

Gold and 1,000 Frozen Pizzas

By [The Mogambo Guru](#)

10/31/05 With Bernanke in queue for the next Fed chief, the Mogambo's list of worries is growing by the second. His solution may not surprise you...

This Bernanke thing has me all a-twitter, and all I can think about is self-preservation... and that means gold.

Peter Brimelow, of MarketWatch.com, quoted Bridgewater Associates as saying, "Many of the world's oil exporters have a penchant for holding gold; if they only held 1% of their incremental wealth in gold, the incremental oil revenues flowing into these countries would raise the investment demand for gold by 25%."

Now this is really interesting to me, as I am a big believer in that old theory that says that since the supply of gold is relatively inelastic, then I know that the supply of gold cannot possibly increase enough to satisfy a sudden 25% increase in demand. So, the price must rise by enough to reduce that damned increase in demand until supply can increase enough to affect prices again. "Hmmm!" we say to ourselves. Remembering the wisdom we were given as young grasshoppers ourselves, we retreat back a few steps from all of this heavy theoretical action, and we realize that from an up-close-and-personal view, otherwise known as The Official Mogambo Creed Of Greed (TOMCOG), that this means that profits, maybe even huge profits, perhaps even gigantic profits, are to be made somehow! Hahahaha! Lovely, lovely profits!

Bridgewater ended with its own investment conclusions, further reinforced with a fundamental rationale: "We remain long gold and a basket of other commodities, largely from a monetary perspective, as central bankers continue to devalue money in order to create a cushion against deflation."

These Bridgewater guys did not mention Bob "Bongo For Brains" Bernanke by name, but this whole "preventing deflation" thing is pure Bernanke.

And believe me when I tell you that when guys start exiting the stock markets with losses, and they are being herded into bonds, which is the only other big market that can absorb so damned much money all at once, they are going to be upset that bonds are going down in value due to interest rates going up. Then they are going to be as angry as I was when I noticed that my entire portfolio used to be able to buy exactly 1000 frozen pizzas, but after all of this inflation, my quarterly statement shows that my portfolio can only buy 960 pizzas.

Invest in Gold: The Only Safe Place to Go

This is when they start saying to themselves, "The Mogambo was right! We're freaking doomed!" and then they start wondering what in the hell they could buy that would at least stop

the deterioration in their buying power. And they will, as all the other people in history eventually have, finally realize that the only safe place to go, when things get like this, is gold.

And speaking of gold, the World Gold Council says, "India's gold consumption is expected to rise 33% in 2005 to 850 tons due to higher income, good harvests, and we will add, a booming stock market. Much of those profits are going into gold." And the buying of gold has already started, as they note that in India, "Consumption, excluding recycled gold, rose 57% to 508 tons in the first half of the year, up from 322 tons in the first half of 2004." Compare that to the 642 tons of gold that India consumed during the whole of last year!

AlJazeera.com reports that there is more to this Indian buying of gold than meets the eye, "Indian households are on a record gold-buying spree as oil price-driven inflation threatens to wipe out savings from rising incomes in one of the world's fastest-growing economies." What, people flocking to gold to flee inflation? I thought that whole idea was a relic, as so loudly proclaimed by the Anglo-Saxon central bank bozos and the mutual fund salesmen for the last seventy years!

The problem is, as AlJazeera.com reports, "The income of middle class Indian families has been going up with the economy growing at a robust 7% to 8%, but putting their savings in banks is yielding little as the interest rate of 4% to 5% is barely on a par with the inflation rate." In short, they are getting screwed out of the purchasing power of their money, just like we are, and they, in response, are plowing their money into gold rather than leave it in the damned banks, while we Americans put more money into overpriced stocks, overpriced bonds and overpriced houses! Hahahaha! No wonder we get no respect!

Invest in Gold: Adding to the Bullish Case

They go on to report that the price of gold is expected to "rise another 5% to 10% by the year-end as more people invest their savings and demand for jewelry soars during the October to February festival and marriage season." Wow! Talk about a wealth of bullish factors!

As sort of an icing on the demand cake, it is reported that funds in Europe are now buying gold, too, because of inflation worries, which only adds to the strongly bullish case for gold.

But the world of gold is as full of crooks as everywhere else. As the World Gold Council also notes, the central banks are so desperate to keep the price of gold from rising and exposing the inflation that is actually roaring. "The Washington Agreement to limit gold sales to 500 tons is a farce. This past fiscal year ended 9/3/05, they sold at least 552 tons and the figure may actually be 574.6 tons. So much for transparency and veracity."

And it isn't even the Washington Agreement scumbags that are playing games with precious metals, as the Council notes that Comex warehouses show their gold holdings at six million ounces, "yet commercials have sold 20 million ounces."

Part of the gold mystery may be that the price of gold only ever went down because the gold lease rates went down. The way I figure it, see, some central bank with gold wanted to get the price of gold down because a rising price of gold is so unnerving to the investors of the world,

particularly foreign creditors, that it might cause a panic and these foreigners would look at all those American stocks and bonds that they own and say to themselves "Yah so fong won hangsho ah-so!" which, if you permit me to translate into pidgin English, means "Dollar-denominated assets him stink like dead rat in rice bowl!"

So, to get the price of gold down, these central bankers dropped the rate for which they will lease gold, called the dealers on the phone and ordered them to lease and flood the market with gold, driving the price down, and thus making it look like nobody is nervous! In fact, all that gold selling looks like people are less scared! Hahahaha!

Regards,

The Mogambo Guru
for The Daily Reckoning