

Disproportionate Derivatives

By [The Mogambo Guru](#)

04/21/08 When the derivatives market alone represents \$116,666.66 per each person on the planet, the Mogambo sees it as a sign – the Biblical implications of which may be even scarier than previously thought.

Junior Mogambo Ranger (JMR) Brad W. sent, from the Ludwig von Mises Institute, the essay "Our Financial House of Cards and How to Start Replacing It With Solid Gold", to which I say, "Hahaha! Good luck, dude!", because to think that banks would give up their powers to create money with which to enrich themselves, or that Congress would make banks stop creating more money with which Congress can spend on itself and its nasty little friends, makes me laugh and laugh and laugh, until my stomach hurts and I am tired of laughing, and I realize, "Hey! This isn't funny!"

Then we read the most astonishing sentence, "Currently, untold billions more of banks' capital now hinge on the survival of bond insurers striving to insure more than two trillion dollars of outstanding bonds on the basis of capital of their own of roughly ten billion dollars."

In other words, every dollar of insurance on bonds issued by some deadbeat governments and corporations is leveraged 200 times! Man! Talk about leverage!

Now, I am not the biggest math whiz in town, especially word problems, and it was years later that I finally understood the apparently indecipherable equation that someone had written in my high school year book:

"2 ugly 2 be 4 given for being such a creepy little pest and ruining everything for everybody and it's no wonder nobody likes you." Well, 2 plus 2 two equals 4 I understand... But ugly be given? What in the hell was THAT supposed to mean?

Well, I recognized my mother's handwriting immediately, of course, but the math thing is still a bit of an embarrassment. But even a dolt like me can see that if that aforementioned \$2 trillion in bonds declines in value by one-half of one percent (0.5%) for one reason or another, all of their \$10 billion in capital is gone! Wiped out!

And this is only a couple of lousy trillions of dollar's worth of bonds! The total value of the existing global gargantuan globular glut of derivatives is estimated to be more than \$700 trillion! Compare this stupefying fact to the associated fact that global GDP is only about a lousy \$50 trillion!

Hell, the population of the whole freaking planet is about 6 billion people, all neatly divided into categories of either "with me" or "them", so the derivatives market alone represents \$116,666.66 per each person on the whole freaking planet! Hahahaha! This is incomprehensible!

Naturally, I am drawn to the "666" motif, which has some very appalling Biblical connotations, which makes everything even SCARIER, as if the very idea of that much money being bet on derivatives wasn't enough to fry your brain neurons at twenty feet.

But there are plenty of things that can fry your brain these days, like CaseyResearch.com reporting that "Occupying center stage yesterday was Bad Ben Bernanke, who for the first time uttered the dreaded 'R' word in front of Congress, saying that the possibility of recession cannot be ruled out."

In fact, Mr. Bernanke is quoted as having said, "It now appears likely that real gross domestic product will not grow much, if at all, over the first half of 2008 and could even contract slightly."

I thought Mr. Casey was going to mention the huge increases in prices, but instead reported something that seems so incongruous with rising prices, namely, "Among the day's data were numbers from the Commerce Department on demand for U.S.-made factory goods, which dropped for the second month in a row in February, as factory shipments hit their lowest level since September 2006. Overall factory orders fell by 1.3%, after dropping by 2.3% in January. That exceeded economists' expectations for a decline of only 0.7%."

Lower production, higher prices. It can only mean something bad.

Until next week,

The Mogambo Guru
for *The Daily Reckoning*
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The Mogambo Sez: I grow tired of saying, "Buy gold, silver and oil!" and let their prices speak for themselves, which cruelly mock you and whisper, "See how much money you lost because you did not buy gold, silver and oil like you should have, you stupid nitwit?"

But I am too, too nice to call you a slovenly, stupid, lowlife, bed-wetting low-IQ nitwit if you don't buy them in the face of overwhelming evidence to do so. But I'm thinking it!