The “Two Trill In Cash” Plan

By The Mogambo Guru

04/10/06 The Daily Reckoning PRESENTS: Total Fed Credit actually went down by $6.7 billion, last week. The Mogambo isn’t quite sure what to make of this, but he thinks that for a debt-soaked economy so twisted, so misshapen, so malignant and so absurd as ours this is Bad News In Spades (BNIS)…

THE “TWO TRILL IN CASH” PLAN

There also a flurry of excitement last week, when a rumor that the U.S. Federal Reserve had printed up, suddenly, $2 trillion in cash. My initial reaction was, of course, to laugh: “Hahahaha!” My reasoning is thus: why would they go through the hassle? They can make electronic money with the wave of a finger, so why go through the messy rigmarole of dealing with ink and paper and all the problems of transporting it? Let’s not forget counting it and storing it and blah, blah, blah!

This whole “two trillion in cash” scenario has some, umm, merit, especially if you are thinking that foreigners dumping American securities would instantly be reflected in instantaneous losses in bonds and meteoric rises in interest rates and the entire global economic machine would melt down. Bummer.

So, maybe this could explain the “two trill in cash” plan: With this amount of cash, see, the American government can pretty much buy all the government securities that any foreigners want to sell, but the inflationary effects of creating so much money won’t be felt in prices for awhile! Hahaha! They think this is clever!

Besides, thousands of jobs will be created just to make, handle, account for, transport and store all this new money! Hahaha! Maybe the new currency could have those RFID tags to depreciate the value of idle cash, forcing everyone to spend all their money as soon as they get it! Surprised? Don’t be, because it is just the kind of financial and economic insanity that you see at the end of long booms fueled by excess money and credit. The amount of corruption is, as they say, “off the charts!”

And with corruption comes fear, and now here we have John Rubino, on GoldSeek.com, talking about the “Fear Index” that was created by Gold Money’s James Turk back in the 1980s. The reason I am bringing this up is that Mr. Rubino says that as a market-timing device, Mr. Turk’s Fear Index has, and I quote, “been nearly flawless.” Now, when it comes to market-timing techniques, the Holy Grail of techniques is one that is “flawless,” and so, I scoot my chair up a little closer to make sure I don’t miss a single word. He goes on to say, “The Fear Index measures the relative importance of gold within the U.S. monetary system, and is calculated by multiplying the U.S. gold reserve (i.e., the weight of gold reportedly under the Treasury’s ‘control’) by gold’s exchange rate to get its total market value, and dividing this result by M3, the broadest measure of money supply.”

All of this sounds like a lot of math to me. I'm a guy who has had his share of the shame of remedial math and people saying to me: "This is a five! Can you say five?" Needless to say, I am quickly getting pretty bored. I mean, all I'm trying to do these days is to make some money – hopefully a lot of money, with little or no work – by investing the few lousy pennies I can sneak out of my wife's purse. Naturally, with all this math flying around, I figure I am in the wrong classroom, and as I am starting to gather up my books and get away from Mister Math Wizard, he continues, "Assuming M3 grows at 8% a year over the next three years, and the Fear Index rises to 10%, implying that we're worried as in the 1970s, the Fear Index yields a target gold price of $4,961 per ounce."

I stop leaving in mid-stride. Abruptly, I sit back down. My brain is doing flip-flops! While my face is a study in drooling blankness, mentally I am living it up and having a wonderful time! Why? Well, check this out: Over the next three years, this "nearly flawless" predictor says that gold will go to $4,961 per ounce. In three years! At a uniform rate of gain, this means that gold will more than double in price every year – for three years running! Wow! Hahaha!

In case you were wondering, Mr. Turk's Fear Index is now 1.23, which is still a very, very low number, although it has been climbing over the past few years. But who cares? We now know all we Mindless, Greedy Mogambo Money-Sucking Machines (MGMMSMs) need to know, namely that a flawless predictor has spoken! And if you are like me, you really, really, really like the sound of the word "flawless" when it comes to predictors, especially financial predictors. So, you rush home and call up all your friends and family again, and beg them for the zillionth time that they have got to, please, please, please, finally get up off of their stupid, fat butts and get some gold – and get their IRAs and 401(k)s into gold, too! But do they? No! Instead, they say hurtful, cruel things, like: "Who the heck are you?" and "I want my chainsaw back, you thieving bastard!"

But, fear indexes mean nothing to these people! Perhaps it is because fear indexes are not new, and even the little community I live in, Pinellas Park, has maintained its own "Mogambo Fear Index" since 1997, which is easily calculated from police logs. Simply take the number of complaints about The Mogambo screaming that the dollar is being killed by the U.S. Federal Reserve (indicating raw fear and panic), and divide that by the number of complaints from pretty women who are disgusted by my accosting them with crude, slavering invitations to "Mambo down with The Mogambo" (indicating laughable optimism). And, since you are keeping score, right now the Mogambo Fear Index is zooming without precedent, indicating something (being as understated as I can manage) very ugly.

The U.S. Treasury is still selling bonds like money is going out of style, which it actually is! Hahaha! Well, perhaps this is not the most Clever Mogambo Bon Mot (CMBM) in history, but it is nonetheless apropos because the entire rest of history has shown that currencies depreciating from over-issue are seldom "in style," and sometimes, (after a government/central bank creates way too much money and credit, like now) they go so far out of style that they are never heard from again! I bring this up partly because this is, sadly, the ultimate fate of the U.S. dollar. This is always the fate of the currency of any country, world, or planetary system that is so ignorant, so stupid, or so impossibly corrupt that it would try to buy national prosperity by creating a wildly inflating fiat money and credit to buy it with! Hahaha! And, I sheepishly admit, I also bring it up partly because that is just the kind of hateful, gloomy and miserable little twerp I am: always seeing the dark side of sheer economic stupidity.

I mean, if this could work…if this could possibly work…if this could – in anyone's wildest dreams – conceivably work…it would be truly fabulous! Not only would poverty and universal wealth be painlessly achieved, but (even better!) the Mogambo Logical Next Step (MLNS) would be that it is possible for me to buy my youth back! I can literally be young again! Gloriously, wonderfully young, young, young! And, I can achieve this miracle by merely dating young girls, which is the whole point of being young! And now, thanks to the Federal Reserve proving it, we know that all we need is more money!

So, the next time they catch me hanging around the junior college, acting (as they allege in court documents) "suspiciously and furtively, rat-like in nature," I can proudly say, "Hey! Take these handcuffs off of me, you fascist pig-cops! I'm just buying my youth back – just like the Federal Reserve is trying to buy prosperity by creating money and credit, you stupid Gestapo goons!" They will have to politely say, "Oh! Of course! Well, OK then! Why didn't you say so earlier? Sorry to have bothered you, sir!"

But not everyone is a gullible as campus police, and the yields on bonds are rising, which means that, lately, people are buying bonds and immediately losing money on them! But they keep on doing it! Buy bonds; lose money. Buy more bonds; lose more money! Hahaha! It is so ludicrous that I state, with that rare Mogambo Degree Of Absolute Certitude (MDOAC), that this is a trend that will not last very long! Hahaha!

When people stop buying bonds, the traditional textbook response is that the price of bonds will drop (making the yield rise) until they become attractive again. That's the way markets are supposed to work.

If you are raising your hand to ask, "When bonds will become attractive?" let me tell you a little story that ties all of this together. Once upon a time, there was a rich, but ugly, troll who scored big-time with the chicks. The troll got that way only by living more luxuriantly than he could afford, and when the debts finally got too high, he lost all his money. Then, he lost all the chicks, too. He wondered, "When will I be attractive again?" He thought he would come over to my house and borrow some money to tide him over while he, patiently, waited to be attractive again.

But, there was an unfortunate "accident" with an Uzi, and the police didn't even come over to look at the dead ugly troll. It lay out there for almost a week until one of the neighbor's dogs grabbed it and took it back home with him. A little while later, I could faintly hear Mrs. Kravitz screaming, "Oh, my God! What in the world is that?" Moral of the story: Nobody loves you when you are down and out.

Now, substitute "dollar" for "troll" and "everybody else, especially foreign investors" for "Mrs. Kravitz," and write a fifty-word essay on the topic: "Why we should capture and sterilize people who are so stupid that they hear that particular Timeless Mogambo Economic Parable (TMEP) and yet they do not run out to start dumping dollars and start buying silver and gold and oil with both hands."

Until next week,

The Mogambo Guru
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Mogambo sez: I particularly like the way that the quarter ended, with the Lipper Mutual Fund Performance Indexes showing that gold funds came out in first place (gold got the "gold medal!" Get it? Gold wins a gold medal? Hahaha!) for the first quarter of 2006, up 22.5%! Whew! And gold-oriented funds also garnered a nice first place finish for the last twelve months, too, up 68%! Hahaha! This investing stuff is easy!

And the best news is that it gets better and better from here!