

Leveraging Junk Debt Off the Charts

By [The Mogambo Guru](#)

09/24/10 Tampa, Florida – The massive door of the Mogambo Bug-Out Bunker (MBOB) was locked, and I was taking a little break, leisurely looking through the periscope/range finder/fire-control module, calmly reconnoitering the perimeter and keeping an eye on the neighbors, watching them acting like they are innocently mowing their lawns and washing their stupid cars, but who are actually spying on me, like I am too stupid to notice their treachery and perfidy.

I see all this and say to myself, “These are the same dolts who are not buying gold, silver and oil with every dollar they have, even after all the time I spent telling them to do that very thing! Dolts!”

And, indeed, everywhere I look I see dolts, and so, apparently, does Doug Noland, who, in his *Credit Bubble Bulletin* at PrudentBear.com, takes a look at what is happening in high-yield bonds. He found that “According to *Bloomberg*, this week’s \$41.7bn of corporate bond issuance combined with about an equal amount from last week pushed two-week debt sales to the strongest level this year. With more than three months to go, year-to-date junk issuance is already well into new record territory.”

“Wow! I whistled to myself. “Record territory! Wow! Paying the highest price to get the lowest yield in history!”

Almost involuntarily, I began a pointless tirade of further scathing commentary on such abject stupidity as to pay a historically high price for very low quality debt to get a historically-low yield when the government is deficit-spending more than 10% of GDP and the Federal Reserve is creating staggering amounts of money, which guarantees inflation! Insane!

Mr. Noland, apparently seeing me spiraling off into Screaming Mogambo Outrage Land (SMOL), thankfully headed me off by noting that *The Wall Street Journal* reported, to my utter astonishment, that all of this buying of junk debt is all being leveraged, but even worse is that the amount of leverage is Off The Freaking Charts (OTFC)! We’re freaking doomed!

Well, anyway, this “OTFC” thing is how I, a typical paranoid lunatic who sees the horror of inflation in prices every time he sees the inflation in the amount of money being deficit-spent by the government and created out-of-thin-air by the Federal Reserve, interpret the *Journal* reporting that “Poster children of the mid-2000s credit bubble, leveraged loans are set to have their busiest year since 2008,” which were “at the heart of the credit bubble,” and have now “surged back with surprising speed as investors chasing yield are increasingly willing to finance riskier companies.”

My hands, wrapped around the handles of the periscope, instinctively clenched in terror at the thought of seeking riskier debt – and leveraging the bet! – in the riskiest economic environment that I can imagine, when I accidentally hit the “Fire” button! Oops!

Expecting a massive eruption of firepower, I instinctively cringed and immediately started trying to come up with some plausible denial (“Those weren’t my machine guns!”) or a scapegoat (“Islamic terrorists!”), when the ensuing silence made me realize that I had fortunately forgotten to set the Fire Control Arming Switch (FCAS) to “on,” which I didn’t do because it is all the way over on the other side of the room, making this an instance of pathological laziness and poor work habits paying off!

Of course, you never hear about the upside of incompetence and sloth from your stupid family or your stupid boss, but who are instead always “on your case” about something like getting up off the couch and doing some work, working, and doing things right, and not goofing off, and the ever-popular “paying attention, which is not to mention the blah blah blah.”

My tightened grip was just a hint – a mere hint! – of my paralyzing fear and paranoia cranked up, as in the movie *Spinal Tap*, to 11, an unbelievable overload of impending doom and hyperinflationary torture brought on by the sheer, staggering dumbosity of Yet More Massive (YMM) amounts of money being created to buy Yet More Massive (YMM) amounts of junk debt, selling at the highest prices of the last zillion years, by taking advantage of the lowest interest rates in that selfsame “last zillion years,” a bizarre interest-rate environment caused by the panicked response of the Federal Reserve at its own egregious mismanagement, all of this even though I know that “dumbosity” is not even a word, but I don’t change it, no matter how stupid it sounds, which shows you how Completely Freaked Out (CFO) I am about the whole thing! We’re freaking doomed!

So, as bad as it is that somebody is buying riskier and riskier debt, in a deteriorating economic environment of pandemic burdensome debt, with consumer prices rising, with massive government deficit-spending and unbelievable amounts of money being created by the monstrous Federal Reserve to make price rises even worse, and even worse, it’s all leveraged!

Alert Junior Mogambo Rangers (JMR) are instantly on alert at the use of the unusual phrase “even worse, and even worse,” which is an obvious Mogambo Secret Code (MSC).

You can pinpoint a rookie JMR by the way they earnestly dial-in their Junior Mogambo Ranger Decoder Rings (JMRDRs) and go through a lot of pointless rigmarole, only to find the message to, “Buy gold, silver and gold!” which is always the same secret message.

The experienced JMR, on the other hand, doesn’t bother, and looks, instead, for the reason for the sudden appearance of a Mogambo Secret Code (MSC), in this case being that these high-risk junk bonds are speculators using their client’s money not to merely buy high-yield debt, but as mere collateral on a loan to borrow many times that amount!

Then Mr. Noland says that, “In the face of enormous supply, corporate bond yields have remained extraordinarily low,” which certainly seems like a paradox to me, which was alarming until I remembered that I am stupid, and everything always seems strange and paradoxical to me.

Then I, despite my tragic handicap, remember the enormous amounts of money being created by the central banks of the world, including our own foul Federal Reserve, just for things like this! Money is everywhere!

Startling myself, my fear of inflation suddenly comes roaring up from the hideous depths of my nightmares, making me jump, a condition not made any easier by Casey's *Daily Dispatch* newsletter, where he writes, "debt is the single biggest economic challenge facing the US – and much of the developed world. In time this debt will get resolved, it always does, but it's not going to be pretty."

Not going to be pretty, indeed! Pausing only long enough to congratulate Mr. Casey on using "it's not going to be pretty" as a humorous understatement to the horror of eventual massive defaults, massive unemployment, massive loss of wealth, a collapsed economy, a trashed dollar and hyperinflation, I go helpfully on to note that this seems like the perfect time to bring up the fact that you should be buying gold, silver and oil with a nervous, paranoid mania usually seen in crack addicts and crazy people, because while it certainly won't "be pretty" for people who do not own gold, silver and oil, it will be for those who do! Whee! This investing stuff is easy!