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Quadrillion of Anything is To Much

For years now the so called “elephant in the room” has been complex derivatives. This weeks big story is the [US seeking to regulate the over the counter derivatives market](#). These murky and very complex products have for years been traded basically in back rooms but more–so they have not traded.

Most derivatives are held on the books and assigned a value. How that value is assigned is where the trouble comes in. Computer models are used to value the derivatives which does not work. Any product must be traded or sold for a true value discovery process to occur. If, and by that I mean the institutions will fight tooth and nail to avoid this, the derivatives are traded on an exchange or through a transparent clearing house it will in fact show most institutions to be beyond bankrupt.

I can value my truck as 100k on my books but when the time comes to sell it and I only get 25K from the sale my net worth will be reduced greatly. This is what will happen if the complex derivative market get regulated.

Eric Sprott released a note recently where he mentioned the nominal value of these complex derivatives is approaching \$1 quadrillion dollars. Last year the nominal value did surpass that mark. That’s more money than should be talked about in any way shape or form and shows just how quickly times are changing. It wasn't that long ago that a billion dollars was a big figure, now we hear trillion more and more often and soon quadrillion will be the new catch phrase.

As usual this leads me to the gold and silver arena where you can protect your wealth first and grow it second. More and more investors are realizing this, but there is a limited supply which is falling yearly. The time is

approaching when none will be for sale and the equities will be the go to investment.

Metals review



Gold rose 1.61% this past week but is still having some trouble getting above the \$930 mark. The close was slightly above \$930 on Friday but gold does not act technically as it should in general so I need to see a more definitive breakout above that level before I can trust the move higher.

It does look cautiously promising. RSI is now above the recent peaks which bodes very well. The moving averages are below the price and neutral but about to turn up except the 100 day moving average which is already heading higher.

MACD is still bullish and just crossed into positive ground. Slow STO on the daily chart is overbought which makes me nervous. This week should be interesting and set the stage for either a fast move higher and likely into new all time higher ground or more of a trading range to blow off some steam.



Silver was pretty flat on the week falling 0.21% but staying above the support line. This chart is in great shape. From what I see here I am expecting a trading range between \$14 and \$14.50 for a couple of weeks but silver is so volatile that anything can happen.

RSI is in a nice up-trend but moving slightly lower. I would like to see it move to the up-trend line and then move higher again. The 200 day moving average is still moving lower while the 50 and 100 day are moving higher. It's

interesting that the recent price spike coincided exactly with the 100 day moving average moving above the 200 day.

MACD is positive still but flattening out and the quick moving Slow STO has just flashed a sell signal.



Platinum fell 3.29% for the week and closed slightly below the former support line. The up-trend is intact but not that strong. It looks to me like platinum is about to breakdown and move down to the \$1,050 level.

The moving averages are moving higher still except the 200 day which is fast approaching the 100 day. With silver I mentioned how the sharp move higher was sparked by a cross of the 100 day over the 200 day moving average. That may happen here as well and bears watching.



Palladium came off a rough week falling 6.26% but staying in the trading range from \$220 to \$245. RSI is on 50 and looks to be about to head higher. The 50 day moving average is about to cross above the 200 day and that may help push prices to the upper end of the trading range.

MACD is bearish as is the Slow STO. I am looking for this trading range to continue with a slight bias the the upside as the up-trend continues to rise and put upward pressure on prices.

FundaMetals Review

It keeps getting stranger and more infuriating by the week. Mark Patterson's company received TARP's matching funds program to buy a bank and [says that it's a sham](#). He says; **"The taxpayers ought to know that we are in effect receiving a subsidy. They put in 40pc of the money but get little of the equity upside,"**. Mark goes on to say; **"It's a sham. The banks are insolvent. The US government is trying to sedate the public because they are down to the last \$100bn (£66bn) of the \$700bn TARP funds. They think they're doing this for the greater good of society,"**. Mark is a voice who at least tells the truth even though he is taking full advantage of the taxpayers and governments inept attempt to fix the system. He does not believe the rally and has been shorting the whole way up increasingly.

Personally I have had little reason to think this rally has legs. I ran across some startling figures this week that further support my view. The P/E ratio on the Dow is 43.1 and even worse is the S&P's P/E ratio at 62.45. But the real scary numbers are that the S&P earnings are only \$11.88 while the dividend pay-out is an amazing \$22.86. Trying to figure out the markets these days is a daunting task but these simple numbers are all you need to see to know with certainty that the markets have a long, long way to correct.

Either earnings must increase or equities must fall. The recent and imminent auto bankruptcies are a major blow to any chance of earnings increasing as people struggle to eat let alone spend frivolously as has been the case. It's said that for every auto factory job lost there will be seven related jobs lost ranging from suppliers to bartenders to accountants.

I won't go into the birth death model in regards to jobs data here because there are [so many great articles](#) out there that go into great detail but suffice to say the government "creates" jobs by modelling the growth and shrinkage of population in a computer model. We know how computer models worked so well in the housing bubble. The birth death model added 226,000 jobs in April alone. If these quite likely fictional numbers were not added to the payroll data the numbers would, and in reality are, be much higher. This is just one of the too many to count ways that numbers are adjusted, skewing the true picture of our economic health and making it more difficult to know just where we are in this economic cycle.

If you think trying to decipher the governments numbers is tough, don't bother trying to dig through the large financials books. But the P/E numbers I gave you above make things much cleaner and clearer.

I realize some of the shenanigans going on that I write about are hard to believe but fast becoming much more believable. I have one that you may really have a hard time believing. I've talked about California's financial troubles in the past but now they may have reverted to third grade and come up with a solution. Arnold Schwarzenegger announced a [state wide bake sale](#) to help the states worsening budget deficit. The logistics behind this will likely cost much more than they can pull in, after all it's not your child class of 20 little boppers, it's a state of almost 37 million people. That's more than all of Canada, eh!

I have no idea where they come up with these ideas but support is there. Schwarzenegger said; **"We can have the brownies, and the cupcakes with the sprinkles and the jimmies, and the little muffins with the nuts and the banana and bran. And we can make the bundt cake and the angel food and even the pies. Really there are a range of possibilities where we can go with this thing."** State assembly speaker Nunez said; **"I think this is an excellent and very creative idea and I applaud the Governor on his leadership in this difficult time. I, myself, like to bake and look forward to contributing something to the Bake Sale,"**

The Federal Reserve is [continuing to buy Treasuries](#) this time, maturing between 2026 and 2039. \$3.51 billion was spent in a further attempt to keep borrowing costs lower.

The US is now on track to [borrow \\$0.46 for every dollar spent](#). That number is far too high for any family, business or government and will not lead to prosperity. I don't remember the last time the government estimated correctly so I expect this number to rise.

As more and more countries are trying to get away from the US and their policies many of them same countries are repatriating their gold. New vaults in Dubai will house ETF gold for the region which will be repatriated from London. A gold dealer in the region says; **"It's a natural home for the central banks in the region to store their gold in Dubai rather than in London where they have typically held their gold. Particularly when DMCC has a state-of-the-art facility to store such precious metals,"**

The US and Europe have long had a stranglehold on gold storage and it is said to have been leased out to a large degree. If that is indeed the case then the repatriation of gold will spark a buying frenzy that would shock the world. However, there will likely be some sort of deal worked out which will nullify this and make it more gradual. Either way, countries and investors want their gold nearby, and are looking desperately to get some if they don't already have it.

Gold is money and nothing else. It has withstood the test of time unlike every single fiat currency ever introduced with exception of today, but they are nearing their end.

South African unions and gold producers are [set to kick off wage negotiations](#). This will likely be a long sticky process possibly leading to strikes as workers look for continued wage growth as miners struggle with lower output and in many cases, slower profit growth when compared to the high gold price. Unions are looking for 15% wage increases to start in the face of an 8.5% inflation rate. There are other costs such as medical which would encumber mining companies and will likely be hotly contested. Let the fireworks begin.

South African's recent power troubles have shown the obvious need for more power infrastructure to be built. To do this Eskom, the power provider, is proposing [raising tariffs by 34%](#). It's just one more hurdle for miners to overcome and will do nothing to make supply increase.

In a short video of things to come found here http://newsvote.bbc.co.uk/2/hi/uk_news/northern_ireland/8047657.stm a PO'd pensioner pelts a top banker with eggs at a shareholder meeting. His excuse was the lack of respect the banker showed a shareholder and the fact that he lost his pension. More and more will be coming to the same realization and bankers should count their blessings if a few eggs thrown is their only repercussion.

I was abruptly called out of town this weekend so the letter is a bit short and late as a result. My apologies but that's life.

In my free, nearly weekly newsletter I include many links and charts which cannot always be viewed through sites which publish my work. If you are having difficulties viewing them please sign up in the left margin for free at <http://www.preciousmetalstockreview.com/> or send an email to warren@preciousmetalstockreview.com with "subscribe" as the subject and receive the newsletter directly in your inbox, links and all. If you would like to see what my portfolio consists of please see [here](#).

Until next week take care and thank you for reading.

Warren Bevan

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