

Inflation Wants to Eat Your Children

By [The Mogambo Guru](#)

03/05/07 **The Daily Reckoning PRESENTS:** Increased money supply is a cancerous growth on the nearly perfect body of economics. Unfortunately, that body is fully exposed to the dangers of inflation. Let's just hope the Mogambo can tell us how to fight this horrible monster. Read on...

INFLATION WANTS TO EAT YOUR CHILDREN

This week's entry into the Most Pithy Investing Advice Contained In A Headline Or Title contest is "Profiting From Companies That Sell What China Wants" by Michael Dawson of TheTimeAndMoneyGroup.com. The title says it all!

There used to be a song that went "Whatever Lola wants, Lola gets", which implied that this Lola chick was so enchanting that men gave her presents, which she greedily took, and kept demanding more, which I gave her, too, always more and more, until all my money was gone and I was forced to loot the employee retirement fund, steal money out of my wife's purse and invent reasons why the kids wouldn't be getting an allowance this week ("Sunspots made the money radioactive!") so that I could give it all to her. Only her name wasn't Lola, and in fact as I remember it, they went by various names, none of them Lola, but the point is that 1.) This title says it all, and 2.) The case is made when I point out that both Lola and China have two syllables.

And, I expect, they will both end up with all my, and our, money, and then it's, "So long, sucker!" just like always.

If you are tired of my constant, irritating harangue to buy oil stocks, in one way or another, based solely on my Stupid Mogambo Say So (SMSS), then I proudly present John Loeffler, appearing with James J. Puplava on the Financial Sense Newshour, who buttresses the "Peak Oil" case by saying that, when looking at oil production, "If we look at the number of countries that have peaked versus remaining, so far 64 countries have peaked in oil production; 36 remain."

I know what you are thinking: You are scratching your chin and thinking "Down by two-thirds? Hmm! Maybe that Stupid Mogambo Idiot (SMI) is onto something significant here with his recommendation to buy oil!" And you would be right!

But if you went on to think to yourself, "Maybe that SMI is not as dumb as I thought!" then you would be, I am sorry to say, wrong.

I'm sure you've already heard that the Bureau of Labor Standards reported that the Consumer Price Index for all urban consumers, also known as the CPI-U, increased by 0.3% in January. Or perhaps you heard my loud scream of anguish and subsequent Hysterical Mogambo Violent Outburst (HMVO) at the report; in a lot of places it made the front page!

Either way, the latest report shows that, on an annual level, the January reading of that index, 202.4, was 2.1% higher than in January 2006.

Actually, nobody believes that inflation is really that low, and the government has already repeatedly admitted that they hedonically-adjust inflation statistics in a lot of different, although equally slimy, ways. This means that inflation is well over 3%, which is a number I choose because it is, historically, the point where smart people are panicking in the street; where shameful government and banking officials are being sacked, and there is turmoil everywhere – most of it being instigated by The Mogambo, who incessantly screams, “I am your king! Bring them to me and I shall deal with them harshly!”

But, oddly enough, everything is still calm, even though overall consumer prices rose 0.2% for the month. This mainly reflects that the prices of food, air travel and medical care went up a lot. And even core inflation (which excludes food and energy prices, so it is supposed to have a calming effect on our nerves) was up 0.3% for the month, which was NOT calming in the least.

And stepping away from sterile statistics, we get the same thing from Sprott Asset Management when they say, “In the real world, by all indications, the Malthusian shortages that began a few years ago with the most recent synchronized global economic expansion are continuing in earnest as we head into 2007. Nowhere is this more evident than in the rampant cost increases (a.k.a. inflation) that the companies we analyze are experiencing.”

George Ure, of the famous UrbanSurvival.com site, hears us talking about shortages, especially of the Malthusian kind, and reports that his web bots (which are looking for Internet references to “shortage” and “scarcity”) have, “for the first time since I started tracking, passed the 20-thousand hits level.” So, two guys have noticed shortages appearing! Shortages are up!

If you are wearing your Expensive Junior Mogambo Ranger Watch (EJMRW), the on-board Supply/Demand Ratio Alert is beeping right now. If it is not, it is probably broken, and there is nothing you can do, because while the certificate of authenticity is certainly valid, the lifetime guarantee (like the guarantees on all Mogambo Inter-Stellar Enterprises (MISE) products and services) is not worth the paper it is printed on.

Hopefully, you will be consoled to learn that the value you received is not in the watch itself (for which you obviously overpaid) but in the lesson you just learned.

But as an astute Junior Mogambo Ranger (JMR), “you don’t need no stinking watch.” This, of course, may explain why sales are down (and why repeat sales are zero), and has already conjured up a mental image of the graph of the supply/demand dynamic, which has been adjusted to reflect the change in the supply curve to reflect these reported shortages, and says, “Eek! Higher prices are coming!”

Mr. Sprott sends a nervous glance over at me to see how I am taking this news about inflation. My breath is shallow and rapid, but I am not actually screaming in fear or even twitching visibly. Thus emboldened, he goes on to say, “The largest companies in the world in the mining and

energy industries are all stating, with nary an exception, that the cost estimates they made a few years back for some of their biggest projects are now grossly understated.”

Reader George P read these same remarks from Sprott, and he thought that this line was most remarkable; “We’ve heard estimates by knowledgeable sources that global money supply grew 18% last year – so shocking as to be almost unbelievable.”

And if you are the least bit conversant with the bountiful plethora of examples in the historical record of what happens from such cancerous growth in a money supply, then your heart is undoubtedly beating like a trip-hammer, although you are unsure exactly why.

If you are more educated than most, and are completely familiar with what happens, then you are naturally thinking that although you have an Uzi in each hand, a Bowie knife between your teeth, are sitting on your weight in gold and silver, wearing a tinfoil hat and some cool shades, you still feel exposed and defenseless! And you need more of each!

The Mogambo reassuringly says, “That’s right! It’s that damned terrifying!”

Until next week,

The Mogambo Guru
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**** Mogambo sez: I’m not an expert on distress signals, but flares shooting into the air all around the world must mean SOMETHING! And if it means what I think it means, then soon, more than ever, you will appreciate the immense value of gold and silver. And so will all other sentient beings between heaven and earth, as the meteoric rise in their market prices will attest, oh so dramatically. And those who have them will be – especially relative to everyone’s poverty – wealthy.

Now, all you gotta do is decide if you want to have a lot of the wealth for yourself, or whether you just want to envy those who do. It’s your choice right now!