

Something Strange in the Neighborhood

By [The Mogambo Guru](#)

10/09/06 **The Daily Reckoning PRESENTS:** There's a chill in the air...and it's not just the change of seasons. The Mogambo's economic nose is twitching...find out why, below...

SOMETHING STRANGE IN THE NEIGHBORHOOD

I don't know if it was because Total Fed Credit was down again by \$3.7 billion last week, or that foreign central banks pulled out \$12 billion from their account at the Fed, or that my wife is getting suspicious about something, or what, but something unnerving is in the air. And at times like these I think of the lyrics of the song "Ghost Busters" that goes something like "Something strange in the neighborhood. Something weird, and it don't look good!" And if you saw the movie, you know he was exactly right!

The sensitive economic nose of The Mogambo goes "sniff, sniff, sniff," and I triumphantly announce that the stench is not my feet, as is commonly assumed, but the rotting, bloated, inflationary, gangrenous body of the economy, and it portends the dismal, bankrupted, angry, cataclysmic end of the stock/bond/real estate/debt/government bubble, but (sniff, sniff, sniff) apparently covered over with gravy and chocolate sauce.

Michael A. Nystrom, in his essay at BullNotBull.com titled "Dow Manipulation" seems to agree with me. He notes that the litany of bad news is overwhelming when he lists, "The yield curve has remained inverted for months; we had the first negative reading in the Philly Fed index in three years; national housing sales have plunged and prices are showing their first declines since 1993. The index of leading economic indicators has declined for seven straight months. Online advertising revenue is down; newspaper advertising revenue is down; the help wanted index is down. Across the board the economic news is terrible – everything is pointing to a recession."

So why are the stock and bond markets rallying? Government manipulation! "It makes me consider," he says, "that the only thing standing between this market and a crash are the November elections." Then he says the one thing guaranteed to send The Mogambo into a fit of panic and screaming, namely that inflation is soaring. "Under normal circumstances," he says, "today's inflation report – the highest inflation reading in 11 years – would have absolutely creamed the market. There is, to put it mildly, something fishy about this market."

And when something is "fishy", it means that it will get older, stinkier and more "fishy", as it always does, until it rots away. And that lugubrious day may be coming sooner than any of us realizes, as Susan Albright has an article posted on IndiaDay.com titled "US Stock market showing huge divergence – a sure sign of a coming multiyear bear market." In particular, the Russell 2000 versus the Dow is behaving strangely, although she did not mention the divergences between the Industrials and the Transports, as does Richard Russell of the Dow Theory Letters. She writes, as does Mr. Russell in the final analysis, that these huge divergences

are “a sure sign of a coming multi-year bear market”, and that these kinds of anomalies are a “technical analysis tool for calling major bear markets.”

Her analysis? “The prospect of the economy going into recession is high. The growth prospects are low. The liquidity driven market may have already seen its best days.”

In a related note, the trade deficit is now greater than the current account deficit, meaning that we are importing more and more stuff from overseas, but we are not “exporting” as much services, and/or foreigners are not plowing their money into the USA, with customary reckless abandon. So where in the hell all this money is coming from to keep the stock and bond markets elevated is beyond me. But somebody is in for a shock.

And in that regard, Bryon W. King of Whiskey & Gunpowder writes that in following the definition of “financial crisis” defined by “the great analyst Charles Kindleberger”, then “Financial crises are ‘associated with changed expectations that lead owners of wealth to try to shift quickly out of one type of asset into another, with resulting falls in prices of the first type of asset, and, frequently, bankruptcy.’”

He profoundly goes on to write, “Thus, financial crises are a product of sudden alterations of expectations, rooted in reality or imagination. If you are looking for a way to avoid financial disaster, this is the key level of understanding.”

I was surprised that he did NOT immediately go into a Patented Mogambo Tirade (PMT) about gold, which I would certainly have done, as in one short sentence he combines “financial disaster” with “a way to avoid”! Fabulous!

I leap to my feet, knocking the plate of nachos I had in my lap to the floor, which unfortunately makes them gritty and hard to chew, and I shout, “And what other way IS there, except by buying gold? Financial crises and disasters, created by governments and bankers, ARE what propel all of history!” Unbeknownst to me, the security guards, in undercover mode, were sitting right next to me, and instantly I was being manhandled and hustled out of the room. But they had foolishly forgotten to bring the gag with them, so as I was being dragged out I was yelling, “Gold! In all of the crises in history, nothing has ever combined ‘financial disaster’ with ‘a way to avoid’ like gold! Gold has always treated its owners very, very well! Usually when everything else (and everybody, like your neighbors and family) treated you badly! Like your nasty little goon squad here!”

The good news is that this “changed expectations” is classic “alternative energy” at its finest, in that the poisonous gaseous vapors of the rotting economy are the high-octane fuel for the coming Great Gold Rally, where the world is divided into two camps. In one camp are desperate, panicky people selling everything in their stock/bond/real estate/debt/government portfolios to buy gold and silver and hard assets.

And in the other camp are the people who already own gold and silver, and are watching themselves getting rich, richer, richest as the price climbs, climbers, climbests, week after week, month after month, year after year! And all without lifting a finger! A finger! In fact, as will be

indicated in your permanent file, that is what you gave your boss a long time ago because of the riches you made in silver. And now we are all retired, having the time of our lives, since I assume the wife and family will take half of everything and finally leave, since I am sure that I will have become completely insufferable, and I will fondly remember how I called out after them “I hate all of you!” and they will have yelled back, as they motored away, “We hate you, too, Dad!” which completely rules out any slim, slim, slim chance of reconciliation. So get more silver now!

We may be getting evidence of this sort from alert reader Matthew C, who notes that “the once plentiful supply of ‘junk silver’ available on eBay seems have almost completely dried up.” And alert reader Frank says “suddenly now very little gold or silver for sale on eBay.”

And speaking of silver, something big is coming, as we gather from David Bond at the Wallace Street Journal, who got it from Peter Spina at Goldseek.com, who got it from Ted Butler at InvestmentRarities.com, that “Barclay’s iShares filed Securities and Exchange Commission S-1 to acquire another 168 million ounces of silver.” Mr. Bond helpfully notes, “That would be 11,525,000 pounds, or 5,232,452 kilos, of the stuff”, which is roughly “one-tenth of the entire output of the Coeur d’Alene Mining District since the 1880s.”

Supposedly, this is more than the entire stock of silver in the Comex warehouses!

Until next week,

The Mogambo Guru
for The Daily Reckoning
October 9, 2006

Mogambo sez: If you are not buying more gold and silver at these ridiculously-low manipulated prices, then you are making the biggest mistake of your life. And that egregious mistake is why the rest of your life will be spent reading investment commentary, like the stupid Mogambo Guru, instead of drinking champagne at a fabulous luxury resort and hanging out with your rich friends.