

Desperate Times Call For Desperate Measures

By [The Mogambo Guru](#)

02/20/06 The Daily Reckoning PRESENTS: More and more investors are becoming – how should we put it? – distressed in today’s unstable and uncertain economy. However, there is a silver (no pun intended) lining in all of this. The Mogambo Guru explores...

DESPERATE TIMES CALL FOR DESPERATE MEASURES

I want to talk not about the horrid and ugly world outside my window, but rather, the more beautiful world of gold, and how gold will save you from the depredations of the government and the banks. For example, David Bond at SilverMiners.com has read Salman Partners’ opinions about the proposed silver exchange traded fund, and summarizes “The average ETF-impacted ROI of the eight companies Salman looked at was 47.625 percent. It basically means for your average silver stock, it’s trading right now at about two-thirds the price it will be when the silver ETF struts its stuff.”

Apart from sheer supply and demand, Franklin Sanders, of The Moneychanger newsletter, says that the silver/gold ratio is pretty interesting from an historical perspective. “When any commodity returns to the same levels two, three, or four times during 100 years’ trading,” he writes, “I begin to suspect a pattern. And while past performance is no guarantee of future, a reasonable man would bet that from 1991’s 100:1 we are headed toward 16:1 before this bull market ends, say, 10 years from now.”

I know that he is expecting me to say something, but all these numbers swirling around and around make my head spin, and now all I can think about is how much longer it will be until lunch, and then I remember I already ate lunch, and now I am even more bewildered and depressed.

Seeing the blank expression on my face, he tries a different tack: “If gold reaches \$1,250 (a modest target only five times its bear-market low) and returns to a gold/silver ratio of 16:1, silver would reach \$78.80.”

Again, he pauses with that expectant look on his face as he is waiting for me to say something, but I am completely lost. I am thinking, “Gold will be up, and oil will be up, and soybeans will be up. So, \$78.80 silver may be ho-hum.” I stare at him. He stares back at me. Finally he snaps, and yells at me, as I remember it, “In other words, it would outperform gold 400 times over!” Suddenly, I am galvanized! I leap to my feet! Gold is going to zoom one of these days soon, and silver is going to zoom 400 times more than that? Wow! The Greedy Side Of The Mogambo (GSOTM) says, “Let me have some of that silver action, and right now!”

Speaking of ETFs, Adam Hamilton of Zeal Intelligence implies that the recent downdraft in gold may have something to do with the gold exchange traded funds. Beyond that, he notes that there are lots of other gold ETFs around the world, and “Together all these ETFs are creating conduits for global mainstream stock investors to take a small stake in a gold-tracking asset. Small stakes times hundreds of millions of investors equals enormous amounts of capital.”

And small-time guys, it seems to me, are all out to make a lot of money quickly, as they don't have much money to invest, their other stupid retirement plans (stocks, bonds, mutual funds, real estate, Social Security) don't seem to be working out, and time is getting shorter and shorter. It's “desperate times calling for desperate measures,” especially now that they are drowning in oceans of debt of all kinds. And if I don't get some big money fast, then I am going to be in a lot of financial trouble.

So, we small-timers are dashing in and out of gold like crazed day-traders, trying to make that fast buck, churning up the markets and creating wild volatility. And with volatility like this, it will bring out the other small-time fish looking for an easy, fast buck, too. That will bring out the sharks, looking to eat the little fish.

In the middle of it all, are the central banks of the world that have either:

- 1.) Sold some or all of their gold
- 2.) Leased out some or all of their gold
- 3.) Both, and are horrified that gold is rising in price, which demonstrates, for all to see, that the investors of the world have lost faith in the management of the economy by the idiot banks.

And the central banks are in that swamp with the bullion banks, which borrowed the gold and sold the gold. They are still officially promising that they will return the gold to the central banks from which they borrowed it, good as new. But with gold soaring in price, that is turning out to be an impossibility. And because they pay less than 1% a year on the borrowed gold, which they sold and then used the money to buy interest-paying bonds, with rising interest rates, they are getting doubly killed! Hahaha!

Each time the price of gold goes up by another dollar, it increases the losses of the bullion banks, and every time that interest bonds prices fall by another fraction of a percent, it also increases their losses, and makes it evermore likely that the bullion banks are going to go bankrupt and central banks are going to get stiffed. So, both of these corrupt agencies want gold to go down in price, and you can bet your sweet patootie that they are doing everything they can to get gold back down in price, no matter how corrupt, slimy or illegal.

But the Mogambo is not worried that the price of gold will go down, and neither are the Chinese, as we read in the China Daily, “China is planning to set up a gold investment fund, hoping to capitalize on the surging price of the metal.”

Even as I watch this gut-wrenching fall in the price of gold, I really have to keep myself from laughing at how cheap gold and silver are, and how people who are buying them now are going to make, probably, the biggest capital gain in the history of investing, so much so that, years

from now, the stories of how much money was made by those investing in gold and silver and commodities will be urban legends.

Dan Denning, the editor of Strategic Investment newsletter, hears me yammering about gold, comes out into the hall, and looks right in my eyes to tell me that he predicts that the “bull market in energy (oil, gas, electric, nuclear) was going to be one of the longest and strongest you and I would see in our investment lifetimes. The big drivers are the growth in demand from China and India.” Then he stops and looks at me with this smile on his face, like he just trumped my ace or something!

So, I am naturally thinking, as I usually do, that Mr. Denning is smart and handsome and tall and successful and happy and popular, whereas I am none of these things. I secretly hate his guts for it, but since I hate everybody, and for these exact same reasons, I quickly “get over it” and extrapolate that a bull market in energy means higher-priced energy. That means that everyone who uses energy will have higher energy costs, and higher energy costs are passed along in higher prices. Since “higher prices” is one of the definitions of inflation, then gold, which historically tracks inflation, will go up, too...which was my original point! Hey!

Indignant, I charge into Mr. Denning’s office and demand my ace back, but he acts all surprised, like he doesn’t know what I am talking about, and while he is frantically dialing the security guards on the phone, I am ransacking his office, looking for my ace that he trumped in a previous paragraph. But this not about energy, or gold, or how The Mogambo never got his ace back, but about inflation in something other than stocks, bonds or real estate. This time, it will be inflation in commodities, which includes precious metals, but particularly precious metals. You can store gold, silver and palladium forever, at zero cost, and without ever getting dirt and filthy crud all over you, as when you try to store oil, corn, or (big mistake) live hogs in the garage.

And speaking of gold, the Times of London newspaper reports, “Former Federal Reserve Chairman Alan Greenspan said that the high price of gold is due to investor concern about major geopolitical conflict.”

Greenspan was speaking “to an audience of international investors in Tokyo via video link from his apartment in New York,” which is good, because I expected those unnamed investors to laugh in utter contempt at that statement, because they knew that the price of gold went up mostly because Greenspan had devalued the dollar so much! Geopolitical tensions are just icing on the cake.

Until next week,

The Mogambo Guru
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Mogambo sez: As it gets weirder and weirder with each passing day, the reasons for owning gold, silver and oil get stronger and stronger with each passing day, too. If you are as weak-

willed and greedy as I am, you cannot resist the temptation to make a killing in these commodities. Go ahead! Buy some! You will be glad you did. Trust me.