Too Calm: Strength or Seduction June 15, 2012
Doug Wakefield

Isn't it nice to have someone bigger than you to look out for your investments? You know, someone who no matter what happens in the world is always "buying the dip"; someone who is totally unphased by the events taking place in Europe, China, Japan, the US or any place on the globe. Certainly, this is a sign of great strength and faith in the Almighty Dow.

If you are reading this article, I know you, like myself, try to stay informed. In many ways, your life is somewhat like my own. I have a wife, three sons and run a small business in America. I do not decide the fate of hundreds of millions of people in Europe, nor influence millions of traders in our capital markets solely by saying the word "liquidity". However, I do read every day, and look for major developments in the world that could impact our capital markets. I also have and continue to read books written years, decades, of even more than a century before we arrived at 2012 in order to understand the incredible period of history that is unfolding around me.

With this in mind, let me share with you a few items I have read in the last 2 weeks, which reflect trends that have been accelerating for a year or more. As you read each of these, whether you are managing billions, leading a corporation, or retired and concerned about your nest egg, do these events support a Dow that at the close of business today, Friday, June 15, has climbed 732 points in the last 10 trading days, or stands only 4.2% lower than its 38 month high attained on May 1st. Is this a sign of the strength of stocks in America, or the seduction created by traders always waiting for the next expansion of power by central bankers as they ride to the rescue?

Liquidity Bailout From Central Banks If Greek Elections Wreak Market Havoc, Report Says, Forbes, June 14, 2012


$INDU (Dow Jones Industrial Average) INDX
© StockCharts.com
15-Jun-2012 12:27pm
Last 12706.85 Chg +54.94 (+0.43%)
$INDU (5 min) 12706.85
central bank announcement
to the rescue.
Best Minds Inc.


$INDU (Dow Jones Industrial Average) INDX
© StockCharts.com
15-Jun-2012
Close 12767.17 Volume 2.6B Chg +212.97 (+1.70%)
$INDU (Weekly) 12767.17
The Dow Jones Industrial was the only major equity market in the world to take until May 2012 to reach its highest level since March 2009.
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5/1/12
3/9/9
106% gain in 38 months. The US national debt increased $4.8 trillion between the 3/9/9 and 6/14/12.

Greece

EC Preparing Secret Plans for Greek Euro Exit, UK Telegraph, June 12, 2012

Commission officials confirmed on Tuesday that "these elements" of contingency planning for a Greek exit from the single currency have been discussed by the "euro working group" (EWG) of Treasury officials and junior finance ministers over the last six weeks....

Greek newspaper *Ekathimerini* reported bank withdrawals in Greece have hit a rate of up to €500m per day, a level expected to accelerate in the aftermath of Greek elections on Sunday (June 17)....

Capital restrictions, including limits on cash-machine withdrawals, are legal under Article 65 of Europe's internal market rules allowing emergency measures to preserve "public security" in the event of a Greek exit, said a Commission official.

Egypt

Muslim Cleric: Jerusalem to be Capital under Mursi Rule, Israeli National News, June 9, 2012

If Muslim Brotherhood candidate Mohammed Mursi were to become president, Egypt's capital would no longer be Cairo, but would be Jerusalem, a prominent Egyptian cleric said at a presidential campaign rally, which was aired by an Egyptian private television channel.

"Our capital shall not be Cairo, Mecca or Medina. It shall be Jerusalem with God's will. Our chants shall be: 'millions of martyrs will march towards Jerusalem,'" Safwat Hagazy said, according to the video aired by Egypt's religious *Annas TV*.

The video, which went viral after being posted on YouTube, was translated into English by The Middle East Media Research Institute (MEMRI).

“The United States of the Arabs will be restored on the hands of that man [Mursi] and his supporters. The capital of the [Muslim] Caliphate will be Jerusalem with God’s will,” Hegazy said, as the crowds cheered, waving Egyptian and Hamas flags….

Mursi will challenge Egypt’s former Prime Minister Ahmed Shafiq in the upcoming runoff elections, scheduled to take place June 16 and 17.

Spain

Spain’s Bond Yield Hits A Record Near 7% After Moody’s Downgrade to Near Junk Status, The Washington Post, June 14 ‘12

Spain’s borrowing costs broke through another record Thursday after a credit ratings agency downgraded the country’s ability to pay down its debt amid rising fears a bank bailout may not be enough to save the country from economic chaos.

The interest rate — or yield — on the country’s benchmark 10-year bonds rose to a record 6.96 percent in intraday trading Thursday, its highest level since Spain joined the euro in 1999 and close to the level which many analysts believe is unsustainable in the long term.

The ratings agency Moody’s downgraded Spain’s sovereign debt three notches from A3 to Baa3 Wednesday night, leaving it just one grade above “junk status”.

Moody’s said the downgrade was due to the offer from eurozone leaders of up to €100 billion ($125 billion) to Spain to prop up its failing banking sector, which the ratings agency believes will add considerably to the government’s debt burden….

Spain won’t immediately collapse if the rate hits 7 percent, but reaching that point would affect it at Tuesday’s (June19) scheduled debt auction.

"The clock is definitely ticking," said Michael Hewson, an analyst with CMC Markets.

Japan

Russia Stunned After Japanese Plan To Evacuate 40 Million Revealed, EU Times, April 15 '12

A new report circulating in the Kremlin today prepared by the Foreign Ministry on the planned re-opening of talks with Japan over the disputed Kuril Islands during the next fortnight states that Russian diplomats were "stunned" after being told by their Japanese counterparts that upwards of 40 million of their peoples were in "extreme danger" of life threatening radiation poisoning and could very well likely be faced with forced evacuations away from their countries eastern most located cities... including the world's largest one, Tokyo....

Important to note, this report continues, are that Japanese diplomats told their Russian counterparts that they were, also, "seriously considering" an offer by China to relocate tens of millions of their citizens to the Chinese mainland to inhabit what are called the "ghost cities," built for reasons still unknown and described, in part, by London's Daily Mail News Service in their 18 December 2010 article titled: "The Ghost Towns Of China: Amazing Satellite Images Show Cities Meant To Be Home To Millions Lying Deserted"....

If this last one sounds too unbelievable to fathom, as it certainly does to me, you may want to consider the comments of Senator Robert Wyden who visited Fukushima in April, or the comments of the Japanese Prime Minister Naoto Kan who spoke at the World Economic Forum in January, as found in the April 27, 2012 Huffington Post article, Two Meltdowns: Fukushima and the US Economy.

Moving past these extraordinary world events, we go to statements made by global political/financial names. Robert Zoellick, President of the World Bank, and Roger Altman, Chairman of Evercore Partners, former deputy Treasury secretary under Clinton (93-94) – both attendees of the May 31-June 2 Bilderberg meeting in Chantilly, Virginia two weeks ago - had comments in the news last week.

Robert Zoellick

> 'Beware of the rerun of the Great Panic of 2008': Head of World Bank Warns Europe is Heading for 'Danger Zone' as World Markets Suffer Bleakest Day of the Year So Far, UK Daily Mail, June 1, 2012
>
> The head of the World Bank yesterday warned that financial markets face a rerun of the Great Panic of 2008.
>
> On the bleakest day for the global economy this year, Robert Zoellick said crisis-torn Europe was heading for the 'danger zone'.
>
> Mr Zoellick, who stands down at the end of the month after five years in charge of the watchdog, said it was 'far from clear that eurozone leaders have steeled themselves' for the looming catastrophe amid fears of a Greek exit from the single currency and meltdown in Spain.
>
> The flow of money into so-called 'safe havens' such as UK, German and US government debt turned into a stampede yesterday.....
>
> He said: 'Events in Greece could trigger financial fright in Spain, Italy and across the eurozone. The summer of 2012 offers an eerie echo of 2008.
>
> 'If Greece leaves the eurozone, the contagion is impossible to predict, just as Lehman had unexpected consequences.'...

Roger Altman

> Euro Zone on the Brink, Washington Post, June 4 '12

Europe is on the verge of financial chaos. Global capital markets, now the most powerful force on earth, are rapidly losing confidence in the financial coherence of the 17-nation euro zone. A market implosion there, like that triggered by Lehman Brothers collapse in 2008, may not be far off. Not only would that dismantle the euro zone, but it could also usher in another global economic slump: in effect, a second leg of the Great Recession, analogous to that of 1937.

This risk is evident in the structure of global interest rates. At one level, U.S. Treasury bonds are now carrying the lowest yields in history, as gigantic sums of money seek a safe haven from this crisis. At another level, the weaker euro-zone countries, such as Spain and Italy, are paying stratospheric rates because investors are increasingly questioning their solvency. And there's Greece, whose even higher rates signify its bankrupt condition. In addition, larger businesses and wealthy individuals are moving all of their cash and securities out of banks in these weakening countries. This undermines their financial systems.

Even the Federal Reserve, whose ability to produce debt worldwide has placed it at the top of the central bankers class over the last century, released two reports this year, one this week, that were not exactly "optimistic". In my opinion, one would have thought this information should have given traders pause before catching the next "central banks to the rescue" wave higher, or institutional managers conviction that maybe they should sell a few shares of those 6 Dow stocks that hit their all time highs (one actually since 2000) this week as options as June options closed.

Changes to Family in U.S. Family Finances from 2007-2010: Evidence from the Consumer Finances, Federal Reserve Bulletin, June 2012, Vo 98, no 2

The Federal Reserve Board's Survey of Consumer Finances (SCF) for 2010 provides insights into changes in family income and net worth since the 2007 survey. The survey shows that over the 2007-2010 period, the median income of real (inflation-adjusted) family income before taxes fell 7.7%, median income had also fallen slightly in the previous three year period. The decline in median income was widespread across demographic groups, with only a few groups experiencing stable or rising incomes....

The decreases in family income over the 2007-2010 period were substantially smaller than the declines in both median and mean net worth; overall median net worth fell 38.8% and the mean fell 14.7%...Although declines in the values of financial assets or business were important factors for some families, the decreases in median net worth appear to have been driven most strongly by a board collapse in housing prices. ...

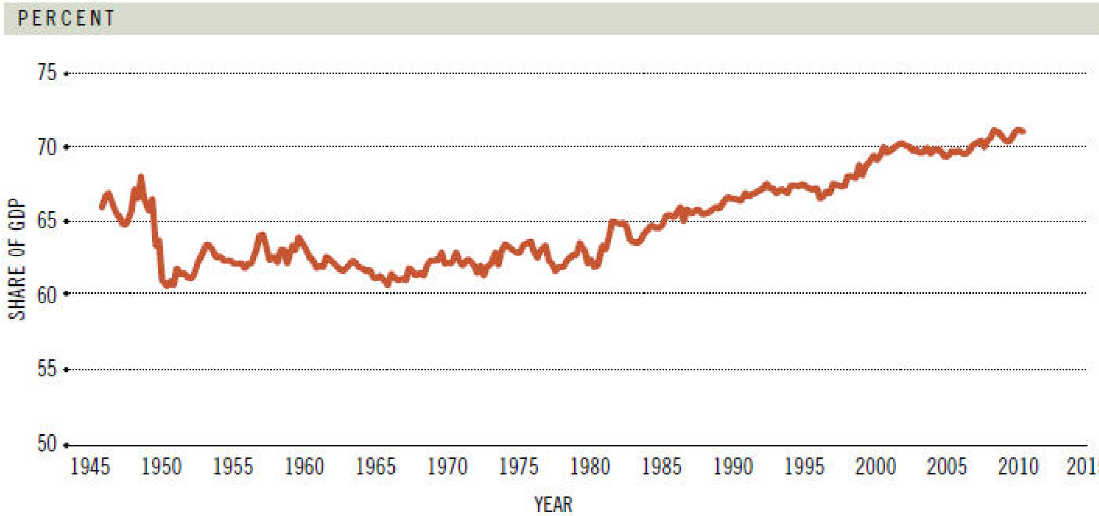
Don’t Expect Consumer Spending to Be The Engine it Once Was, The Regional Economist, Federal Reserve Bank of St. Louis, January 2012

Can American consumers continue to serve as the engine of U.S. and global economic growth as they did during recent decades? Several powerful trends suggest not, at least for a while. Instead, new sources of demand, both domestic and foreign, are needed if we are to maintain healthy rates of growth.

Unfortunately, this won’t be easy because consumer spending constitutes the largest part of our economy, and replacements for it—more investment, more government spending or more exports—either can’t be increased rapidly or might create unwanted consequences of their own.

FIGURE 1

Personal Consumption Expenditures (PCE) as Share of Gross Domestic Product (GDP)



SOURCE: Bureau of Economic Analysis; quarterly data through 2011:Q3.

Finally, when one searches for articles about "money pouring in", the collective actions of retail investors and corporate insiders in the last few months does not confirm that the crowd, either in or out of the know, was the power behind these 100 plus daily swings that gave the Dow the image of invincibility.

> [Insiders are Selling, Should You?](), CNN Money, April 24, 2012
>
> First quarter earnings have been decent, if not spectacular. And many corporate executives are issuing cautiously optimistic guidance for the rest of the year.
>
> But while insiders' lips are saying one thing, their wallets are saying another. The level of insider selling among S&P 500 (SPX) companies is the highest in nearly 10 years. That is not good.
>
> [Guess Who is Buying all the Bonds? (It's Not the Feds)](), CNBC, June 8, 2012
>
> Mom-and-pop investors, and not the Federal Reserve, have been the ones most responsible for driving the mad dash to government debt, according to newly released data.

> But despite the low yields, it's been retail investors most responsible for the recent move plunge.
>
> The demand among average investors has swelled so much, in fact, that they bought more Treasuries in the first quarter than foreigners and the Fed combined.
>
> Households picked up about $170 billion in the low-yielding government debt during the quarter, while foreigners increased their holdings by $110 billion.

> US Flash Crash Measures Suffer Delays, Financial Times, May 6 '12
>
> Volume of trading off-exchange has grown since the flash crash, hitting a record level in the first quarter, at 34 per cent.
>
> Critics have charged that worries about the flash crash, and the role played by automated trading "algorithms" and high-frequency dealing have chased individual investors away from equities.
>
> Since May 6 two years ago, retail investors have pulled $273bn from US domestic equity mutual funds, versus $174bn in the two years prior to the "flash crash", according to figures from the Investment Company Institute.
>
> The average daily trading volume of US equities was also its lowest in April since December 2007.

So let's review. From reading a few articles from papers around the world, listening to the comments from two recent Bilderberg attendees, examining two powerful pieces by the Federal Reserve that support the deflationary headwinds the US and global economy is facing, and examining the actions of retail investors and insiders, I ask you, "Is the current market rally a display of strength, fearlessness, and confidence, or the seduction and enticement to believe that U.S. stocks can overcome any pieces of bad news"?

When I began Best Minds Inc in early 2005, and started releasing public articles that summer at the top of the Philly Housing Index (HGX), it was clear from the massive explosion of debt underneath, and the research showing the hysteria to get in, and the distortion of prices back over centuries, that this was a turning point in history, not just a market top.

When I arrived at the top of the American and Chinese markets in late October/early November 2007, having been influenced by men and women who were examining history and seeking to be realists, not bearish for bearishness sake, I released an article, [Fear and Perception](). It was especially obvious I was watching a mania in the Chinese equity markets, which like the American real estate bubble two years earlier, would be a turning point in history, not just a trading top.

[Chart from Fear and Perception, released on Nov 1 '07]

So how do US stock markets stay removed from these extremely negative world events even now? It this a mania like the other two cited above, or is this one somehow different?

The answer is simple. It is the same, and yet different. The current environment contains instant money "newly created debt" by central bankers, only at levels never seen before in history, the ability for computers to trade in milliseconds, giving the illusion of a crowd leaping into stocks when in reality smaller sums of capital are being used to purchase futures which provide the leverage without the need for the cash to purchase an index ETF or stock, and America's denial to believe that our corner of the world could face changes as serious as those living in other corners of the world. However, I believe the combination of "unlimited money", the fastest trading in human history, and the ability to choose the version of the news you wish to hear, has created what is right now, the most powerful mania of all time. However, would it not make sense that if "wealth" can be created in seconds, it could also be destroyed as quickly?

> High Speed Trading: Profits – and Danger – in Milliseconds, CNBC, May 14 '12
>
> Eric Scott Hunsader has gone completely down the rabbit hole, and he doesn't like what he's finding there.
>
> Hunsader is the CEO of a Chicago-based market analytics firm that specializes in high-frequency trading — super fast trades executed at the speed of light that can alter asset prices faster than human beings can react to the changes.
>
> Based on his own analysis, Hunsader has come to a startling conclusion: Markets today are even more susceptible to sudden failure than they were two years ago during the "flash crash,"(May 6 '10) which brought the stock market down by about 1,000 points in mere minutes.
>
> That's because a new breed of trader armed with hundreds of millions of dollars to deploy is trading so fast—and with such spikes in volume—*that he can dry up liquidity in an instant*, causing severe price swings....
>
> On May 4, Hunsader says, he spotted those traders just before the April number was released. At 8:29:20 and about 200 milliseconds, he says, someone — he has no way of knowing who — executed a trade in the five year T-note futures market worth about $150 million.

> A chart of that single second in the market shows that prices are relatively stable until the trade. And just after that, for the rest of the second, prices spike, and gyrate up and down as other automated high speed computers react to the trade.
>
> Hunsader says he doesn't know exactly how the traders make money off the volatility that they create, but he suspects they're making other trades in the milliseconds following their market moving trade that take advantage of the relationships between this market and others that are impacted by it.
>
> The traders that move first, and fastest, win, he says.
>
> "It's like two guys running in the woods, and they see a bear and one guy drops down and puts his shoes on and the other guy says, 'what are you doing that for, you can't outrun a bear,'" Hunsader says. "And the guy goes, 'I don't have to outrun the bear, I just have to outrun you.'" [Italics mine. See also my Oct 2011 article, Darwin's Deceptive and Dangerous Devices).

In the next few weeks, the most powerful financial leaders of the world will meet at various places for meetings that were arranged weeks, if not months ahead. It is so easy to believe that "more liquidity" will always be fired from the cannons of the central bankers, and that as we learned from 2008, they can stop a decline. Yet, if we all reflect on world events just 4 years ago, we know this is not true.


$SPX (S&P 500 Large Cap Index) INDX
© StockCharts.com
9-Apr-2009 Op 829.29 Hi 856.91 Lo 829.29 Last 856.56 Vol 6.5B Chg +31.40 (+3.81%)
$SPX (Daily)
1555.90
1576.09
1440.24
1363.98
1370.60
1270.05
943.85
839.80
741.02
666.79
The Federal Reserve implemented more programs in 2007-2008 than ever in its history, but it did not stop millions from losing trillions.
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1600
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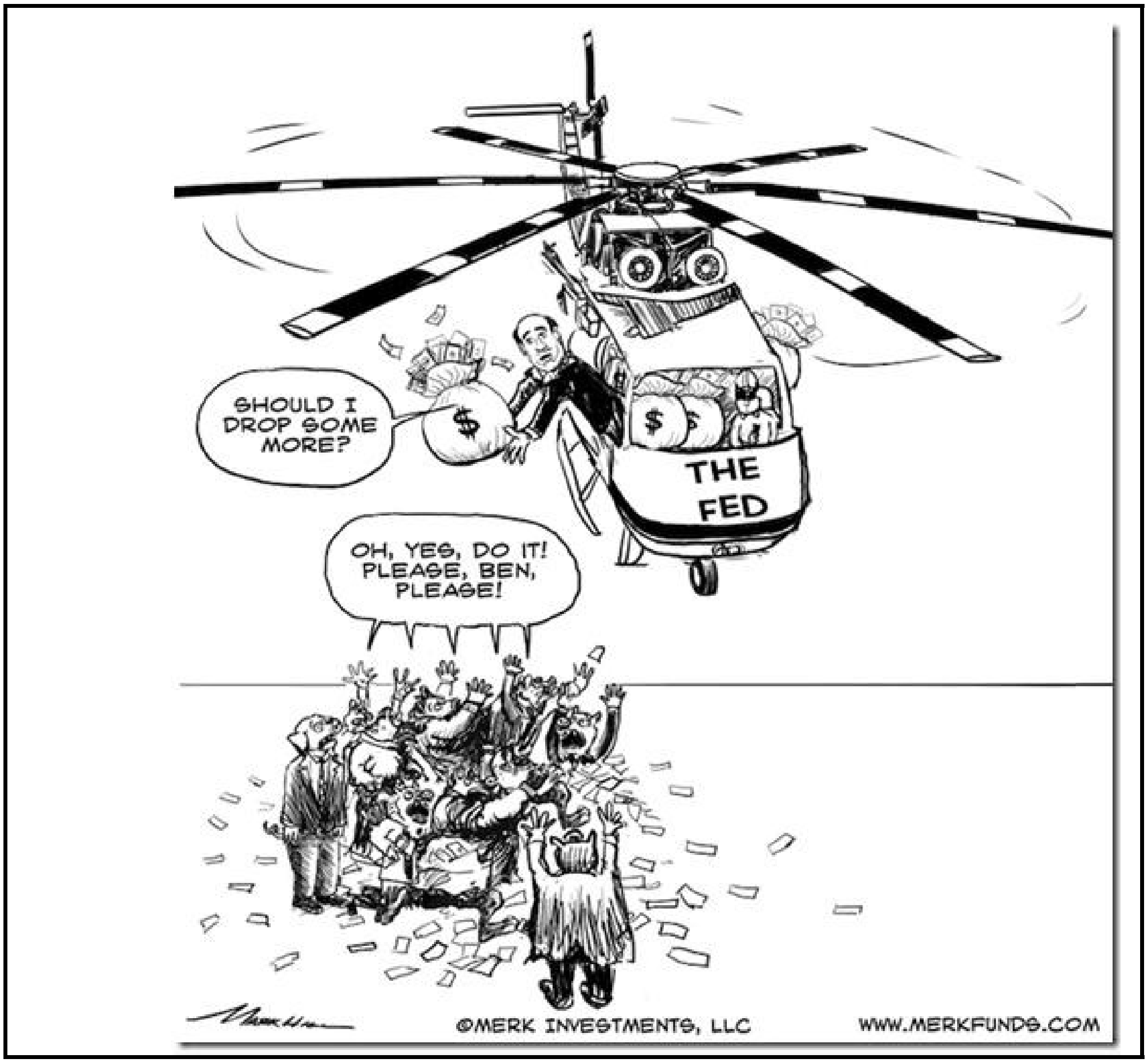
07 F M A M J J A S O N D 08 F M A M J J A S O N D 09 F M A



I am confident, that someday, future generations around the world will understand that we sold our futures to a small group of people who would give us the illusion we were strong and powerful today, or that their actions would leave our corner of the world unimpacted by those facing monumental challenges in other corners of the world. At some point, we will all desire friendships based on the openness and transparency to discuss information like that contained in this article realizing that we are all watching the same world changes, rather than posturing with people who help us forget about reality for the sake of our own desire to feel comfortable…today. Success is still achievable. We just may need to redefine how it is done.

> "It is obvious: the future is open to manipulation. Who will do the manipulating? Will it be the new elite on the side of an establishment

> authoritarianism or another elite? Whoever achieves political or cultural power in the future will have at his disposal techniques of manipulation that no totalitarian ruler in the past has ever had. None of these are only future; they all exist today waiting to be used by the manipulators....
>
> I hate being an alarmist, and I do not think I am. Anything I have said that is alarmism I hope you will simply forget." [**The Church at the End of the Twentieth Century** (1970), Francis A. Schaeffer, pg 78 & 86]

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