An Excellent Contrarian Indicator

By The Mogambo Guru

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The Mogambo Guru, aided by the Economist magazine, puts the U.S. central bankers and prime financial authorities to a little test…with dismal results.

Fed officials believe that the U.S. economy is gathering strength, a Washington Post headline tells us. Keep this thought in mind, because it brings up a very interesting sidebar that appeared in the January 3, 2004 issue of the Economist, entitled "A Bet Comes Due." It is priceless, and follows another similar article, in the same magazine, about the same guys, and which I noted in a prior Mogambo Guru, and I would have to be crazy to do a search to tell you which issue and the date and all, because I would have to read through all of those back issues, and very soon I would be more confused than I already am, and wondering what in the hell I was talking about, and "What in the hell did I mean by that?"

But the point was, for the past few years at least, the Economist magazine has asked the attendees at the Jackson Hole conference a few questions during their annual symposium of what is supposed to be the smartest and brightest and most powerful financial people and financial institutions in the country, including the Fed, and is actually sponsored each year by the Federal Reserve Bank of Kansas City. In 2001, the Economist writers asked these hotshots, "Is this a bubble?" and they all said – and you will want to keep score, so go get a piece of paper and a pencil – "no." Now, that period of time is now definitely proved to have been a bubble, so the fact is plain: they were wrong. Now to keep score, you write a "zero" for every time these laughable idiots are wrong, and a "one" for every time they are right. So far, they have scored a single zero.

Tame Inflation: Wrong and Wrong Again

They were also wrong when they unanimously said in 2001 that they "ruled out an American recession," to which I shout "Wrong-o again, you ignorant weasels!" which is an audible signal for you to score another zero, and they also got it wrong when "Last year they predicted that interest rates would not fall to 1%." So that's another wrong answer, as indicated by my jumping up on the table and screaming, "Nice going, chumps! I got your economic savvy right here, you pathetic morons!"

Now, on my score card I have recorded three zeroes, and a little drawing that looks kind of like a bagel, but with lightning bolts coming out of it, which does not mean anything to me or to you, but is apparently highly significant to the people assigned to my case.

The story goes on, as an Economist "update," and thus the reason for the sidebar I mentioned in the first place. This time, the Jackson Hole weenies were asked in 2003, "Will the dollar fall to $1.25 against the euro at any time in the next twelve months?" They all, except one, said "no."

They were wrong about that, too, so they score another big, fat zero. So getting out the calculator and a pot of coffee for some marathon calculating, I add zero plus zero plus zero plus zero, hit the "equals" button, and I peer at the readout in puzzlement, and this is just the preliminary result and I am performing some statistical tests on the data to verify the answer, which is roughly, ummm, zero.

Now since this is a binary system, we can convert these data to indicate competence in economics, with "zero" signifying zero competence and "one" signifying complete competence. A few quick calculations later, we find that the Fed, and the dimwits they hang around with, score the lowest possible score, zero, indicating a complete lack of competence.

So you can see why I have no respect for the Fed or any of the dimwits that they hang around with. And now that I think about it, when the Mogambo is elected President, my first Executive Order will be to require that all the officials at the Fed and all their – what did I call them? – dimwit friends all have to wear a large conical hat with the word "dunce" written on it all the time. In this way, it will warn other people about their abysmal, arrogant incompetence. Nah. Now that I think about it, I will just fire them all, and use the resources to hound them to their graves, which is a hell of a lot better than they deserve.

Tame Inflation: Laughing at the "Upbeat Fed"

And, I am happy to note, the Economist magazine has the same degree of disrespect for these pompous, arrogant weenies as I do, as evidenced when they write: "In short, they provide an excellent contrarian indicator."

With that background, you can appreciate the humor in a headline that appeared in the Wall Street Journal on Thursday, January 15th, which was: "Upbeat Fed Sees U.S. Economy Improving and Inflation Tame." The aforementioned excellent contrarian indicator, which the Economist uncovered, says that you will make some big money if you bet against the asinine opinions of the Fed, and wager that the U.S. economy is deteriorating, and that inflation is not, ummm, tame.

The Fed's most recent beige book came out and said that wages are not rising, which wouldn't be so horrible if the Fed had, in fact, "tamed" the Inflation Monster. But separately, the Producer Price Index of the Labor Department was also recently released and showed that, in one year, Finished Goods are up 4% in price, Intermediate Goods are up 3.9% in price, and Crude Goods are up 18.5% in price.

To put a spin on it, the Fed decided to take the 4% increase in the price of Finished Goods, ignore the hefty inflation in Intermediate Goods, and ignore the roaring inflation in Crude Goods, and back out food and energy out of what is left, and that brought that index down to an inflation reading of 1%. They think this is real clever.

Then the CPI came out, and it was up 0.2%. Food prices were up 0.6% for the month, education costs rose 0.4 percent, health care costs rose 0.6 percent and housing prices rose 0.3 percent. But, and this passes for good news, I suppose, apparel prices fell 0.4 percent and transportation costs fell 0.2 percent. These are MONTHLY increases in prices, so to get the annual increase, multiply each number by twelve, which I would do for you, but given my adroit handling of a calculator it would take the rest of the afternoon for me to do that, and I would get it wrong anyway. But I will get you started, and will conscript a passing fourth-grade kid to do the math, and tell you that multiplying 0.6% by twelve equals a 7.2% annual inflation in food.

Of course, the lying weasels in the Fed and in the government proper are all strutting around saying how inflation is tame, quiescent, and non-existent. To which I say, as you knew I would, "What a load of crap!" Three percent annual inflation in food and energy used to be enough to cause heart attacks in bankers and bond holders, and here we are looking at a trend that is more than TWICE that!

If you have a heart problem, now would be the time to make that doctor's appointment you've been putting off.

Regards,

The Mogambo Guru
for the Daily Reckoning
January 26, 2004

P.S. On a happier note, I am sure that you, like me, are anxiously anticipating tomorrow, January 27, which is Mozart's birthday, and you are now busy with the preparations, what with all the buying and decorating the Mozart tree, and hanging the Mozart lights along the eaves of your house, and dying eggs for the big Mozart egg hunt and all.

And this happy time of year, as an example of how it is always feast or famine around here, also coincides with the annual Girl Scout Cookie bonanza, and so the Mogambo will soon be indulging in an orgy of sugary, chocolate treats while listening to the magical, incredible Mozart on the stereo. And I suggest that you do the same, because it just doesn't get any better than that.

And the added benefit is that you get to forget about the Fed's stupendous, incredible, ineffable idiocy while you're happily munching and listening…for a day, anyway.