

Fighting Off Cynics With Golden Gloves

By [The Mogambo Guru](#)

05/28/07 **The Daily Reckoning PRESENTS:** Given the rather direct tone of our dear Mogambo's weekly musings, it is no surprise that he gets a certain level of equally, er...direct responses. This week, he rebuts one of these emails with the derisive wit that he is known for – and you won't believe who it's addressed to. Read on...

FIGHTING OFF CYNICS WITH GOLDEN GLOVES

Lately, I get a lot of emails like “Dear Mogambo Butt-Face Moron (MBFM), I am distraught because I listened to you and bought silver and gold like you said to do, and they ain't done squat since then. By this time, I had planned to be so freaking rich from buying gold and silver, and then watching it run to astronomical heights, that I could leave my stupid husband forever and be far, far away from here, sitting on a warm beach somewhere, sipping a cold Pina Colada brought to me by a handsome cabana boy named Raoul and having him rub soothing oils and scented emollients all over my tingling body until I am writhing and moaning with pleasure.”

I thought to myself, “Hey! This was starting to get good!” and was hoping to pick up some pointers from this lucky Raoul character! So, imagine my disappointment when the writer goes on, “So, since gold and silver did not produce the spectacular returns I had so eagerly anticipated, I am stuck here, I am very angry about it, and my husband is pretty disgruntled, too, since I am now even MORE of a shrill, hateful harpy whose only pleasure in life is trying to make him miserable enough to commit suicide just to get the hell away from me. And don't get me started about Raoul, you Disgusting Mogambo Puke Bag (DMPB)!”

Now, as soon as she called me a DMPB, I instantly recognized the writer as my own wife! Ahhh! Pieces of the puzzle fall into place at last!

Too clever to let her know that I am on to her and her little game, I casually reply “Dear Cheating Little Scumbag Whore (CLSW), The New York Times writes that ‘Representative Ron Paul of Texas, a libertarian-minded Republican who often warns that excessive government threatens the economy, has put his pessimism into his portfolio. If the dollar collapses, Mr. Paul will be ready: his favorite investments are real estate, silver and gold.’”

Then I closed my reply with “And Raoul says that you are a big, fat cow.” Hahaha!

And although the spiteful content of the email was all too distressingly familiar, the concern is a widely-held one; why isn't gold going to the moon in light of all of this inflationary insanity all around the world so that we can get the hell out of here, away from our whining, suffocating families and maybe find one lousy moment of happiness before we die?

Well, one explanation for the sorry performance of gold comes from a Telegraph.co.uk report that “Over the past two months the Banco de España has sold off 80 tonnes of gold, flooding the world market with enough bullion to dampen the usual spring rally.”

Plus, some other European banks sold some gold, too, and the gold ETF had to sell some gold because some speculators bailed out.

In case you were wondering, this is all part of a desperation move by Spain to get some money, as their “foreign reserves have plummeted to wafer-thin levels, leaving the country exposed to a possible banking crisis if the property market swings from boom to bust.”

The Telegraph goes on “The Banco de España refused to comment on the sales, leaving it unclear why reserves have fallen so low, or where the money has gone”, although “It appears the bank has been draining the reserves to help finance the current account deficit, which has ballooned to 9.5pc of GDP, reaching ?8.6bn in January alone.”

This same current-account problem is affecting the dollar, being as it is “the idiotic currency of an idiotic economy being run into the ground by an idiotic Congress letting an idiotic banking system act despicably”.

And the problems of the dollar will not be going away anytime soon, either, although it has been up a little here lately. As to that, Chuck Butler in his Daily Pfenning newsletter writes that the recent bounce in the dollar “is simply a technical correction” in “the weak dollar trend that began in February of 2002.”

In case you were wondering how he knew that the downward trend of the dollar started in 2002, he says “The dollar entered the weak trend when its Current Account Deficit reached the historically telling number of 4.5% of GDP”, as “fiat currencies always experienced a currency crisis any time their deficit to GDP percentage reached 4.5%”

The Current Account deficit is now well over 6% of GDP, in case you were wondering if things are getting any better. They obviously aren't.

And technical corrections aside, the reason that the dollar is headed down is that (as the Current Account proves), “An asset begins a weak or strong trend because of a fundamental reason, and the trend will not end until that fundamental reason is corrected.”

And what is that reason? A big part of it is that individual Spaniards have acted just as stupidly as Americans, and “Spain's private sector has amassed \$600bn (£300bn) in foreign debts. Corporate borrowing is 100pc of GDP. The overall stock of mortgages has increased sixfold in a decade. Household debt has reached 120pc of disposable income, largely on floating rates.”

Oddly enough, this news hit my desk at the same time as a page from the CIA's World Fact Book, which lists Spain as having the second-worst current account deficit in the world, at \$98.6 billion. Parenthetically, the United States has the world's worst deficit at a gigantic \$862.3 billion.

In case you were wondering, “Who are the top five in trade and financial surpluses?” the answer is China (\$179.1 billion), Japan (\$174.4 billion), Germany (\$134.8 billion), Russia (\$105 billion) and Saudi Arabia (\$103.8 billion).

Until next week,

The Mogambo Guru
for The Daily Reckoning
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Mogambo sez: If the dollar goes down in purchasing power, but prices of gold, silver, oil do not change, then for the holders of foreign currencies, every import will be (thanks to arbitrageurs and the global marketplace) cheaper. Thus, the only way (if nothing else changes) that gold, silver and oil can go down in price is if these foreigners decide to lower their demand for these things in response to lower prices! Hahaha!

What will almost surely happen is that foreign demand for gold, silver and oil will increase as they take advantage of the temporary bargains, making their prices in devalued dollars go up.