

Gold, In a Nutshell

By [The Mogambo Guru](#)

09/11/06 **The Daily Reckoning PRESENTS:** There has been a lot of debate lately on whether or not our favorite yellow metal will be able to withstand – and even flourish – in the event of an economic meltdown. Luckily, we have the Mogambo to set us straight. Read on...

GOLD, IN A NUTSHELL

I have been getting a lot of panicky e-mail lately, because I am such a gold bug. There are, unbelievably, some people who will listen to an idiot like me and do what I say. And these pathetic, gullible people have been accumulating gold and silver, per my persistent, insane screeching for them to do so immediately or face the Wrath Of Economic Mother Nature (WOEMN). Now, they've made a few bucks, and they want to keep it.

But their latest concern is that they have read some recent articles about how the coming recession/depression/end-of-the-world will be accompanied by deflation in prices, including – gasp! – gold.

And these gold-bug people don't care about the incredible suffering, misery, wars, crime and police-state, fascist repression that will rip the country apart as increasingly desperate people and increasingly desperate governments do increasingly desperate things because of inflation. Nah! All they want to know how their gold will do! Ahhh! I am so proud!

Why am I proud? It is a given that the majority of people must suffer greatly from inflation. If they did not have to suffer, then there would not be any problem with inflation! And so, even though most people must suffer being totally miserable and utterly destroyed financially, there is nothing I can do about it, except to constantly recommend that they demand that the Supreme Court finally uphold the Constitutional requirement that money be only of silver and gold. That will solve the problem of price inflation by making monetary inflation impossible.

Failing that, I have absolutely no sympathy for the idiotic people who must suffer. And therefore, it is all the more delicious that some of the more Mogambo-Attuned (M-A) amongst us can make some money on their utter, utter stupidity, simply by buying gold.

But this is not about suffering or Supreme Court treachery, but about some people saying that gold will go down in price. For example, Chris Laird, who is the editor in chief of PrudentSquirrel.com, penned the essay that got a lot of people all lathered up, which carried the title "Expectation of U.S. Recession a Hand Over Gold Market." He writes, "The fact is, if economic activity – in the world's largest economy by far – collapses, as I suspect it will beginning in 2007, gold will find that inflation vanishes, industrial production drops precipitously, and all those expensive commodities now are going to tank starting in 2007."

That is, of course, very interesting. He could be right. I dunno. And my Worthless Mogambo Rebuttal (WMR) represents the laziest kind of economics. I simply note that the entire historical record of economic mankind shows that gold has always done very well – very well indeed, when the economic idiocy of creating excess money and credit was unleashed. And thus, I assume that gold will go up again, when measured in the currency that is being destroyed by over-issuance, only because it always has. Always.

As Bill Bonner of DailyReckoning.com writes, “Let me put it to you straight. How many times have paper currencies – unbacked by gold – become worthless? Answer: every time. And how many times has a gold currency lost its value? Never.”

Mr. Bonner went on to say, “We like gold because while we cannot predict the future, eventually and always, paper currencies disappear and gold remains.” I was extremely happy to read that he confesses he cannot foretell the future, as this is an opportunity for me to say that although Mr. Bonner is smarter, better educated, better looking, taller, better liked, better better better in every thing you can name...and, has fewer enemies and neighbors coming over offering to knock my block off if I don't shut off the taped Truth About Inflation (TAI) message blaring from the pulpit of the Tabernacle Of The Mogambo (TOTM), let's see how he likes to stand in my shade for a change. I proudly announce, “I, The Mogambo, am arrogant enough – nay, more than arrogant enough – to say that I can predict the future! And to prove it, I confidently predict that one day an ounce of gold can be measured in tons of \$100 bills, yet gold will, as he says, remain!”

I was expecting a spontaneous round of applause for my stirring speech, but there was only an awkward silence. In desperation, I change tack, and citing from memory, say, “The strongest don't always win the battle, and the swiftest don't always win the race, but that is the way to bet!”

Even that falls flat, and I suddenly know what you are thinking. You are saying to yourself: “How stupid! Why do I read this stupid Mogambo stuff? What is wrong with me that I would completely waste my time like this?” And while I do not know what kind of a twisted deviant you are that compels you to read the trash you do, I do, however, know a guy who has a more official rebuttal. Thus, I introduce James Turk, chairman of GoldMoney.com, who knows a lot about this gold thing. “In a nutshell,” he writes, “in the coming decade, as the dollar suffers one of the great meltdowns in monetary history, gold will reclaim its place at the center of the global financial system, and its value, relative to most of today's national currencies, will soar. The result: Gold coins, gold-mining stocks, and gold-based digital currencies will be vastly better ways to preserve and/or grow wealth than dollar-denominated bonds, stocks, or bank accounts.”

He sums up with the nutshell thing, and says, “That, in a nutshell, is the story.” And indeed, he is right, as that is always the story. And not only that, but he is nice enough to tell you how long it will take: at most, 10 years! Start now and theoretically, in 10 years you will be rich in dollars!

We aren't making up for inflation in prices by working, as reflected in the grim news that personal saving, which is defined as “Disposable Personal Income less personal outlays,” was negative again, meaning that people are spending more than they make. Thus, they “save,” not

zero, but literally less than zero! In terms of record-setting behavior, savings “remained in negative territory for the 16th straight month at a negative 0.9 percent for July.”

And sure enough, on Yahoo.com we read that spending is still increasing, as “The Commerce Department reported that spending in July rose by a healthy 0.8 percent last month, double the 0.4 percent gain in June.”

As far as “healthy” is concerned, I snort in derision, and caustically remark that this reported “healthy spending” is merely measuring “dollars spent,” but when things cost more (thanks to inflation), then you will seem to be “healthily” buying more stuff by spending more money, when in actuality you are buying less stuff, because everything costs more money!

Offsetting this, I suppose, according to the government, was this item: “Incomes also were up, rising by 0.5 percent in July, reflecting stronger wage growth.” Stronger wage growth? Hahaha!

My amused and mirthful laughter turned to whimpers of fear when they went on to say, “A gauge of inflation tied to spending showed that consumer prices, excluding energy and food, have risen by 2.4 percent over the past 12 months, the fastest rate of increase in nearly four years.” Yikes!

But even if I concede that wage growth was, indeed, “healthy” and “stronger,” how does this mitigate any of the damage done by the higher prices to those people who don’t have a job, or who literally have literally fixed incomes? They get punished by inflation! They suffer from inflation! And then, they want to borrow money from me, or make me to pay higher taxes. So, I get doubly punished!

As usual, they don’t want to talk about inflation, or maybe they are still illegally discriminating against me because I insist on calling them “lying, thieving, traitorous, government human garbage.” But whatever the reason, they don’t want to get into that inflation thing. Instead, they hurriedly go on to say, “Disposable incomes, the amount left after paying taxes, rose by 0.7 percent in July but by just 0.3 percent after inflation was taken into account.”

My Sensitive Mogambo Glaring Discrepancy Filter (SMGDF) beeps a coded signal, indicating that these guys now say that inflation measured 0.4% for the month! So, the government says that, annualized, inflation is now 4.8%? Wow!

And it is worse than that, as you will gather when you read “Real Inflation,” by Stephen J. Church of Piscataqua Research. He writes for SafeHaven.com and reports, “Our research indicates that inflation is approximately 3% to 4% per year higher than the CPI.” And, they even include a nice chart to show where real, hit-’em-in-the-wallet inflation has been – mostly, higher than six percent ever since the 50’s! Yow!

The rest of the paper is some math, the Fisher equation and lots of clever whiz-bangery, which is soon beyond my depth. But it doesn’t mean squat to me anyway, as it is just another example of really smart guys doing incomprehensible things. To us, the drooling class of mental defectives just trying to make a fast buck, the terrifying conclusion is enough: If the CPI measures inflation

at an incredible 4.8%, but this is 4% too low, then inflation is actually running closer to a devastating 8.8%! In fact, they actually say, "It appears that real inflation has been close to 8% per year during the last few years. Based on our calculations, real inflation only exceeded this level during the 1970s."

The reason why we have so much inflation? They say, and I agree, "It appears that the Federal Reserve has run an aggressive monetary policy for the last 15 years and a very aggressive monetary policy for the last 7 years." Brother, I heard that!

All that monetary inflation has shown up as roaring inflation in stock prices, roaring inflation in bond prices, roaring inflation in housing prices, roaring inflation in insurance prices, and roaring, blistering inflation in the size and cost of government, all of which was financed by the Federal Reserve providing the money so that everyone could borrow themselves into an unfathomable black hole of credit-hell and bankruptcy.

And inflation is everywhere, according to Bob Wood of KMA, who reports in his newsletter that three articles in the same newspaper were headlined "Higher electric bills are likely," and, "For some, Allstate wants 75% hike." Another was entitled: "Homeowners plead for mercy on taxes." If that ain't inflation, then what in the world is it?

And yet, all I hear is that inflation is "tame" or "benign" or "low" or "falling" or "targeted." Bondholders, without a doubt the most stupid class of people on the freaking face of the freaking planet, are still bidding up bonds so high that bonds yield less than five percent – for up to 30 years! Hahahaha! Morons! Hahaha!

Until next time,

The Mogambo Gurul
for The Daily Reckoning
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Mogambo sez: I keep being amazed every time the dollar is up for the day, as I cannot imagine why. And I am equally amazed when gold and silver end down for the day, as I cannot imagine why, either.

It is a mysterious gift to you from just one of the many desperate, life-or-death struggles of the market manipulators and their government pimps, the Federal Reserve and all the other central banks of the world.

So, load up on gold, silver and oil, as it is guilt free. That is, how can legally taking money from bad people be wrong? It teaches them a lesson they will never forget! They should thank you!