

Bond Buying and Pill Popping

By [The Mogambo Guru](#)

06/18/06 **The Daily Reckoning PRESENTS:** The Feds have been firing up the trusty printing press quite a bit lately – and then bought up \$1.423 billion dollars in government bonds last week, after first creating the money to do so. Lucky for them, The Mogambo is tied to a chair in the kitchen...

BOND BUYING AND PILL POPPING

After gobbling a handful of assorted tranquilizers washed down with coffee, my wife tied me to a chair before looking in the Wall Street Journal to see the report of new total reserve bank credit on page C-12. Cinching the last of the knots, she picked up the paper and reported, “It says here that it’s up \$2,460.”

I breathed a sigh of some relief. Two and a half billion bucks ain’t too bad for one week. Even a little on the low side, maybe! Suddenly she throws the newspaper at me and started to walk out, and I said, “Hey! How about looking up U.S. government securities: bought outright?” I heard only scorn in her voice as she said, “Look it up yourself, jerk!”

So I asked, “Well, how about untying me so that I can read it myself?” but she was gone, although I could hear her muttering to herself as she walked down the hall.

After awhile I get tired of alternately begging for help and screaming death threats at her, so I decide to try and find out on my own. I finally manage to loosen one corner of the strip of duct tape that she put over my eyes, and I used my Amazing Mogambo Super Vision (AMSV) to read, “U.S. Gov’t Securities: Bought Outright” next to the number “\$1,423,” which means the evil Federal Reserve bought up \$1.423 billion dollars in government bonds last week, after first creating the money to do so.

What a racket! This is the ultimate in fiscal fraud and they all should all go to prison for it. And if the American government was not filled with (being as nice as I can manage) stupid, ignorant, untrustworthy, lying, corrupt, cheating jerks, that’s where they would go.

But if I dare to show up at the Federal Reserve to make a citizen’s arrest, dressed for the occasion in my best Rambo outfit, complete with headband and .30 caliber, belt-fed, air-cooled machine gun under my Brawny, Manly Mogambo Arm (BMMA), the cops come roaring up with sirens blaring, not to help me round up the economic terrorists that have taken over the Federal Reserve, but to arrest me! Like I’M the one guilty of something!

But those vainglorious days seem now over, and I am stuck here, ignominiously tied to a chair, peeking out from under a blindfold. Then, I notice that required reserves in the banks dropped back to the insignificant \$42.459 billion.

What fraud! What audacity! What an embarrassment that the self-important nitwits at the nation's universities see nothing wrong with not only an out-of-control fractional-reserve banking system, but one where there are literally No Freaking Reserves At All (NFRAA)! Money is literally created out of thin air, with no backing from deposits whatsoever! This level of risk and multiplication of the money supply is insane! This is beyond insane! And yet, there it is!

I also noticed that custody foreign holdings of government debt rose \$11.4 billion in the last week, too, and so, I amused myself with laughing at foreigners while I struggled at the ropes.

Chuck Butler of EverBank notes that the G-8 finance ministers are meeting again and he reports that Brad Setser of Roubini Global Economics said that the ministers are promising not only more action, but “vigorous” action, regarding the global economic imbalances. Yow!

“Vigorous” action ought to produce a lot of fireworks, including a rise in the dollar price of a barrel of oil. And if you have not been out shopping for oil-related stock lately, then I strongly suggest that you chug down the rest of that morning “eye-opener” can of beer and buy some. Pronto.

And this suggestion that you load up on oil is because the dollar is going to go down in purchasing power, which is the whole point of the G-8 promising “vigorous” action.

You will, theoretically, seemingly make a lot of money on this oil trade, but that is just an example of “money illusion”; you think that you made money because you bought low and sold high, but remember; it is still only a barrel of oil! And now, the “money” you think you “made” only offsets the loss in buying power that your money has suffered. And to make it worse, you are actually a loser, since you have to pay taxes on your nominal “gain!”

And to make it worse yet, you have to pay higher prices for gasoline when you gas up the car to go pick up the profits and mail the check to the IRS! Hahahaha! Welcome to the world of inflation! And it will get worse, as evidenced by Barclays Capital estimating that global inflation is increasing at the “fastest pace in a decade.”

If you are panicking about the swoon in gold lately, then I pity you, because I know that you have not achieved True Mogambo Enlightenment (TME), and thus I further I know that you will be, to your dismay, repeating my course again next year. And while I may be seeing your happy little face again next term, we will obviously not be seeing Jim Otis, aka The Optimist, who demonstrates flawless TME when he addresses the “near certainty that inflation and world tensions will continue to get worse, so an opportunity to buy silver and gold at temporarily reduced prices is truly wonderful and positive news.”

And the reason that he has the apt moniker “The Optimist” is that he hedges his bet about inflation with the phrase “near certainty” about price inflation, hoping for, I suppose, a chance that a miracle of some kind will occur.

Tired of being referred to in the press as “local obnoxious halfwit,” I seize this opportunity to reinvent myself to become (insert trumpet fanfare “taa-daa!”) “The Pessimist,” because I am 100% sure that we are going to get price inflation. Lots of it. I am so sure, so very sure, so very, very sure that price inflation is coming because it has always, always, always followed monetary inflation.

As proof of monetary inflation, David Tice of the Prudent Bear Funds, in his semi-annual report, notes, “Across the world, domestic credit systems are firing on all cylinders. Double-digit credit growth now blankets the economies and asset markets of the U.S., the Eurozone, the United Kingdom, Scandinavia, China, Russia, India, Australia, throughout non-Japan Asia, and elsewhere. To be sure, global monetary conditions have never been so loose.”

When you have, like we do right freaking now, lots and lots and lots of growth in the global monetary base, especially after whole decades of it, you eventually run out of bubbles in the stock market, bubbles in the bond market, bubbles in the size, scope, and cost of government, and bubbles in the housing market. That’s when you finally get around to bubbles in commodities. Gold is a commodity, and it is a store of wealth.

And if you believe that there are such things as “lessons of history,” then as price inflation heats up, as the value of the dollar goes down and down, gold will go up and up, just like it has all the other times in history when somebody’s stupid government caused too much money to be created. And especially those times when the “too much money” created was not just by literally printing up cash with paper and ink, but creating the money from debt! Hahaha! But now, this one time in history, you think gold is going to go down as a result? Hahahaha!

Until next week,

The Mogambo Guru
for The Daily Reckoning
June 18, 2006

Mogambo sez: To all of those whose selling made the price of gold and silver fall, I send a Hearty Mogambo Thank You (HMTY)! Now, those people whose educations are more extensive and can thus see the folly in selling can buy those metals at bargain prices! HMTY!