Economic Hallucinations

For decades we have been stuffing, or trying to stuff, gold into clients' accounts. We have advanced all the economic reasons, but above all we have said money will be no good, governments will have to print, government policies will lead to hyper-inflation and so on. We have also used the same argument to encourage investors to buy other stocks representing hard assets. But, after all the verbiage, after all the decades and after markets have clearly started to scream roughly the same story, many investors just don't get it. When, many ask, should they take profits?

At a time when the Western World's economic system, such as it is, could blow up and most currencies could be on the verge of turning into confetti, dragging each other into a messy abyss, investors worry about gold? They shouldn't. After decades on the sidelines it's just coming back into its own.

Two generations ago the gold price in Bombay was about 450 rupees, whereas today it is about 58,000 rupees. Indians, along with nearly all non-Westerners, generally assume that, rather than the gold price being up, the money is down. Put differently, gold is gold, copper is copper, it's the money that changes. Only in the Anglo-American world do investors consider money stable and things (gold, copper, whatever) volatile. It will prove a fatal mistake.

There are four principal groups in which meltdowns can occur: currencies*, real estate, commodities and stocks. Meltdowns usually happen without much warning and they often happen very quickly. Who forecast the Asian currency meltdown twelve years ago? Or any of the stock market crashes that have livened up Wall Street from time to time? The Lehman balance sheet had been a joke for years, but everybody assumed "too big to fail." When Argentina was on the brink in 2001 the US and the IMF urged the usual dose of austerity and: "hold the line" on the Peso. Westerners believed them, but Argentina (wisely) pulled the plug. Devalued.

And meltdowns mean different things to different groups. Real estate and stocks went down together a few years ago, but stocks will generally go up when currencies get killed. France in the 1950s, Argentina, Zimbabwe, Germany more than once – there is a long list of collapsing currencies leading to strong stock markets. And, of course, they produce strong commodity markets. Our flight out of money scenario.

Today the signs are all there for an earth-shaking currency collapse, but we are all like a bunch of rabbits, glued to the highway, mesmerized and immobilized by the glare of an oncoming eighteen wheeler. In fact, a convoy of eighteen wheelers. If the first one doesn't get us, the second certainly will. Ireland, the US, Euroland, California, Greece, Spain, the UK, Ontario – the list of walking wounded is long. But, as is always the case when problems loom, ministers of all shapes assure us that these and other issuers of debt will sort out their needs. And even borrow more next year! It's economic hallucination. But what else can we expect from Ministers? In Canada, where we have lost hundreds of thousands of jobs, in part as a result of the government's strong dollar policy, the same government is increasing the payroll tax on jobs. And doing so with a nauseating aroma of complacency – they justify it by saying they aren't increasing the tax as much as they could have! And most Western economic leaders are proposing the same austerity as was proposed nine years ago for Argentina, a sure way to collapse GNP and generate a few riots.

The business press is complicit with Governments and only rarely takes them to task. A grade school arithmetic student can connect the dots and conclude that Irish paper has no greater chance of survival than Enron paper. Not, that is, unless somebody prints up the hundreds of billions of dollars to bail them out. No major country's currency has more than a shred of backing and all the basket case countries have unsupportable debts. Yet the press gives these issues a wide berth. Little comment, less analysis and none of the ridicule that policy makers deserve.

Nor will the press even entertain the idea of hyper-inflation or its consequences.

* Bonds are often, by extension, linked to currencies.

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Recently an officer of heavyweight asset group Berkshire Hathaway (which is long lots of conventional insurance stocks) supposedly said anyone who likes gold is a "jerk." He may well speak for many, but his comment betrays a sad misunderstanding of both insurance and history. Regardless, for those who cannot stomach gold, buy Bell, Atco, Imperial, Labrador, maybe even Bombardier. Real stuff. And avoid paper at all costs – it may take a month, it may take a year, but the meltdown is coming.

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