

Quotable

“If you can't annoy somebody, there's little point in writing.”

Kingsley Amis

Commentary & Analysis Hodgepodge

If history is rhyming, run for cover

Mark Twain is quoted as saying, “History doesn't repeat, but it does rhyme.” Today's rhyme may be sublime.

The dismally uncooperative IMF meeting was followed up nicely by a US Presidential debate turned China-bashing session. Global cooperation is a shambles. We have seen this before at a seemingly similar moment in the global economy. We know how that ended.

This summary comes from The Miller Center, University of Virginia, “American President (Herbert Hoover): A Reference Resource [my comments in bold]:

The American economy of the 1920s, while prosperous, was fundamentally unsound [**just as it was during the 2000's**]. The economic collapse that defined the Great Depression did not occur all at once, nor for one particular reason. [**Yup, same this time...**] Historians have identified four interwoven and reinforcing causes of the nation's most severe economic crisis: structural weaknesses in both American agriculture and industry [**structural weakness in industry as jobs are shipped off to enrich poor Asians on the backs of middle-class Americans with profits piled on multi-national shareholders**]; the frailty of the international economy in the late 1920s and the early 1930s [**European competitive weakness relative to the US and Asia is nothing new; the culmination of the Eurozone structural crises now is global systemic in nature**]; and the overly speculative and unstable foundations of the American financial sector [**creating boom/bust in market economies seems to be resident in the DNA of central bankers—the Fed has failed us miserably**].

As the global slowdown took hold in the early 1930's, political pressures for leaders in all countries grew intense. It led to a breakdown in cooperation among global leaders and a myopic view of the dangers ahead. This passage is from the memoirs of Herbert Hoover:

GLOBAL MACRO ANALYSIS... NOT PABULUM

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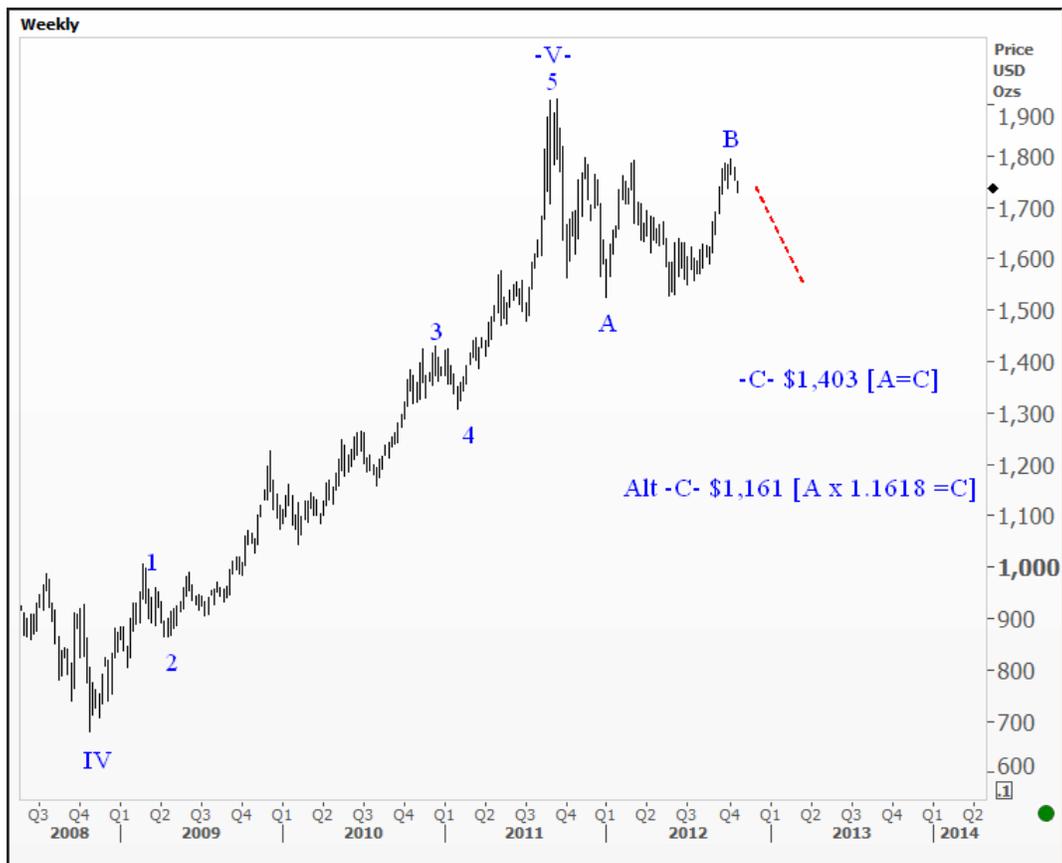
When [French] Premier Laval visited the United States in November, 1931, I proposed to him that at some appropriate time we should call a world economic conference to work out a plan for stabilizing currencies, curbing the growing barriers against international trade and removing a few other obstacles to recovery. He felt that the time was then not yet ripe for a successful conclusion of such a conference.

By the spring of 1932, the world-wide collapse of finance and gold convertibility of currencies, which began with the Germany crisis the year before, was turning into a violent trade war between nations. In this war, depreciated currencies, 'managed' currencies, increasing tariffs, other restrictions on imports, quotas, and foreign exchange controls were the weapons. The results appeared everywhere in the creeping paralysis of exports and imports and the constant fall of commodity prices. Creditor-debtor relations, both domestic and foreign, were fast becoming intolerable.

Stay tuned. This thing is far from over.

Call us Gold Agnostics

If you are a gold bull, you are likely calling us much worse than agnostics. We tend to think gold goes lower from here...



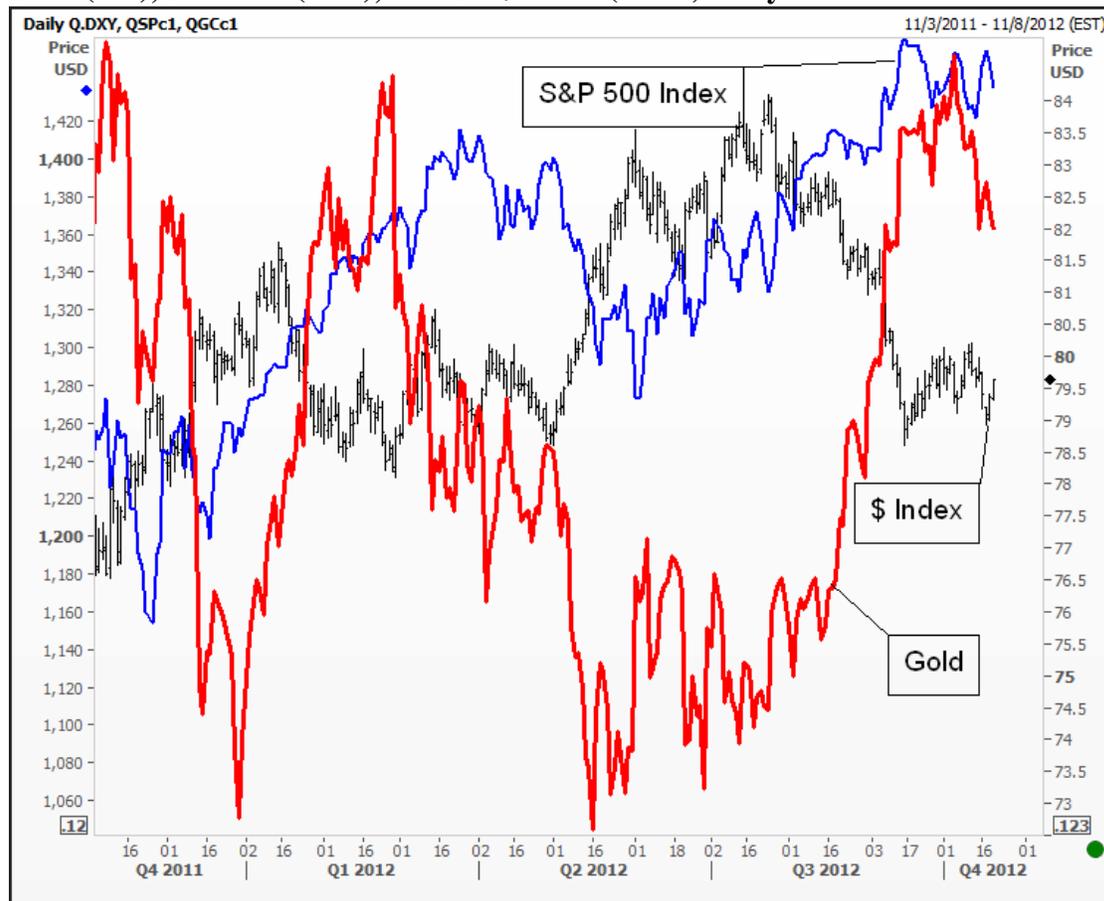
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Often we see what we want in pictures. Same token we fine said pictures do help guessing the future; it's that probability thing. Thus, we use them and like them. Granted, it seems illogical when you know you don't know what future fundamentals will bring. It sounds silly to justifications today's actions on an uncertain future. It is even crazier to believe if you get the fundamental future right, you can then foresee asset price direction as if there is always pure causality. Unfortunately, it is what we do. Pictures tend to help.

That being written (and denied when we slip into our "guru" persona), our view has been and still is:

1. Global growth still slowing despite some brighter US news
2. US corporate earnings estimates overdone given 50% generated from outside the US for the "multi-nationals"
3. Stocks are way ahead of earnings and will be hit
4. The dumping of stocks will lead to margin calls
5. Margin calls often require selling of good stuff in a portfolio
6. Selling good stuff will likely take a bite out of gold as players scramble for real liquidity

Gold (red), S&P 500 (blue), and US \$ Index (black) Daily:



That is our thinking. It does align with our chart(s). We shall see.

Jack Crooks, Black Swan www.blackswantrading.com

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