

Pounding the table for gold and silver

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The Federal Reserve tiptoed back, hoping I wouldn't notice, into expanding credit, as evidenced by their \$2 billion infusion of make-believe money last week. Not too bad, actually. But worse, they actually started down the path of the ultimate fraud, and bought up \$1.6 billion of government debt! Hahaha! The government creates a bond, and the damned Federal Reserve creates the money out of thin air to buy the bond! Hahaha! This is fiat money at its finest! Hahahaha! And we wonder why we get so little respect from the rest of the world!

Of course, this was probably necessitated by the Treasury holding the pedal to the metal and driving us into an astounding level of debt, and as of yesterday they had indebted us by another \$57 billion in the first nineteen days of August alone! Three billion bucks a damned day! A day! This takes us to, according to the Treasury's website, a national debt of \$7,926,779,954,124.77. Almost eight trillion dollars. And this level of new borrowing increases our debt at over a trillion dollars a year! A trillion!

As if that was not enough to push me off the deep end, they also allowed the banks to decrease reserves again, down to new historical lows, freeing up money that is supposed to be a hedge against losses from all those loans they have been making all these years to less-than-credit-worthy borrowers. Hahahaha! The reserves that the banks were holding against potential losses due to their profligate lending are now being used to create more loans! So that they will have more losses! And less cushion! With a tone of utter contempt in my voice, these are the depths to which banking has sunk.

And why are they doing this? Well, as those clever wags at WhiskeyAndGunpowder.com so pithily put it, "As soon as the credit bubble stops expanding, kiss this economy goodbye."

But what to do with the money? How about borrowing money to buy stocks? Well, Eric J. Fry, in his Rude Awakening column at the [Daily Reckoning.com](http://DailyReckoning.com) site, reports that stocks are grossly overpriced. "Last year, for example, the S&P 500's 'operating earnings,' the flattering, quasi-fictional results imagined by Wall Street analysts, totaled \$66.62. But after applying GAAP standards to these quasi-fictional earnings, and adjusting them for the cost of stock options, the S&P's actual earnings dropped to only \$55.25, according to James Montier, equity strategist at Dresdner Kleinwort Wasserstein. That earnings number would put the S&P 500 on a rich PE multiple of 22 times earnings."

And how do stock prices typically perform after hitting these lofty levels? Very poorly.

Well, what about bonds then? How about borrowing money to buy bonds? Well, it turns out that bonds are also overpriced, as they are so expensive that they are yielding less than zero, net of taxes and net of inflation! Less than zero real return! So I don't see a whole lot of potential in bonds, either! Hahahaha! And don't get me started on housing, because I am already losing sleep over the housing bubble as it is. Stephanie Pomboy at MacroMavens notes that almost a trillion dollar's worth of mortgages, of which \$543 billion is sub-prime, is going to have to be reset sometime in the next eighteen months, a time when interest rates are supposed to be higher than they are now. Already the amount of interest money people owe on the floating-rate mortgages is up 14% year-over-year, and so Pomboy figures that delinquencies are "sure to rise."

In case you are new to this economics thing, or you are really drunk and you do not notice that my face is contorted in horror at this revelation, economies are not prospering when delinquencies are rising. Economies are only prospering when delinquencies are falling.

- As you are no doubt aware, I am constantly ready to expound at length about the egregiously, criminally bad way that the Federal Reserve is "managing" the economy, which is, in a nutshell, the continuous, excessive creation of money and credit to finance bubbles. With, I might add, the blessings and encouragement of government, because of the bankrupting expense of installing the wealth-transfer functions of socialism/communism throughout the many levels of government.

And why am I always so ready to get right in your face and scream about monetary policy until you are dizzy and disgusted with the way I hold you by the neck, how little specks of spittle keep hitting you in the face, and how the vein on my forehead is throbbing throbbing throbbing? Because history is nothing but one dreary

lesson, over and over again. Namely, you cannot allow these things. You cannot allow the money supply to expand faster than the economy, because all that new money devalues all the existing money, which causes prices to go up, which puts people into a funk and it destroys the economy. Nor can you have a fiat currency, because there are no natural limits to how much money and credit a government can create, which devalues the money, which causes prices to go up, which puts people into a funk and it destroys the economy.

Nor can you allow excessive degrees of fractional banking, as there are no natural limits as to how many times a bank can multiply each dollar of deposits, which causes the value of money to go down due to its excessive creation, which causes prices to go up, which puts people into a real funk and it destroys the economy.

Of course, this brings to mind the French Revolution, which was caused by the government of France creating so much fiat currency that the currency was destroyed, and the people got, as if you had to be told again when I just told you this in the previous sentence, into a really, really, really, really bad mood, (RRRRBM), a concept which is central to the famous Mogambo Bizarro School Of Economics (MBSOE). And one of the principal identities of this school of economic thought is that "RRRRBM is equal to really, really, really, really bad news (RRRRBN)". So in your notes please write this important equation down:

$$\text{RRRRBM} = \text{RRRRBN}$$

And to prove it, this morning on the Morning Edition of PBS we learn that there have been 60 murders in Milwaukee so far this year, already equaling the number of murders in all of last year. A local official noted that (as I recall him saying) that people there are "frustrated and angry." Well, news flash to Milwaukee! Get used to it, dudes! This is what ALWAYS happens when the horrific inflationary results of an irresponsible inflationary monetary policy start hitting home. Misery and suffering and anger and crime are what always happens after the boom dies! People become poorer and poorer and angrier and angrier. Bummer.

And that is why I have been pounding the table for gold and silver. The ongoing devaluation of the dollar means ongoing appreciation in the price of gold, theoretically preserving the buying power of my wealth by offsetting the decline in the value of the dollar that is so bedeviling everyone else that they are robbing each other and beating each other up and killing each other. But all my table pounding was, of course, wasted on a non-receptive audience, as you have no doubt surmised if you have ever talked to anyone about buying gold, especially at dinner time, and your mom ends up yelling at you to shut the hell up about gold and eat your dinner before it gets cold, and your little brother pipes up that you are a creepy little goldbug creep, and you instantly shoot back that his creepy ignorance about monetary policy is what really creeps me out, if you want to know who is the biggest creep around here!

That is why I was astounded this morning when I opened up my email and found, among the usual hate mails and helpful suggestions (such as the popular "Go to hell, jerk!"), that the father of my buddy, Bob S., has apologized for poking fun of me all these years for being bullish on gold, and to let me know that he is now buying precious metals! Wow! Okay, now I'm walking around with my head in the clouds, as this is one time that The Mogambo was right! I am, as has now been proved, not always wrong about everything! Oh, my heart soars! Or, as Lewis Carroll so deliciously phrased it, oh frabjous day!

Then, a few hours later when I was in the newsstand buying a copy of Barron's, Mike tells me the same thing! I was floored! What a coincidence!

Perhaps their change of heart is because they have listened to Rhona O'Connell of Mineweb.com, who writes that "The latest figures from the European Central Bank suggest that the total tonnage (of gold) sold to date in this, the first year of the second central bank Gold Agreement, has reached 506 tonnes, against a limit of 500t."

So not only have the central banks disgorged themselves of all the gold that they agreed to sell, but have actually exceeded it! Hahaha! And early, too!

But she cautions us to not get too overwrought about this, as "This of itself is of no great moment as the limits have been breached before, but it does suggest that if the spirit of the agreement is to be fully adhered to, then sales are going to have to drop right off or cease over the remaining six weeks of the current CBGA year, which is September 26th."

The actual statistics are that "Annual gold fabrication plus bar hoarding demand in 2004 was 3,410 tonnes against physical supplies from the mining sector (net of dehedging) and scrap of 2,850 tonnes (GFMS Ltd. figures). This produced a shortfall of 560 tonnes or 10.8 tonnes per week, much of which was met by net official sector sales."

For gold to go up in price in the face of all of this adding to world supplies tells me that there is one hell of a lot of interest in buying gold. And without any more of these central bank expansions of supply, the current level of demand should, in theory, cause the price of gold to rise. And it is a rising price means that something that you bought has gone up in price! And it is this delicious rise in price that produces profits! So, Mogambo Investment Tip O' The Day For The Zillionth Day In A Row (MITOTDFTZDIAR): Buy gold.

But the Gold Anti-Trust Action group, popularly known as GATA, have re-circulated a series of letters with the government, wherein we learn that while there are no actual plans for the government to again confiscate gold from us proletariat trash, like that filthy, commie bastard FDR did, they reserve the right to do it anytime they want. Several people have written and asked what in the hell they can invest in that the government can't, or won't, confiscate. How can they keep their money safe?

The room is suddenly hushed except for the sharp intake of breath, as each atom in each molecule of each person in the room was instantly galvanized to rapt attention, attending to my every move and gesture. The air crackles with electric tension, as at any moment I am going to answer one of Life's Big Mysteries (LBM). I look out over the crowd, and I see their innocent, trusting faces uplifted to meet my benevolent gaze, and I see the light of hope flicker in their eyes. That is why it breaks my heart to tell you that the sorry answer is that there is nothing that you can do with your money that the damned government cannot come and take, any time they want to.

A lesson about the grubby confiscatory attitude of governments can, perhaps, best be illustrated by the lesson from modern-day Zimbabwe, as we learn from Peter Spina's newsletter, the Global Watch Gold Forecaster. Once upon a time, some Zimbabwean people and companies had investments in shares in foreign companies, mostly American. The government had nothing. Here is where Mr. Spina takes up the story. "Foreign shares were appropriated in 1984, when the government raided the banks to seize nominee held shares and paid with 4% government bonds for these shares." And then, suddenly, the government owned the shares of foreign companies, denominated in dollars, and they were soon rich. The people now had Zimbabwe government bonds, denominated in Zimbabwe money, both of which went to virtual worthlessness, and they were soon poor.

And if you think that there is a big difference between the kleptocracy in Zimbabwe and the kleptocracy in the USA, then I know that you are young and I am charmed by your guileless, childlike innocence. I smile in serene indulgence. The Mogambo reaches out his hand as if to gently stroke your head. But instead I rap your thick skull with my bony Mogambo knuckles (BMK), and you shout "Hey! That hurt! Why did you do that, you horrible old man?" My face is a study in kind benevolence as I reply, "As you must grow older and wiser, you are now both older and wiser than you were a few minutes ago, my darling young grasshopper!"

And I think to myself "One day you will gain sufficient insight, and you will sit up with a start and declare 'The Mogambo was right! We're freaking doomed!' "

But getting back to the original question, which was how you can protect yourself from the government coming and taking all your stuff, I add that you can't even escape to another country, as the United States is the only country in the world that reserves the right to own you, which gives them the right to track you down anywhere you go in the whole world, and take anything they want, at any time. Welcome to the "land of the free and the home of the brave."

All of this means that this is another valuable Mogambo lesson (AVML), where we learn that it is important for you to pay attention to how you vote, as each of these grubby government thefts was created by horrible elected officials that we voted for, and all the grubby government thefts in the future will be created by horrible people we will have voted for, too. Makes you think. I hope.

- If you want to know when was a good time to retire, Puru Saxena writes that "During the entire 19th century, there was zero inflation! Zip! Nada! In fact, we witnessed mild deflation (contraction of money supply) during that entire century. To put it simply, cash saved in 1800 bought roughly the same amount of goods one hundred years later!"

So the people who retired in 1800 had the same, or greater, standard of living for the next hundred years, because their savings were not eroded by inflation. Yes! If you really want to help the senior citizens of this country, then THIS is the way that you do it! And if you want to help the poor, then this is how you do it! They never get poorer as long as they have a steady income of money!

And why is there no other time to retire that was as good? Because of the inflation in prices that followed from the inflation in the money supply, caused by the Federal Reserve massively creating money and credit, with gusto bordering on mental illness, from its inception in 1913. Hell, just going back to 1960 he finds that "The money supply grew from \$300 billion in 1960 to roughly \$10 trillion today! That is an astounding growth rate of 3,300% or a 33-fold increase! This huge rise in the supply of money has caused money to lose its value (purchasing power)." Now, this is nothing new for the disciples of The Mogambo (DOTM), who sit at my feet to learn economic wisdom, but who persist in spending their time bickering and arguing about which smells worse, my feet or my breath?

Relative olfactory discussions aside, with such a consistent track-record in mismanaging the money, Mr. Saxena goes on to say, "It would be safe to say that going forwards we can expect this trend to continue. Therefore, as more money is introduced into the system by the Fed, the value of paper money will continue to evaporate in real-terms."

The lesson is that if you are retired on a fixed annuity, or if you are retired and count Social Security as a significant part of your income, then you are indeed screwed, and you need to go back in time to the 19th century. Failing that, you should contact AARP immediately, and have them lobby Congress to pass The Mogambo Zero-Inflation Imperative (TMZII). This would require that the Federal Reserve target zero as the upper bound on consumer prices. And if they miss the target, I get to travel up there, first class, and slap the living hell out of the chairman of the Federal Reserve until I am sure that he has gotten the message. The legislation, of course, has no chance of passing. But when inflation is causing suffering, and crimes are being committed by scared and desperate people, one day a bullet will zing by your ear, and with a jolt you will suddenly realize, "The Mogambo was right! We're freaking doomed!"

Mr. Saxena scoffs at my megalomaniacal and fear-mongering stupidities, and with wit born of brevity, says simply "Make no mistake; inflation (increase in money supply) is robbery pure and simple. Inflation is the confiscation of your hard earned savings!"

And if you have ever been robbed, you know how violated and angry you felt, and why you had this sudden, consuming interest in the Death Wish movies, where Charles Bronson demonstrates how revenge and handguns just naturally go together, like peanut butter and jelly!

Okay, so to tell you the truth, now I'm getting a little irritated with this Saxena guy, who is not only stealing my thunder, but doing it better than I ever could, which, I admit, wasn't all that great to start with. So I figure that I could launch into my patented "Buy gold now, you moron" (BGNYM) spiel, which isn't all that popular and sales of the CD and the video were disappointing, since it turns out that very few people like being called morons. Who knew? But anyway, before I can even chug the last of that cold, frosty beer and stagger to my feet to speak, this Saxena guy jumps in and says "In my opinion, gold is one of the cheapest assets paper 'money' can buy these days. No, let me correct this - in fact, around \$435/ounce, gold is literally being 'given' away!"

At this, everybody is suddenly standing and applauding and cheering. Applause and cheers that would have been MINE if he hadn't stolen them from me! So I sat down in a bitter sulk and crossed my arms in defiance, and I glared at him as he was ceremoniously carried off stage, borne aloft on the shoulders of an adoring crowd.

Then here comes Roland Watson, of the New Era Newsletter, who says that he figures that gold could hit \$10,000 an ounce, and silver could go to over \$700 an ounce "in our lifetimes." And the crowd goes bananas again! Now they are carrying them both around the auditorium, like they were heroes or something!

Seeing that I have a few minutes to spare until the boisterous crowd settle down, I idly pick up some papers and read that his method of determining these prices for silver and gold is to use the "Kondratyev wave, based on an average length of 54 years between peaks." Where are we now? He says that they cycle is precisely determined if "We add 54 to the last peak in 1980." This plots out "to arrive at a suggested blow off about 2034 if not sooner." So I try to mentally subtract 2005 from 2034, and I get this monster headache from the effort. So I ask my wife, and she says that it is 29 years from now. So things are going to continue to get worse and worse for 29 years? Boooo! But I will continue to make money on silver and gold for the same 29 years, at which time gold will have appreciate in value from \$440 an ounce to over \$10,000? Yayyyy!

In a slightly different vein, he notes that this whole inflation thing holds true for gold, and that "the 1932 low of \$20 equates to \$258 in 2001 dollars, only \$3 off the actual 2001 low" which almost perfectly adjusts for the loss of buying power of the dollar since 1932. And remember that these are the LOWS. And things have gotten much worse since 2001, and will continue to get worse for the rest of your life.

For example, the Labor Department said that first-time claims for unemployment benefits rose to 316,000 in the week ending Aug. 13. This is up from a revised 310,000 the prior week. Perhaps this has something to do with the Chicago Fed's index of national activity having slipped to +0.16 in July, which was down from +0.40 in June.

The Chicago Fed, in a rare bit of candor, also said that the index also points to rising inflationary pressures. Hahahaha! No kidding? Hahahaha!

As if to validate this, the Conference Board's Composite Index of Leading Economic Indicators was 138.3, up from a revised 138.1 in June. So, net gain in the LEI was 0.2. The Coincident Indicator, which reflects current economic activity, advanced 0.1 percent in July to 120.8. But it is the Lagging Indicator that I watch, as it is a measure of cost pressures. Anyway, this inflation indicator climbed 0.3 percent to 120.0 in July. So inflation is increasing faster than present and future economic activity! Note the exclamation point, which is your infallible Mogambo Indicator Of Emphasis (MIOE), which means that you should pay particular attention to it, as it WILL appear on the mid-term exam. And maybe a pop quiz or two, because that is just the kind of sadistic bastard that I am.

- Oil expert Craig Smith, who has been described as a "self-proclaimed geopolitical know-it-all" who has authored a book called Black Gold Stranglehold, predicts that gas prices will jump to five bucks a gallon pretty

damned soon.

Before you write him off as just another kook who takes the extreme position (and if he wasn't a kook then why in the hell is the idiot Mogambo reading his stuff?), this is the same guy who, last year, predicted \$3-a-gallon gas and \$65-a-barrel crude oil this year. "So," I can hear you thinking to yourself, "if this guy is so smart, what does it think about the price of oil in 2006? Huh? What does he think about THAT?" Turning my famous Mogambo Mind Reading Power (MMRP) to Mr. Smith, I close my eyes and peer into his brain. I can see dimly through a mist that he figures \$80 a barrel by the end of the year. So I say "Eighty dollars a barrel!" and he says "Hey! That's right! How did you do that?" and I haughtily remind him that I am (blare of trumpets) The Mogambo, and he says, with a real snotty tone that I didn't like one bit because I hear it so much, "Oh. That explains the smell."

So keep buying energy stocks, as they are both a good relative value and fundamental value, too. As Bob Wood of Kaizen Managed Assets wrote in his latest newsletter, "With energy stocks selling at about 12x earnings in a market where the S&P is quoted in Barron's as selling at over 19x earnings that can rightly be called suspicious in many cases, why would anyone think of selling those holdings?"

- The rate on bank 6-month Certificates of Deposit hit 4% last week. This is roughly the same yield as 5-year Treasury Bills! And only 0.22% less than 10-year T-notes! With CD's there is zero risk of loss of principal, as it is guaranteed by the banks that issue them. But with debt issues there is no guarantee, except that if interest rates climb, then any chumps holding bonds are guaranteed to get killed! Hahahaha!

And yet people are buying bonds with such zeal that they have driven the yield to (after inflation and after tax) less than zero! And corporate bonds are yielding squat, too! Like a woman marrying me and expecting me to change, it makes no sense!

Unless they know, because they are evil gutter-dwelling rats using their little rat-senses to detect an impending crisis, that there is a hell of a recession coming down the pike. If so, then they know that the Federal Reserve will slash interest rates with their usual maniacal zeal, and (theoretically) bond prices will go up, giving them a gain on their bond holdings. Hmmm.

This may have something to do with what Larry Edelson, of the Money and Markets newsletter, is talking about when he writes, "Oil is actually killing Wal-Mart on two fronts. Its bread-and-butter customers are spending so much on gas that they have very little left over to spend at Wal-Mart and the cost of operating its trucking fleet and air conditioning its stores is going through the roof. According to the company's CEO yesterday, 'this impacted our operating profit by \$30 million and our total utility expense rose by \$100 million in the quarter.' " But it is not only that! He goes on to say "Rising interest rates are also taking a toll. Approximately 50% of Wal-Mart's \$33 billion of debt is adjustable or floating rate debt, which means that its borrowing costs will rise and fall with interest rates. How much? Wal-Mart saw its overall borrowing costs rise by 5 basis points in Q2. And before you pooh-pooh 5 basis points, just remember that it translates into \$165 million dollars on \$33 billion of debt."

He goes on to say that the lesson is "If you place any credence whatsoever (and you should) on the notion that Wal-Mart is a barometer of the economy, you should be very worried that our consumer-driven economy may run into some big trouble in the not-too-distant future." And it is this "trouble" that the bond buyers are apparently counting on.

But he sees that this is affecting me seriously, and I am nervously licking my lips and inserting a clip of ammo in and out of an M-16 rifle, click-click, click-click, click-click. To change the subject, he nervously notes that the government is a lying bunch of scumbags, although I am not sure that it makes me feel any better. To prove it he points to the latest CPI report, which dares to report that housing prices, "which account for 40% of the CPI, increased by only 2.9% over the last 12 months." If you have spent a lot of time lost in a cave on Mars, perhaps you are not familiar with what has been happening to housing prices for the last few years. For everybody else on THIS planet, however, we say "Hahahaha!"

And a bunch of guys who HAVE spent most of their time on this planet is the National Association of Realtors (NAR), who report that "the price of an average home in the last 12 months rose by an average of 13.6% - the fastest increase in history."

The government says house prices rose 2.9%. The NAR says 13.9%. Who are you going to believe? But beyond that ugly point, even at 2.9%, housing prices are rising faster than after-tax incomes! I run screaming from the room.

The measures of inflation are surging. Let me quote from Barron's in their Review and Preview section, with some judicious Mogambo editing of individual words. "Wholesales and retail prices SHOT up in July, reflecting SOARING energy costs. Producer prices SURGED a BIGGER-THAN-EXPECTED 1%, the LARGEST increase since October. The core index ROSE 0.4%. Consumer prices ROSE 0.5%."

And it is not just here, either. On Bloomberg.com we read that "The inflation rate in the dozen nations sharing

the euro rose to a seven-month high in July, exceeding the European Central Bank's limit as oil prices jumped to record levels. Consumer prices rose 2.2 percent from a year ago".

And it is going to get worse and worse, as we are all expanding our money supplies at huge multiples to GDP growth. This is the path of madness and misery. Ugh.

*****The Mogambo Sez: It seems to me that when the Gold Lease Rates (found at the Kitco.com site) trend down, then the price of gold trends down, too. And when the Lease Rates trend up, the price of gold trends up, too. Nothing scientific, but it looks very interesting to me!

Right now, gold lease rates have bottomed and are trending up. Looks like a good time to buy precious metals. But then again, anytime is a good time to buy precious metals these days!

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