A PEEK AT THE WEEK THAT WAS - February 22, 2014

Patient Capital.... Positioned for Profit

Assassination is the extreme form of censorship.

George Bernard Shaw (1856 - 1950)

It just doesn't make sense. Dennis Li Junjie had everything to live for. He was just 33. He had recently bought an apartment in Hong Kong for 5.5 million local dollars (about $710,000). Not bad. A few days ago he shared his plans to return to Canada with a friend. From all accounts he was a pretty happy chappy, always quick with a smile and definitely bright, with an even brighter future.

Now he is dead.

Official reports document that he jumped to his death from atop his employer's high rise building, Chater House, last Tuesday, February 18, preferring to take his own life than deal with "the stressful environment of investment banking". Dennis Li Junjie worked for JPMorgan. Chater House is JPMorgan's Asian HQ.

Any death is tragic, but the death of one so young with so much potential and promise is even worse. More tragic...and just as strange...is that Dennis' death is just the latest of a recent spate of banker "departures" around the globe.

From ZeroHedge, February 18, 2014 (warning...this link contains some potentially disturbing images related to Dennis Li Junjie's death):

> *Perhaps what is most notable about this particular death [Li Junjie] is the reference that the man was involved with FX trading: as is well-known, this is a hot topic for banks around the world, as it is expected to be the next Libor-manipulation like bonanza for regulators and enforcers. Did he know too much?*
>
> *Finally, via Financial Post, here is a chronological summary of all recent banker deaths:*
>
> *Sunday, Jan. 26: London police found William Broeksmit, a 58-year-old former senior executive at Deutsche Bank AG, dead in his home after an apparent suicide.*
>
> *Monday, Jan. 27: Tata Motors managing director Karl Slym died after falling from a hotel room in Bangkok in what police said could be possible suicide. Slym, 51, had attended a board meeting of Tata Motors' Thailand unit in the Thai capital and was staying with*

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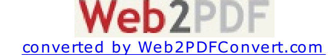
> *his wife in a room on the 22nd floor of the Shangri-La hotel. Hotel staff found his body on Sunday on the fourth floor, which juts out above lower floors.*
>
> *Tuesday, Jan. 28: a 39-year-old JPMorgan employee died after falling from the roof of the European headquarters of JPMorgan in London. The man, Gabriel Magee, was a vice president in the investment bank's technology department, a source told WSJ.*
>
> *Wednesday, January 29: Russell Investments' Chief Economist Mike Dueker was found dead in an apparent suicide. Police said it appears Dueker took his own life by jumping from a ramp near the Tacoma Narrows Bridge in Tacoma, Wash., AP reported. According to Bloomberg, Dueker, 50, had been missing since Jan. 29, and friends and law enforcement had been searching for him.*
>
> *The week before, a U.K.-based communications director at Swiss Re AG died. The cause of death has not been made public.*
>
> *Monday, February 3: 37-year-old JPMorgan Chase & Co executive director who died from unknown causes Feb. 3 appears to be the latest in a series of untimely deaths among finance workers and business leaders around the world in the past three weeks. Ryan Crane, a JPMorgan Chase & Co. employee who in a 14-year career at the New York-based bank rose to executive director of a unit that trades blocks of stocks for clients, died in his Stamford, Connecticut, home.*
>
> *Tuesday, February 18: 33-year old JPMorgan forex trader is the latest in a string of suicides to take his life in Hong Kong*.

Now, before we get too carried away with what could be just a run of coincidentally premature passings within the elite banking set, let's look at things from a numbers perspective (after all, that's really our beat at the Peek). From Mathbabe, Feburary 20, 2014 in reference to the JPMorgan deaths:

> *Here are some numbers. We're talking about 3 suicides over 3 weeks. According to wikipedia, JP Morgan has 255,000 employees, and also according to wikipedia, the U.S. suicide rate for men is 19.2 per 100,000 per year, and for women is 5.5. The suicide rates for Hong Kong and the UK, where two of the suicides took place, are much higher.*
>
> *Let's eyeball the overall rate at 19 since it's male dominated and since may employees are overseas in higher-than-average suicide rate countries.*
>
> *Since 3 weeks is about 1/17th of a year, we'd expect to see about 19/17 suicides per year per 100,000 employees, and seince we have 255,000 employees, that means about 19/17*2.55 = 2.85 suicides in that time. We had three.*
>
> *This isn't to say we've heard about all the suicides, just that we expect to see about one suicide a week considering how huge JP Morgan is. So let's get over this, it's normal. People commit suicide pretty regularly.*

OK...we can accept that. But we will keep an eye on this, just in case this is another one of those aberrational activities that seem to be cropping up lately. They may not be black swans but it could be their droppings.

RIP Dennis et al.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Meanwhile, Mr. Market was eyeing another record close, until a late Friday selloff cut him short. But there's always next week. But there's also Mr. Soros.

And Mr. Market may want to take a look at what Gorgeous George has been up to. Why? Well, it seems that George recently doubled his bet that Club S&P and Mr. Market are headed for a fall. In the fourth quarter of 2013. while Mr. Market was whooping it up, clever George was quietly upping his short position on the S&P by...wait for it...154%. Now this could just be clever George hedging his bets after some big gains during the year, but at $1.3 billion...well, let's just say...he'd better be right. Fact of the matter is that he usually is. You can read more from MarketWatch by clicking here.

Meanwhile, down the street, the action at the Gold Bar was it's usual frenetic self, with the accustomed well timed slam downs. Nevertheless, the shiny stuff still finished up roughly $20 per ounce for the week. Not bad thought the patrons, even though they really don't care. They're investors in gold, not traders. In this sense, they are a bit like the Chinese and Indians.

So this week, we'll take a further peek at the shiny stuff because precious metals like gold and silver will be **THE** investment story through the years ahead, as much as many folks would prefer otherwise. It will be fascinating to watch and fortunes will be made and lost in the process of gold returning its lustre. We would much prefer that you be a maker and not a loser, so please pay attention. This week, we'll provide just a teaser as to why we think gold will sparkle in the years to come. In future weeks, we get more into the nitty gritty of how we suspect things may play out. So please do pay attention.

We'll also take a look at the tricks that Wall Street plays on suckers...err...customers. What? You don't think that this could happen? OK...please pay attention to this too. And while we're at it, we'll take a look at what those same smarties have tried to do with certain basic commodities. You know...the commodities that make the things that play such an integral part in our daily lives...like beer cans.

Last week, we took a quick peek at the buffer zone between the south boundary of western and eastern Europe..also known as the Ukraine. This week, sadly, the violence escalated.

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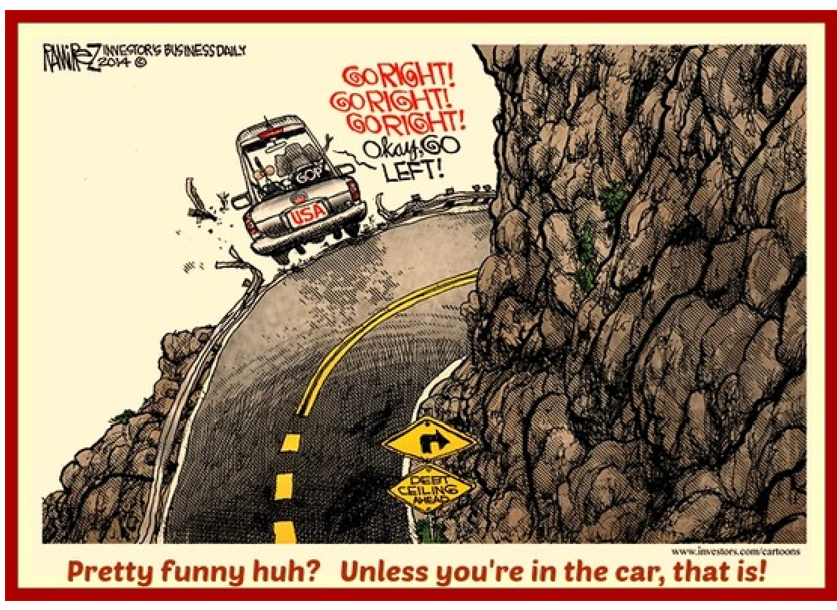
As we've said, there is a lot at stake in the land that bore Oksana Baiul and Milla Jovovich and provided an ancestral link to such notables as Sylvester Stallone, Steven Spielberg, Dustin Hoffman, David Copperfield and the late great Jack Palance. Beyond the celebrity connections, the Ukraine has pipeline connections too...lots of them....supplying Europe with essential energy. We'll show you a map and direct you to an article explaining just why the Ukraine matters.

We'll also take a peek at the US housing numbers. Hint...they're not good...but don't worry...it's the weather stupid! If time and space permit, we will trot down to Argentina to take a peek at the unfolding disaster down there. If not, we'll wait till next week when we will have the added advantage of some "on the ground" reporting of a colleague who is currently in Buenes Aires taking a peek for himself.

Our chart of the week is actually a tale of two charts...one shows who stopped buying US Treasuries last month. The other shows who picked up the slack. The seller may be no big surprise but the buyer certainly got our attention.

Let's get rolling...after the usually politically oriented giggle, courtesy of Investors Business Daily. Yes, the US can now create unlimited debt until March, 2015. This would be more funny if it weren't so serious.



Pretty funny huh? Unless you're in the car, that is!

It's discouraging to think how many people are shocked by honesty and how few by deceit.

Noel Coward (1901 - 1973)

How does Wall Street manipulate the muppets on Main Street? Let's count the ways.

From MarketWatch, February 18, 2014 (wise cracks in red are ours as usual):

> ***1. Hire psychologists, neuroscientists to manipulate the media***
>
> *Use consulting contracts, grants and retainers and lock up the best talent to work to keep America's 95 million individual investors "irrational and uninformed" as Thaler says. [Yes, we excel at this. Why make things simple when we can baffle the buffoons with "science"? If we can't constantly drop impossible to understand industry jargon into the conversation, they might realize how little we actually know...or care.]*

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2. Free experts constantly deliver Wall Street’s message to media

Network, cable, bloggers must fill their channels every day. Talking heads are free advertising for Wall Street to manipulate investors using so-called news content. [Take a bow Jim Cramer...and Jim gets paid to be a great entertainer...which he clearly is. And c'mon, there are a few good ones...mostly with accents].

3. Invest megabucks on lobbyists to control politicians, government

Lobbying is one of Wall Street’s best investments. Lobbyists control Washington: control politicians, fight reforms, push favorable laws, regs, spin the truth to mislead investors. [Let's face it...DC is the host. We're just the parasites. That's why we couldn't understand why the Occupy crowd were on our turf. Oh sure....we have some insiders...but doesn't everyone? What...you thought your federal representative actually represented you? Don't kid yourself buddy....unless you can back it up with the bucks...like us.]

4. Fuel anxiety by pushing the investor’s buy/sell/ trade button

Wall Street’s a casino, makes money on “the action,” skimming a percentage off the top. They fuel investor anxieties, fears, optimism, volatility, maximize action on exchanges. [Yes...of course...and your point is....?]

5. Kill our savings button, undercut self-confidence, long-term planning

Wall Street uses neuroscience technology to sow doubts about retirement security, do-it-yourself investing, how indexing beats trading, then overloads us with misleading ads. [Don't worry....MyRA will fix everything...and what's wrong with working the rest of your life anyway?]

6. High-frequency trading, misleading Wall Street and Main Street

Short-term online trading makes Wall Street billions annually. Hyperactive traders have a competitive edge using high-tech neuroscientific strategies, plus keep markets churning. [Oh...and don't forget the flash crashes to keep everyone on edge...which reminds us...we've got this great new algo that will just blow your socks off]

7. Brokers trained on aggressive selling and closing techniques

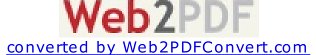
Securities are sold not bought: Broker’s advice is self-serving, often misleading, anything to get a commission. They’re trained to use high-powered psychological techniques. [C'mon...greed is good...and The Wolf of Wall St.is a great flick. And after all, we are doing "God's work"...].

8. ‘Investor education’ programs are self-serving sales gimmicks

Most Wall Street-sponsored “investor education” programs are loaded with new business, sales and promotional gimmicks. But they help Wall Street present a “we care” persona. [well...how else can we get the sheep into the shearing shed?]

9. New ‘designer’ funds based on latest fads to replace losers

Fund companies constantly design new funds based on the latest fads, for anxious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investors chasing higher returns, driven like teenagers who need the latest video games. *[levered ETNs and ETFs anyone?]*

10. Retirement gatekeepers: kept in the dark and manipulated

Two-thirds of all funds are controlled by corporate pension and retirement managers. So Wall Street focuses sales pitches on easy to manipulate naïve plan managers. *[yeh....maybe so...but we buy them great steak dinners]*

Yes folks, the game is rigged in favor of the house. Does that mean that you can never win? No, not really. But the odds are stacked against you. It just means that you have to be very vigilant, somewhat educated and not afraid to bug the heck out of your broker or investment advisor. You have to be prepared to ask the hard questions. You have to quiz him or her as to exactly WHY they are recommending this or that? What is their rationale? Never be concerned about asking them to explain their thinking...their thesis...behind a particular recommendation. Be prepared for the frequent interjection of jargon...deviation, ratios, beta, alpha, delta, theta, rita, zita, thelma and maybe even Louise.

They'll all come out, TLAs included. Be prepared for them, remain calm and composed and then politely ask your advisor to drop the bunkum and explain to you in "layperson's terms" (how quaint) why you should invest in this or that and what is the likely impact on your retirement planning / college education / lifestyle objectives / estate planning...or just insert your own financial priority here [___________________]. Then, if you are still not satisfied...go home...read the above 10 items again and start looking around for someone new. The good ones are out there. You just have to find them.

Speaking of bunkum...and egregious shenanigans...we suggest you take the time to read the piece below from one of the few modern journalists that Jack Anderson might possibly be proud of...Matt Taibbi...from Rolling Stone. Perhaps it makes sense that a magazine founded in San Francisco during the tumult of 1967 should breed a certain credo of critical thought. Taibbi is one of the best. He is renowned for crowning Goldman Sachs with the dubious title of "Vampire Squid" which has stuck better than a set of giant tentacles.

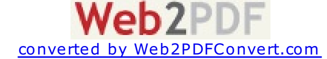
In the article below, he takes aim once again at the Squid and the usual suspects. In so doing, he exposes (once again) the gross excesses of greed that these smarties are capable of. Below are some notable excerpts from his piece. Click here for the full article...and if are drinking a can of soda or something stronger as you do, recall that it probably cost a few cents more than it should have because of the squids and their insatiable lust for black ink.

From Rolling Stone, February 12, 2014 [emphasis ours]:

Today, banks like Morgan Stanley, JPMorgan Chase and Goldman Sachs ***own oil tankers, run airports and control huge quantities of coal, natural gas, heating oil, electric power and precious metals****. They likewise can now be found* ***exerting direct control over the supply of a whole galaxy of raw materials crucial to world industry and to society in general****, including everything from food products to metals like zinc, copper, tin, nickel and, most infamously thanks to a recent high-profile scandal, aluminum.*

But banks aren't just buying stuff, ***they're buying whole industrial processes****. They're buying oil that's still in the ground, the tankers that move it across the sea, the refineries that turn it into fuel, and the pipelines that bring it to your home. Then, just for kicks,* ***they're also betting on the timing and efficiency of these same industrial processes in the financial markets*** *– buying and selling oil stocks on the stock exchange, oil futures on the futures market, swaps on the swaps market, etc.*

Allowing one company to control the supply of crucial physical commodities, and also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trade in the financial products that might be related to those markets, is an open invitation to commit mass manipulation. It's something ***akin to letting casino owners who take book on NFL games during the week also coach all the teams on Sundays.***

In just the past few years we've seen ***an explosion of scandals*** *– from the multitrillion-dollar Libor saga (major international banks gaming world interest rates), to the more recent foreign-currency-exchange fiasco (many of the same banks suspected of rigging prices in the $5.3-trillion-a-day currency markets), to lesser scandals involving manipulation of interest-rate swaps, and gold and silver prices.*

But those are purely financial schemes. ***In these new, even scarier kinds of manipulations*****,** ***banks that own whole chains of physical business interests have been caught rigging prices in those industries.***

...last summer, The New York Times described how Goldman Sachs was caught systematically delaying the delivery of metals out of a network of warehouses it owned ***in order to jack up rents and artificially boost prices****.*

Meanwhile, [JPMorgan] Chase's own head of commodities operations, Blythe Masters – an even more famed Wall Street figure, sometimes described as the inventor of the credit default swap – admitted that her company's warehouse interests weren't just a casual thing. ***"Just being able to trade financial commodities is a serious limitation*** *because financial commodities represent only a tiny fraction of the reality of the real commodity exposure picture," she said in 2010.*

*Loosely translated, Masters was saying that there was a limited amount of money to be made simply trading commodities in the traditional legal manner. The solution? "****We need to be active in the underlying physical commodity markets," she said, "in order to understand and make prices."***

The intentional warehouse delays were just one part of the anti-capitalist game *the banks were playing. As an incentive to get metal under their control, they actually paid the industrial producers of aluminum extra cash to store the metal in their warehouses, fees reportedly as much as $230 a metric ton.*

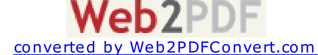
The result of all this was a bottlenecking of aluminum supplies. ***A crucial industrial material that was plentiful and even in oversupply was now stuck in the speculative merry-go-round of the bank finance trade.***

Every time you bought a can of soda in 2011 and 2012, you paid a little tax *thanks to firms like Goldman. Mehta, whose fund has a financial stake in the issue, insists there's an irony here that should infuriate everyone.* ***"Banks used taxpayer-backed subsidies," he says, "to drive up prices for the very same taxpayers that bailed them out in the first place."***

The above is just a taste of what is an extremely important piece of journalism. We suggest that you take the time to read and digest it. And don't expect much help from the Attorney General on this one. In this regard, we suggest that you take special note of the characters incidentally involved in this little saga...from Marc Rich to Eric Holder...and try to put the pieces together yourself. Yes...the system is rigged...and way out of control.

It would be so easy to manage these excesses of crony capitalism by reinstituting some simple and updated version of Glass-Steagall. Of course, the squid squad will never permit it. So the market will ultimately be forced to impose its own brand of discipline, which, as we learned in 2008, can be very harsh. Jaunty Janet will try to apply some soothing ointment or loads of monetary methodone from the printing press but this time, we suspect that the patient may die on the operating table.

RIP Big Banking...or should we say..."good riddance squid squad"! The world will be a far better place without you. From the ashes, the smart and good folks in these big institutions and the financial world generally (yes, they do exist) will form small private partnerships with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their own money (just like Goldman used to be) and start recapitalizing and rebuilding this great nation to a future of brilliance, which we will marvel at. Yes, Matilda...there is light at the end of the tunnel and it's not a locomotive. Just be prepared for a bit of a storm in the meantime.

Go on...read the article by clicking on the image below. Remember, being aware is one way of leveling the rigged playing field.

Source: Rolling Stone

"He is not a full man who does not own a piece of land."

-Hebrew Proverb -

The Hebrew proverb above may be true...and most probably is. Owning real estate is a great thing to do and fortunes have been made from such activity. It also provides a sense of comfort to the owner...to have a roof over one's head. Of course, our banker buddies could not let well enough alone. Not enough to have people just borrowing and paying interest like regular folk. Their idea was to control and commoditize the domestic real estate industry. Why? To generate more profits and bonuses, of course. That's what the game's all about. Fleece the sheep.

We know how that all played out in 2007 - 2008 and we are still paying the consequences. And we shall for some time to come. But all is good again isn't it? Unfortunately not. Bartender Ben printed and poured and the hot money had to go somewhere. Much of it went into supporting real estate prices, which are now apparently hot again.

But we are starting to sense some cooling. Of course, it's all about the weather...but that doesn't explain falling prices in California, does it? Let's take a look.

From Reuters, February 18, 2014:

> *U.S. homebuilder confidence suffered its largest one-month drop ever in February, hit by this winter's relentlessly severe weather and concerns about the costs of labor and building lots, the National Association of Home Builders said on Tuesday.*

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The NAHB/Wells Fargo Housing Market Index plunged by 10 points to 46 in February from 56 in January.

Of course, it was the weather. We guess that explains why mortgage applications have been plummeting too. In fact, you have to go back to 1995 to see them as low as they are now. And from our recollection, in 1995 the 30 year Treasury rate was almost double what it is today.

Well...let's take a look shall we? Wrong again...it was more than double. The rate in January 1995 was 7.85% compared with 3.77% last month. Don't believe us, you can click here to verify. Or take a look at the chart below, courtesy of ZeroHedge.

If you look at the chart above, the rate of mortgage applications has been pretty suppressed for several years, despite the historic low interest rates. Much of this is because the banks, who were loose beyond belief beforehand, became insanely stringent. That's just what banks do. But prices have gone up.

Who's been buying...apart from those lucky souls with super strong credit or large cash hordes? Well...of course, it's been the big private equity firms and their banking backers...flush with taxpayer funded bailout funds. Ya just gotta love it.

From the WSJ, way back on October 3, 2012 [emphasis ours]:

> ***Blackstone** Group LP has become the biggest U.S. investor in single-family rental homes by **spending more than $1 billion since the start of 2012 to acquire more than 6,500 foreclosed houses in eight metropolitan areas**, according to people briefed by Blackstone.*
>
> *The firm also is finalizing a **loan for at least $300 million from Deutsche Bank to support this business**, these people said.*
>
> *Numerous **private-equity firms have crowded into the business**, some as early as last year, looking for a way to bet on the recovery of the housing market*

We think we can figure out the plan. Buy a bunch of cheap houses, fix 'em up, rent 'em out, get some cash flowing, securitize the lot and flog 'em off to the unsuspecting public and big pension plans. Worked great last time didn't it? Well..not exactly. And that was simple enough...after all...those subprime mortgages were just paperwork. And what a mess they made of that. Robo signing, unlawful post dated assignments, you name it. That mess is still being figured out and will be for a long time to come.

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Owning and managing physical real estate is an order of magnitude or ten harder than owning a mortgage. We think that the big boys are beginning to figure this out.

Let's take a look at just one area that was hard hit when the market tanked last time...Tampa, Florida.

From the Tampa Bay Times, October 4, 2013 [emphasis ours]:

> ***Blackstone, big investors slow their $800 million Tampa Bay home-buying binge***
>
> *After an $800 million binge on Tampa Bay homes, big investors are finally catching their breath, **pulling back on buying due to rising prices and market doubts**, a Tampa Bay Times analysis has found.*
>
> ***The seven biggest investment groups buying homes here spent half as much cash in August** as they did in March or April, when their shopping sprees peaked at about 500 homes a month.*
>
> *Invitation Homes, the brainchild of multinational investment giant Blackstone, continues to lead the pack with more than $300 million in homes, but **even its spending has plunged**. The firm spent $40 million locally on homes in March but only about $20 million every month since.*

So if the PE boys start pulling back, Jaunty Janet starts tapering off the hot money supply, what can the big banks do to continue making the big bucks. Go back to Plan A, of course!

From Reuters, February 14, 2014:

> ***Wells Fargo edges back into subprime as U.S. mortgage market thaws***
>
> *Wells Fargo & Co, the largest U.S. mortgage lender, is tiptoeing back into subprime home loans again.*
>
> *The bank is looking for opportunities to stem its revenue decline as overall mortgage lending volume plunges. It believes it has worked through enough of its crisis-era mortgage problems, particularly with U.S. home loan agencies, to be comfortable extending credit to some borrowers with higher credit risks.*

Simply unbelievable!

Banks are copy cats and it won't be long before other greedy bankers try to emulate any success that Wells may have in increasing its mortgage originations, which as you can see in the chart below, have slumped dramatically.

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Really...you just can't make this stuff up. How long until the smarties are packaging up these really good mortgages again and trying to flog them off. In fact, they'ev already started. From ZeroHedge (yet again):

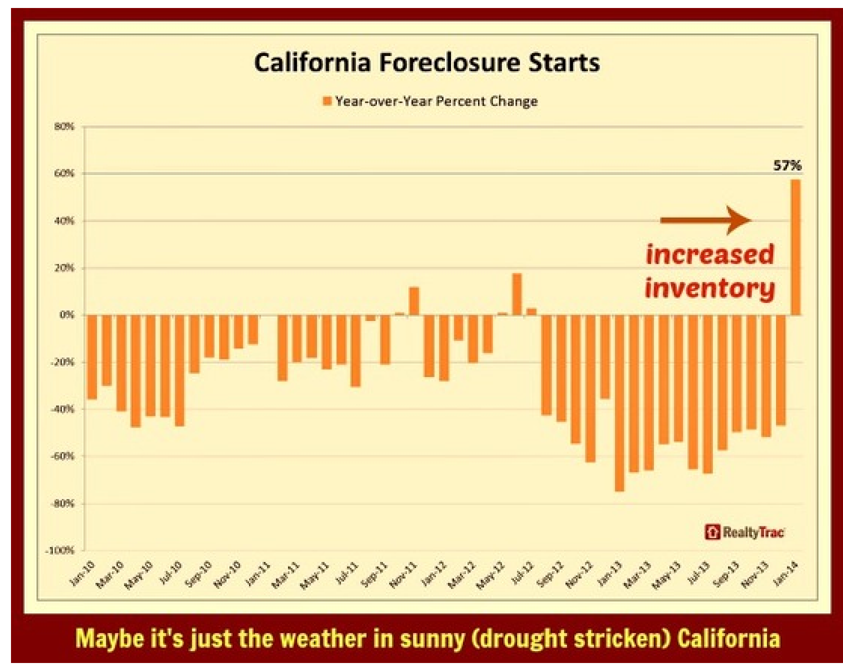
> *Citadel Servicing Corp, the country's biggest subprime lender, is trying to change that.* ***It plans to package the loans it has made into bonds and sell them to investors.***
>
> ***Citadel has lent money to people with credit scores as low as 490*** *- though they have to pay* ***interest rates above 10 percent****, far above the roughly 4.3 percent that prime borrowers pay now.*

Fool us once, shame on you. Fool us twice, shame on us. Don't be fooled friends!

And in the meantime, as the chart below clearly shows, the foreclosure rate in California has turned around sharply, at least for January of this year. More foreclosures means more inventory coming onto the market. More inventory requires more buyers, especially if the big PE firms are cutting back (and they do not like to pay anything above bargain basement...that is why they are big PE firms). Attracting more buyers means widening the credit applicability net. This means lending to those considered as somewhat sub of prime borrowers. Hmmm....subprime anyone?

You can read the whole ZeroHedge commentary, which is excellent, by clicking here.

Just trust us...OK...just listen to us...when we tell you that the whole real estate fiasco of 2007-2008 still has a long way to go. Again...best to be aware and to pay attention.



Gold was not selected arbitrarily by governments to be the monetary standard. Gold had developed for many centuries on the free market as the best money; as the commodity providing the most stable and desirable monetary medium.

Murray N. Rothbard (1926 - 1995)

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WHY GOLD?

Yes, we know you're sick or reading about the shiny stuff. And we are sick of writing about it. But it will be THE big story so it's worth reading a bit more. Let's read what one very smart guy in Liechtenstein has to say and look at just one of many graphs that he and his company, Incrementum AG, have produced on the subject. We think these folks get it. And we hope you will too.

Over to Ronald-Peter Stoferle: [emphasis ours, yet again]

> *Why do people place trust in the yellow metal?* ***Gold looks back on a history of success as the means of retaining value and purchase power that has spanned millennia****. In that time span, the market has chosen the optimal currency from a logical and rational perspective. Among the criteria are high liquidity, indestructibility, a high ratio of value per weight and volume unit, negotiability, easy divisibility, global acceptance, etc. The slowly but steadily growing supply from the mines (****gold reserves grow at about the same pace as the global population****) ensures stability and trust. These unique features make gold* ***one of the best hedges against excessive monetary expansion and black swan events****.*
>
> *Even though critics will not tire of discrediting gold as the barbarous relic and yesterday's money that has no place in modern society, we would like to ask the question:* ***What timeline they have looked at?*** *"Natural laws" such as "property prices don't fall," "US Treasuries are risk-free," or "The Earth is flat" may have applied in the (recent) past, but if we broaden the (time) horizon, we find that the picture changes. The mere extrapolation of the past leads to disastrous results in the long term. Gold on the other hand has a* ***track record of 6,000 years as the currency of last resort and has never turned worthless****.*
>
> *Gold is therefore in the center of the system while the currencies oscillate around it. In his classic work "When Money Dies," Adam Fergusson writes: "Nevertheless, it was the natural reaction for most Germans, or Austrians, or Hungarians – indeed, as for any victims of inflation – to assume not so much that their money was falling in value as that the goods which it bought were becoming more expensive in absolute terms;* ***not that their currency was depreciating****, but – especially in the beginning – that* ***other currencies were unfairly rising****, so pushing up the price of every necessity of life. It reflected the point of view of those who believe the sun, the planets, and the stars revolve with the moon around the earth..." Therefore we could see a future where* ***rather than asking for the price of gold, people will much more often ask for the price in gold****.*

Let's look at one of Mr. Stoferle's charts and as we do, we're reminded of that terrific hit from 1974 by BTO...or to the unitiated, Bachman Turner Overdrive. Ahh...some of you know already and it's coming into your head....you know, ***you ain't seen nuthin' yet.*** Go on click here for the stutteringly good memories. Now, with BTO blasting in the background, take a look at the chart below. We ain't seen nuthin' yet folks.

Notice how gold went into overdrive in its last true bull market of the late 70s as the world went into crisis (Iran hostages, Afghan invasion, oil embargo, rampant inflation, excessive debt, etc. etc.). Those challenges look familiar enough, yet the shiny stuff's price has been benign. We know why don't we? It has been artificially suppressed for whatever reason...support the dollar, let JPMorgan close out its bad Bear Stearns trades or both. What we do know is that while it's been cheap, the Chinese and Indians have been buying

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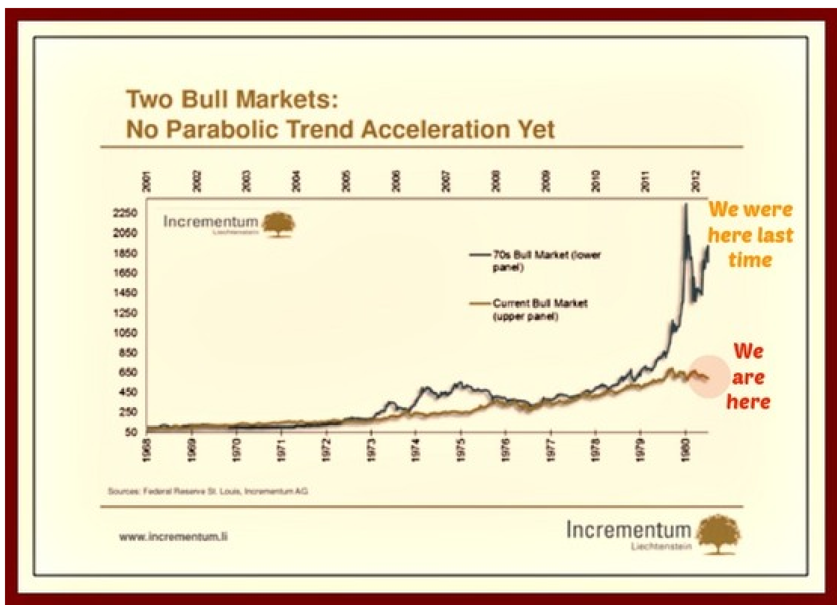
as much as they possibly can...and hoarding what they've got. In the meantime, the Fed refuses to lift it's veil of secrecy so we're really not sure how much is actually remaining in the USA.

We'll take a peek at what we think may be the bigger picture behind this story in future issues. All we know is that there is a enough fuel to send this golden fire much higher. In other words...**you ain't seen nuthin' yet.**



The malicious cow disturbs the entire herd

Ukrainian proverb

The Ukrainian herd is certainly disturbed but we're not sure who is causing the malice. The Russians are blaming the Eurolanders. The Americans are blaming the Russians. In the meantime, the Ukrainians die. It's what usually happens when east meets west. Last week we saw just how divided that great country is.

We also commented that it is a critical buffer zone on Russia's south western front. They are paranoid about it...and for good reason.

Napoleon paid a visit to Russia in 1812. Hitler in 1940. Both times it was tragic for the Russians. The Cossacks scorched the earth to deprive Napoleon and Hitler scorched that same earth as he blitzkreiged back and forth in arguably the worst mass battles in history. Millions upon millions died but the memories live on.

We heard a chirper on CNBC last week dismiss the Ukraine as an economic issue because its GDP was puny. This is not about GDP, old chirper, this is about history and strategy and security...and energy. And energy IS economics old sport!

Take a look at the chart below, which tracks the energy pipelines that run from east to west. Can the US and especially Europe really afford to see the Ukraine plunged into diplomatic darkness or worse still, anarchic agony. Probably not if they want to remain warm next winter. But politicians do incredibly stupid things all the time. Hopefully they will not stay true to form on this occasion.

Click here for an article from Der Spiegel which outlines the global implications of a Ukrainian conflict. But don't worry...their GDP is insignificant. Chirp, chirp!

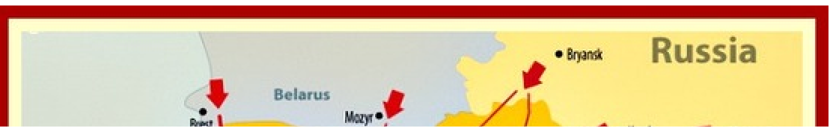


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CHART OF THE WEEK

The antidote for fifty enemies is one friend.

Aristotle (384 BC - 322 BC)

The US has one friend it seems. At least that's the way it appears when it comes to US Treasury sales. The Department of the Treasury released its most recent monthly data on February 18. This covers the month of December and so we get to see who was buying and who was selling US Treasuries...in other words...who was lending us money and who was cashing out. Surprise, surprise...the Confucians cashed out in December, to the tune of $48 billion. They probably needed the money to buy more gold or pay off a few failing trusts.

That's intriguing enough to contemplate but what is really interesting is who stepped up to the plate.

Care to guess? Japan perhaps? Nah...they cashed in $4 billion too. Germany maybe? Nah...they're still waiting for their gold. Argentina? Australia? Austria? Nah...now you're just guessing alphbetically. But you're on the right track...because it's battling Belgium who came to our aid in December. Belgium's GDP ranked 25th in the world in 2012 (in case you were wondering, the Ukraine came in at #52). In 2012, Belgium's debt to GDP ratio was 99.80%. Folks that's high, but somehow this indebted little country of 11 million happy souls managed to buy $56 billion worth of our debt in December. In fact, those bustling Belgians have been buying a lot lately and are now the 4th largest holder of US bonds.

That is simply amazing folks.

Of course, we wonder about Brussels being the capital of Belgium and also being the capital of the European Parliament and effectively the heart of the Eurozone. Could it be one money printer (the ECB) bailing out another (our friendly Fed)? Hey...quid pro quo...we did it for them in 08. Rest assured, we'll be keeping an eye on this one folks.

This world just gets curiouser and curiouser doesn't it?

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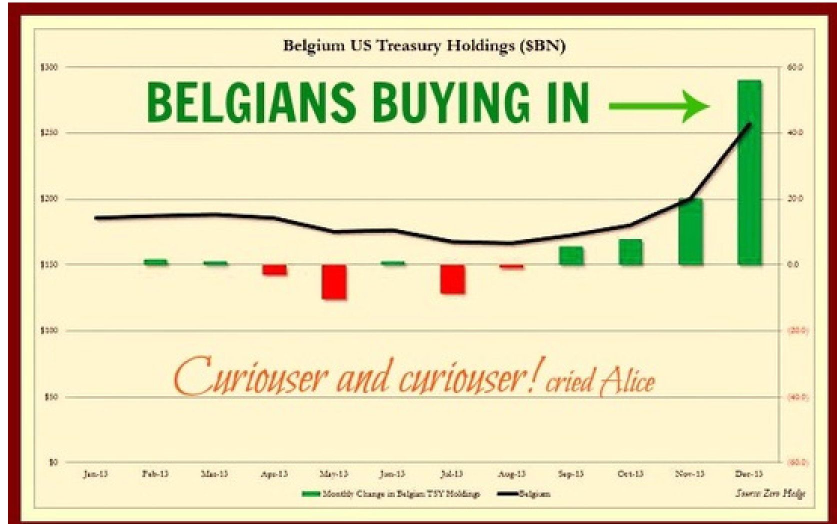
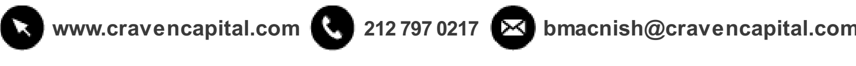


Til next week...

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



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