Reality and Illusion

As each day passes by I get more and more examples of how the stock and bond markets are acting in a totally irrational ways and that we are heading for a major re-pricing of all assets in the near future.

The first article I read today (March 31) from Bloomberg was how a large restaurant chain that was being left for dead last year has seen its stock increase 63% in the past 12 months.

This headline would lead you to believe that the restaurants operated by this company would be doing great. However, the numbers don’t bear that out. I have written many times about companies playing accounting tricks and in most cases it is going into debt to buy back shares and boost earnings. This company, however, has a different way to manipulate the numbers. Their revenue is flat (no growth in sales), however their stock is up 63% in 12 months. How?

This particular company has sold its real estate raising a lot of cash and paying off some debt and have now become renters in the real estate that they previously owned. This is great short term but as their business is stagnating and possibly falling they now have increased their costs going forward and that is not much different than the short-term thinking behind share buybacks. The main point here is that they can only do this once. Short term it is great for shareholders and executives but long term it is likely toxic for future shareholders that got to the game late. (Commentary about repercussions is mine)

The stock markets have been rallying on every word out of central banks because they promise more stimulus. Virtually all of the “leaders” are worried about deflation. Of course, as our incomes are going down in real terms lower prices are, in my opinion, EXACTLY what we need.

Markets are pulling back on all of the actual economic reports that are coming out that are exposing the “escape velocity” myth that we have been hoping for for the past 4 years!

Basically, this week’s early rally was attributed to dovish sentiment by Federal Reserve President Janet Yellen and her Chinese counterpart Zhou. They are promising more of the same money “printing” and debt issuance that I believe to be an abject failure for all but the banks and the top 1%. This volatility can be attributed to the reality that the economy appears to be falling apart regardless of the massaged numbers that we are fed daily and the illusion that the central bankers are putting out.

If you are at the Eccles building (Federal Reserve) or are a CEO you are probably clueless what is actually going on in the real world.

It has been a few years since I have uttered “Look at where interest rates are. As interest rates go up the value of bonds go down. It is a lot more likely that you will have a capital loss rather than a capital gain in bonds in the years ahead.” Fast forward to today and I defy anyone to find anyone that could have predicted negative interest rates. Who in the world would pay and guarantee a loss while lending some one or an entity money. It would be like a friend wanting to borrow $10,000.00 and he says he will repay you $9500.00 next year. Anyone can tell you that this is not a good deal for the lender.

Even those responsible for the Basel 3 rules when those rules were enacted to make sure banks were well funded in the next crisis did not foresee zero interest rates for this long and certainly did not figure on negative interest rates. This could only have happened, in my opinion, with massive central bank intervention and mispricing of the most important rates of all leading to a mispricing of ALL assets.
I am also reading today (March 31- King World News) that between India and China from January 1, 2015 to March 20, 2015 642 tons of gold have been imported by these two countries. India has been the world’s largest consumer of gold for years and is now rivaled by China. India uses the gold mostly for personal use while China appears to have other ideas.

Chinese individuals are large consumers also but the government buys ALL gold mined in China and has been on an international buying binge for the last few years. There is a lot of speculation that they want to have some sort of gold backing for their currency- the Yuan.

There is also a lot of speculation that the Yuan will become an internationally traded currency this year and be added to the “basket of currencies” that makes up the International Monetary Fund’s (IMF) Special Drawing Right currency.

The IMF makes changes once every 5 years. The Yuan was not ready for prime time in 2010 but in Christine Lagarde’s own words : “It’s not a question of if, it’s a question of when” when asked about the inclusion of the Yuan in the basket.

This is bad news for those of us in the USA who are used to “printing” money for whatever we need at everyone else’s expense. They are aware of the game and are making large strides to end the current system that has been in place since 1944.

My take is that we are getting very near a point where economic reality cannot be disguised anymore. The working man has been left out of this current market upswing. Because of QE (conjurung up money with no effort, labor or producing any tangible asset or product) is falling far behind those who get access to the “money” first. This drives up prices for all others causing the first-feeders to profit from all of us.

If QE was meant to drive the economy it appears it was a failure. If, however, it was meant to enrich cronies at the banks and in boardrooms it appears to have been a spectacular success.

In the end, however, every scheme is revealed for what it is. Human nature makes everyone who is benefitting blind to the reality of what is happening. Those benefitting can buy planes, yachts, larger homes, have servants, etc. You can bet they don’t want it to end! Meanwhile 50 MILLION Americans are on food stamps and country after country is seeing increased violence because regular citizens can’t afford to survive. (US DEbtClock.org).

Finally, I read an article that explained how the truly wealthy have passed wealth from generation to generation. This is certainly not anything that you will see on 24 hour propaganda TV. The wealthy have, over time (centuries), kept their wealth by storing it in Real Estate, Fine Art and gold. (All tangible assets)

When there is a massive re-price like I mentioned at the top of this article you can guess what I think will be the biggest winner!

Many of you think that my writing is doom and gloom. However, I look at it as if you have this information you can plan to get through any coming turmoil and, hopefully, profit from it!

I wish all of our Jewish friends a Happy Passover and all of our Christian friends a Happy Easter.

Remember, it is always darkest before the dawn. A new morning is on its way! Be Prepared!
Precious metals, including gold, are subject to special risks including but not limited to: price may be subject to wide fluctuations; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.