



Currency Currents

Wednesday 16 February 2011

What if Ben is right and the doom-and-gloom crowd is wrong?

I'm not sure about you, but the doom and gloom guys are really getting to be a pain in the rear end, to say the least. At the conference over the weekend in Vancouver, they had a video tape presentation from a well-known doom and gloomer who shall remain nameless in order to protect the guilty and insane and those who love to hear themselves talk without doing a whole lot of thinking on the other end.

You know the story: Dollar going to zero; US way of life disappearing; the US will never be able to pay its debt; move all your money offshore to safety; become a dual citizen of somewhere before the rioting and mayhem begin; the US decline is inevitable; Chinese hegemony is a done deal; hyperinflation is a guarantee; gold will save us, etc. etc. etc.

My older daughter, Christina, says to me when I start complaining about life, "Dad would you like some cheese with that whine?" Boy, the doom and gloom crowd are whining aficionados!

To sum up the D&G view: We are all eventually doomed and destined for an inflationary debt-laden trip to Dante's hell. But first, we all need to start digging the bomb shelter and stocking that baby up for a sunny day in Mad-Max-Ville and of course buy the investments these promoting clowns have to offer before locking the door behind you. [Thank goodness [FIL lives on the beach](#). No underground shelters work there.]

Other than the inanity and insanity of it all, it is really a treat to listen to the doom and gloom crowd drone on and on and on. Each of these players and promoters using the same set of worn out stats to make the same point they made years ago. It all makes a very bad toothache feel like a wonderful afternoon with Katherine Zeta Jones in comparison (a guy can dream can't he?).

Half the time I am forced by point of a gun to listen to the D&G crowd lately, I keep waiting for the punch line, thinking this same story, now very long in the tooth, can't

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actually encompass the depth of their analysis? There must be more. There must be something new. There must be something even the usual self-disrespecting scaremonger and self-promoting hack hasn't already blared at us on their website, promotions, CNBC perch, or ridiculous webinars. There must be more!

But alas there's no more!

Nothing new flows from the D&G crowd we didn't already know for a while. But sadly much flows to our D&G heroes, which might help explain the tenacity of their views. Many of us are nothing more than investment lemmings who want our worn out views validated. What we may see as rationale analysis in retrospect seems nothing more than a quest for someone to validate our religion (faith in self-mutilation is strong among the investment lemming breed, I know from experience). Interestingly, what flows from this religious validation to the D&G promoters are those much despised Federal Reserve notes distributed most efficiently and effectively through the US banking system with the much dreaded Fed at the core of this payments system; a system that, despite the "massive government intervention," works without flaw billions of times a day. We never hear the D&G crowd complain about the Fed's complicity in these transfers of stores of value. Hmmm...

But Jack, haven't you ridden in a tight formation with the D&G crowd in the past? The short answer is yes. But the long answer is we have parted company at the pass. And we have always parted company when it came to an analysis of the dollar. There's a stupid one-way bet. Mine a nuanced, and sometimes stupid, multiple way bet based on how the world really works—not the way we want it to work.

And that takes us to the heretical idea that maybe Ben Bernanke was and IS right!!! Such heresy is effectively a Chinese cargo ship full of kryptonite to our D&G crowd, I realize that.

Given how incredibly fragile this multi-headed beast of global trade and payments, on which a whole bunch of the world's mammals depend, it is not a stretch to say the government is needed to keep it afloat when others are too afraid to get near it as it begins to wheeze and seize. Capitalism has always been about quasi-free markets. That means limited but powerful engagement at various levels. Of course we know too much engagement is counterproductive.

If I had to go out on a limb, I would say that Ben Bernanke knows just a bit more about economics, and how the world's financial system really works, than most of the two-bit D&G promoters who scream at us every day.

What I continue to hear is the US is responsible for *all* the inflation in the world because of QE1 and QE2? That is total crap, as Mr. Bernanke said, in a much nicer way, because he is much more patient than me, in his recent "questioning" by our illustrious congress members.

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1. In case you hadn't noticed, the interest rates and QE-like activities of all the other major banks in the world—ECB, BOE, and BOJ—have distributed a whole bunch of liquidity into the global economy besides the Fed.
2. If the emerging markets played by the rules (and yes, in case you don't know there are rules of understanding in the marketplace in a world of free-floating currencies), and didn't want it typically both ways, i.e. all the capital from the developed world, big growth, low interest rates, big exports, and no inflation, they should stop manipulating their currencies for export advantage and raise interest rates. They act like such poor little victims and do what all those tin-horn clowns do—blame the US for all ills. Aren't you just sick of the whining?
3. And if China—the place all D&G crowd seems to admire and adore; but of course they adore them from several thousands of miles away within the safety of the democracies they criticize on a regular basis—hadn't pumped about half of its economy in stimulus (creating a massive overhang of debt by another name), and created thousands of off-balance-sheet vehicles (to fund massive amounts of infrastructure and provide billions in raw material for corruption and bribes), and manipulated its roach-motel funds flow to accumulate \$2.5+ trillion in foreign exchange controls all in an effort to keep the Princelings' global export machine alive, thus the comrades rise up in protest, just maybe the D&G crowd would have a better platform to blame the Fed for all the ills in the world. But they never seem to let those facts get in the way of their story.

The other way to view this inflation problem in China is through the eyes of Machiavelli. But if one does that, then it would not square to then blame Ben Bernake for being stupid about economics. Our Machiavelli scenario goes something like this:

Okay China, you don't want to play ball on currencies. You want to play the game of using all those reserves to invest in a country, drive up its currency, then annihilate that country's manufacturing base with your cheap goods (which become cheaper because your investment, i.e. ownership of key industries, which of course you won't allow to take place inside you own country because "once a Commie control freak, always a Commie control freak" led to funds flow that pushes a currency higher in the real world, not your roach motel world where US multinational leaders sell their soles for the fake quid pro quo of market entrance) without any recourse other than wealth creation for the Princelings, I can play that game.

I am going to be sure to help the world push up commodities prices in order to create a bit of unrest through a little game called quantitative easing. The first volley of QE will be to make sure banks are reliquified; the usual transfer payment from household wealth to save banks, a game you know too well. Then, once that is done, I will be sure to embark on QE2 that I think will push prices higher and lead to food "incidents" [we can't say the word riots in China lest we be thrown in the gulag with the Nobel Prize for Freedom Winner, who

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really didn't win the prize and was all a right wing conspiracy) that will cause unrest inside China—something I knew you didn't want before the baton of head Commie is passed on early next year. I think this little use of QE2, which will vilify me in the US, might just do the trick and get you to start letting your currency run and possibly even help you do something you don't want to do—rebalance your economy so that you can buy more western goods for the consumer market of yours you keep suppressing by using their wealth to subsidize the export machine owned part and parcel by you and the Princelings.

P.S. those Italians were really a wily bunch of guys.

It really is a brilliant strategy. Ben Bernake for President!

Back to our D&G boys...we have a few "how come" questions for you:

How come the US is recovering and not falling into the abyss as you said it would and will? How come the US consumer is borrowing and spending less and paying down debt, creating a pool of investment savings that can be drawn upon in the future instead of complete reliance on international funds? How come the US dollar didn't spike to an all-time low when gold made a new high a while back? How come US debt payments as a percentage of GDP are falling to levels not seen for a couple of decades? How come every single day now we wake up and listen to our politicians battling over the threat of US debt and deficits and still say the US is doing nothing to solve those problems? How come the eurozone has a much higher probability of going into a double-dip recession led by a massive banking crisis than the US does? How come the UK has a much greater chance of being mired into a stagflation quagmire than the US does? How come the demographics for most European countries are so much worse than they are for the US? How come hundreds of thousands of more people die in China every year from pollution if Al Gore is right about our giant carbon footprint in the US? How come when Japan was locked into 20-years of deflationary death spiral the US wasn't? How come commercial and industrial loans are starting to tick higher, which was one of the goals of QE2? How come US companies have so much cash on their balance sheets? How come US companies have become so lean, mean and profitable?

This is not to be Pollyannaish about the problems facing the US. It is to point out that, on a real and relative basis, there are a lot of good things happening in the US that one would never know by reading the papers and accepting the drivel from the D&G crowd. There is also two more points to glean from this rant: 1) Ben Bernanke is not as bad as you think and may in fact prove a lot better than any of us think now: and 2) to suggest that on a relative basis we think the US looks damn good, and relative is the operative word when it comes to currency investing.

Thus, the more the D&G self-promoting crowd hates the dollar and tells you there will soon be a "dollar crisis" the better we feel. It increases our confidence that we are right about the US dollar entering a multi-year bull market that will leave the D&G crowd stunned. But we respect the resourcefulness of these clowns: they will find some other

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obvious situation ripe for them to apply their inane wares and keep those much-appreciated Federal Reserve Notes flowing to their personal bank accounts and pretending they hate it the whole way. It is to laugh!

Regards,

Jack Crooks

Attention conservative ETF investors ...

“Currencies will be the main driver of investment returns over the next few years...”

But... how do you cash in with an absolute minimum of risk without setting up a complicated margin account!

Not everyone who reads *Currency Currents* considers him or herself a financial gunslinger, ready to toss the dice on currency pairs like a honeymooner at Vegas.

In fact, I'd "bet" that most of our readers are not gamblers at all... rather, are intelligent risk takers.

For those of you who want to trade currencies intelligently, with the absolute minimum risk, may I recommend a \$49 annual subscription to our monthly publication, *Currency Investor*.

Currency Investor (CI) specializes in analyzing the global-macro currency markets (6 pairs) and recommending Exchange Traded Funds as a way to invest. *CI* provides a path toward above-average returns with a portion of your retirement nest egg, personal or family fortune.

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are a conservative investment vehicle, the right ones offer very respectable return potential.

Thanks for your thoughtfulness in sending a copy of your latest issue. However I did receive this. I thought I should let you know. It's good to see we have immediate access to those in your organization and can count on excellent service. -- H.F.

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You could say that *Currency Investor* is the preferred monthly advisory for “sore losers”

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You don't like to lose money. Neither do we. Our job is to *make money* so we take losing as seriously as you do.

Having said that, we do warn you: there will be trades that don't go our way. But our current analysis tells us that Mr. Paulson is correct. **Currencies will be the main driver of investment returns over the next few years.**

Do you want to miss the trend? Or carefully capitalize on it?

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--RBZ

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Jack

Your accuracy over the last two years has been uncanny

You were months ahead of the masses on the strong dollar call in 2007 and your call on the collapse of the emerging market currencies, specifically Eastern Europe has been even better.

You were a good six/eight months ahead of the great unwashed that are now shouting the same thesis from the roof tops

I get a great many services and as far as thematic calls go you are second to none

Kudos

WR

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David Newman
Director of Sales & Marketing
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