Bonds, Gold and the Dollar: What They All Portend

By The Mogambo Guru

10/25/10 Tampa, Florida – There are many difficulties associated with being lazy and inattentive like me, such as superficially interpreting the title "Gold Vs Treasuries – Which Do You Believe?" which is an essay by Michael Pento, Senior Economist of Euro Pacific Capital.

This is initially perplexing to me because neither gold nor Treasury debt obligations have voices with which to speak any truths or lies, which means it is some kind of metaphor that I don't immediately understand. I was going to make a big stink out of Mr. Pento's insensitivity to us dimwits out here who are, as we say, "ain't so bright."

Perhaps this is why he soon changes his approach. He writes, "Bonds are flashing a warning sign of deflation, while gold and the dollar presage hyperinflation," which leaves unanswered the question of why bonds are "flashing," but gold and the dollar merely "presage."

Naturally, I consider this to be a Secret Code Word (SCW) surreptitiously placed there by The Mogambo to indicate the need to immediately buy as much gold, silver and oil as we can, except that I am the Mogambo, and I didn't put it there, which indicates either some weird kind of telepathic ESP or another mix-up in my medications. I dunno.

Anyway, he goes on, "Today, the environment is similar to what the country confronted 30 years ago. Like then, our monetary base has surged – but this time even faster. Instead of merely doubling in eight years as it did under Burns' watch, Alan Greenspan and Ben Bernanke have tripled the base in twelve years (from $621 billion in 2000 to over $2 trillion today).

"Accordingly, the dollar price of gold has more than quadrupled, from $280 per ounce in 2000 to over $1,300 today. Over that time, the dollar has registered a 35% drop in value. However, in stark contrast to 1980, the yield on the 10-year Treasury note has collapsed from 6.6% in 2000 to less than 2.4% today."

That T-notes have been bid up so high that they have an effective yield of 2.4% when inflation is running north of 5% is an indication of several things. One is that a humongous clot of money being created by the Federal Reserve was being used to buy all that Treasury debt, which increased the national debt by an astounding $1.7 trillion in the last 12 months.

Another thing it means is that bond buyers are morons. As an article titled "The Magic Bullet" in *The Economist* puts it, "Traders see the central banks as putting a floor under bond prices. So QE is a kind of magic bullet, helping all asset prices to rise. That may help to explain why gold and Treasury bonds both performed so strongly in the third quarter, an unusual combination."

This is a statistical oddity, as it turns out that there were "only four other quarters since 1980 when gold, equities and Treasury bonds have strengthened simultaneously."

So, four times in 30 years certainly seems like one of those "outlier" events, but before you get carried away with computing probabilities and all the rest of that statistical mumbo-jumbo, Dhaval Joshi of RAB Capital says that "the four previous periods of triple strength since 1980 were all followed by falls in Treasury-bond prices."

And it also turns out that equities and stocks usually perform inversely to one another, which means that as bonds go up, stocks are going to Hit The Crapper (HTC), and gold and silver will soar, soar, soar in price in the confusion and panic of the bonfire of the stupidities!

This makes it all so, so easy that I literally roar in delight, "Whee! This investing stuff is easy!"