



A PEEK AT THE WEEK THAT WAS - February 8, 2014

Patient Capital... Positioned for Profit

Correct me if I'm wrong, but hasn't the fine line between sanity and madness gotten finer?

George Price (1922 - 1975)

Club S&P is rocking again! Thank the heavens. Bad news is good news once again. The genius analysts and financial fairies expected 170,000 new "jobs". On Friday, the BLS (aka BOGUS) said that the US created 117,000 jobs. That's not good news, of course. It's very bad news, especially for the 53,000 who might otherwise have become employed, not to mention all those makers and sellers of stuff, who need workers to consume. Nevertheless, it's good news to the stock markets because the pressure is now squarely back on Jaunty Janet Yellen's diminutive shoulders.

Mr. Market expects our cheery little chairperson to knuckle under. He is thinking that if she doesn't increase the vodka pours into the wealth effect punch bowl, she'll at least have to keep them at the same level. No more of this silly pulling back on the handle like what Bartender Ben (remember him) was angling for...not because he thought it was the right thing mind you. He just wanted to send a message for posterity that after saving the world, he was on the right taper track and that all would have been well again if Janet hadn't botched it up. Poor Janet. What's a gal to do?

In the meantime, Mr. Market has his sights on putting the 1800 flashing neon light out front again and gathering a fresh herd of partygoers to watch him leap for the 1900 crystal chandelier. He may well do so, but we have a nasty feeling that the herd that follows him into Club S&P to watch that spectacular leap may well find that watching Mr. Market fly can be dangerous to their financial health.

The reality of the world is that the party is coming to an end. You just have to look at the emerging / submerging markets, where the carnage continues as currencies are cratering, bonds are busting and stocks are sagging. From [CNBC](#), February 6, 2014:

The recent emerging market selloff was the final tweet of the canary in the coal mine, according to Albert Edwards, Societe Generale's uber-bearish strategist, who now predicts a global recession with equity valuations dropping to their lowest levels in a generation.

"The ongoing EM (emerging market) debacle will be less contained than subprime ultimately proved to be," he said in a research note released on Thursday, warning that

the markets face being trapped in "a Freddie Kruger-like [sic] nightmare."

Hmmm...nightmare indeed. Back in late November, Mr. Albert Edwards, one of the rare bears on Wall Street, made the following comments...on [CNBC](#) this time as well.

"U.S. profits are now beginning to struggle. Once the profits cycle turns downwards, it tends not to recover. The die is cast," he said. "A full-blown profits and investment downturn is most likely to be triggered by Asian and EM (emerging market) devaluations releasing surplus capacity onto the West and crushing pricing power even further."

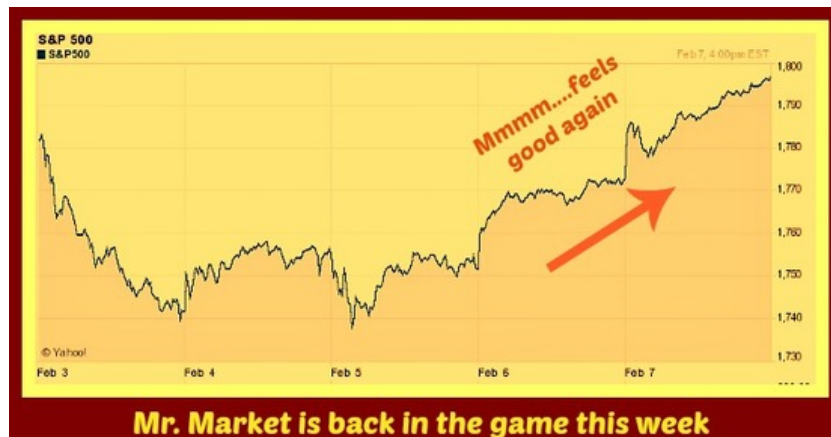
Take a look at the three graphs below from Bloomberg and see if you can spot the similarities. Do you see it? Of course you do. Those three graphs are comparing the mighty Yankee dollar against the Turkish lira, the Russian ruble and the Argentinian peso. The line going from the lower left to the upper right means that it takes more lira, or rubles, or pesos to buy one US dollar.



This may sound good, especially if you're planning on visiting Istanbul, taking in the winter Olympics in Sochi or drinking malbec in Buenos Aires, but it's not. Cheaper foreign currencies mean cheaper exports and more competition for sure but more importantly, it means less foreign demand for our (now more expensive) stuff. That is what Mr. Albert Edwards is alluding to above...and it's not good. And these three countries are just examples of numerous nations that are seeing their currencies...and their bonds...and their stocks, devalue against the US. Ultimately it may mean great values for canny investors but in the meantime, it could usher in a grievous amount of grief for our faltering economy as well.

But, for this week at least, as you can see from the graph below, Mr. Market is once again euphoric and choosing to ignore all that nasty stuff offshore...but for how long? We have no clue what Janet will do. She probably doesn't either. And if you watch the ever-increasing lack of effectiveness of each successive bout of QE, we suspect that even if she empties the whole bottle into the punch bowl, it won't help all that much.

But she is still surely watching what is happening "over there". Perhaps you should too. And not just the Olympics.



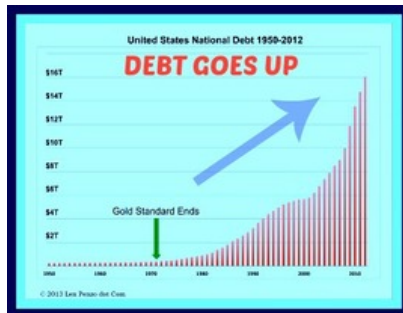
And speaking of Janet, she is now officially bartender in chief. We believe that her shift will be a rough one. She will try to pull back the pours and increasingly be challenged by Mr.

Market, Ms. Bond and a gaggle of angry politicians as the financial wheels start to wobble again. To make matters worse, she will be the unwitting beneficiary of a debt load of unprecedented magnitude so printing may become that much harder to get away with.

And speaking of debt, we've noticed an inverse correlation between the physical stature of our last four illustrious Fed chairpeople and the ever increasing national debt. Take a look at the images below to see what we mean. Oh...and speaking of debt...Jovial Jack Lew, the Treasury Secretary, after swearing black and blue that the USA would run out of borrowed money by February 7 has pulled a few financial swifties and managed to get the empire an extension till February 27. From USA Today, February 7, 2014:

WASHINGTON – In less than three weeks, the U.S. Treasury will have just \$50 billion in cash on hand, Treasury Secretary Jacob Lew told Congress Friday. That sounds like a lot of money, but the government can spend as much as \$60 billion a day — especially in February, when tax refunds alone can total \$15 billion. That means the government will run out of borrowed money by Feb. 27 unless Congress increases the debt limit, Lew said. The government hit that limit Friday, causing the Treasury Department to begin taking measures to conserve cash. "If Treasury has insufficient cash on hand, it would be impossible for our nation to meet all of its obligations for the first time in history," Lew said.

How many times do we have to go down this path before reality hits? We're broke and we need to cut back on our spending. Sorry, but that's the way it is. Unless Barackus Caesar has a better plan...which he actually thinks he does. More on that later.



Meanwhile, over at the Gold Bar, the thuggery continues but a strange thing is happening. Increasingly, the patrons are standing up to the thugs and are holding their own. Take a look at the chart below of the action in the gold market on Friday. Notice how the shiny stuff got knocked down early, then took off like a rocket before being slammed down by the thugs before staging a pretty decent comeback during the rest of the session. We'll be keeping an eye on this bout carefully.

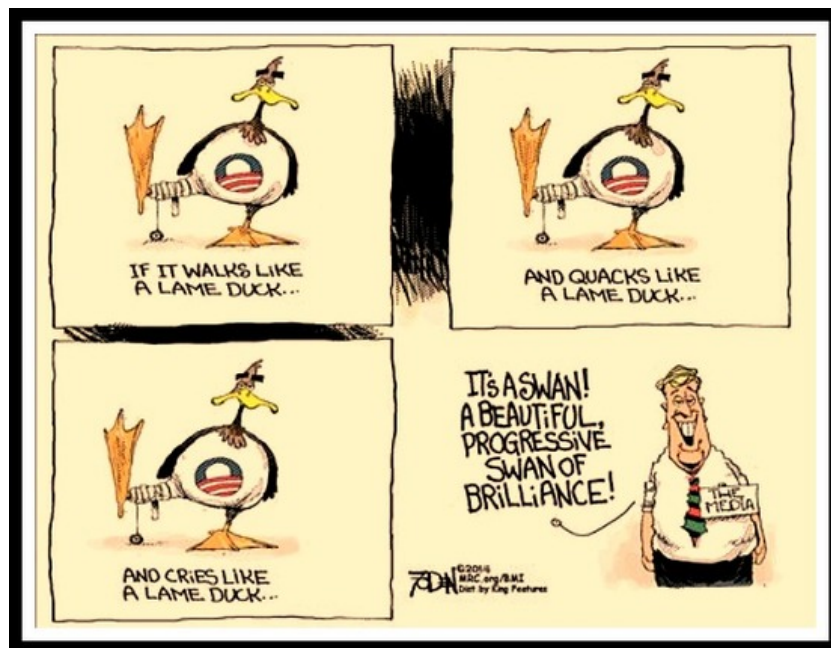


This week, we'll also take another peek at Caesar's new favorite glamor gal...MyRA...and

suggest why he's so enamoured of her...and it's nothing about protecting the punter. Over in the Philippines, we check in on their president who is chiding the Chinese and everyone else for ignoring history...to their peril. Tracking the vampire squid's escapades, we check in on some disgruntled Libyans who are convinced that Goldman Sachs ripped them off.

You're kidding aren't you? Unfortunately not. Then if we have time, we'll pop over to the Ukraine to look at a couple of maps which might help explain why they are virtually up in arms over there (and you thought the US was fragmented). Finally, our chart of the week looks at the potential for junior gold miners to repeat some history of their own.

Let's get started...right after a very poignant cartoon, courtesy of Ed Steer yet again. We don't know where he gets them from but they are always spot on.



I have come to the conclusion that politics are too serious a matter to be left to the politicians

Charles De Gaulle (1890 - 1970)

Why MyRA?

Last week we mused on Barackus Caesar's edict to make savers of us all. We pointed out that forcing punters to purchase US Treasuries might not be such a good idea...for them.

But who cares? It's not about "them"...it's about Barackus and Emperor Michelle and Ben and Janet and "team tan" (Nancy Pelosi and Barkeep Boehner) and the "wrinkle brothers" (Harry Reid and Mitch McConnell) and the rest of their sycophantic sustainers. In other words its about maintaining the status quo and protecting the power elite.

Yes, that would be the same mob who have overseen the doubling of our national debt since 2008. The same mob that has overseen the collection of billions in phony fines from the big banks but has shied away from personally punishing any single one of them. The same mob who have ignored the potential for Financial Fiasco 2.0 as the same big banks run rampant yet again. Yes...and it's the same mob who will come together and after some public rattling and prattling will rubber stamp a higher debt ceiling. Yep...that mob. We think you know who we are talking about.

So why are they so interested in pushing the punters into "prudent" savings? It's simply because the number add up. Conveniently, the IRS recently published their Quarterly

Statistics of Income Bulletin. Basically, our friends at the IRS...when they are not searching for Tea Party traitors or auditing aunties...sniff around all those filed tax returns and slice and dice all those numbers to prepare a report which is jam packed with analytical details. If you have a mind for such things or have trouble sleeping, you can click [here](#) to take a look for yourself.

What caught our particular attention was the IRA statistics which admittedly are from a couple years back but still very relevant, at least to us. Apparently, of the 145,000,000 or so taxpayers eligible to make an IRA contribution, only about 3,500,000 did so. Folks, we'll save you the math...that's less than 2.5% of people who could save into their IRA actually doing it.

Perhaps Caesar was having trouble sleeping too and decided to decipher the same statistics. Et voila!

*"Michelle, Michelle...wake up sleeping beauty...I think I've found a way to restore the treasury...why yes, of course, it will mean fleecing the sheep again...but trust me, they'll never realize it, at least not for a long time. It's brilliant! We'll make it part of the **restore the poor** campaign. No...no...don't bother calling your buddy...we won't need a website for this one...we'll just make their bosses dock it from their paycheck, like taxes and social security...damn, I'm smart!"*

What has Caesar so excited?

It's simple. Around 196,500,000 punters filed a tax return in 2010. Currently about 54,000,000 have an IRA, although a lot less are still contributing to it. But that still leaves over 70% without an IRA. Just think about it. If Caesar can coerce those recalcitrants to start dating a MyRA, that's 137,500,000 brand new US Treasury buyers right there.

Suddenly we'll be turning Japanese...which, of course, reminds us of a song by The Vapors. You must remember it..."I'm turning Japanese, I think I'm turning Japanese, I really think so". No...OK...just click [here](#) for the You Tube, but beware, you'll be humming it all week if you do. But it's much more catchy than Engelbert.

But seriously, the Japanese reference is real. The single biggest reason why The Land of the Sinking Yen has not yet sunk is simply because the vast majority (over 90%) of its national debt is domestically owned. The only difference between us and them is that they lend money to their government willingly.

But who cares about silly things like freedom of choice...back to the numbers. 137 million punters being sold...we mean, willingly buying just \$50 worth of treasuries a week will rake in over \$350 billion per year. That's enough to cover Janet's monthly money printing for almost 5 1/2 months. And as it will be mandatory and in their own interests to have a MyRA...Caesar's cronies can gradually up the ante...and of course, adjust it for inflation. And once Janet has ceased pouring all together, that whole chunk of fresh weekly cash can go towards hoovering up the \$2.2 trillion in US Treasuries held over at the Fed.

Who needs the Chinese when we have the chumps at home to take over the dirty work. Problem solved. Darn...that Caesar is smart!





Apply gently at first...then keep rubbing harder and deeper and harder and deeper

And speaking of China, it seems like everyone in the neighborhood is getting into the historical comparison department. Just a couple of weeks ago, Japanese Prime Minister Abe had a go at the Chinese and even more recently the Filipino president, Benigno Aquino III drew a comparison between China's expansionary indications in the South China Sea to Herr Hitler's clawing for Czech land in 1938. He went on to make mention of the surrender of the Sudetenland to preserve "peace in our time" and compared it to giving into China's demands right now.

Well, we all know how well that "peace in our time" thing worked out so we worry about things like this. You can read more by clicking [here](#) and we think it's worth paying some attention to this part of the world, especially if things get really tough economically. You know how, during tough times, those politicians like to rattle sabers to keep the punters distracted from the real distortions...and of course, to "encourage" them to keep buying war bonds...err...treasuries.





One of the weaknesses of our age is our apparent inability to distinguish our need from our greed.

Author Unknown

Last week we learned that Goldman Sachs (aka The Vampire Squid) is not a favorite among the dauntless Danish. This week we find that the squid is not too popular in Libya either. Apparently the goldies were doing some of God's work in the former feifdom of the late but not largely lamented Muammar Gaddafi. Seems like the Libyans, when taking a breather from trying to kill one another, discovered that they had...surprise, surprise...possibly been the victim of some complex shenanigans at Goldman's hands...or should we say, tentacles.

So they are heading off to court in London to duke it out...which is far more civilized than simply chopping off a tentacle here or there, which is the traditional Muslim penalty for stealing. The Libyans are not silly...they know that money, not blood, flows in the squid's veins so why not try to do some financial blood letting instead. Good luck to them.

You can read more about this by clicking [here](#). We wonder if the golden gloss is coming off Goldman Sachs as more and more muppets realize that the distinction between client and victim is often a blurry one in the world of high and complicated finance.

CHART OF THE WEEK

If we have learned one thing from the history of invention and discovery, it is that, in the long run - and often in the short one - the most daring prophecies seem laughably conservative.

Arthur C. Clarke (1917 - 2008)

Sorry...no time or space to travel to Ukraine this week. Hopefully we can take a peek next week instead.

Moving along, you may recall that our chart of the week last week showed a divergence

between the price of gold and the stock price of the gold miners. This is an uncommon occurrence because, quite understandably, the price of gold and gold miners tend to track each other quite closely. It just makes sense that they should do so. As a result, we surmise that, over time, the traditional trend will return...and in the process the price of the miners will increase. But how much? As usual, we have no clue but it could be dramatic, particularly in the case of the smaller, more volatile miners...typically referred to as the "Juniors".

Take a look at our chart of the week below. It tracks the junior gold miners since 2007. Notice how the last time these companies got hammered, back in 2008, the stocks fell around 80%, which made the broad market's horrendous sell off back then look benign by comparison. But as bad as the drop was, the bounce back was incredible as well...up over 600% from the lows. Now fast forward to late 2011 and this same sector is down over 80% again. But maybe, just maybe...it is getting ready to make another radical reclamation move.

Right now, these stocks are not just hated, they are loathed and despised...and pretty much anyone who was going to sell their holdings, already has. When there are no sellers, it is simply a matter of waiting for the buyers...and they are starting to come. Even financial media darling Jon Najarian is keen on the juniors. Click [here](#) for his thinking and [here](#) for a related commentary that supports Najarian's thesis.

Please don't take the above as any unconditional endorsement of these junior miners per se. They are generally considered to be terrible investments. Yes, there are some great ones with strong management, solid balance sheets, substantial real assets in the ground and outstanding potential. But for every one of these gems, there are dozens which are basically hope and pray operations, sloppily managed and barely struggling to keep the doors open in the current environment.

Just think about it...exploring for gold and silver is a tough business. The terrain is usually uninviting, the chances of hitting it big are almost as remote as the locations being searched, the costs and complexities of drilling to depth are daunting and you are always looking over your shoulder to see when the local gangster or boss politician is planning to hoist your horde. But that doesn't stop these intrepid, optimistic souls from scouring the surface of our lonely planet in search of the next El Dorado.

And every dog has his day...and while this sector has a much greater share of mutts than most, its day may just be coming.



Til next week...

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



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