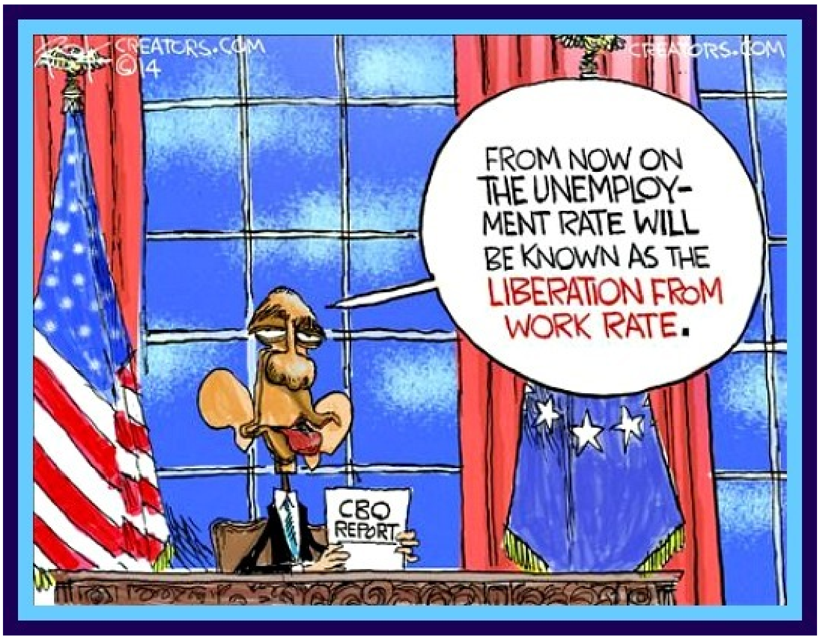
Perhaps you should become a regular at the Gold Bar too. It might be just as exciting as Club S&P one day.

This week, in response to queries on the subject, we'll take a look at what actually constitutes a "slam down" in the gold market. We'll also take a look at who might be the likely suspects responsible for these all too common heists.

We'll also take a peek at some interesting things going on in the good old US of A, where debt is now de rigeuer, freedom of the press is passe and unemployment is now "liberty". We'll throw in a map of the Ukraine which may help to explain the divisions over there and end with our customary chart of the week...a tongue in cheek peek at what a black swan looks like.

As usual, we'll continue to try to put the pieces of the puzzle together...which is sometimes fun, but never easy.   Unfortunately, making sense of the nonsensical and money from mayhem is always challenging...but not impossible, if you are paying attention.

Let's get started...right after another funny from the always spot on column of Ed Steer.



It's mostly the financial chicanery that's going on. People are saying 'What kind of trust can we put in this market?'

- Mike Farrell (1939 -   ) -

Anatomy of a COMEX Slam Down

We've been making a lot of references to the thuggish slam downs that routinely occur in Bill Bullion's Gold Bar. It's the same old scam....at certain times of the day, usually on or close to a certain hour, the thugs arrive offering to sell monstrous amounts of paper gold to the assembled patrons. Those holding paper or real gold watch as the prices plummet around them. Some spill their drinks, soil their clothes or worse still, sell their shiny stuff into a rapidly declining market to a related pack of thugs who are willing to pick up their stuff at bargain basement prices.

Let's cross over to Paul Craig Roberts and David Kranzler at PaulCraigRoberts.org for a recent example of the "slam down" in action.

> *When the Comex trading floor opened January 30 at 8:20AM NY time, the price of gold inexplicably plunged $17 over the next 30 minutes. The price plunge was triggered when sell orders flooded the Comex trading floor. Over the course of the previous 23 hours of trading, an average of 202 gold contracts per minute had traded. But starting at the 8:20AM Comex, there were four 1-minute windows of trading here's what happened:*
>
> *8:21AM: 1766 contracts sold*

8:22AM: 5172 contracts sold

8:31AM: 3242 contracts sold

8:47AM: 3515 contracts sold

Graphically, it looked like this...

OK....back to Messrs. Roberts and Kranzler...with emphasis ours:

Over those four minutes of trading, an average of 3,424 contracts per minute traded, or ***17 times the average per minute volume*** *of the previous 23 hours, including yesterday's Comex trading session.*

The yellow arrow indicates when the Comex floor opened for gold futures trading. There was not any news events or related market events that would have triggered a sell-off like this in gold. ***If an entity holding many contracts wanted to sell down its position, it would accomplish this by slowly feeding its position to the market over the course of the entire trading day in order to avoid disturbing the price or "telegraphing" its intent to sell to the market.***

Instead, today's selling was designed to ***flood the Comex trading floor with a high volume of sell orders in rapid succession in order to drive the price of gold as low as possible before buyers stepped in.***

The reason for this is two-fold: Driving down the price of gold assists the Fed in its efforts to support the dollar, and the ***Comex is running out of physical gold available to be delivered*** *to those who decide to take delivery of gold instead of cash settlement.*

The February gold contract is subject to delivery starting on January 31st. As of January 29th, 2 days before the delivery period starts, there were 2,223,000 ounces of gold futures open against 375,000 ounces of gold available to be delivered. The primary banks who trade Comex gold (JP Morgan, HSBC, Bank Nova Scotia) are the primary entities who are short those Comex contracts. Typically toward the end of a delivery month, ***these banks drive the price of gold lower for the purpose of coercing holders of the contracts to sell. This avoids the problem of having a shortage of gold available to deliver to the entities who decide to take delivery.*** *With an enormous amount of physical gold moving from the western bank vaults to the large Asian buyers of gold,* ***the Comex ultimately does not have enough gold to honor delivery obligations should the day arrive when a fifth or a fourth of the contracts are presented for delivery****. Prior to a delivery period or due date on the* *contracts, manipulation is used to drive the Comex price of gold as low as possible in order to induce enough selling* ***to avoid a possible default on gold delivery****.*

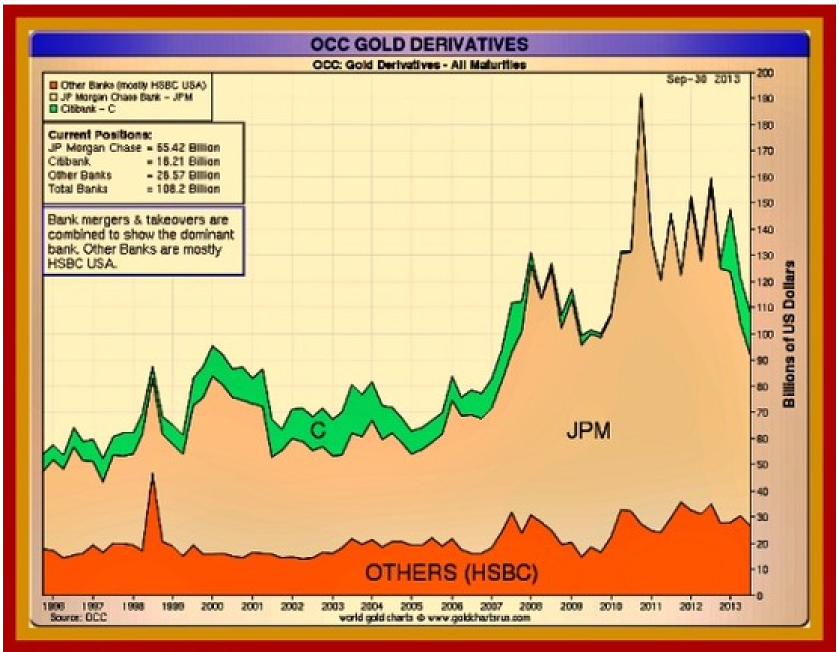
Following the taper announcement on January 29, the gold price rose $14 to $1270, and the Dow Jones Index dropped 100 points, closing down 74 points from its trading level at the time the tapering was announced. These reactions might have surprised the Fed, leading to the stock market support and gold price suppression on January 30.

Manipulation of the gold price is a foregone conclusion.

Roberts and Kranzler believe that the Fed is behind the scenes and pulling the strings. Their motive...to support the Yankee dollar and delay the eventual day of reckoning when they will be exposed for having played funny buggers with the physical gold entrusted to them by its rightful owners, the citizens of the USA (and Germany, England and quite a few other nations silly enough to trust the Fed to be honest stewards of their gold as well).

But who are the thugs sent to pull off these slams downs? Well, the following graph pretty much identifies the culprits about as clearly as can be...and surprise, surprise...old JPMorgan is the biggest of them all by a country mile, followed by those other stalwarts of stellar corporate behavior, HSBC and Citibank. Take a look for yourself.

This graph exposes the three main holders of paper gold as of last September and the relative amounts of each. In its defense, as we have written before, JPMorgan inherited a lot of its positions from Bear Stearns who were big in this market, but even before 2008, they had a pretty healthy (shall we say, dominant) esposure in this space. And there's simply no way that they would have taken on all this additional exposure from Bear without the complicit nod and wink from our friendly Fed. No way at all. JPMorgan may be many things, but they are not idiots! And, of course, the Fed had its own motitve to play along...so everyone wins. Except the free market, of course!



Source: Ed Steer / Nick Laird

So now you know the scam, you know the players, you know the motive and you know the modus operandi. What do you do next time the thugs slam down the shiny stuff? We suggest that you ask some of the regulars at the Gold Bar. Or just do as the big boys do and start hoarding yourself.

Just so you know...after being massively short for a long time, JPMorgan has been buying all the paper gold it can get its greedy hands on for a while now. But it's still "short" paper silver (although it is hoarding enough physical silver to make the Hunt brothers look like pikers...click here for more on this from Ted Butler, who knows this stuff backwards). Ultimately, JPMorgan's intent is to go from being a seller to an owner of gold and silver...while making a chunk of money in the process (hence the slam downs).

So, while the thugs may be around for a little while yet, trying to get as much cheap gold and silver as they can, eventually their game will be up. And when the big boys have moved from short to long and can gain from an increase in price of precious metals...watch out. There is already a severe disequilibrium in the amount of physical gold verses would be owners and the fundamentals for the shiny stuff just get stronger every time some idiot politician makes another wrong move.

Hey...you can't say you weren't warned. It's time to make the chicanery your chum!

To recap: it is possible to put decent information into a Government Machine, have ordinary, good people running the thing, and a reasonable system in place, and still get utter idiocy out of the dispenser?"

Nick Harkaway (1972 -)

We were wrong! Last week, we assumed that the congress people (yes, that mob) would put up a bit of a fight for the benefit of the public. But no...they just caved in to Caesar and his chief financial Praetorian, Jack Lew. In so doing, they signed off on over **a year of unlimited spending**.

There is no debt ceiling until mid-March, 2015. This is madness. The Democratic donkeys just hee hawed their usual approval of anything that Caesar requests of them. The Republicans, more impotent than usual, probably thought that they if they give Barackus Caesar enough monetary rope, he will hang himself with it, just in time for the upcoming House elections in November. He may just do that, for he certainly has a penchant for running up the bills. And Empress Michelle is no slouch either, at least according to Mychal Massie at the Daily Rant.

But who ultimately pays these bills? Of course, we do. The die is cast. Expect these little numbers to keep spinning mercilessly.

There should be an outrage but the media is muffled. The United States used to be the foundation of free press. Why, it's even enshrined in poll position within our beloved, if not beleagured, constitution.

So how come the we just dropped 13 places in the most recent World Press Freedom Index. And no, that doesn't mean the US dropped from 1st to 13th. In fact, we plummeted from 33rd to 46th.

From Russia Today, February 12, 2014 [emphasis ours]:

> *Press freedom in the United States has suffered "one of the most significant declines" in the last year after **sacrificing information to national security**, with the NSA surveillance scandal topping the list of wrongdoing.*
>
> *That's according to The World Press Freedom Index for 2014 from Reporters Without Borders (RWB), which put **the US in 46th place out of 180 countries**, a 13-place drop from last year.*
>
> *This time American misdemeanors were in the report's chapter on **"Information sacrificed to national security and surveillance,"** which says: "Countries that pride themselves on being democracies and respecting the rule of law" **too often sacrifice the freedom of speech to "an overly broad and abusive interpretation of national security needs."***
>
> ***"Investigative journalism often suffers as a result"** of a "disturbing retreat from democratic practices," the RWB report said.*

Yes, the NSA scandal is certainly to blame. But so is lazy journalism and a lack of passion for punishing perjury and perdition. Even our whistleblowers have to hightail out of town before drawing wind. Simply said, our esteemed leaders get away with way too much. There is no truly objective mainstream media...on either side of the political aisle. Polarity and popularity have replaced shoe leather and incisive thinking. Jack Anderson is dead. There are few to replace him.

Watergate drew great indignation and cost an errant Nixon his throne. But our current Caesar can literally get away with murder (drone me up Scotty) and there is nary a murmur of protest. A one sided Super Bowl draws more ire from the bread and circuses circuit than being constantly scrutinized. From the NSA's private monitoring of our most intimate communications to the TSA's public leering at our naked images at the local airport, it is truly a travesty.

But, in case you are wondering who's got it right, it seems like the Vikings appreciate a free press far more than we do. Take a look at the list below and notice that over half of the top ten are Scandinavian...and the last time we checked, their economies were doing pretty well too. Hmmm....we wonder if there is a link.

And spare a moment to pity the Eritreans. If you have even less free press than the neutered North Koreans, you are really doing it tough.

World's best countries for press freedom*
1. Finland
2. Netherlands
3. Norway
4. Luxembourg
5. Andorra
6. Liechtenstein
7. Denmark
8. Iceland
9. New Zealand

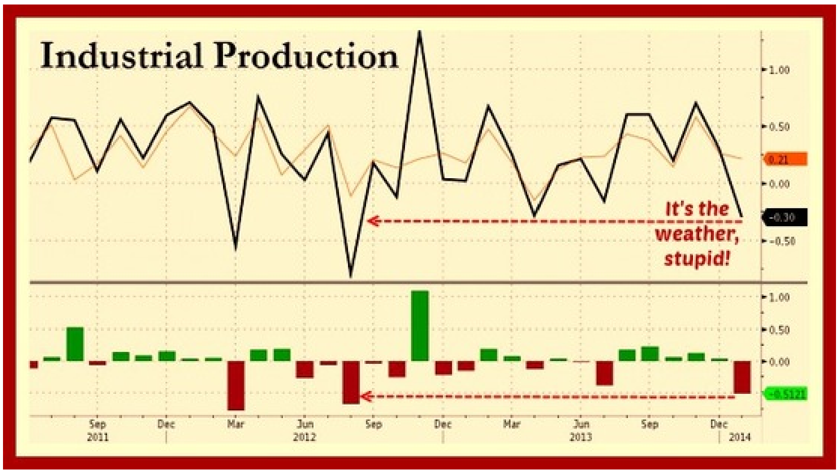
10. Sweden

World's worst countries for press freedom*
170. Cuba
171. Lao People's Democratic Republic
172. Sudan
173. Islamic republic of Iran
174. Vietnam
175. China
176. Somalia
177. Syrian Arab Republic
178. Turkmenistan
179. Democratic People's Republic of Korea
180. Eritrea

*Source: Reporters Without Borders,
The World Press Freedom Index for 2014.

In the meantime, from the the always factual and entirely apolitical Federal Reserve, it's the weather...not a lack of demand...that explains the biggest drop in industrial production since August 2012. Nothing to do with excess inventories (a.k.a. too much stuff) or incomes being stagnant for a decade or millions of people simply not working...*it's **not** the economy stupid*...it's the weather. Hmmm...more incisive, investigative reporting and analysis. Perhaps we should merge the Weather Channel with CNBC?

For those of you interested, ZeroHedge has the following graphic...minus the clouds and snow. Just the facts. How inconvenient!



Simultaneously, we learn that of the 247,000,000 Americans who are eligible to work, over 100,000,000...or roughly 40% are either unemployed or as Caesar might proclaim..."liberated from work". In other words, some 10,000,000 souls are formally unemployed, while another 91,000,000 either never looked or have given up looking for a job. These are big numbers. The fact that the Fed is swayed by the unemployment rate at all is totally bogus when seen in the context of the "big picture".

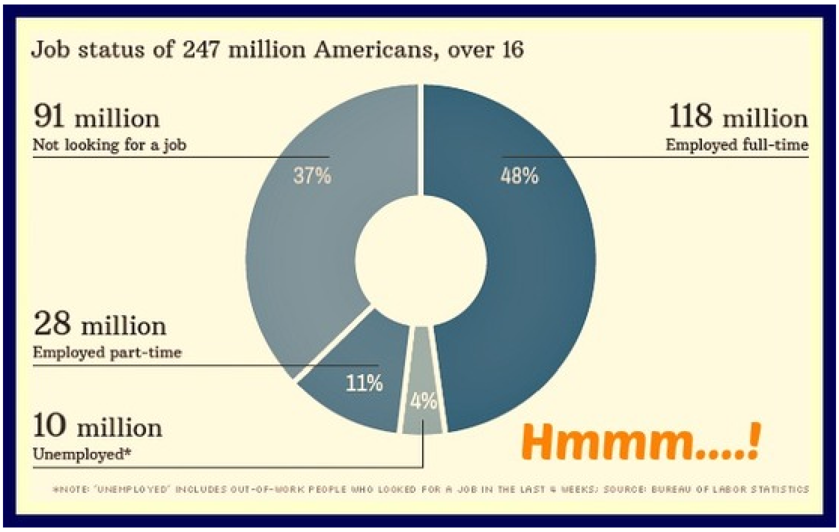
From CNN Money, February 10, 2014:

> *The unemployment rate isn't always the best measure of the job market, because it only includes people who have actively searched for work within the last four weeks. Many Americans just aren't looking for jobs.*
>
> *In fact, about 91 million adult Americans don't work, and aren't looking for jobs. They make up 37% of the population -- the highest level on record since 1978. Yes, some of them are workers who've been out of a job for so long that they've given up entirely.*

But don't be too alarmed: In addition to discouraged workers, this group also includes people who are retired, enrolled in high school or college, and staying at home to take care of young children or elderly relatives.

We just love the last sentence. *Don't be too alarmed*. Are you kidding? Have you looked at the debt clock recently. When folks are not actively participating in and contributing to a working economy, somebody ultimately pays...a lot. Nope...no deep thinking, tough questioning, cynical investigative journalism here. No inquisition of our upper echelon as to how we got here and how we can get out. Just some mind boggling stats and a few comforting words.

Nothing to worry about folks. Everything is just so excellent in the empire. Party on Mr. Market. Sheesh!



Love thy neighbour, but pull not down thy hedge.

Ukrainian Proverb

Ukraine is a big, increasinly divided country. It's 50 million souls can't seem to decide if they want to be Russians or Europeans. They are undoubtedly a very smart and generally hardworking bunch. For too long, they were slaves of the Soviets and Vladimir Putin is keen to keep the Bolshevik boot to their throat. They are too important to Russia, providing as they do, a handy buffer to the west. And let's not forget, Vlad has the natural gas they need to warm themselves in winter and his mother Russia provides a ready market for many Ukrainian goods all year round.

So why should they even want to hang out with those dysfunctional Eurolanders anyway? Well, it seems that half of them...the western half...view themselves as more Euro than Russian. The other half feels the opposite. Take a look a the map below of how they voted and the demarcation is striking.

If ever there was fuel for a divisive fire, this looks like it. We hope that sounder heads will prevail but with secessionist movements and populist politics gaining traction over much of our lonely planet, one never knows these days. From the Brookings Institue, January 31, 2014:

If the current fragile attempt at a political settlement collapses, the situation on the ground will likely deteriorate into further violence and street clashes. Developments then could spin out of control—and the West might well find that it has lost any ability to influence a peaceful outcome.

You can read the whole Brookings article here and some good easy reading coverage from Forbes by clicking here. With the USA and Russia increasingly at odds, this is an interesting and potentially influential situation to keep your eye on.

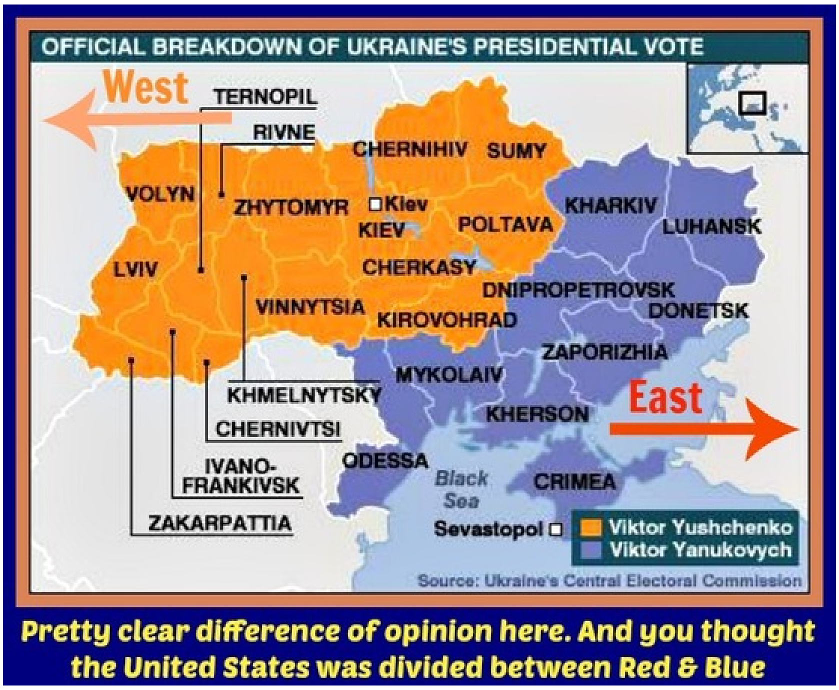


CHART OF THE WEEK

"Yet they believe blindly in the stock market, and in the abilities of their pension plan manager. Why do they do so? Because they accept that this is what people should do with their savings, because "experts" tell them so. They doubt their own sense, but not for a second do they doubt their automatic purchases in the stock market."

Nassim Nicholas Taleb, The Black Swan: The Impact of the Highly Improbable

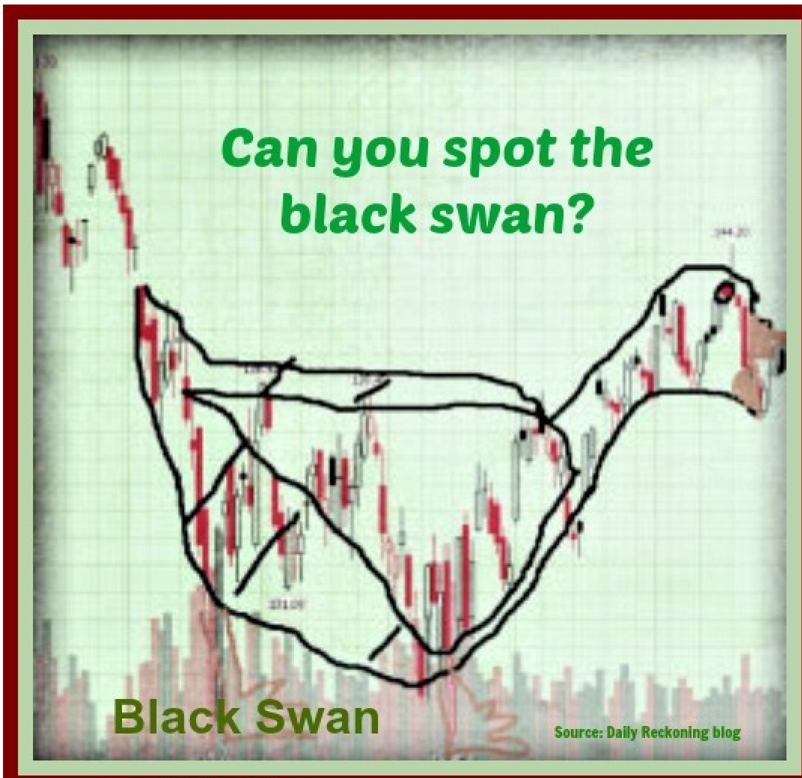
We are in uncertain times. From Argentina to Zimbabwe, there is uncertainty. Italy just installed its third prime minister in 3 years. Emerging countries are submerging. The European banks hide and roll over their bad debts. China's second trust (Jilin Trust) just imploded...a mere two weeks after the last one was bailed out.

All of these could be described as black swans but they are probably not. Black swans are extremely hard to spot. From Wikipedia:

> *The black swan theory or theory of black swan events is a metaphor that describes an event that comes as a surprise, has a major effect, and is often inappropriately rationalized after the fact with the benefit of hindsight. The theory was developed by Nassim Nicholas Taleb to explain:*
>
> - *The disproportionate role of high-profile, hard-to-predict, and rare events that are beyond the realm of normal expectations in history, science, finance, and technology*
> - *The non-computability of the probability of the consequential rare events using scientific methods (owing to the very nature of small probabilities)*
> - *The psychological biases that make people individually and collectively blind to uncertainty and unaware of the massive role of the rare event in historical affairs*

Even if we can't really spot them until too late, we hope that our peeks will at least help you be wary enough to realize that they are around...somewhere...and can descend at any time. Our chart of the week, which we borrowed from The Daily Reckoning, may be just humorous enough to remind you that black swans actually exist...and one is possibly circling a market near you.

Stay vigilant friends. Try not to let a black swan crap on your investment parade!



noun \ˈblak ˈswän\
A rare, stock chart pattern only seen in hindsight. It confirms a terrible disaster has already happened. Easily confused with the shelduck, albatross or heap-of-guano patterns.

Til next week...

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

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