

Comprehending the Enormity of Derivatives

By [The Mogambo Guru](#)

05/19/10 Tampa, Florida – I was sitting alone in The Mogambo Bunkeroo (TMB) thinking to myself that it seems unnaturally quiet around here lately, probably as a result of everyone holding their breath in anxious dread and anticipation since the Federal Reserve is not creating money with their habitual insane abandon, and Total Fed Credit was actually down \$1.2 billion last week, which, given the total Fed Credit is a staggering \$2.310 trillion, is a rounding error.

TheInternationalForecaster.com has a different take on this unusual quietude, and refers to “the deafening silence in the media and newsletters concerning the Quadrillion Dollar Derivative Death Star”, which references the disgusting, convoluted spider’s web of weird derivatives, and derivatives on derivatives, all based on lies and leveraged fraud, as far as I can tell.

If you want a way to understand leverage, remember there is only \$927.6 billion in actual US coins and paper money in existence. Thanks to the insanity of derivatives like massive fractional-reserve banking (where the fraction of deposits that are held in reserve against about \$12 trillion in US bank loans and leases, and another \$12 trillion in deposits, steadily ran less than the mere pittance of \$40 billion for over a decade, thanks to that bastard Alan Greenspan at the Federal Reserve at the time. And bank reserves are still only \$65 billion under Bernanke!), this little bit of cash money was morphed into \$17 trillion or so in the stock market, plus another \$14 trillion or so in the bond market, plus a housing stock valued at \$17 trillion or so, plus a couple of hundred trillion dollars in bizarre derivatives here and there.

In short, this piddly \$927.6 billion in actual cash has been multiplied thousands of times over, so that people could go into debt to pay for all these things and so, so many more. And all of this in a \$14 trillion GDP!

So you can see that derivatives dwarf everything else. The true size of the total of derivatives outstanding is understandably hard to compute, and that is why it was interesting that the Bank for International Settlements (BIS) calculates that there are about \$620 trillion of derivatives floating around the world, and some estimates from others have gone as high as the incomprehensible \$200 quadrillion, all of which seems Too, Too Bizarre (TTB) for words since global GDP – the sum total of all the goods and services produced by the Whole Freaking World (WFW) in an entire year – is only around \$60 trillion!

But the BIS’s estimate of \$620 billion in derivatives means that there are over \$10 in derivatives for every \$1 of global economic activity, which is like one guy at the roulette table betting \$1 while 5 guys around him are each betting each other \$2 on whether the guy wins or loses!

I say this without fully understanding anything, which is OK with me since I am kind of stupid and would probably get it all wrong, anyway, but I feel very confident in my universal condemnation and disgust with the whole mess, mostly since I never heard of anybody saying, “I got rich from derivatives!” and, in fact, the opposite is manifestly true.

But this financial insanity is just a small, small part of the Sheer Economic Insanity (SEI) of the Federal Reserve creating So Freaking Much Money (SFMM), and as to the implications, I join with *The International Forecaster* in saying that “if people truly understood the implications, they would be buying gold and silver by the truckload, along with their related shares, which together comprise your only salvation at this point.”

I know what you are thinking. You are thinking to yourself, “Well, maybe they are both just saying that because *The International Forecaster* is as stupid and crazy as that Mogambo lowlife idiot!”

Well, I doubt that, especially since I never heard my wife yell at them for being idiots, or heard her say how the only real idiot around here is her for putting up with them all these years, or go into one of those episodes where she ends up crying out, “Oh, death, where is thy sting?” about something they did, or didn’t do, but should have or shouldn’t have, depending.

Well, questions of my mental capacity aside, to buttress our joint opinion about gold, they note that inflation in prices is showing up in imports, as “The import price index reached 0.9% in April compared to 0.5% in March”, which is bad enough inflation in prices to give you the shakes, but, worse, “Over the year, the import price index registered 11.1% in April.” Yow!

And if the horror of 11.1% inflation in prices, or the looming horror of disastrous hyperinflation in prices thanks to the central banks of the world creating So Freaking Much Money (SFMM) is not enough to scare you into getting into your car to drive like a maniac in a screaming frenzy to buy more gold, zooming down the street and even onto the sidewalk when you have to (Honk! Honk! “Outta my way, morons!”), then remember that the Treasury says they only have 260 million ounces of gold (and this is assuming that all the gold is still there, which I don’t believe for a second), which, at the ludicrously low price of \$1,230 an ounce, is worth only \$319 billion!

Thus, all the gold in Fort Knox is worth, at these low prices, less than a fifth of one year’s deficit-spending in the Obama budget! Wow!

You can “do the math” because I probably can’t, or, if I could, I wouldn’t because it is pointless, since even an idiot like me can see that the price of gold is Too, Too Low (TTL)! And by a Long, Long Shot (LLS), too!

And speaking as an idiot, I am happy that even an idiot can see it, which is probably what makes me tingle all over and say, “Whee! This investing stuff is easy!”