

## PIVOTAL EVENTS

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### Signs Of The Times

#### *"The Worst Economic Recovery Since The Great Depression"*

– Forbes, January 12

This emphasizes our thesis that the big action to 2007 accomplished another great Financial Mania. The first example was the infamous South Sea Bubble of 1720 and the fifth was the equally infamous 1929 Bubble.

One of the main features of every long post-bubble contraction has been that the first recession starts virtually with the collapse of speculation and it is severe. After denying it could happen, the economic establishment has been candid in describing it as the worst recession since the 1930s. Some have called it the "Great Recession". The continuing feature of the typical post-bubble contraction has been that each recovery is weak and each recession severe.

The article continued with *"America has suffered the longest period of unemployment near 9% or above since the 'Great Depression'. Real wages have been falling under Obama and his confused, throwback, Keynesian/ neo-Marxist Obmanomics."*

Harsh condemnation of Obama's policies with comparisons to Marx are appropriate. Inappropriate is the term "confusion". He has been intentionally following Alinsky's *Rules for Radicals* which intends to destroy the US economy by overwhelming the welfare system.

No confusion at all.

Separately, the Census Bureau reports that the real median family income has slumped all the way back to 1996 levels.

Over the past few years, the number of government employees and their compensation rates have been increasing.

It will soon be time for the next phase of reforming government excesses.

The past week or so included a number of reports about Sovereign Debt downgrades. On the other side, there's endless confidence that central bankers and politicians (all advised by interventionist economists) can provide the perfectly-timed stimulus.

Despite this, markets for corporate bonds, stocks and commodities as well as the long bond remained positive. With some swings this has been possible through January.

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This is the dreadful time of year when everyone in our business publishes an outlook for the whole year. It is also the time of year when treasurers at the major gold mining companies would like to know the average price for the year. Fund managers are not so much interested in the average price in the S&P for the year, but what it will be at the end of the year.

Unless the trend of whatever is going on is going to run through the year, we won't have a forecast on where the market will be at the end of December.

Instead our focus is upon the stock market recovery that was expected to begin in early October and run to around January.

We have been looking for the choppy but positive action to run well into January. As noted in our Pivot of two weeks ago we are getting to the time when most of the good can be accomplished. A couple of our indicators were giving early "alerts". And given the nature of today's markets the completion of the move could be lively.

### **CURRENCIES**

Our January 5 view was that the dollar was overbought and would soon head down for around a month. It stayed above 81 through last week and seems to be rolling over, which would be refreshing to most markets.

The Canadian dollar set its low at 93.81 in early October and popped to 101 a few weeks later. Since then there is a pattern of rising lows since 95 set in late November. It could test the 101 high over the next 4 to 6 weeks.

### **CREDIT MARKETS**

The rise in Libor and widening of the Ted-spread seem to have been associated with the news of the downgrades of European Sovereign Debt. This stalled out last week as longer maturity corporates and municipals continued their favourable action.

The long bond enjoyed another rally on the flight to "quality" story and today's hit could be a flight away from "quality". The action is building an important top and the decline since yesterday morning is with improving action in stocks and commodities.

The latter could continue into February and when it rolls over it could release the last rally for the bond in the topping pattern.

### **COMMODITIES**

Base metal prices (GYX) took a pause and have continued the rise. Agricultural prices (GKX did not join the party out of early October).

Instead the decline ran until mid-December and the grains enjoyed a sharp rally from 398 to 445. The decline was to 415 from which a test of the recent high seems likely.

Our Forecaster expected commodities to surge to an important high to around last April. The CRB reached 370 in that month and slipped to 292 in early October. The rebound was to 325 in only a few weeks, when the decline continued to 293 in mid-December. The rally has been modest is working on a test of the October high.

By way of perspective, the high on the last cyclical peak was 474 in 2008 and the cyclical low was 200 in 2009. Quite likely last year's at only 370 was a cyclical high. If so, it would confirm the probability of the first business cycle out of a classic crash being weak. It is worth noting that the weekly RSI in 2011 was almost as high as reached in 2008, so it was an enthusiastic peak. In the past two decades there have been only two higher weakly readings than in 2008 and last year. They were registered on the rebounds out of a bear market low.

There is considerable resistance at the 325 level and rolling over would provide a profound signal on the global economy.

## **PRECIOUS METALS**

Gold and silver have enjoyed a modest rally and could correct. On the rise, silver outperformed gold as the ratio declined from the "alert" level of 58 to 54. As usual, we are watching for an extended rise which would indicate a return of credit concerns.

It is worth noting that the 58 level was associated with European downgrades and the ratio could continue to decline well into February.

With the extension of the rebound in the general markets gold's real price has declined a little. Our Gold/Commodities Index was as high as 497 in November and the decline has been to 446 this week. This is well above the low of 303 early last year. The increase represents improving profit margins for the industry. It also indicates improving valuations for precious metal deposits.

This is typical of the post-bubble contraction whereby this sector becomes the premier industry. We are long-term bullish.

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## LIBERAL-DEMOCRAT PARADOXES

- In 2010, San Francisco community leaders boasted that digging a 1.7 mile extension to their subway would create up to 43,000 jobs.
- With the "No!" to the second Keystone pipeline which amounts to 1700 miles of construction, Democrats are claiming that estimate of 22,000 jobs is away too high.

### Obama's Next Shovel-Ready Project: *"Dig Them Up!"*



**U.S. Pipelines**