

Symptom

Stock markets climb, yet the financial press and most economists just cannot connect the dots. Look at the above: "Equities touch highs despite inflation fears." How absurd – markets have been rising for generations because of, not in spite of, inflation. Stating the obvious, Exxon wouldn't be earning billions, and paying billions in dividends, if oil were still \$2 a barrel, and anybody could pick a thousand other examples of beneficiaries of inflation.

As best as we can figure out, there are two principal reasons the financial establishment keeps promoting the idea that inflation is bad for equities. 1) Anything that can help steer investors, pension plans and the like into government bonds and bank deposits (pretty well the same thing) pleases governments, banks and so on. 2) There have been many precedents in which inflation has led to credit tightening which in turn has sent equity markets lower. This idea is almost accepted as gospel, but today it's a notion that has long outlived its "best before" date. This is because Euroland and Dollarland have such stupendous government debts, debts which are expanding explosively, that policy makers have reached the stage at which they will not, they cannot, materially increase interest rates. When you owe trillions, you do not increase the interest burden on yourself. Consequently higher interest rates are just not in the cards.

The other big reason the Masters of the Universe talk about inflation is that they feel it undermines confidence in the dollar, Euro and so on. But they cannot connect the dots here either – inflation is a symptom, not a cause. And since the cause of inflation is the Masters' own profligacy, it's little wonder they look for scapegoats. Recently the Governor of the Bank of England shifted concern about inflation from the "short" to the "medium" term, presumably to buy time, to lay blame on the next Governor and to make any near term

problems seem irrelevant. The ostrich approach. And the Fed Chairman recently said "Inflation made here in the US is very, very low." This from a guy who is printing a trillion a year. Besides, we didn't know there were different types of inflation.

M. Sarkozy of France recently hosted a G20 event in Paris and appears to have singled out inflation as a worthy challenge. Good luck. We and some others may care about gold, but the vast majority of people are far more concerned with the price of fuel, wheat (bread) and coffee than anything else, and these are high and continue to move higher. So what does the G20 propose? Resurrecting the Special Drawing Right (SDR). More paper, and a piece of paper which has proved to be one of the past generation's more notable jokes.

Our leaders constantly give the blame game new levels of spin, but the reality is, if we want to stop inflation, we must print less, eat less, stop buying and driving cars, stop all wars et cetera et cetera.

And we all know that's not going to happen, certainly not voluntarily. Governments may want austerity for the masses, but for themselves and their cronies in the world of finance, inflation has been pretty good. Sales of Bentleys were up 50% and Bombardier says orders for private jets were very strong in 2010. Real estate in posh areas of London, New York and Brussels (of course) is out of sight. Bring on the QE, SDRs, the boondoggles, the deficits and enjoy Cabaret vintage 2011. It's all good for the lucky few.

Meanwhile, back in the real world, things are getting very messy. As we said a month ago, North American oil looks a lot better than other oil. That's fine, but the world runs on oil and the price is moving to the point, maybe past the point, at which it starts to crimp growth. Once again, though, a slowing economy (watch copper) means even more printing. And, of course, low rates. So don't listen to the siren call about holding cash until

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rates go back up, they won't. You would do as well waiting for the cheque that's never in the mail.

Instead, as never before, ignore the propaganda and buy and hold good defensive stocks.

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P.S. Since Toronto will soon be filled with revellers attending the Prospectors and Developers whoop-up, it seems a particularly sad time to contemplate selling our stock exchange. We are good at all this and it appears that those trying to buy control will bring nothing to the table except higher overhead. We hope the powers reconsider.

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