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## **Melting a Grammy for the Gold**

by The Mogambo Guru

*"I hope you have a good grip on your hat because it is going to fly up off of your freaking head when I tell you that right now the S&P500 is sporting a P/E of 21, and the freaking Dow is so overly-valued that it is selling at a P/E of 53!"*

Now that the first quarter is over, investors are reaching into their mailboxes to find their quarterly account statements. Now, I don't know what the rest of America's investors thought when they saw that their accounts were down by so much, but I said a lot of bad words, and I kept on saying them as I worked my way through an entire bottle of bourbon, and when I was finished, I was still saying bad words, only a lot more slurred and incoherent.

And even though I will one day sober up, it is surely going to get worse for investors, as the stock market is grossly overvalued already, as is obvious if you look at the Price-to-Earnings (P/E) ratio, as we learn from Carl Swenlin of DecisionPoint.com, who had a chart titled "S&P500 Index Relative to Normal P/E Range".

The chart showed the level the index would be with a P/E of 10 (historically, usually near the low of the stock market), and another line for the P/E at 15 (usually about fair value) and another P/E of 20 (usually near the high).

I hope you have a good grip on your hat because it is going to fly up off of your freaking head when I tell you that right now the S&P500 is sporting a P/E of 21, and the freaking Dow is so overly-valued that it is selling at a P/E of 53! This is Truly, Truly Insane (TTI)!

For the S&P500 (currently about 1360) to fall to the range of historical fair value of a P/E of 15, this means the S&P500 index should fall to, according to the chart, 993!

At a market bottom, at a P/E of 10, the index would have to fall to 662, taking the index back to where it was 10 years ago to 1997 in sheer nominal terms, and don't get me started on the profound [loss of purchasing power](#) of each of those forgone dollars because I never seem to shut up about it once I get wound up.

Actually, this taking of the stock index back to 1997 is kind of ironic, as it perfectly coincides with the Federal Reserve starting its historic, mind-boggling increase in Total Fed Credit, making "money from thin air" to increase their own haul of government debt, taking it from \$450 billion to today's \$875 billion. Double!

And through the magic of fractional-reserve banking, this \$875 billion has been multiplied into a money supply (M3) that is almost 10 trillion dollars! And it created umpteen trillions and trillions and trillions more for the housing market, and a huge stock market, and a gargantuan bond market. And derivatives out the wazoo, too! All of it created out of debt, which still exists today! We are freaking doomed!

It is Truly, Truly Stunning (TTS), and since I am always particularly attuned to things that are "stunning", I was already alert when Richard Gorton, of The Resourceful Bear Blog, writes that there is an apparent fall in the buying of stocks, as "What is truly

stunning is that volume on the Russell 2000 has dwindled to almost nothing. In as much as the chart of the Russell shows ten days of rising prices on falling volume, I believe that a critical fracture - a fractal break lower - a gap down is coming to the stock markets: get ready for some 'financial shock and awe'".

This is oddly and terrifyingly in line with a recent Financial Times headline that read "Equity Funds Hit By Outflows". This means, by virtue of there being more sellers than buyers, lower stock prices.

And for bonds it will be worse, because when interest rates rise, people who are foolish enough to have their money invested in bonds are going to get wiped out, as the bonds will fall in market price in lockstep with each teensy, weensy rise in interest rates, and then multiplied by fear as people look at their accounts and say, "I'm getting killed by inflation! Get me out of this bond crap!", and sellers will outnumber buyers, making prices go down some more, and then multiplied again by the Federal Reserve refusing to raise interest rates to cool the raging inflation in prices as people are rioting in the streets over the price of food and energy and every freaking thing else, with chaos everywhere as the full wrath of Greenspan's insanity in having the Federal Reserve create so much money and credit comes howling out of the depths of inflationary hell.

In the "dance mix" version of the above, I add these terrific poly-rhythmic Latin percussion tracks to give it that "dance beat" quality, and with the sound of The Mogambo in the background, laughing and teasingly asking "[Got gold?](#)", and then laughing, laughing, laughing some more.

Thus inspired, I have taken up song-writing again with my usual gusto, by which I mean "unabashed copyright infringement" since I have no song-writing talent of my own, which is so frustrating to my lofty musical ambitions ("Made more inflation-adjusted money than Elvis and the Beatles combined! In a week!"), but which I figure justifies my theft of a few lousy tunes, according to the new "I'm owed something" morality in America.

This time, I am ripping off the classic tune, "Diamonds Are a Girl's Best Friend", to create the toe-tappingly catchy "Gold And Guns Are A Paranoid Gold-Bug's Best Friends", with the new, hopefully-immortal lyrics,

"A gun in the hand can be macho ornamental,

"But talk about a man's best friend.

"If you're not buying gold then you're probably mental,

"Because gold is not only your best friend, but it is the One Sure Thing (OST) that is going to protect your sorry, stupid, trusting, gullible, nasty butt against the inflationary parasite monsters that will soon be inflicted upon you, one way or the other, by a desperate Federal Reserve and a desperate government, and your bodily fluids will be sucked out through your money until you are a drained, lifeless, bankrupted husk, and you will die an ugly, painful death with the sound of the Mogambo's laughter ringing in your ears, going 'Hahaha! I told you to buy gold, silver and oil, but did you? No! And now you are broke because your stupid, precious American dollars are so debased that they don't even buy (in the original Latin) 'el squato' anymore, and you thus you see

first-hand how Darwinian evolution kills off the stupid and unfit, which, in this case, is you, you moron!"

I had a hard time squeezing that necessary last line in there, but you can see how the song doesn't make any sense without it. So you gotta sing that part really, really fast.

Anyway, if you can get the catchy tune out of your head for one moment and how I deserve a Grammy or two for it, do you really, really think that you are going to fund a retirement by investing in stocks and bonds when starting out, or even keeping going, with these kinds of headwinds? Hahahaha! That's funny! Tell me another one!