High Long Bond Yield Good News for Gold Holders

By The Mogambo Guru

12/09/10 Tampa, Florida – *The Financial Times* brought up the interesting point that because bond prices are so insanely high (making bond yields so preposterously low), a one-percent change in yields would negatively impact the prices of bonds much more than a one-percent change if bond yields were higher, which I assume means in the normal 3-6% range.

Of course, this is just the simple arithmetic of relative percentage moves, and as such is of absolutely no interest to those of us who are not looking for easy math problems to solve, but only looking for the Easy Road To Riches (ERTR), which turned out to be to buy gold, silver and oil as a defense against the disastrous inflation in prices, and a Fabulous Money-Making Opportunity (FMMO) when thus capitalizing on it, when the evil Federal Reserve was massively and consistently increasing the money supply, and especially so when the evil Federal Reserve is creating more enormous amounts of new money to buy government bonds from someplace after a lot of banks, bankers and assorted middlemen get their cut, and "doubly especially so" when the purpose of the whole stinking, corrupt exercise is to finance monstrous amounts of government deficit-spending!

I was hoping that a financial publication would want to feature me by picking up on this FMMO idea of mine to buy gold, silver and oil when the Fed is acting so treacherously, how this FMMO has made spectacular returns over the last decade, and how it is such an idiot-proof investment that even a lazy idiot like me can make Plenty Mucho Money (PMM) by merely brainlessly betting on the fool-proof, sure-fire, guaranteed inflation in prices that comes from such staggering increases in the money supply. And 4,500 years of history backs my play, too!

Secretly, of course, I was hoping that *Rolling Stone* would beat them to the punch and choose to put me on the cover! Wow! My main reason is that my résumé (which I may soon be needing), in the section labeled "Other accomplishments," currently lists "None." How embarrassing!

If this *Rolling Stone* thing works out, I would be able to include on my résumé, "Chosen by *Rolling Stone* magazine as The Best Freaking Investment Advisor In The Whole Freaking World by merely recommending only gold, silver and oil, an article replete with candid photos of me lounging around the house, chasing stupid neighborhood kids off my lawn and that kind of stuff."

Apparently, I am missing the point with all of this talk about how gold, silver and oil will go up because the filthy Fed is creating so much inflation. The point is, according to Morgan Stanley, that huge losses are looming, and "a one percentage point jump in 10-year Treasury yields could wipe roughly $1.6 trillion off US bond market value. If the yield rises three percentage points, bond market value drops by $4.7 trillion."

What they don't mention is that this massive $4.7 trillion loss is actually better than the $4.8 trillion loss you would expect from merely trebling the $1.6 trillion loss for the first percentage point, which is the arithmetic that we so blithely ignored at the beginning of this essay, proving once again that being stupid and lazy is costly.

And bonds are sure to go up, as, for example, Mark Lundeen of Lundeen's *Long-Term Market Trends* newsletter writes "look at the recent 28% loss of principal in the February 2036 long bond, as the yield increased from 2.6% to 4.55%." So how much money was lost with a recent 2% rise in yields? Yow!

And it gets Much, Much Worse (MMW) going forward, if history is any clue, as it inspires Mr. Lundeen to remark, "Before this bear market is over, I expect the old 1981 highs of 15% for US long bond yields to be exceeded."

This 15% yield on the long-bond is Good, Good News (GGN) because it is at this point that gold will be selling near its high, whereupon we gold-bugs will sell our gold and buy bonds at their lows, reaping a fabulous yield to sustain us in the years to come as our wealth increases with the rising prices of our bonds as the economy slowly recovers over the years.

In the meantime, of course, the only thing I have going for me is that the Fabulous Money-Making Opportunity (FMMO) inherent in buying gold, silver and oil when the Federal Reserve is creating so much money while I wait for 15% yields on the long-bond, which is so obvious and easy that I shout, "Whee! This investing stuff is easy!"