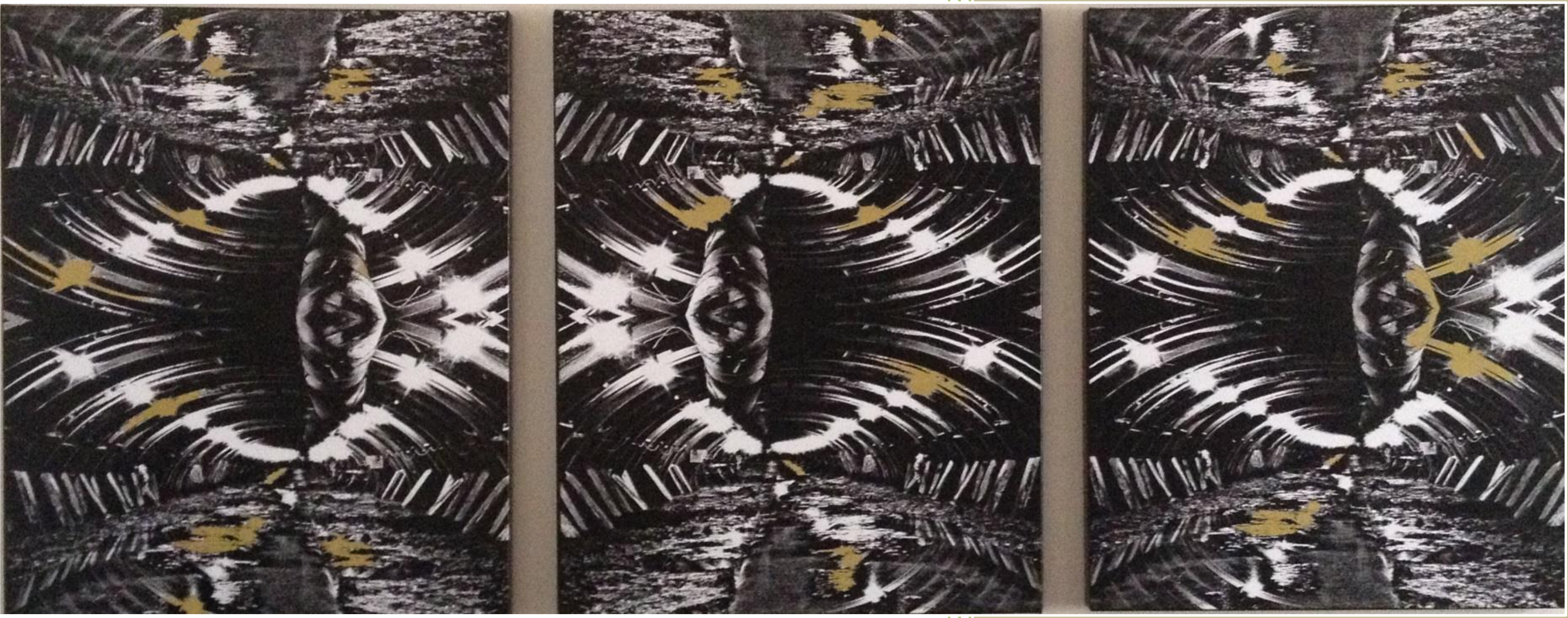
DO WE REALLY LEARN FROM THE PAST?

More on what is Next for the Global Economies from the author of "This Time it is Different…Not!"



AIVARS LODE

Edited by CLAUDIA LODE

Dedication

Thanks to all of my mates that I have worked and socialized with through the years, you have all helped me grow tremendously. The following people have had a profound impact on my life's many journeys and deserve special mention:

- My parents, thanks Mum and Dad for all the adventures you provided for us. Mum, thanks for the meals where you drove an hour every night while I was in hospital with my broken neck along with everything else. My father, for allowing me to invest alongside him, his patient counsel when I was young and emotional, and sage advice as I matured.

- Suzie, my darling wife, partner and Number #1 everything. We have had the most amazing adventures and have grown so much together. I look forward to many more.

- Arielle and Claudia, my inspirational daughters, for their capacity to learn and just do.

- My brother, Atis, an inspiration with his untiring energy and the reason I moved to business development; a key change in my life.

- Mark Waldron, an amazing friend and mentor who opened my eyes to what I could be.

- Richard Thompson (rest his soul), who gave me permission to be myself, was an inspiration to all, and showed us how to be good humans.

- Robert Hershenhorn, the most amazing deal mind that I have ever met; he showed me what was possible and inspired me to be creative.

Acknowledgments

During the past 30 years, I have traveled to over 1,500 cities in 47 countries and met many fascinating people. I have sampled a lot of different cultures, seen a lot of different architecture, discussed the politics and the religions in each of these places, listened to countless stories, completed numerous business transactions, sampled different cultures and foods, and along the way have developed strong opinions of my own. I have lived the crashes of the 80's and 90's. I have lost on real estate and I have made money on real estate. I have made money on bubbles. I have worked with market makers and market manipulators, with agents and principals, the poor and rich. I have worked with my hands and now with my brain.

In 2008, I began to write a blog to share my observations in order to help others to better understand what is next for global economies. This book summarizes my writings and is intended to generate thought provoking discussion of what we have to look forward to in the years ahead. Indeed, these observations are based on the accumulated knowledge and experiences that I have been fortunate enough to experience.

In the mid-1980's, Australia put in place a dividend tax similar to what was established here in the United States in the mid-2000's. In the early 1990's, Australia experienced a financial meltdown similar to the one that the United States is currently experiencing. A significant number of my observations are applying what I saw in Australia back then to what we are experiencing today in the United States. Two years ago, I started my blog by stating what is going to happen and why. Today, the articles that I have posted support my predictions.

To put this book in perspective, I offer a timeline of my major adventures, beginning with my life up to the age of 20, a time when I focused on sports and school - in that order. At the age of eight, I started delivering mailers with my father around the same time that I started competitive athletics with no particular discipline and the ability to substitute for most of the team if someone did not show up. My specialty was the 400 meters where I would trade lanes to take the inside lane. This meant that I had everyone in front of me when I started, which was a place that no one wanted. My strategy was to pass them all by the half way mark and then make sure I had enough to hold on until the finish. By passing my opposition by the half way mark, I would demoralize them. Therefore, I did not have to be the strongest or the fastest - just the one who would hold on the longest. This is one of the important lessons in life, as Churchill said. Clearly, you don't have to be the strongest or the smartest; you just need to be the one who applies consistent effort.

I cleaned K-Marts with my father at 15, which required waking up at 5am. By doing this, I was always able to buy the next piece of sports gear that I wanted-- from a kayak to my scuba gear, diving watch to my snow skis, to my hiking boats, my backpack, sleeping bags, cooking gear, clothing, CD radio, surf boards, windsurfers, sails, catamarans, etc.

Unlike Warren Buffet, I did not invest in stocks as these were a mystery and I did not understand how to make money without losing it by playing the stock market. Probably today they would have classified me as ADD but my parents found that if they kept me occupied with sports I did not need to be fed drugs and I would end up tired and fall asleep as soon as my head hit the pillow. My parents' wanderlust and travel to remote parts of Australia when there were no paved roads and at a time when people were just not that mobile in Australia also contributed to my development.

I attribute my CQ skills to the amount of travel and the number of sports that I did during my youth. The ability to not be scared in any situation and the knowledge that I would always work things through set me up for later in life as I started my global career and circumnavigated the globe regularly for business. Thanks Mum, for driving us around everywhere.

Another element to my success is the fact that I was born into a well-educated family that values education. My parents convinced me to finish high school instead of going to technical college to become an electrical engineer. Following my days at the university, I spent one year as a full-time ski instructor. A very sage piece of advice from the head of the ski school at the time made me reconsider my career – ―Aivars, go use your degree and then come and pay for schmucks like me to take you skiing,‖ he said. Thanks, Guenter, for the advice.

I spent a few years trading commodities. I watched the fall of the Telex and the rise of the fax machine. Indeed, one of the first Fax machines was used in Australia. I lived through the floating of the AUD and Japan‘s Yen while dealing with Forex brokers, shipping companies, insurance companies and banks every day.

My next adventure was as an accountant. Preparing the numbers proved to be the most frustrating job to me as the sales guy and the CEO both knew the results even before I had produced them. I knew I needed to be closer to the sharper end of the stick and realized that nothing happened until something got sold. This would be in the back of my mind for many years until I acted on it. That did not last long and when a friend of my father‘s asked me to come and run his company, I jumped at the chance to get out in front and was able to leverage the trading and the accounting to understand what was happening in the business and get closer to the selling. It was there that I installed my first computer system. I was just always ready to try the latest technology; however, I did not have a very good sense of timing. When Barry asked me if it would be valuable to start a Lotus 123 training course, I replied that this had already been done. How wrong I was in my inability to recognize this computer opportunity.

I lived through the stock market crash of the 80‘s and watched as my second house purchase proved not to be my greatest investment. Unfortunately, I mis-timed the market and bought my second house before selling my first. In the space of two weeks, over 30 percent was shaved off both houses values. This is how we learn - though our own mistakes or the mistakes of others. I was exposed to oil traders, stock manipulators, Forex market makers and the early days of derivatives. I was also very lucky to have my father as mentor and a number of very good friends that supported me. Without that exposure to what was possible, I may not have chosen the path I did.

My brother constantly encouraged me to get into sales and at the time I was installing a large ERP system into a manufacturing company. Again, hadn‘t everyone? Well, the sales guys knew less than I did, but they wore better suits and drove BMWs so there was a clear choice. I decided to become involved with technology sales and my first job was at Dun and Bradstreet Software, which at the time was the largest software company in the world providing mainframe software that could only be purchased by the largest corporations and governments. This was all a very humbling experience as I really did not understand the terminology they used or how large corporations worked and had my ―ass‖ handed to me a number of times. However, I prevailed and made the highest level of sales recognition achievable – the Chairman‘s Club. This was no mean feat as this was during the recession in Australia. The conversations in Australia at the time where so dire that I thought Australia was ―done for‖ and decided that I needed to go to Asia as it was on our doorstep and something was stirring up there. Together with my mentor at the time, I engineered my way into position in Singapore where I accepted a position selling software into the largest corporations in the world, including Shell, BP, P&G, Unilever, Citibank, JP Morgan, and Nomura etc. Boy, did I learn global politics and how it gets played in global companies. At times, I wondered what I was doing visiting an oil and gas exploration facility in the middle of a jungle in Malaysia where you could see the remnants of headhunters with their tattoos around their necks to ward off any potential be headers. During the same day, I saw the Prince of Brunei‘s airplane hanger with his name three-feet high spelled out in solid gold bars. His name had more than 50 letters. In the days and months ahead, I went from the dizzying speed of Hong Kong, to inefficient China, to the colonial houses of Singapore, and then to the brashness of New York, the history of London, and the romanticism of Paris. My life so far had been a never-ending circling of the globe while creating and closing deals.

When it became time to start a family, we knew that if we ever wanted to integrate back into Australian society we had better get out of Hong Kong where I had been running the China operation for Dun and Bradstreet Software. We had made enough money due to the bonuses only being taxed at Singaporean and Hong Kong tax rates at a maximum of 20 percent compared to the 48 percent in Australia. As expats, all of our accommodations had been covered in countries where it was hellishly expensive – especially in the top 10 most expensive cities in the world. Dun and Bradstreet Software was being sold and it sold cheaply; clearly, the growth had stopped. I remember seeing the price it was sold for and thinking, ―Boy if I knew that it would have been sold for that I would have bought it, as I understood the value of customers that had bought infrastructural software and the difficulty in replacing it, and had seen the waste of money that software companies spent when I compared it to the frugal manufacturing businesses with which I had worked. So, here we are in Melbourne and I am running Oracle's Application division in Victoria thinking that I would have a quiet life. Within a month of joining, I was running the Australia and New Zealand applications business and became part of the senior management team. At the time, Oracle focused on 100 percent growth a year and I was running a business where I could count on the last three customers to buy a solution - ?anyone's solution. Can you imagine a hamster running around in a wheel? That was me. The rest of the business was the same. We had to migrate the business away from the focus on products to the focus on customers and solutions.

This was also the beginning of the dot com period and given that I had been trained to look for the next latest thing, I had one huge customer of ours, Fosters, asking for things that Oracle did not have. So when a friend approached me about joining a supply chain execution software business, I knew it was the next ―latest, greatest thing‖ so I jumped at the opportunity to start the Asia Pacific operation for Decartes Systems group and then within nine months, I was in Canada running the global operation and experiencing the dot com effect. When I joined, the company was at $30m in market cap and it rocketed to $1.3 billion in one year. Then, the end of 2000 happened and those market caps started to evaporate as the dot com cap burst.

As the dot com bubble burst, I was reminded of my observation in Hong Kong of Dun and Bradstreet's Software being purchased cheaply. After the craziness of the dot com era and Oracle, I reflected and said revenue growth is insanity and cash flow is sanity. Fosters had entered Canada in order to crack the U.S. market, but found that ineffective and withdrew to purchase an American company, Beringer. I, too, followed their experience and went south to the United States. After partnering with the largest private equity firms in the United States, I established my own hybrid private equity firm and began buying and investing in software companies. I participated in the real estate market in Florida, but this time did not get bitten by the bubble as I had a referential base to know when to get in and when to get out.

Preface

My first book ***This Time it is Different – Not!*** summarizes historical patterns I have observed during my life and explains how I have formulated my views on the future of global economics. In the same format as my first book this book is outlines the thoughts and prognostications of interesting individuals ranging from journalists to hedge fund managers to teachers, many of whom I have met and admire greatly. I intersperse my comments throughout.

Each chapter represents a specific theme that has been selected for a specific reason – climate, commodities, Australian comparisons, investing, government intervention in currencies, technology and lifestyle changes. Through a series of outside experts' articles and interviews, followed by my own translation of what it means for the reader, I offer real life examples to illustrate the actual practice of these concepts in order to answer the ultimate question – "So What?". I hope you will be able to understand the key points and mental mind set needed to better understand what is next for the global economy and why you should care. In short, I hope to offer a fresh view of the global business cycle and help others to fine tune their own critical thinking skills.

What prompted me to write a second book?

When I was a teenager growing up my mates would trade stocks; however, whenever I would pick up the newspaper in order to try to work out what to invest in or how trading worked it all just became a little overwhelming and I did not bother pursuing it. So, as a father of two bright dynamic girls I set about ensuring that they would not feel the same way that I did due to ignorance. Many years ago I introduced the notion of signing a contract to my girls in exchange for something they wanted. We went from very basic, me suggesting what should be in the contract, to now, them anticipating and presenting a contract without my involvement. Before my first book I would find articles and post them on my blog online until a couple of years ago when I asked the girls if they would be prepared to assist me in the posting of my blogs; which they agreed to. Today, they both maintain 6 different blogs ranging from technology to supply chains, as well as the future of global economies. The purpose of having them assist me was to provide an education to them that they don't receive in school. I wanted them to be familiar with the topics that many adults do not understand, and it appears that they have done just that through reading the blogs that they post.

A few years ago Claudia asked how she could earn a car when she turned 16. I put in place a deal with her and one of the conditions was to do well at school and the other was to collaborate with her sister Arielle to edit and produce my second book. So here we are now with my second book produced by my two daughters, quite an accomplishment.

The cover of the book has a special meaning, as it is a digital recreation of artwork that I created when I was in my senior year of high school. The image is of the underground railway system being constructed in Melbourne, Australia. We used only one picture, inverted it, and placed it upside down to create a picture that has some interesting patterns. Remember, I am the pattern recognition guy. A couple of years ago I had all my Celluloid negatives made digital; in the process, as a Christmas gift Claudia and Arielle collaborated to enhance my 33-year-old artwork. They enhanced the image and added color to it- as well as giving me a box of rocks with the words Happiness on a card because when they had asked me what I wanted for Christmas I said for them to be happy. We then had the image printed on canvas in three pieces around 6 feet wide and 3 feet high, which the girls presented to me for my Christmas present. It now hangs proudly in my office. So, as you read this you can only imagine how proud I am of my two girls and how much I have enjoyed collaborating with them on the blogs, artwork, and book.

Once again thanks has to go to my wonderful wife Sue for supporting this endeavor and assisting in the proof reading, my father for providing proof reading and commentary to ensure a quality job was completed, and my mother for feeding us so we all had time to get the things done on the book. Also, Claudia's boyfriend Kevin, who she convinced to assist her in order to meet the deadline of her 16th birthday.

Author Biography

Aivars Lode founded Avantcé in September 2001 in order to invest in software companies. The investment strategy is to purchase interests in mature companies, embed operational expertise and apply additional capital for controlled growth opportunities and consolidation acquisitions.

Avantcé invests in companies with mature markets, products and services, sustainable revenue and established customer relationships. This investment focus avoids the risks associated with new market, product and technology development. Investments include Robocom Systems International, Radcliffe, Revere Inc., Select Business Solutions, ADT, Aviva Solutions, and Dark Star Cloud. Aivars also holds board positions and advises companies such as BTrade, Rite Drive, Position Logic, BIG, Profit Path Systems and Knowledge4U. Avantcé has been retained by private equity firms CVC Capital Partners, Golden Gate Capital, Bain Capital and Welsh Carson Anderson & Stowe to advise on their acquisition strategies in Software. Avantcé successfully participated in creating the strategies for companies like IBM's EDI business, Inovis, Infor and Mincom. Avantcé also created a consortium to acquire the major airline cargo space for optimization, this resulted in private equity firms Welsh Carson and General Atlantic investing in 3rd party logistics providers.

More recently Aivars founded IT Capital, a merchant bank, whose sole purpose is to facilitate investments in software companies by high net worth individuals, pension funds and Sovereign funds, utilizing proprietary investment instruments namely EPN's and RPN's. Prior to founding Avantcé, Aivars was Group President of Descartes Systems Group based in Canada. Descartes is a publicly traded company providing customers with Internet based solutions to manage their complete supply chain. As Group President, Aivars led the company's global expansion efforts, achieving profitable growth as well as completing the successful acquisition and consolidation of two EDI businesses, TDNI and TranSettlements. He was named Group President in April 2000 after leading Descartes' successful expansion into the Asia Pacific region as President Asia Pacific. Prior to joining Descartes, Aivars was with Oracle heading Applications Software for Australasia. He led the organization's change from a direct aggressive customer relationship model to that of a consultative business partner.

Aivars first entered the technology industry in 1991, when he joined Dun & Bradstreet Software, an enterprise software solutions provider. During his tenure with DBS he ascended through various management roles and transitioned several divisions from a strategic focus on high growth to that of customer intimacy and operational efficiency. Prior to DBS Aivars held various management positions, including COO, CFO and CIO roles in both public and private corporations. Throughout his career Aivars has lived in Australia, Canada, Singapore, Hong Kong and has conducted business in most of the industrialized countries in the world. Currently, Aivars resides in the USA with his wife and two daughters. Aivars holds a Bachelors of Business, Accounting from Swinburne University in Melbourne Australia. He is a past member of the Board of Directors at First Bank and Trust of Illinois

Chapter 1

Climate

Introduction

Before you start reading this chapter I ask you to always bear in mind the following statement which reflects my views in entirety.

Should we decrease the polluting effect man has on earth? YES, absolutely and unequivocally without a shadow of a doubt, not even debatable and totally definitive.

A friend of mine when asked for a quote for my book responded very forcefully around the topic of Climate Change. I thank him and his views on climate change. Let me start with his view on this chapter, which I am sure is very similar to many other individual's views. For the record my friend also accuses me of being biased one way or the other politically, none of which is close to the truth. I am totally apolitical. I just seek to have a rational non-emotional conversation based on the facts. It is easy to argue one way or the other if you don't know what you don't know.

From my friend:

Is 15 a greater number than 5?

Do Owls exist?

It is that simple.

You are conflagrating issues with your "skylab" and 95% of the universe. Also the 95% of the universe is an argument against all science. It is also a favorite line of yours. Heard it before. And how can it be true? How can we know that we don't know about 95% of the universe? Why not 92% or 99.9% or 80%. Red Herring.

That the climate has changed before. No denying. Ice age. Also we know that the earth had periods of extremely high oxygen content, we had dragonflies with 9 feet wingspans. Fossil records.

So the climate and the atmosphere are capable of changing without man's participation. Rock solid truth.

Since the early 19th century we have known and understood the Greenhouse Gas effect. Without it the Earth would not retain an atmosphere and it would be a lot colder, they reckon below freezing, on average across the planet. We would be on an ice planet.

We also know that the main gases causing that "greenhouse effect" are: Water vapor, Co2, Methane, Nitrous Oxide and Ozone. These gases absorb and emit radiation. The proof of that - with greater than 95% probability - the fact that earths average temperature is 57f.

We also know that the amount of Co2 that we are emitting is being retained in the atmosphere. How do we know this? We have been measuring it since the 1950s. Has it been higher before without man's involvement? Yes - fossil and ice core records. Are the same factors that caused it then happening now? No.

So we know a lot about greenhouse gases. We also know and can measure the amount of radiation that a given amount of Co2 will absorb and emit with stunning precision. We also know with some accuracy how much Co2 is being emitted and has likely been emitted.

The only conjecture is what it will do to the climate and when.

If there were more of a heat absorbing and emitting gas in an atmosphere, other things being equal you would expect the climate to heat up. Has it heated up? Yes it has. How much will it heat up and by when? I have not got a clue. That is a projection and you would need some extremely complicated models of the planet's climate to project those. That is where people get frustrated.

So - More Co2 adds more heat absorbing and emitting gas and causes an as yet undetermined increase in the planet's temperature over an undetermined time period. Extrapolating current trends is not a good thing for the planet. I am not saying that I can tell you with any precision when it will reach a tipping point. I assume it will, but not in my useful lifetime. The science is proven. The direction of change is clear. It means we should respond by reducing Co2 emissions.

Even if all of this proven science is a little bit wrong, why not reduce carbon emissions. What is the possible harm in reducing our reliance on a declining asset? Coal and oil are going the way of the dinosaur. Solar, wind, and geothermal are so much more efficient and they are abundant.

The really good news is that capital is allocating itself accordingly, no matter what the naysayers and luddites think. MPG is going up, EV/hybrid is up, alternative energy sources are being used, LED use is up, wind and solar are taking off etc etc. Emissions are being reduced, but not fast enough, yet.

My (Aivars) reply and clarification to my friend's thoughts:

Ah now you are getting the point. I am not arguing against global climate change, it is a fact the planet's climate has been changing for billions of years. I am asking questions that should be asked vs. mass hysteria and knee jerk reactions. Why not Fusion? Where is that in the conversation? In 2005 in Australia my colleague Pat Byrne, who restructured the fresh produce industry, had a meeting with the Prime Minister to show him how Australia could be drought proofed. PM Howard's reaction was that there was no credit for doing that in the Kyoto accord so Australia won't do it. IDIOCY. Now it turns out his chief of staff is being investigated on corruption charges around Water infrastructure build out. HMMMM vested interest, wrong conversation and questions or what?

Smart people are manipulated every day, read my first book mate. The smarter they are, the more manipulated, as they are so deep in a silo and do not have a broad understanding that gives context to their smartness. Look at the smart guys that came up with the 'efficient market hypothesis', the lunacy of the Black Scholes calculations and the smart ones that created CLO's… these were widely touted as definitive financial strategies, yet due to their fundamentally flawed assumptions they contributed to the downfall of the financial markets around 2008. But for a decade they were accepted as fact!! Smart does not make it right mate, most times they rely on the breadcrumbs from the manipulator so they compromise their ass just to get that breadcrumb.

So just because smart people have looked into it is not a defense. It is a cop out, justification and defense of an irrational argument mate.

It's how we are going about it that I have the issue with as it does not take into account all the factors that have an influence. The percentage of Dark Matter and Energy is irrelevant, the fact is that there is something there and we have no idea as to its influence or its properties, regardless of the percentage.
When dismissing the influence of dark matter or energy ask yourself a few questions:

How can the EPA consider making C02 a poison when that is what we breathe out?
Did people only think there were white swans before they saw black swans?
Was there Gas before Kerosene?
Was there Amazon before Wal-Mart?
Were there planes before the Wright Brothers?

Show me the model that takes into consideration the following factors and shows their influence in the overall changes in the climate as well. Then we can have a real conversation.

- The effect of sun spots heating the earth's atmosphere.
- The decrease in wild fires through man's fire suppression in comparison to pre fire suppression.
- The increase in rice production with human population increase with attendant increase in methane production.
- The increased number of cows on the planet due to human population growth and the methane from cow flatulence.
- The net increase / decrease in forests.
- The true cost of production of alternative power generation and hybrid or electric vehicles in terms of CO_2 input.
- The Influence of Dark Energy and Dark Matter.

Is capital flowing to the right initiatives? Why is there not a focus on Fusion instead of all these other sources which still require significant CO_2 input in order to generate the power? Electricity consumption is declining for the last three years, year over year, due to more efficient usage of LEDs and home devices (First time in 30 years). Where is that reported? Manipulated capital movement rather than informed, rational, non-emotional movement is idiotic, stupid, negligent, self-serving and worse, still bad for the planet… not good!

From my first book <u>This Time it is Different Not</u>, the climate has continued to cause controversy. It is interesting that the pundits have waxed and waned on whether it is Climate warming or Climate cooling. One thing that we absolutely know for sure is that the climate over billions of years has continued to change. I have lived in Florida almost 12 years. I remember when we first arrived we encountered a number of hurricanes within the first two years. Following those hurricanes the forecast was for Florida to have horrific hurricanes for the next ten years. What happened? None for Florida. So if we cannot even forecast accurately what the next ten years will bring how can we be conclusive as to the effect of mankind? We need to have a balanced bi partisan approach to the topic, not one from hysterics. This topic engenders a lot of emotion. Let me say right off the bat that man should be a good steward on this planet by constantly striving to reduce pollution and waste to a minimum where economically feasible. My fascination with climate started at a very early age. I started diving at eight years old and I needed to understand the weather to decide if we could go diving or not. I monitored whether the water would be flat enough to dive. Later, whether I was hiking, climbing, kayaking, skiing or learning to fly, weather continued to play an important role.
I was a ski instructor just after I graduated from college and I would hear from the old-timers that there used to be more snow on the mountain in the early days before development of lodges on the mountain. Interestingly, the mountain right next door still receives the same snowfall and it has no development. I would sit in Pension Grimes wondering if the heat that was being produced out of these lodges was creating a micro climate effect that was reducing the amount of snow fall. Funny, while living in Florida I recently read an article by a scientist that had written a paper describing that very effect. Whilst living in Canada, I had a holiday home in a place called Muskoka where the locals talked a lot about the great Canadian Granite shield and that it was pre Cambrian and the oldest in the world. Over the next few years, I learned that this granite shield was once the base of a mountain range that was as high as the Himalayas and that it was worn down to nothing by glaciers that were two miles thick and that had melted many thousands of years ago. So, where was man's influence on global warming then? In the book by a Pulitzer prize-winning author called "Guns Germs and Steel," he looks at the evolution of man over the last 60,000 years and documents how Australia and Papua New Guinea were populated by humans many thousands of years ago when there was a land bridge as the sea level was 600 feet lower. Where was the influence of man on global warming to have caused the rise in sea levels? What effect do sunspots have on global warming? Do we understand the effects? Do most people realize that Skylab in the 70's crashed to earth after sunspot activity heated the outer atmosphere of earth and caused the atmosphere to expand, thus resulting in the increase of earth's atmosphere to reach Skylab and pull it back to earth?
Did you know that Al Gore and Bill Clinton, along with the head of Goldman Sachs, were on the board of The Climate Exchange created in Chicago? Al Gore is now the first Carbon Billionaire because of his

investments in climate change related industries. Along with the revelation that data was erased deliberately to prove scientists' findings in global warming, can we be definitive as to the effect that man has on global warming?

It is the Greatest and Most Successful Pseudoscientific Fraud I Have Seen in My Long Life as a Physicist

11-29-10

Years ago I was questioning the whole climate gate thing based upon the things I had learned and observed over the years before. Aivars Lode

The following is a letter to the American Physical Society released to the public by Professor Emiritus of Physics, Hal Lewis of the University of California at Santa Barbara.

From: Hal Lewis, University of California, Santa Barbara
To: Curtis G. Callan, Jr., Princeton University, President of the American Physical Society

6 October 2010

Dear Curt:

When I first joined the American Physical Society sixty-seven years ago it was much smaller, much gentler, and as yet uncorrupted by the money flood (a threat against which Dwight Eisenhower warned a half-century ago).

Indeed, the choice of physics as a profession was then a guarantor of a life of poverty and abstinence—it was World War II that changed all that. The prospect of worldly gain drove few physicists. As recently as thirty-five years ago, when I chaired the first APS study of a contentious social/scientific issue, The Reactor Safety Study, though there were zealots aplenty on the outside there was no hint of inordinate pressure on us as physicists. We were therefore able to produce what I believe was and is an honest appraisal of the situation at that time. We were further enabled by the presence of an oversight committee consisting of Pief Panofsky, Vicki Weisskopf, and Hans Bethe, all towering physicists beyond reproach. I was proud of what we did in a charged atmosphere. In the end the oversight committee, in its report to the APS President, noted the complete independence in which we did the job, and predicted that the report would be attacked from both sides. What greater tribute could there be?

How different it is now. The giants no longer walk the earth, and the money flood has become the raison d'être of much physics research, the vital sustenance of much more, and it provides the support for untold numbers of professional jobs. For reasons that will soon become clear my former pride at being an APS Fellow all these years has been turned into shame, and I am forced, with no pleasure at all, to offer you my resignation from the Society.

It is of course, the global warming scam, with the (literally) trillions of dollars driving it, that has corrupted so many scientists, and has carried APS before it like a rogue wave. It is the greatest and most successful pseudoscientific fraud I have seen in my long life as a physicist. Anyone who has the faintest doubt that this is so should force himself to read the ClimateGate documents, which lay it bare. (Montford's book organizes the facts very well.) I don't believe that any real physicist, nay scientist, can read that stuff without revulsion. I would almost make that revulsion a definition of the word scientist.

So what has the APS, as an organization, done in the face of this challenge? It has accepted the corruption as the norm, and gone along with it. For example:

1. About a year ago a few of us sent an e-mail on the subject to a fraction of the membership. APS ignored the issues, but the then President immediately launched a hostile investigation of where we got the e-mail addresses. In its better days, APS used to encourage discussion of important issues,

and indeed the Constitution cites that as its principal purpose. No more. Everything that has been done in the last year has been designed to silence debate

2. The appallingly tendentious APS statement on Climate Change was apparently written in a hurry by a few people over lunch, and is certainly not representative of the talents of APS members as I have long known them. So a few of us petitioned the Council to reconsider it. One of the outstanding marks of (in)distinction in the Statement was the poison word incontrovertible, which describes few items in physics, certainly not this one. In response APS appointed a secret committee that never met, never troubled to speak to any skeptics, yet endorsed the Statement in its entirety. (They did admit that the tone was a bit strong, but amazingly kept the poison word incontrovertible to describe the evidence, a position supported by no one.) In the end, the Council kept the original statement, word for word, but approved a far longer "explanatory" screed, admitting that there were uncertainties, but brushing them aside to give blanket approval to the original. The original Statement, which still stands as the APS position, also contains what I consider pompous and asinine advice to all world governments, as if the APS were master of the universe. It is not, and I am embarrassed that our leaders seem to think it is. This is not fun and games, these are serious matters involving vast fractions of our national substance, and the reputation of the Society as a scientific society is at stake.

3. In the interim the ClimateGate scandal broke into the news, and the machinations of the principal alarmists were revealed to the world. It was a fraud on a scale I have never seen, and I lack the words to describe its enormity. Effect on the APS position: none. None at all. This is not science; other forces are at work.

4. So a few of us tried to bring science into the act (that is, after all, the alleged and historic purpose of APS), and collected the necessary 200+ signatures to bring to the Council a proposal for a Topical Group on Climate Science, thinking that open discussion of the scientific issues, in the best tradition of physics, would be beneficial to all, and also a contribution to the nation. I might note that it was not easy to collect the signatures, since you denied us the use of the APS membership list. We conformed in every way with the requirements of the APS Constitution, and described in great detail what we had in mind—simply to bring the subject into the open.

5. To our amazement, Constitution be damned, you declined to accept our petition, but instead used your own control of the mailing list to run a poll on the members' interest in a TG on Climate and the Environment. You did ask the members if they would sign a petition to form a TG on your yet-to-be-defined subject, but provided no petition, and got lots of affirmative responses. (If you had asked about sex you would have gotten more expressions of interest.) There was of course no such petition or proposal, and you have now dropped the Environment part, so the whole matter is moot. (Any lawyer will tell you that you cannot collect signatures on a vague petition, and then fill in whatever you like.) The entire purpose of this exercise was to avoid your constitutional responsibility to take our petition to the Council.

6. As of now you have formed still another secret and stacked committee to organize your own TG, simply ignoring our lawful petition.

APS management has gamed the problem from the beginning, to suppress serious conversation about the merits of the climate change claims. Do you wonder that I have lost confidence in the organization?

I do feel the need to add one note, and this is conjecture, since it is always risky to discuss other people's motives. This scheming at APS HQ is so bizarre that there cannot be a simple explanation for it. Some have held that the physicists of today are not as smart as they used to be, but I don't think that is an issue. I think it is the money, exactly what Eisenhower warned about a half-century ago. There are indeed trillions of dollars involved, to say nothing of the fame and glory (and frequent trips to exotic islands) that go with being a member of the club. Your own Physics Department (of which you are chairman) would lose millions a year if the global warming bubble burst. When Penn State absolved Mike Mann of wrongdoing, and the University of East Anglia did the same for Phil Jones, they cannot have been unaware of the financial penalty for doing otherwise. As the old saying goes, you don't have to be a weatherman to know which way the wind is blowing. Since I am no philosopher, I'm not going to explore at just which point enlightened self-interest crosses the line into corruption, but a careful reading of the ClimateGate releases makes it clear that this is not an academic question.

I want no part of it, so please accept my resignation. APS no longer represents me, but I hope we are still friends.

Hal

Coldest Winter Weather This Early On in the Season Since the Mid-1800's

12-19-10

Global warming, hmmm? Aivars Lode

Associated Press

LONDON — Blizzards and freezing temperatures shut down runways, train tracks and highways across Europe on Saturday, disrupting flights and leaving shivering drivers stranded on roadsides.

Airports in Britain, Germany, France, Spain, the Netherlands and Denmark reported cancelations or delays to flights.
London's Gatwick airport reopened late afternoon after 150 employees using dozens of snow plows worked to clear the runway, though officials warned flights would be limited and cancelations likely.
REUTERS
Shoppers walk along Oxford Street, in central London.
British Airways canceled all short-haul flights from Heathrow Airport and said a few long haul services were likely to operate. Snow forced the airport to close runways, but said one strip would reopen later Saturday, allowing a limited number of flights to depart.
"We currently have hundreds of staff working to clear the runways, taxiways, stands and forecourts and are providing blankets and water for passengers as we strive to get Heathrow moving," the airport said in a statement.
Conditions on British roads were treacherous, Automobile Association official Darron Burness said.
"One of the biggest problems is that large amounts of snow are falling very quickly on to frozen surfaces, making driving hazardous," he said.
Hundreds of motorists were left stranded on a major road in northwestern England following a deluge, prompting police patrols to offer food and water to drivers.
Two men surfed in an artificial stream in central Munich, Germany.
In Italy, the Autostrada of the Sun — the country's main north-south highway — was jammed with hundreds of vehicles, whose chilly occupants slept in their cars, vans or trucks. Though snow had mainly cleared or melted early Saturday, the highway was still closed in one direction, with traffic backed up for nearly 25 miles (40 kilometers).
The snowfall also forced high-speed trains to bypass Florence's central Santa Maria Novella station, stopping in suburban stations instead.
Paris was sprinkled with a light coat of snow overnight, as many people prepared to set off on their Christmas vacations. More snow was predicted Saturday, leading civil aviation authorities to cancel 15 percent of flights at Charles de Gaulle airport between 4 p.m. and 11 p.m.
Many flights were also canceled in northeastern France, where snow already blanketed the ground, and services were also canceled at the airports in the cities of Nantes and Rennes.

Heavy snowfall disrupts traffic and flights across Europe. Video courtesy of Reuters.
Significant numbers of domestic and European flights were canceled at Germany's Frankfurt airport as it dealt with the disruption. Germany's railway operator Deutsche Bahn said it was pressing into service all the trains it could — though some journeys were subject to delays. "Everything that can roll is rolling," spokesman Holger Auferkamp told the German news agency DAPD.
The icy weather also swept over large parts of Scandinavia, causing problems particularly in Denmark, where dozens of flights were canceled at the airport in Copenhagen. According to Danish news agency Ritzau, train traffic between Denmark and southern Sweden was also disrupted because of track problems, partly due to the snow, forcing passengers to instead take buses between the two countries.
In Sweden, where media reports suggest the country is experiencing the coldest winter weather this early on in the season since the mid-1800's, several road accidents were reported, with more than 20 in the Stockholm area alone.
Retailers said the poor weather would likely dent sales on what it traditionally the busiest shopping weekend before Christmas. London's Brent Cross indoor shopping mall closed its doors early Saturday afternoon.

So Now They Are Not Sure if We Have Caused Warming or Cooling!

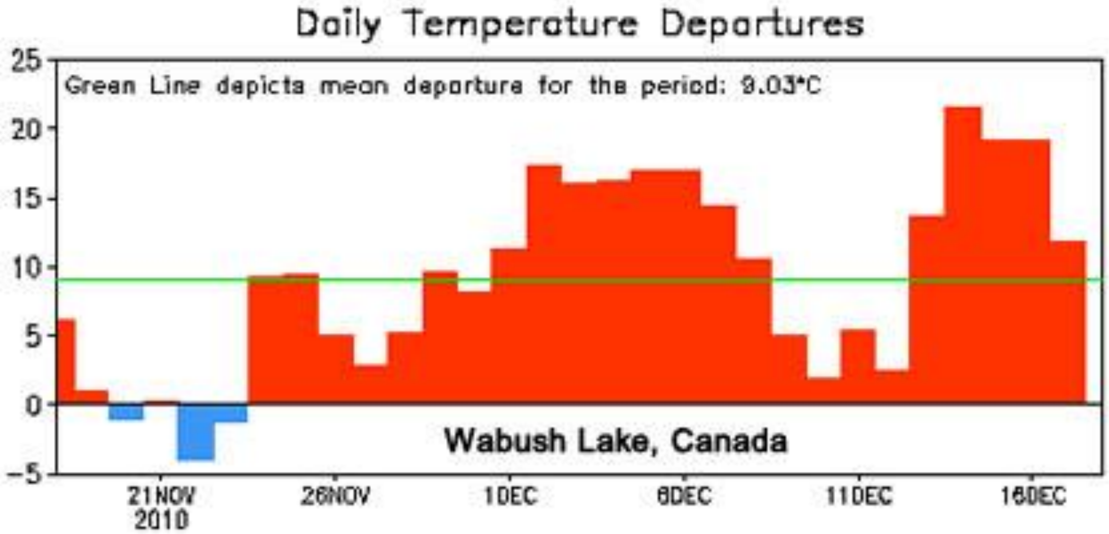
12-20-10

So if they are not sure what we humans have caused, then how can they know the solution? Aivars Lode

Associated Press

One of the fiercest beginnings to winter on record has slammed Europe with relentless assaults of bitter cold and heavy snowfalls. The unusually wintry weather gripping Europe as well as the cold plaguing the eastern United States are linked by a historically strong weather system locked over Greenland.

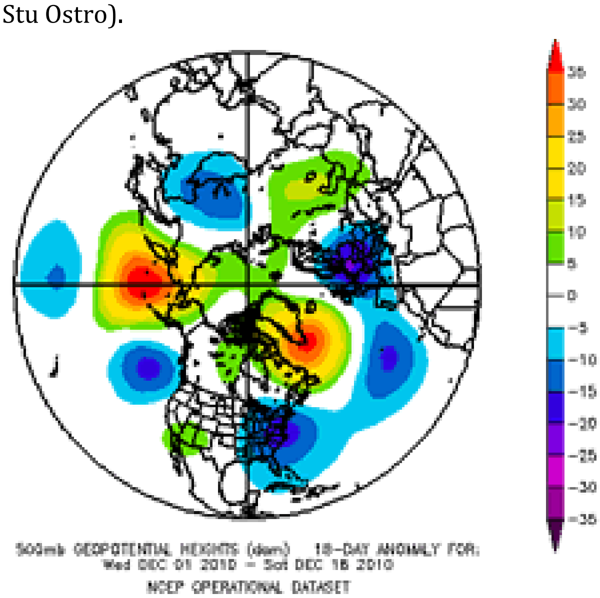
Pedestrians walk during a snow-fall in central London, Saturday, Dec. 18, 2010. Plunging temperatures and heavy snow saw large swathes of Britain grind to a standstill, as London's Gatwick Airport closed its runway and British Airways cancelled flights at Heathrow. (AP Photo/Alastair Grant) (Alastair Grant - AP).
In Europe, the strange weather pattern has caused mayhem for holiday travel. Over the weekend, airport and ground transportation disruptions were widespread, from London's Heathrow Airport - one of the world's busiest hubs - to Frankfurt International Airport and the German Autobahn. According to the The Guardian newspaper, Frankfurt airport workers resorted to dressing up as angels in an attempt to calm the situation when crowds of stranded passengers, frustrated by lengthy delays and flight cancellations, became unruly. Heathrow, meanwhile, was closed to arriving aircraft on Sunday, after being closed altogether on Saturday, according to several news reports. More heavy snow is forecast for London yet again today according to the UK Met Office.
BAA spokesman Andrew Teacher told CNN: "These are absolutely ... freak weather conditions ... We've not seen a storm like this in 20 years."
So what has been causing this freak winter weather onslaught in Europe, and the colder-than-average conditions in much of the eastern U.S., including Washington?
There is a very strong "blocking pattern" in place over Greenland, which is helping to steer a parade of storms into the British Isles and mainland Europe, while pumping abnormally mild air into portions of the Canadian Arctic. In short - the atmosphere is jammed up like the Beltway at rush hour. Storm systems have nowhere to go, and are doing weird loop-de-loops up into the Canadian Maritimes, and even off the coast of the Pacific Northwest.



Temperatures relative to average in Wabush Lake, Canada (Newfoundland), on the warm side of the blocking high pressure system, have been much warmer than average as mild air invades the eastern Arctic. Source: NOAA.

Meteorologists with Environment Canada described the atmospheric circulation as "one of the most bizarre patterns in recent memory".

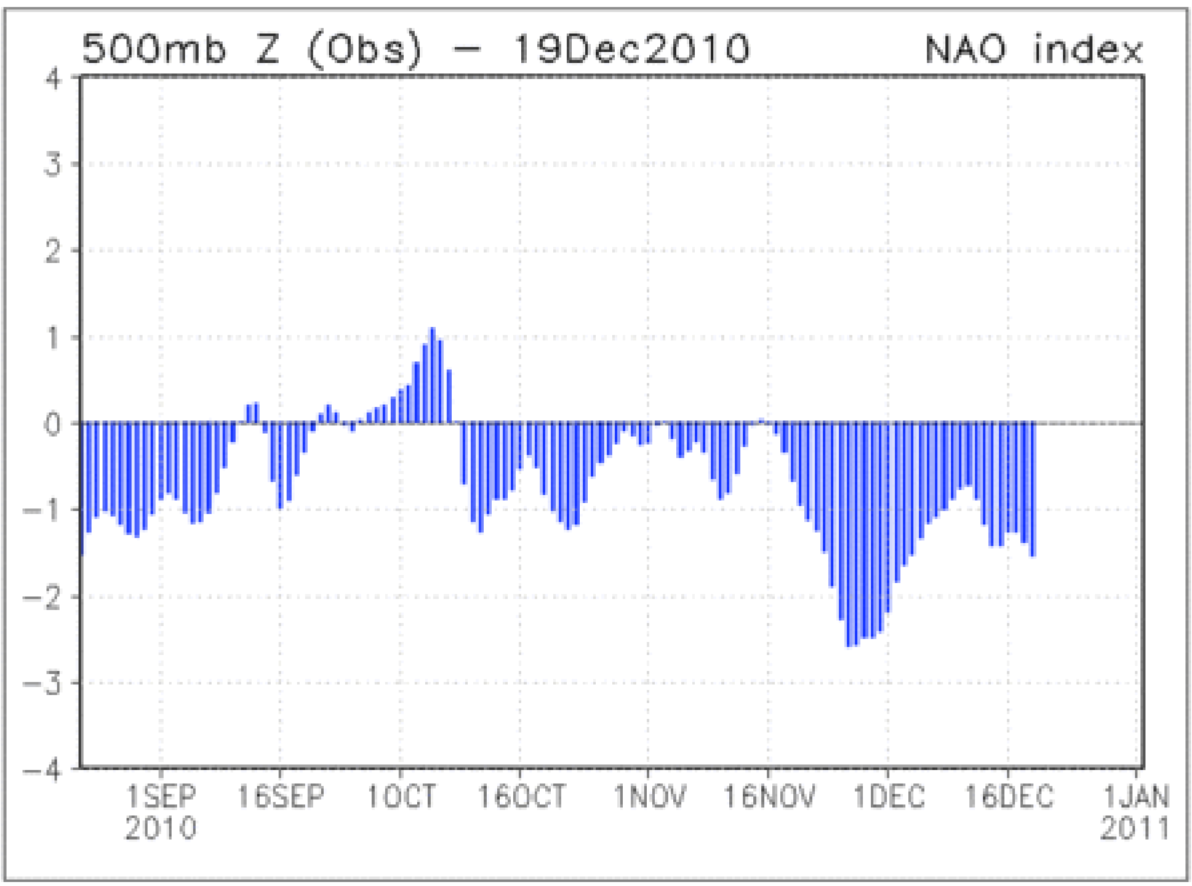
The high pressure cell parked over Greenland is not your ordinary High. It's unusually strong, and has boosted pressures, often referred to by meteorologists as "geopotential heights", in parts of the Arctic to record levels. For example, pressure typically found at about 18,000 feet above sea level have increased so significantly in recent days that it may have set several records, including the record for the largest departure from average for anywhere on the planet in any month of the year since such historical records began in 1948 (this analysis was performed by the Weather Channel's Stu Ostro).



Pressure or "height" departures from average over the Northern Hemisphere. Positive height departures (yellows, oranges and reds) from average are associated with warmer than normal temperatures and negative height (blues) departures are associated with colder than average temperatures. Source: NOAA.

These pressure or "height" changes can be clearly seen in the image to the right with the red shades near the southern tip of Greenland indicating the extraordinarily high pressure, as well as this animation, both from the Climate Prediction Center.

The circulation around that High is helping to pump mild air into eastern Canada, while locking unusually cold air in place in the eastern U.S., in addition to driving record cold and snow into the heart of Western Europe. According to the Associated Press, the snow and bitter cold may set a new monthly record for Britain:
"Britain's national weather forecaster, the Met Office, said the nation has experienced the heaviest snow falls in December in decades and is on course for record low temperatures. "You have to look back to December 1981 to find similar snow depths," forecaster Helen Chivers said. "If the second half of the month is as cold as the first, this will be the coldest December on record since 1910."
According to The Telegraph, Britain's current average temperature for the month of December is running five degrees Celsius below the long-term average for the month.
The cold and snow has not only disrupted holiday travelers. A Lady Gaga concert had to be rescheduled when trucks carrying the pop singer's sets could not make it to Paris' Bercy Stadium, the AP reported.
Might there be larger forces at work?
The current weather pattern is in part related to the North Atlantic Oscillation or NAO, which is a natural climate cycle that influences winter weather in parts of the Northern Hemisphere. When the NAO is in a negative phase like it is now, the likelihood of major snowstorms in the mid-Atlantic increases, as does the likelihood of winter storms in parts of Europe. The NAO was in an extreme negative phase during most of last winter, and has been negative recently as well.



The daily NAO index from September through December 19, 2010. Credit: Climate Prediction Center.
The current weather pattern may also be indirectly related to long-term climate change. Meteorologist Stu Ostro of The Weather Channel has documented a trend of increased occurrences of atmospheric pressure anomalies, such as the one observed above Greenland, and he believes these may be tied to atmospheric warming from greenhouse gas emissions.
Also, recent research indicates that Arctic sea ice decline may influence winter weather patterns. According to the National Snow and Ice Data Center (NSIDC), November sea ice extent was the

second lowest on record since 1979. "Typically by the end of November, nearly half of Hudson Bay has iced over. But on November 30, only 17% of the bay was covered by sea ice. Compared to the 1979 to 2000 average, the ice extent was 12.4% below average for the Arctic as a whole," an NSIDC report stated.
This year's "Arctic Report Card", issued by the National Oceanic and Atmospheric Administration (NOAA), found that warming water and air temperatures associated with the decline of summer sea ice has been raising the height of atmospheric pressure surfaces over the North Pole.

Warming of the Arctic may favor a pattern pushing colder air over the eastern U.S. and Europe.
Source: Climate Central
The report noted that the winter of 2009-2010 featured "one of the three largest Arctic high-pressure events since 1850." These higher pressure surfaces are thought to change large-scale wind patterns and can lead to bouts of severe winter weather in the eastern United States.
"Models suggest that loss of sea ice in fall favors higher geopotential heights over the Arctic. With future loss of sea ice, such conditions as winter 2009-2010 could happen more often. Thus we have a potential climate change paradox. Rather than a general warming everywhere, the loss of sea ice and a warmer Arctic can increase the impact of the Arctic on lower latitudes, bringing colder weather to southern locations," the report stated.

The Abiding Faith Of Warm-Ongers

12-28-10

An interesting perspective on global warming, particularly the last paragraph on solar flares. In a documentary about space exploration they discussed how Skylab fell back to earth in the 70's as the outer atmosphere was warmed by solar flares. This caused the atmosphere to rise up to Skylab and then gravity took over and pulled it back to earth. Aivars Lode

Investors.com

Climate: Nothing makes fools of more people than trying to predict the weather. Whether in Los Angeles or London, recent predictions have gone crazily awry. Global warming? How about mini ice age?
The sight of confused and angry travelers stuck in airports across Europe because of an arctic freeze that has settled across the continent isn't funny. Sadly, they've been told for more than a decade now that such a thing was an impossibility — that global warming was inevitable, and couldn't be reversed.
This is a big problem for those who see human-caused global warming as an irreversible result of the Industrial Revolution's reliance on carbon-based fuels. Based on global warming theory — and according to official weather forecasts made earlier in the year — this winter should be warm and dry. It's anything but. Ice and snow cover vast parts of both Europe and North America, in one of the coldest Decembers in history.
A cautionary tale? You bet. Prognosticators who wrote the U.N.'s Intergovernmental Panel on Climate Change, or IPCC, global warming report in 2007 predicted an inevitable, century-long rise in global temperatures of two degrees or more. Only higher temperatures were foreseen. Moderate or even lower temperatures, as we're experiencing now, weren't even listed as a possibility.
Since at least 1998, however, no significant warming trend has been noticeable. Unfortunately, none of the 24 models used by the IPCC views that as possible. They are at odds with reality.
Karl Popper, the late, great philosopher of science, noted that for something to be called scientific, it must be, as he put it, "falsifiable." That is, for something to be scientifically true, you must be able to test it to see if it's false. That's what scientific experimentation and observation do. That's the essence of the scientific method.
Unfortunately, the prophets of climate doom violate this idea. No matter what happens, it always

confirms their basic premise that the world is getting hotter. The weather turns cold and wet? It's global warming, they say. Weather turns hot? Global warming. No change? Global warming. More hurricanes? Global warming. No hurricanes? You guessed it.
Nothing can disprove their thesis. Not even the extraordinarily frigid weather now creating havoc across most of the Northern Hemisphere. The Los Angeles Times, in a piece on the region's strangely wet and cold weather, paraphrases Jet Propulsion Laboratory climatologist Bill Patzert as saying, "In general, as the globe warms, weather conditions tend to be more extreme and volatile."

Got that? No matter what the weather, it's all due to warming. This isn't science; it's a kind of faith. Scientists go along and even stifle dissent because, frankly, hundreds of millions of dollars in research grants are at stake. But for the believers, global warming is the god that failed.
Why do we continue to listen to warmists when they're so wrong? Maybe it's because their real agenda has nothing to do with climate change at all. Earlier this month, attendees of a global warming summit in Cancun, Mexico, concluded, with virtually no economic or real scientific support, that by 2020 rich nations need to transfer $100 billion a year to poor nations to help them "mitigate" the adverse impacts of warming.
This is what global warming is really about — wealth redistribution by people whose beliefs are basically socialist. It has little or nothing to do with climate. If it did, we might pay more attention to Piers Corbyn, a little-known British meteorologist and astrophysicist who has a knack for correctly predicting weather changes. Indeed, as London's Mayor Boris Johnson recently noted, "He seems to get it right about 85% of the time."
How does he do it? Unlike the U.N. and government forecasters, Corbyn pays close attention to solar cycles that, as it turns out, correlate very closely to changes in climate. Not only are we not headed for global warming, Corbyn says, we may be entering a "mini ice age" similar to the one that took place from 1450 A.D. to 1850 A.D.
We don't know if Corbyn's right or not. But given his record, he deserves as much attention as the warm-mongers whose goal is not to arrive at the truth but to reorganize society in a radical way.

Rearing Cattle Produces More Greenhouse Gases Than Driving Cars, UN Report Warns

1-6-11

I found this old report by accident and thought it would be interesting to share. So I guess we have to kill all the cows now, if we use the same logic about cutting petroleum use. Aivars Lode

UN News Centre, un.org

29 November 2006 – Cattle-rearing generates more global warming greenhouse gases, as measured in CO_2 equivalent, than transportation, and smarter production methods, including improved animal diets to reduce enteric fermentation and consequent methane emissions, are urgently needed, according to a new United Nations report released today. “Livestock are one of the most significant contributors to today’s most serious environmental problems,” senior UN Food and Agriculture Organization (FAO) official Henning Steinfeld said. “Urgent action is required to remedy the situation.” Cattle-rearing is also a major source of land and water degradation, according to the FAO report, Livestock’s Long Shadow–Environmental Issues and Options, of which Mr. Steinfeld is the senior author. “The environmental costs per unit of livestock production must be cut by one half, just to avoid the level of damage worsening beyond its present level,” it warns. When emissions from land use and land use change are included, the livestock sector accounts for 9 per cent of CO_2 deriving from human-related activities, but produces a much larger share of even more harmful greenhouse gases. It generates 65 per cent of human-related nitrous oxide, which has 296 times the Global Warming Potential (GWP) of CO_2. Most of this comes from manure. And it accounts for respectively 37 per cent of all human-induced methane (23 times as warming as CO_2), which is

largely produced by the digestive system of ruminants, and 64 per cent of ammonia, which contributes significantly to acid rain.   With increased prosperity, people are consuming more meat and dairy products every year, the report notes. Global meat production is projected to more than double from 229 million tonnes in 1999/2001 to 465 million tonnes in 2050, while milk output is set to climb from 580 to 1043 million tonnes.   The global livestock sector is growing faster than any other agricultural sub-sector. It provides livelihoods to about 1.3 billion people and contributes about 40 per cent to global agricultural output. For many poor farmers in developing countries livestock are also a source of renewable energy for draft and an essential source of organic fertilizer for their crops.   Livestock now use 30 per cent of the earth's entire land surface, mostly permanent pasture but also including 33 per cent of the global arable land used to producing feed for livestock, the report notes. As forests are cleared to create new pastures, it is a major driver of deforestation, especially in Latin America where, for example, some 70 per cent of former forests in the Amazon have been turned over to grazing.   At the same time herds cause wide-scale land degradation, with about 20 per cent of pastures considered degraded through overgrazing, compaction and erosion. This figure is even higher in the drylands where inappropriate policies and inadequate livestock management contribute to advancing desertification.   The livestock business is among the most damaging sectors to the earth's increasingly scarce water resources, contributing among other things to water pollution from animal wastes, antibiotics and hormones, chemicals from tanneries, fertilizers and the pesticides used to spray feed crops.   Beyond improving animal diets, proposed remedies to the multiple problems include soil conservation methods together with controlled livestock exclusion from sensitive areas; setting up biogas plant initiatives to recycle manure; improving efficiency of irrigation systems; and introducing full-cost pricing for water together with taxes to discourage large-scale livestock concentration close to cities.

Himalayan Glaciers Not Melting Because of Climate Change

1-27-11

What can I say? Aivars Lode

By Dean Nelson and Richard Alleyhe, Telegraph UK

Himalayan glaciers are actually advancing rather than retreating, claims the first major study since a controversial UN report said they would be melted within quarter of a century.
Himalayan glaciers not melting because of climate change, report finds
The key factor affecting the advance or retreat of the Karakoram glaciers is the amount of debris strewn on their surface. The Passu glacier in the Karakorum region of Pakistan.

Researchers have discovered that contrary to popular belief half of the ice flows in the Karakoram range of the mountains are actually growing rather than shrinking.

The discovery adds a new twist to the row over whether global warming is causing the world's highest mountain range to lose its ice cover.

It further challenges claims made in a 2007 report by the UN's Intergovernmental Panel on Climate Change that the glaciers would be gone by 2035.

Although the head of the panel Dr Rajendra Pachauri later admitted the claim was an error gleaned from unchecked research, he maintained that global warming was melting the glaciers at "a rapid rate", threatening floods throughout north India.

The new study by scientists at the Universities of California and Potsdam has found that half of the glaciers in the Karakoram range, in the northwestern Himlaya, are in fact advancing and that global warming is not the deciding factor in whether a glacier survives or melts.

Dr Bodo Bookhagen, Dirk Scherler and Manfred Strecker studied 286 glaciers between the Hindu Kush on the Afghan-Pakistan border to Bhutan, taking in six areas.

Their report, published in the journal Nature Geoscience, found the key factor affecting their advance or retreat is the amount of debris – rocks and mud – strewn on their surface, not the general nature of climate change.

Glaciers surrounded by high mountains and covered with more than two centimetres of debris are protected from melting.

Debris-covered glaciers are common in the rugged central Himalaya, but they are almost absent in subdued landscapes on the Tibetan Plateau, where retreat rates are higher.

In contrast, more than 50 per cent of observed glaciers in the Karakoram region in the northwestern Himalaya are advancing or stable.

"Our study shows that there is no uniform response of Himalayan glaciers to climate change and highlights the importance of debris cover for understanding glacier retreat, an effect that has so far been neglected in predictions of future water availability or global sea level," the authors concluded.

Dr Bookhagen said their report had shown "there is no stereotypical Himalayan glacier" in contrast to the UN's climate change report which, he said, "lumps all Himalayan glaciers together."

Dr Pachauri, head of the Nobel prize-winning UN Intergovernmental Panel on Climate Change, has remained silent on the matter since he was forced to admit his report's claim that the Himalayan glaciers would melt by 2035 was an error and had not been sourced from a peer-reviewed scientific journal. It came from a World Wildlife Fund report.

He angered India's environment minister and the country's leading glaciologist when he attacked those who questioned his claim as purveyors of "voodoo science".

The environment Minister Jairam Ramesh had cited research indicating some Himalayan glaciers were advancing in the face of the UN's claim.

How Well Has The Media And Government Informed The Public About CO2 Levels In The Air?

3-8-11

Very interesting. Aivars Lode

By Gregg D Thompson, Climate Researcher

How Well Has The Media And Government Informed The Public About CO2 Levels In The Air?
Ask yourself, your friends, family and work associates if they know the answers to the following questions about Carbon Dioxide (CO2). Be sure to write your answers before looking at the following pages.
Question 1. What percentage of the atmosphere do you think is CO2?
Question 2. Have you ever seen the percentage given in any media?
Question 3. What percentage of the CO2 is man-made?
Question 4. What percentage of the man-made CO2 does Australia produce?

Question 5. Is CO_2 is a pollutant?
Question 6. Have you ever seen any evidence that CO_2 causes a greenhouse effect?
I have asked over 100 people these questions. Virtually everyone says they don't know the answers so ask them to tell you what their perception is by what they have learnt from the media, the government and Green groups. Let them know there is no right or wrong answer as you are just doing a survey as to what people have perceived the answers to be from these sources.
The answers to these questions are fundamental to evaluating the global warming scare YET almost no one knows the facts. However, without this knowledge we can't make an informed decision about whether Climate Change is natural or not.
On the following pages are respondent's perceptions followed by the correct answers. The bulk of the respondents (over 100 to date) are educated fairly well to very well. They comprise business managers in a diversity of large and small companies, those in medical profession, accounting, law, sales, engineering as well as scientists and trades people.
2
ANSWERS TO QUESTIONS
Q1. What % of the air is CO_2?
Respondent's Answers: nearly all were 20% - 40%, the highest was 75% while the lowest were 10%-2%.
The Correct Answer: CO_2 is less than a mere four 100ths of 1%! As a decimal it is 0.038%. As a fraction it is 1/27th of 1%. (Measurements for CO_2 vary from one source to another from 0.036%-0.039% due to the difficulty in measuring such a small quantity and due to changes in wind direction e.g. whether the air flow is from an industrialized region or a volcanic emission etc)
Nitrogen is just over 78%, Oxygen is just under 21% and Argon is almost 1%. CO_2 is a minute trace gas at 0.038%. We all learnt the composition of the air in both primary and high school but because most people don't use science in their day to day living, they have forgotten this. Also, the vast bulk of the population have very little knowledge of science so they find it impossible to make judgements about even basic scientific issues let alone ones as complex as climate. This makes it easy for those with agendas to deceive us by using emotive statements rather than facts. For a detailed breakup of the atmosphere go to: http://en.wikipedia.org/wiki/Atmosphere_of_Earth#Composition
Q2. Have you seen a percentage for CO_2 given in the media?
Respondent's answers: All said 'No'.
Q3. What % of CO_2 do humans produce?
Respondent's answers ranged from as high as 100% with most estimating it to be between 75% to 25% and only four said they thought it was between 10% and 2 %.
The Correct Answer: Nature produces nearly all of it. Humans produce only 3%. As a decimal it is a miniscule 0.001% of the air. All of mankind produces only one molecule of CO_2 in around every 90,000 air molecules! Yes, that's all.
Q4. What % of man-made CO_2 does Australia produce?
Respondent's Answers ranged from 20% to 5%.
The Correct Answer is 1% of the 0.001% of man-made CO_2. As a decimal it is an insignificant 0.00001% of the air. That's one, one-hundredth thousandth of the air. That is what all the fuss is about! That's one CO_2 molecule from Australia in every 9,000,000 molecules of air. It has absolutely no affect at all.
We have been grossly misled to think there is tens of thousands of times as much CO_2 as there is! Why has such important information been withheld from the public? If the public were aware that man-made CO_2 is so incredibly small there would be very little belief in a climate disaster so the media would not be able to make a bonanza from years of high sales by selling doomsday stories. Governments and Green groups would not be able to justify a carbon tax that will greatly raise the cost of everything. Major international banks and the stock market would not make massive profits out of carbon trading and many in the science community would not be getting large research grants.
Q5. Is CO_2 is a pollutant?
Respondent's Answers: All thought it was a pollutant, at least to some degree.
The Correct Answer: CO_2 is a harmless, trace gas. It is as necessary for life - just as oxygen and nitrogen are. It is a natural gas that is clear, tasteless and odourless. It is in no way a pollutant. Calling CO_2 a 'pollutant' leads many to wrongly think of it as black, grey or white smoke. Because the

media deceitfully show white or grey ‘smoke’ coming out of power station cooling towers, most think this is CO_2. It is not: it’s just steam (water vapour) condensing in the air. CO_2 is invisible: just breathe out and see. Look at it bubbling out of your soft drinks, beer or sparkling wine. No one considers that a pollutant - because it’s not. CO_2 in its frozen state is commonly known as dry ice. It is used in camping eskys, in medical treatments and science experiments. No one considers that a pollutant either. CO_2 is emitted from all plants. This ‘emission’ is not considered a pollutant even though this alone is 33 times more than man produces! Huge quantities of CO_2 are dissolved naturally in the ocean and released from the warm surface. This is not considered a pollutant either.

The two large cooling towers are emitting only steam. A tiny amount of CO_2 is trickling out of the thin chimney at centre. It is only barely visible due to a small quantity of smoke particles, most of which is filtered out nowadays. The media doesn’t like to show skinny CO_2 chimneys emitting nothing visible because this is unimpressive and not the least bit emotive so it doesn’t make for sensationalist journalism. So they typically choose to deceive the public by showing cooling towers.

Q6. Have you seen any evidence that CO_2 causes a greenhouse effect?

Respondent’s Answers: Most did not know of any definite proof. Some said they thought the melting of the Arctic and glaciers was possibly proof.

The Correct Answer: There is no proof at all. The Intergovernmental Panel for Climate Change (the IPCC) has never produced any proof. There are, however the following proofs that it can’t cause a greenhouse effect.

• It is true that CO_2 can absorb heat a little faster than nitrogen and oxygen but it becomes no hotter because it cannot absorb any more heat than there is available to the other gases. This is against the laws of thermodynamics. All gases share their heat with the other gases. Gas molecules fly around and are constantly colliding with other gas molecules so they immediately lose any excess heat to other molecules during these collisions. That’s why the air is all one temperature in any limited volume.

• Even if CO_2 levels were many times higher, radiative heating physics shows that it would make virtually no difference to temperature because it has a very limited heating ability. With CO_2, the more there is, the less it heats because it quickly becomes saturated. For a detailed explanation go to: http://www.geocraft.com/WVFossils/greenhouse_data.html

The following facts show that even high levels of CO_2 can make almost no impact on heating the atmosphere.

1. Glasshouses with high levels of CO_2 - hundreds of times higher than in the air to make plants grow faster – heat up during the day to the same temperature as glasshouses with air in them. This is also true for bottles of pure CO_2 compared to ones with air.
2. The planets Venus and Mars have atmospheres that are almost entirely CO_2 (97%) yet they have no ‘runaway’ greenhouse heating effect. Their temperatures are stable.
3. The geological record over hundreds of millions of years has shown that CO_2 has had no affect whatsoever on climate. At times, CO_2 was hundreds of times higher, yet there were ice ages.
4. In recent times when Earth was considerably warmer during the Roman Warming and the Medieval Warming, the higher temperatures then were totally natural because there was no industrialization back then.

• Water vapour is 4% of the air and that‘s 100 times as much as CO_2. Water vapour absorbs 33 times as much heat as CO_2 making CO_2’s contribution insignificant. But like CO_2, water vapour also gives this heat away to air molecules by contact (conduction) and radiation, thereby making the surrounding air the same temperature.

• The Earth’s atmosphere is very thin so its heat is continually being lost to the absolute coldness of outer space (-270 C). As there is no ‘ceiling’ to the atmosphere, surface heat cannot be retained. The Sun renews warmth every day.

Over the last few years Earth has had much colder winters due to very few magnetic storms on the Sun. These four increasingly colder winters have been particularly noticeable in the northern hemisphere where most of the land is. Because of this, the Arctic has re-frozen and glaciers that were receding are now surging due to the heavy snow falls. The Arctic showed some melting around its edges from the mid 90s to the mid 2000s due to the very high level of solar storm activity at that time. But as the Sun is now entering probably 2-4 decades of low solar activity, this is expected to cause global cooling.

The climate has always been naturally cyclic and variable due to numerous natural drivers of which CO2 is not one. Over millions of years the climate has shown far greater changes in the geological record than we have seen over the last 200 hundred years - and there was no industrialization back then. The very minor variations we have witnessed over the last 100 years have all occurred several times even in that short period. Today's changes in climate are common and completely natural. There are now over 50 books that provide numerous reasons why man-made global warming is false.

The Effect of the Sun on Earth's climate

It has long been known that the Sun is by far the major driver of all weather on Earth because it is the source of all heat and energy. There is absolutely no real-world evidence that the temperature has continually risen as we were led to believe. The hottest records in the USA and Greenland were in the 1930s due to a strong solar cycle. It became cooler from 1940 to 1970. This was due to a weak solar cycle. It has again become increasingly colder since 2006 due to another weak solar cycle. The Sun's magnetic storm activity has now moved to an extended minimum so the next 2-4 maximums are expected to be much weaker than the last few have been. By 2011 the solar cycle should have risen half way back to its 11 year maximum but it hasn't! It's only just started. The last time the Sun acted this way was during the Dalton Minimum from 1790 to 1830 which produced 40 years of very cold winters with subdued, wetter summers globally - just as we are expiring now. From 1450 -1750 a more intense Maunder Minimum occurred which caused the Little Ice Age. The next 2-4 solar cycles will very likely be low in solar activity causing noticeably cooler global temperatures for a few decades.

The effect of the current Solar Minimum is particularly obvious in the northern hemisphere where increasingly colder winter temperatures have caused massive snow falls disrupting transportation across Europe, Asia and the US.

Despite more than a decade of continual doomsday predictions of increasing temperatures and never-ending drought globally, the opposite has happened. There have been lower temperatures globally with greatly increased rain and snows over much of the planet since 2006. This has caused floods across most of Australia and most other counties, as seen on the TV news. This ended the global 10 year drought conditions from the mid 90s to the mid 2000s. There has been no drop in CO2 to cause this: in fact, CO2 has risen. There is no correlation between CO2 levels and climate. The reason CO2 levels have gone up a little is most likely due to the surface of the oceans warming very slightly during the latter half of the century and therefore releasing a little CO2. (The oceans are currently cooling very slightly.) Mankind's contribution to CO2 is so small it's not measurable.

Polls on Climate Change

Polls in western countries now show that believers in man-made global warming are now in the minority with a sizable percentage of over 20% who "don't know" if CO2 is causing any change. The obvious change to a cooler, wetter climate combined with the revelations of climate fraud shown by the Climategate emails has led to the change in public perception. Polls asking people what is the most important threat to them out of a list of 20 issues, place global warming at the bottom!

Popular beliefs are not fact

The bulk of the population of the western world believed that the 2000 Bug would destroy much of our technology on New Year's Eve 2000 yet not one disaster occurred anywhere. We were told CFCs caused the Ozone 'hole' yet after billions of dollars were spent removing CFCs over 30 years, the slight depletion of Ozone at the South Pole has not changed. Scientists now think it is natural. Popular beliefs are often based on blind faith, ideology and profit rather than proven scientific evidence. History is littered with popular consensuses that were wrong.

A Carbon Tax

Taxing CO2 achieves nothing for the environment; in fact, it deprives real environmental issues from receiving funds. A carbon tax will have a disastrous impact on lower and middle income earners. Even if drastic measures were imposed equally on all countries around the world to reduce the total human CO2 contribution by as much as 30%, this would reduce total CO2 by an insignificant percentage. It would have no affect whatsoever on the climate but it would totally destroy the economies of every country and dramatically lower everyone's living standards. Most people and politicians are making decisions emotively, not factually about a complex science they know virtually nothing about.

Lord Turnbull: the IPCC is useless

6-2-11

I will let you be the judge as to man's effect on Climate. Aivars Lode

By James Delingpole, The Telegraph

Following yesterday's story about David Cameron's depressing plans to bomb the UK economy back to the dark ages and wipe out the British countryside, here's a wistful reminder of how things might have been if only we weren't run by imbeciles.

It's a briefing paper called The Really Inconvenient Truth – or It Ain't Necessarily So produced for the Global Warming Policy Foundation by Lord Turnbull, the former Cabinet Secretary and head of the Home Civil Service (2002 to 2005). His arguments against unilateral action by Britain to "combat Climate Change" are clear and powerful. In a nutshell, he says: "Don't let the deeply untrustworthy IPCC decide the fate of the UK economy."

Lord Turnbull doesn't mince his words:

The feed-in tariff mechanism is fast becoming a scandal. Those lucky enough to own buildings large enough on which to install solar panels or enough land for a wind farm have been receiving 30-40p per kwh, for electricity, which is retailed at only 11p. The loss is paid for by a levy on businesses and households. It is astonishing that the Liberals who attach such importance to fairness turn a blind eye to this transfer from poor to rich running to £billions a year. If you live in a council tower block in Lambeth you don't have much opportunity to get your nose into this trough.

and:

It is regrettable that the UK Parliament has proved so trusting and uncritical of the IPCC narrative, and so reluctant to question the economic costs being imposed in pursuit of decarbonisation. It verges on the unconstitutional that the payments being made under the renewables obligation and feed-in tariffs and the levies being raised to pay for them are routed invisibly through the accounts of the electricity industry rather than being voted in Estimates or the Finance Bill. I am also disappointed that so many of my former colleagues in the Civil Service seem so ready to go along unquestioningly with the consensus."

Double-Sun Planet Discovered, à la 'Star Wars'

9-15-11

So what do you say? Well, these discoveries seem to come as a surprise, so how can we be so definitive about man's effect on global warming? Aivars Lode

By Robert Lee Hotz, The Wall Street Journal

Astronomers announced Thursday the discovery of a rare planet that orbits two stars, like Tatooine in the "Star Wars" films, adding to a growing inventory of alien worlds in the curiosity shop of the cosmos.

Detected by the National Aeronautics and Space Administration's $600 million Kepler space telescope, it is the first confirmed solar system of its kind, turning a Hollywood fantasy into an

astronomical fact. Called Kepler-16b, the Saturn-size planet circles its twin stars in the constellation Cygnus about every 229 days, the researchers reported in Science.
"The reality goes beyond the imagination of the most creative theorist in astronomy or science fiction writer," said astrophysicist Fred Rasio at Northwestern University, who wasn't involved in the work. "Just about anything you could think of as a planetary system is actually out there."
The discovery capped a week of new findings about worlds beyond our own solar system. All told, four research teams in Europe and the U.S. reported finding 74 previously unknown exoplanets, as worlds orbiting other stars are called, including 16 that appear to be only slightly larger than Earth and with gravity favorable to life as we know it.
One of them, with about 3.5 times Earth's mass, may be orbiting near its parent star's so-called habitable zone, in which water may be liquid and conditions possibly ripe for life, said astronomers at the European Southern Observatory, who announced the find earlier this week.
It was among a trove of 50 exoplanets they detected around nearby stars using a spectrograph called the High Accuracy Radial-velocity Planet Searcher (HARPS), based at the La Silla Observatory in Chile.
So far, for reasons ranging from toxicity to temperature extremes, none of the 683 confirmed exoplanets seem capable of harboring life. No one can say with certainty whether any habitable planets exist outside our solar system.
Even so, the cascade of finds offers growing evidence that alien worlds may outnumber the stars themselves.

The HARPS team, led by Michel Mayor from the University of Geneva in Switzerland, estimated that about 40% of all stars like the Sun have at least one planet of Saturn's size or smaller. So far, the Kepler mission scientists have found more than 170 star systems in which two, three, four, five or even six planets all orbit one star.
"The universe is teeming with planetary systems of multiple planets, many of which are nearly the size of Earth," said plant-hunting pioneer Geoffrey Marcy at the University of California in Berkeley.
Among the other unearthly wonders discovered in recent months are an exoplanet blacker than coal and a world stripped to a diamond-like core. A third newly found exoplanet is blasted by its parent star with X-ray bursts so fierce that the radiation is eroding the planet's surface at a rate of five million tons a second.
Stranger still, a star survey of the Milky Way by astronomers in Japan and New Zealand earlier this year discovered a new class of Jupiter-size planets that float free of any star at all, swimming about on their own in the dark. They estimated that there may be twice as many of these orphan planets as stars.
Earlier this week, British astronomers in the Wide Angle Search for Planets (WASP) project announced they had found 23 giant, hot exoplanets, each about the size of Jupiter and, no doubt, with crushing gravity. These exotic worlds circle their stars so closely that they complete an entire obit about every five to eight days, the researchers said.
The WASP group monitors 10 million stars for signs of exoplanets by taking images of the night sky every 10 minutes with an array of cameras in South Africa and in the Canary islands. Their research, which hasn't yet been published, was discussed at the Extreme Solar Systems conference this week in Jackson Hole, Wyo.
"We are finding planetary systems which are very different from our own," said astrophysicist Coel Heiler at the U.K.'s Keele University, whose group runs the WASP search in the Southern Hemisphere.

Be Prudent With Climate Claims

10-26-11

Yep, the earth has cooled and warmed many times! Aivars Lode

By George Pell, The Australian

SCIENCE and technology have already achieved considerable mastery over nature, and massive local achievements. But where is the borderline separating us from what is beyond human power?
Where does scientific striving become uneconomic, immoral or ineffectual and so lapse into hubris? Have scientists been co-opted on to a bigger, better-advertised and more expensive bandwagon than the millennium bug fiasco?
We can only attempt to identify the causes of climate change through science and these causes need to be clearly established after full debates, validated comprehensively, before expensive remedies are imposed on industries and communities.
I first became interested in the question in the 1990s when studying the anti-human claims of the "deep greens". Mine is not an appeal to the authority of any religious truth in the face of contrary scientific evidence. Neither is it even remotely tinged by a postmodernist hostility to rationality.

My appeal is to reason and evidence, and in my view the evidence is insufficient to achieve practical certainty on many of these scientific issues.
Recently Robert Manne, following fashionable opinion, wrote that "the science is truly settled" on the fundamental theory of climate change: global warming is happening; it is primarily caused by the emission of greenhouse gases, especially carbon dioxide; and it is certain to have profound effects in the future .
His appeal is to the "consensual view among qualified scientists". This is a category error, scientifically and philosophically. In fact, it is also a cop-out, a way of avoiding the basic issues.
The basic issue is not whether the science is settled but whether the evidence and explanations are adequate in that paradigm.
I fear, too, that many politicians have never investigated the primary evidence.
Much is opaque to non-specialists, but persistent inquiry and study can produce useful clarifications, similar to the nine errors identified by the British High Court in Al Gore's propaganda film, An Inconvenient Truth.
The complacent appeal to scientific consensus is simply one more appeal to authority, quite inappropriate in science or philosophy.
It is not generally realised that in 2001 at least, one of the Intergovernmental Panel on Climate Change Third Assessment Report's working groups agreed: "In climate research and modelling, we are dealing with a coupled, non-linear, chaotic system, and therefore that the long-term prediction of future climate states is not possible."
Claims of atmospheric warming often appear to conflict and depend upon the period of time under consideration.
► The earth has cooled during the past 10,000 years since the Holocene climate optimum.
► The earth has cooled since 1000 years ago, not yet achieving the temperatures of the Medieval Warm Period.
► The earth has warmed since 400 years ago after the Little Ice Age three centuries ago.
► The earth warmed between 1979 and 1998 and has cooled slightly since 2001.
The following facts are additional reasons for scepticism.
► In many places, most of the 11,700 years since the end of the last ice age were warmer than the present by up to 2C.
► Between 1695 and 1730, the temperature in England rose by 2.2C. That rapid warming, unparalleled since, occurred long before the Industrial Revolution.
► From 1976 to 2001, "the global warming rate was 0.16C per decade", as it was from 1860 to 1880 and again from 1910 to 1940.
My suspicions have been deepened through the years by the climate movement's totalitarian approach to opposing views. Those secure in their explanations do not need to be abusive.
The term "climate change denier", however expedient as an insult or propaganda weapon, with its deliberate overtones of comparison with Holocaust denial, is not a useful description of any significant participant in the discussion. I was not surprised to learn that the IPCC used some of the world's best advertising agencies to generate maximum effect among the public .
The rewards for proper environmental behaviour are uncertain, unlike the grim scenarios for the future as a result of human irresponsibility which have a dash of the apocalyptic about them.

The immense financial costs true believers would impose on economies can be compared with the sacrifices offered traditionally in religion, and the sale of carbon credits with the pre-Reformation practice of selling indulgences.
Some of those campaigning to save the planet are not merely zealous but zealots. To the religionless and spiritually rootless, mythology - whether comforting or discomforting - can be magnetically, even pathologically, attractive.
Whatever our political masters might decide at this high tide of Western indebtedness, they are increasingly unlikely, because of popular pressure, to impose new financial burdens on their populations in the hope of curbing the rise of global temperatures, except perhaps in Australia, which has 2 per cent of the world's industrial capacity and only 1.2 per cent of its CO2 emissions, while continuing to sell coal and iron worth billions of dollars to Asia.
Extreme weather events are to be expected. This is why I support the views of Bjorn Lomborg and Bob Carter that money should be used to raise living standards and reduce vulnerability to catastrophes.
The cost of attempts to make global warming go away will be very heavy. They may be levied initially on "the big polluters" but they will eventually trickle down to the end-users. Efforts to offset the effects on the vulnerable are well intentioned but history tells us they can only be partially successful.
Sometimes the very learned and clever can be brilliantly foolish, especially when seized by an apparently good cause. My request is for common sense and what the medievals, following Aristotle, called prudence.
The appeal must be to the evidence. First of all we need adequate scientific explanations as a basis for our economic estimates. We also need history, philosophy, even theology and many will use, perhaps create, mythologies. But most importantly we need to distinguish which is which.

Global Warming is Over, Says Expert

11-3-11

Even members on the same team cannot agree. Read more below. Aivars Lode

By Julie Carpenter, Express

Professors Judith Curry and Richard Muller don’t agree on the same set of results on climate change

IT'S one of the hottest feuds in science - climate chance zealots insist that we're still destroying the planet but now another scientist has warned the cast-iron evidence just isn't there.
FOR a minute there it seemed the global warming debate had finally been resolved.

While for years scientists and sceptics have raged against each other on the crucial topic, new research hailed “the most definitive study into temperature data gathered by weather stations over the past half-century” seemed to come to an authoritative conclusion.

Global warming IS real it said, strengthening the need for us all to reduce carbon emissions and boost efforts to try to save the planet.

And this research was headed by a physicist who had previously been a sceptic of global warming and an outspoken critic of the science underpinning it, lending the results even greater credibility.

“

Global warming has stopped

”

Prof Judith Curry, a member of Prof Muller’s team

Prof Richard Muller had spent two years trying to discover if the mainstream scientists were wrong but concluded they were right. Temperatures are rising and his results, he concluded, “proved you should not be a sceptic, at least not any longer”. Case closed.

But is it? Not according to Prof Judith Curry, a member of Prof Muller’s team, who claims the same findings have shown that global warming has stopped – plunging the rest of us into a quandary of what and who to believe.

When Prof Curry heard that Prof Muller was saying that the Berkeley Earth Surface Temperature (BEST) findings would put an end to climate change scepticism for good she was horrified. “This isn’t the end of scepticism,” she exclaimed.

“To say that is the biggest mistake he has made. When I saw he was saying that I just thought, ‘Oh my God.’”

Prof Muller, of Berkeley University in California, and Prof Curry, who chairs the Department Of Earth And Atmospheric Sciences at America’s Georgia Institute of Technology, were part of the BEST project that carried
out analysis of more than 1.6 billion temperature recordings collected from more than 39,000 weather stations around the world.

Prof Muller appeared on Radio 4’s Today Programme last Friday where he described how BEST’s findings showed that since the Fifties global temperatures had risen by about 1 degree Celsius, a figure which is in line with estimates from Nasa and the Met Office.

When asked whether the rate had stopped over the last 10 years he said they had not. “We see no evidence of it having slowed down,” he replied and a graph issued by the BEST project suggests a continuing and steep increase.

But this last point is one which Prof Curry has furiously rebuttted. In a serious clash of scientific experts Prof Curry has accused Prof Muller of trying to “hide the decline in rates of global warming”.

She says that BEST’s research actually shows that there has been no increase in world temperatures for 13 years.

She has called Prof Muller’s comments “a huge mistake” and has said that she now plans to discuss her future on the project with him. “There is no scientific basis for saying that global warming hasn’t stopped,” she says.

“To say that there is detracts from the credibility of the data, which is very unfortunate.” New research also seems to back up Prof Curry rather than Prof Muller.

A report published by the Global Warming Foundation, which is based on BEST’s findings, includes a graph of world average temperatures over the past 10 years and it is absolutely flat, suggesting that temperatures have remained constant.

This issue is crucial because the levels of carbon dioxide in the air have continued to rise rapidly over the last decade and if temperatures have remained constant during that period it would suggest there is no direct link between carbon gas emissions and global warming.

Previously carbon dioxide emissions – from the burning of fossil fuels and from deforestation – have been considered one of the biggest causes of climate change, the most damaging effects of which are thought to be the melting of the polar ice caps and the rise in sea levels as well as an increase in extreme weather events such as floods and droughts.

“Whatever it is that is going on here it doesn’t look like it’s being dominated by carbon dioxide,” says Prof Curry.

Prof Muller has made it clear that the BEST study was not conducted in order to gauge the causes of global warming, saying the study “made no assessment on how much of this is due to humans and how much is natural”.

He and his scientists – who also included this year’s physics Nobel winner Saul Perlmutter – set out purely to determine once and for all whether climate change had occurred.

The group had been suspicious of previous results which confirmed a rise in global temperatures , believing that their work may have been skewed by the “urban heat island effect” where increasing urbanisation around weather stations was causing the temperature increases recorded over the past 50 years.

But their exhaustive research discovered that the urban heat effect could not explain the global temperature increase of about one degree Celsius since 1950.

IT IS well to point out that Prof Curry is not disputing the one degree Celsius increase. She is disputing Prof Muller’s suggestion that temperatures haven’t levelled off in the last decade.

Indeed she says this global warming standstill since the end of the Nineties – which has been completely unexpected – has wide-reaching consequences for the causes of climate change and has already led many climate scientists to start looking at alternative factors that may have contributed to global warming,

other than carbon gas emissions. In particular she has mentioned the influence of clouds, natural temperature cycles and solar radiation.

What she also seems furious about is the way that Prof Muller went about publishing BEST’s results without consulting her and before a proper peer review could be carried out. “It is not how I would have played it,” she has said. “I was informed only when I got a group email. I think they have made errors and I distance myself from what they did. It would have been smart to consult me.”

This is, you can be sure, not the last we will hear on the debate.

What Does CO2 Have To Do With Climate?

11-13-11

And so the debate continues… Aivars Lode

By John Hinderaker, Powerline

Little or nothing, if Tim Ball is correct. This post on his web site packs more iconoclasm (and useful information) into a shorter space than just about anything I have read on the subject:
Recently a Japanese Research Institute published a satellite map of sources of CO2 emissions. It was virtually ignored by the mainstream media, but that has become an inverse measure of its significance to the climate debate. It showed a pattern that most would not expect because of the misleading information presented by the Intergovernmental Panel on Climate Change (IPCC) amplified by most media.

Here it is:

North America is a net consumer of CO_2. Dr. Ball explains: "The map is only surprising if you believe that humans are the primary source of CO_2." But he is just getting warmed up:
The oceans are the main control of atmospheric CO_2 as one of the atmospheric gases in constant flux between the water and the atmosphere. The ocean's ability to absorb CO_2 is a function of its temperature – cold water absorbs more CO_2 than warm water.
This is why whenever the Earth's climate gets warmer, it is followed by an increase in atmospheric CO_2.
There are several misconceptions about CO_2, most created because proponents tried to prove the hypothesis rather than the normal scientific practice of disproof. It helped them if the misinformation created unfounded fears. An early IPCC claim said atmospheric residency time of CO_2 was at least 100 years. Done, ostensibly, for the political point that even if we stopped production immediately the damage was done. We now know the actual time is at most 5 to 6 years.
The major assumption of the hypothesis says a CO_2 increase causes a temperature increase. After publication in 1999 of Petit et al., Antarctic ice core records were presented as evidence. Just four years later proof that the major assumption of the hypothesis was wrong appeared. Somehow it was shuffled aside, probably because of the diversionary claim that the lag was between 80 and 800 years. It doesn't matter, it still contradicts the basic assumption. Temperature change before CO_2 change is the case in every record for any period or duration is studiously ignored by proponent and skeptic.
Humans actually have little to do with the production of CO_2:
According to the IPCC, who produce the original numbers, humans produce approximately 9 gigatons of CO_2 per year. This is within the error factor for the amount of CO_2 from at least two natural sources. Estimates of CO_2 from natural sources are very crude as evidenced by the large error factors. Reports with headlines like, "Forests soak up more CO_2 than thought" and "Old-growth forests absorb CO_2 too: study" keep appearing. In 2010 humans produced 9 gigatons, but ocean output was between 90 and 100 gigatons and ground bacteria and rotting vegetation was between 50 and 60 gigatons according to Dr Dietrich Koelle. Spread the human annual production across the planet and it doesn't even show on the world map. The pattern confirms this because it reflects natural sources.
Global warming alarmism isn't science, it it a combination of politics and religion. Dr. Ball sums up: "Science must be about skepticism, otherwise the science is settled, but then it isn't science."
UPDATE: The alarmists are trying to shut Dr. Ball up. Two of them, the notorious Michael Mann and Andrew Weaver, are suing him for libel. Dr. Ball, one of Canada's foremost climatologists (now retired) said of Mann that he "should be in the State Pen, not Penn State," for his role in covering up climate fraud, and of Weaver that he cherry-picked scientific data in his work with the IPCC. It would be great fun to conduct discovery on Dr. Ball's behalf, but that costs money–money which Mann and Weaver assume that Ball, a retired academic, does not have. You can contribute to Ball's legal defense fund at the linked web site.

R.I.P.: Al Gore's Chicago Climate Exchange Has Died

11-17-11

Some interesting insights in here. Aivars Lode

By Greg Pollowitz, National Review Online

Steve Milloy at *PajamasMedia* writes:
Global warming-inspired cap and trade has been one of the most stridently debated public policy controversies of the past 15 years. But it is dying a quiet death. In a little reported move, the Chicago Climate Exchange (CCX) announced on Oct. 21 that it will be ending carbon trading – *the only purpose*

for which it was founded – this year.
Although the trading in carbon emissions credits was voluntary, the CCX was intended to be the hub of the mandatory carbon trading established by a cap-and-trade law, like the Waxman-Markey scheme passed by the House in June 2009.
At its founding in November 2000, it was estimated that the size of CCX's carbon trading market could reach $500 billion. That estimate ballooned over the years to $10 trillion.
Al Capone tried to use Prohibition to muscle in on a piece of all the action in Chicago. The CCX's backers wanted to use a new prohibition on carbon emissions to muscle in on a piece of, quite literally, all the action in the world.
The CCX was the brainchild of Northwestern University business professor Richard Sandor, who used $1.1 million in grants from the Chicago-based left-wing Joyce Foundation to launch the CCX. For his efforts, *Time* named Sandor as one of its Heroes of the Planet in 2002 and one of its Heroes of the Environment in 2007.
The CCX seemed to have a lock on success. Not only was a young Barack Obama a board member of the Joyce Foundation that funded the fledgling CCX, but over the years it attracted such big name climate investors as Goldman Sachs and Al Gore's Generation Investment Management.
But a funny thing happened on the way to the CCX's highly anticipated looting of taxpayers and consumers – cap-and-trade imploded following its high water mark of the House passage of the Waxman-Markey bill. With ongoing economic recession, Climategate, and the tea party movement, what once seemed like a certainty became anything but.
CCX's panicked original investors bailed out this spring, unloading the dog and its across-the-pond cousin, the European Climate Exchange (ECX), for $600 million to the New York Stock Exchange-traded Intercontinental Exchange (ICE) – an electronic futures and derivatives platform based in Atlanta and London. (Luckier than the CCX, the ECX continues to exist thanks to the mandatory carbon caps of the Kyoto Protocol.)
The ECX may soon follow the CCX into oblivion, however – the Kyoto Protocol expires in 2012. No new international treaty is anywhere in sight.

Climategate Scientists DID Collude With Government Officials to Hide Research That Didn't Fit Their Apocalyptic Global Warming

11-27-11

Good to know. Aivars Lode

By Rob Waugh, Mail Online

- 5,000 leaked emails reveal scientists deleted evidence that cast doubt on claims climate change was man-made
- Experts were under orders from US and UK officials to come up with a 'strong message'
- Critics claim: 'The stink of intellectual corruption is overpowering'
- Scientist asks, 'What if they find that climate change is a natural fluctuation? They'll kill us all'

More than 5,000 documents have been leaked online purporting to be the correspondence of climate scientists at the University of East Anglia who were previously accused of 'massaging' evidence of man-made climate change.
Following on from the original 'climategate' emails of 2009, the new package appears to show systematic suppression of evidence, and even publication of reports that scientists knew to to be based on flawed approaches.
And not only do the emails paint a picture of scientists manipulating data, government employees at the Department for the Environment, Food and Rural Affairs (Defra) are also implicated.
One message appeared to show a member of Defra staff telling colleagues working on climate science

to give the government a 'strong message'.
The emails paint a clear picture of scientists selectively using data, and colluding with politicians to misuse scientific information.
'Humphrey', said to work at Defra, writes: 'I cannot overstate the HUGE amount of political interest in the project as a message that the government can give on climate change to help them tell their story.
'They want their story to be a very strong one and don't want to be made to look foolish.'
Professor Phil Jones, director of the Climatic Research Unit at the centre of the affair, said the group findings did stand up to scrutiny.
Yet one of the newly released emails, written by Prof. Jones - who is working with the United Nations Intergovernmental Panel on Climate Change (IPCC) - said: 'Any work we have done in the past is done on the back of the research grants we get – and has to be well hidden.
'I've discussed this with the main funder (U.S. Dept of Energy) in the past and they are happy about not releasing the original station data.'
In another of his emails, he wrote: 'I've been told that Intergovernmental Panel on Climate Change is above national Freedom of Information Acts.
'One way to cover yourself and all those working in AR5 would be to delete all emails at the end of the process.'

Other scientists are clearly against such a policy, but some seemed happy to collude with concealing and destroying evidence.
One nervous scientist wrote: 'The figure you sent is very deceptive.'

'I also think the science is being manipulated to put a political spin on it which for all our sakes might not be too clever in the long run,' wrote another.
The lead author of one of the reports, Jonathan Overpeck, wrote, 'The trick may be to decide on the main message and use that to guide what's included and what is left out.'
A weak performance by Environment Secretary Chris Huhne on Question Time has helped to inflame the row over the second leak of private UEA emails - now described as Climategate 2.0.
Former Chancellor Nigel Lawson's Global Warming Policy Foundation warned against ignoring 'shortcomings' in a letter strongly critical of the Intergovernmental Panel on Climate Change.
It said: 'The BBC, in determining its policy towards the coverage of global warming, which is of course not simply a scientific issue but an economic and a political issue, too, ought to shred that section of the Jones review and revert to the impartiality laid down in its charter.'
He was also strongly critical of sections of the media who lent support to the scientists.

Andrew Orlwowski, UK science site The Register's science correspondent comments on one email that says, 'What if climate change turns out to be a natural fluctuation? They'll kill us all'
'The stink of intellectual corruption is overpowering.'
Orlowski says, 'That won't be necessary.'
Clive Crook, a commentator for the Atlantic, who described the earlier inquiries into the Climategate emails as 'ineffectual' and 'mealy mouthed', reportedly said, 'The closed-mindedness of these supposed men of science, their willingness to go to any lengths to defend a preconceived message, is surprising even to me.
'The stink of intellectual corruption is overpowering.'

There is other correspondence from scientists such as Prof Michael Mann, director of the Earth System Science Centre at Penn State University, some of which have a distinct feel of PR 'spin'.
The release of the information echoes the 'Climategate' leaks of hacked private emails two years ago ahead of crunch climate talks in Copenhagen that referred to ways to 'hide the decline' in global warming.
A series of independent reviews cleared the East Anglia researchers of impropriety, but they were told they had been too secretive.
Today's leak may also be timed to disrupt the next session of the UN's Intergovernmental Panel on Climate Change next week in South Africa.

The emails have been released in the form of quotes carefully 'chosen' to show bias, or that scientists were pursuing a particular agenda in their research.

The unnamed individuals who released them chose the 5,000 emails from keyword searches, saying, 'We could not read every one, but tried to cover the most relevant topics.'
The emails were posted on a Russian server - Sinwt.ru - as a downloadable ZIP file in an apparent attempt to cause disruption in advance of next week's climate change conference in Durban.
They were rapidly reposted on climate-sceptic blogs such as The Air Vent.
It is not clear, though, whether they are new, or indeed whether they indicate any kind of conspiracy.
The release of the data was accompanied by a 'press release' in the form of a readme file, which said, 'Over 2.5 billion people live on less than $2 a day.'
'Poverty is a death sentence. Nations must invest $37 trillion in energy technologies by 2030 to stabilise greenhouse gas emissions at sustainable levels.'
'Today's decisions should be based on all the information we can get, not on hiding the decline,' said the file.
The identity of the people who posted it was not revealed - although the clear political statement is new.
The file also contains more than 200,000 other emails, which are encrypted, and no password is provided.
Presumably, this is to protect the individuals involved - or simply because the material is so non-controversial or boring that it's not worth releasing.

The University of East Anglia has not confirmed whether the material is genuine.
None of the material appears to be new, either: it seems to date from the first release in 2009.
It also occurs against a rather different scientific background, after the Berkeley Earth Surface Temperature review of climate-science data by prominent climate sceptic Richard Muller, which analysed 1.6 billion temperature records, and concluded that global warming was a genuine effect.
It is still unclear what effect - or combination of effects - is causing the current warming of the atmosphere, which has risen around one temperature in the past 50 years.
Professor Mann, speaking to the Guardian, described the release as 'truly pathetic.'
'Well, they look like mine but I hardly see anything that appears damning at all, despite them having been taken out of context.
'I guess they had very little left to work with, having culled in the first round the emails that could most easily be taken out of context to try to make me look bad.'
A police investigation is ongoing.

Obama's Justice Department Joins Britain's 'Climategate' Leaker Manhunt

12-15-11

Is there something to hide? Aivars Lode

By Tom T, American Tradition Institute

I have seen apparent proof that the United States Department of Justice (DOJ), Criminal Division, is working with United Kingdom police to pursue the leaker of the 2009 and 2011 “Climategate” emails.
I have learned that last week DOJ sent a search-and-seizure letter to the host of three climate-change "skeptic" blogs. Last night, UK police raided a blogger’s home and removed computers and equipment.
The leaked records derailed “cap-and-trade” legislation in the U.S. and, internationally, as well as talks for a successor to the Kyoto Protocol. The emails and computer code were produced with taxpayer funds and held on taxpayer-owned computers both in the US and the UK, and all were

subject to the UK Freedom of Information Act, the U.S. Freedom of Information Act and state FOIA laws.
They also were being unlawfully withheld in both the UK (by the University of East Anglia) and the U.S. (Department of Commerce's National Oceanic and Atmospheric Administration (NOAA), including stonewalling me for two years, and three other requesters for longer).
The hunt involving U.S. and UK law enforcement agencies is now escalating. On Wednesday night UK time, six detectives with the UK police (Norfolk Police Department) raided the home of at least one blogger, removing his equipment to look for clues to the identity of leaker "FOIA 2011."
On December 9, DOJ sent a preservation letter under 18 U.S.C 2703(f) to the publication platform (website host) Wordpress. This authority authorizes the government to request an Internet Service Provider (ISP) to preserve all records of a specific account for 90 days while the feds work on a warrant.
Norfolk PD affirmed to the subject of at least one of their raids that this international law enforcement hunt is for the leaker, meaning *not* for those whose acts the leaker exposed by making public emails containing admissions in their own words.
In the U.S., the academic and political Left have had fits about Virginia Attorney General Ken Cuccinelli exercising even more specific, anti-fraud authority to seek further records from University of Virginia in following up on indications from the first Climategate release of possible fraud against the taxpayer.
Apparently, that represented an abuse of the police power. No word yet if they are outraged by DOJ's current foray or that of the UK raiding team.
The DOJ attorney sending the preservation letters, as it happens in this small world, a graduate of the University of Virginia (UVA). And UVA is also the subject of litigation a group I am associated with, the American Tradition Institute (ATI), that has filed suit on behalf of Virginia taxpayers seeking Climategate-related emails the school holds.
This is a case which has members of the Virginia faculty and establishment beside themselves and demanding an all-out effort to oppose production of the requested documents in an effort to wear us and Cuccinelli down.
So far UVA has spent upwards of $1 million fighting Cuccinelli's request, and school officials continue to fight us in court every step of the way.
Clearly, this is no small matter in the quarters insisting that this taxpayer-financed information never see the light of day. Even the criminal legal apparatus of the U.S. and UK must be invoked against this threat, apparently.
To review: The UK police and the US DOJ, Criminal Division, are pursuing a leaker of public records subject to one or more FOIA, records that were unlawfully withheld under those laws, which leaks indicate apparent civil violations (tortious interference by seeking dismissal of certain "skeptics"), and raising reasonable questions of fraud against taxpayers.
And they are pursuing the leaker.
Here's the text of the DOJ request to the ISP:
"Pursuant to Title 18, United States Code, Section 2703(f), this letter is a formal request for the preservation of all stored communications, records, and other evidence in your possession regarding the following domain name(s) pending further legal process: [DELETED] ("the Accounts") from 00:01 GMT Monday 21 November 2011 to 23:59 GMT Wednesday 23 November 2011.
"I request that you not disclose the existence of this request to the subscriber or any other person, other than as necessary to comply with this request. If compliance with this request might result in a permanent or temporary termination of service to the Accounts, or otherwise alert any user of the Accounts as to your actions to preserve the information described below, please contact me as soon as possible and before taking action.
"I request that you preserve, for a period of 90 days, the information described below currently in your possession in a form that includes the complete record. This request applies only retrospectively. It does not in any way obligate you to capture and preserve new information that arises after the date of this request. This request applies to the following items, whether in electronic or other form, including information stored on backup media, if available:
"1. The contents of any communication or file stored by or for the Accounts and any associated accounts, and any information associated with those communications or files, such as the source and

destination email addresses or IP addresses.
“2. All records and other information relating to the Accounts and any associated accounts including the following:
a. Names (including subscriber names, user names, and screen names);
b. Addresses (including mailing addresses, residential addresses, business addresses, and e-mail addresses);
c. Local and long distance telephone connection records;
d. Records of session times and durations, and the temporarily assigned network addresses (such as Internet Protocol (“IP”) addresses) associated with those sessions, including any log history of when username “FOIA” uploaded posts to the Accounts;
e. Length of service (including start date) and types of service utilized;
f. Telephone or instrument numbers (including MAC addresses);
g. Other subscriber numbers or identities (including the registration Internet Protocol (“IP”) addresses); and
h. Means and source of payment for such service (including any credit card or bank account number) and billing records.”

A Little Humility at the Crossroads

12-27-11

Climate is the new religion? Very interesting. Aivars Lode

By Wesley Pruden, The Washington Times

“Climate research,” the New York Times confidently assures us, “stands at a crossroads.” This means that a lot of research scientists are standing at the crossroads, holding out paper bags like trick-or-treaters on Halloween night, standing in line for taxpayer largesse to fill ‘em up.
These specialists in shakedown “science,” who speak only in hyperbole, are calling the weather of 2011 the worst in history, or at least in memory, or maybe a decade, and say they could have found useful links between disasters and global-warming “science” by now if only they could shake down tightwad taxpayers for a few more millions.
The National Oceanic and Atmospheric Administration made a little list of a dozen weather disasters of the year now swiftly passing into history—wildfires in Texas, floods on the Mississippi and tornadoes in Tornado Alley. Unfortunately for global-warming “scientists” ever on the scout for handouts, there were no bad hurricanes to report this year. Nevertheless, the speakers of hyperbole are making the best of the scant material at hand.

“I’ve been a meteorologist for 30 years and have never seen a year that comes close to matching 2011 for the number of astounding, extreme weather events,” the easily astounded Jeffrey Masters of the Weather Underground web site tells the newspaper, which is always alert for opportunities to beat this favorite drum. “Looking back in the historical record, which goes back to the late 1800s, I can’t find anything that compares, either.”
Maybe he should look a little harder. The disasters, calamities and other inconveniences blamed on changing weather include not only floods and fires in the United States but similar disasters in Australia, the Philippines and Southeast Asia, where calamity is part of something called “life.” Anyone spooked by “unprecedented flooding” in the Mississippi River Valley in the United States should check the precedents of the great floods of 1927 and 1937, when much of Arkansas, Mississippi and Louisiana lay underwater for weeks, and mud even longer. The hyperbolic claims that man has never been so badly abused by the weather, and that man himself has asked for it with his wild and wicked ways abusing nature, are given the lie by the fact that the weather has been wild and wicked in many millennia before this one, when there were not nearly so many of us stalking the planet for opportunities to make mischief.

The Intergovernmental Panel on Climate Change predicts that 70 percent of the various species on the planet will be wiped out if global warming continues at the predicted rate. Floods, droughts, hurricanes, blizzards and other bad stuff will do us in.
The solution, the panel says, lies in either mitigation, to finally do something about the weather, or adaptation, to make the best of the bad news.
Mitigation relies on regulation, and naturally the worthies of shakedown science prescribe mitigation first. Regulation will require many studies, written in the language of academics that no one else can understand, to be read at elaborate conferences, always held at luxury resorts that a shakedown scientist could never afford on his own dime. The conclusion of the learned shakedown artists is invariably about how to milk the governments of the West for more handouts.
The director of the National Oceanic and Atmospheric Administration tells the New York Times that with the pressure on the U.S. government to cut expenses and save taxpayers money, "it's going to be more and more challenging to devote resources to many of our research programs."
Science, which has replaced religion as the source of faith in certain circles, has otherwise always been skeptical of certitude. Science has always held that nothing is so settled as to be beyond questioning. This held until the propagation of the gospel of global warming. Skeptics are called "deniers," their arguments mocked, and held to public ridicule.
It's a particular conceit of man to imagine that he is both the author and the center of the universe, that whatever happens to the stars is the work of his hand. "We are changing the large-scale properties of the atmosphere," declares Benjamin D. Santer, a climate scientist at Lawrence Livermore National Laboratory in California. "You can't engage in this vast planetary experiment—warming the surface, warming the atmosphere, moistening the atmosphere—and have no impact on the frequency and duration of extreme events."
Or not. "Everybody talks about the weather," Mark Twain said, "but nobody does anything about it."

Global Warming: The Evidence is Endless (NOT).

1-18-12

What can I say? Look back in my first blogs about this topic. Aivars Lode

By Daren Jonescu, Canada Free Press

If I believed the Earth was slowly turning into cheddar cheese, I could invoke this theory to explain a lot of things. Why is the rat population in our major cities growing so quickly? Earth cheesification is providing more rat food. Why have there been so many earthquakes lately? The cheesification of the tectonic plates has made them less resistant to sudden shifts. Why are glaciers melting? The freezing point of cheddar cheese is lower than that of water; as the Earth at the poles undergoes cheesification, the unfrozen cheese is causing a slight warming of the ice sheets from below, resulting in unusual levels of melting.

I could go on like this for a long time, I suppose. At some point, however, you would confront me with some natural fact that I could not logically account for by means of my cheese theory. In other words, even the greatest faith in this underlying assumption could never withstand all possible evidence.
If, however, we could devise a theory that might literally be able to repel absolutely any possible counter-evidence, then we would have accomplished something truly diabolical: an unfalsifiable theory. If we could indeed devise such a theory, then we could run wild explaining anything and everything, and absorb absolutely any eventuality, without ever needing to question our faith in the underlying hypothesis.
Then we would be at liberty to publish headlines such as this: "Research suggests warmer summers could be causing colder winters." This conjecture, brought to you via the magical theory of global climate change, is reported as though it is the most plausible explanation of the peculiar fact that Canadian winters do not appear to be getting any warmer.

Question you aren't supposed to ask: Why is the non-warming of recent winters a peculiar fact in need of an explanation? After all, did anyone in the past harbor any presumption that winters ought to be getting warmer? Why should they? The difference, of course, is that in the age of global warming, everyone is supposed to know, beyond any doubt, that the Earth is indeed getting significantly warmer. Thus, every time someone casually observes that the weather is pretty chilly, or that there has been a lot of snow, all hearers in the room look at their hands awkwardly, smirk bemusedly, or display some other symptom of that feeling familiar to anyone who has had to face doubts about a deeply held religious belief: "But this just can't be true, because if it is, then my world is about to crumble."

The world of anthropogenic global climate change crumbled a long time ago

The world of anthropogenic global climate change crumbled a long time ago. That, in fact, is why we have a theory called "anthropogenic global climate change" in the first place. Thirty-five years ago, it was called global cooling. When the temperature records made minced meat of that "theory," it was put on ice for a few years, as it were. Finally, on the principle that if you can't beat Mother Nature, you must join her, the wizards who brought us global cooling conveniently revised their models to prove beyond any doubt that the newly discovered global warming trend was a man-made phenomenon. Then, around 1998, the temperature records began to flat-line. Carbon dioxide, the Enemy, was reaching ever-higher levels in the atmosphere; and yet it was no longer having the desired – er, I mean "anticipated" – effect of warming the planet as it should (oops, I mean "as the models predicted").

For several years, the global crusaders against carbon dioxide mocked, ridiculed, and/or ignored anyone who dared to ask why, if rising CO_2 levels cause global warming, temperatures were not rising at accelerating rates, as CO_2 levels continued to rise exponentially. Oh, but temperatures are indeed rising, the faithful said. In fact, each year, they produced annual temperature record analyses, garnered through the official scientific records center, the UN, showing that that year had been the warmest ever recorded. Then, a little later, some fine print would appear somewhere explaining how the report had slightly overestimated the warming for the year in question.

Hedging their bets, the global warmers began offering arguments to account for the stalled warming trend, even while they continued to deny that the trend had stalled – a method equivalent to saying, "I didn't kill my wife, but if I did, it was in self-defense." Their main argument was a condescending appeal to the big picture that the skeptics were allegedly too narrow-minded to see: Global temperature change, they said, is a process that develops over a very long period of time. Therefore, they harrumphed, claiming that a broader trend has ceased because temperatures have not changed for a few years shows an unscientific short-sightedness.

Of course, if one were to accept this bet-hedging argument, one could turn it back on the global warmers: Eighty years can hardly be called a "big picture," in planetary terms. The Earth is believed to be more than four billion years old. If five years without warming is too short a period to call a trend, then why is eighty years of net warming a long enough period to call a trend? From the point of view of four billion years, eighty looks an awful lot like five, does it not? (To be precise, as a percentage of four billion, 5 is 0.000000125%, while 80 is 0.000002%.) So how sure can we be that the period during which this unnatural warming is alleged to have happened is a long enough period to indicate a "long-term trend"? Will they be forced back to frightening us about global cooling again in twenty years?

Perhaps dimly recognizing this little problem, the global warming advocates – um, I mean "researchers" – finally hit upon the perfect modification of their theory, namely to say that it doesn't matter what happens to the temperature; the cause, in any case, is man. Thus, along about the middle of this century's first decade, we suddenly had John Kerry and Hillary Clinton exiting a Senate hearing and taking to the microphones to discuss "global climate change." No one officially announced this name change, of course. It just sort of happened. And with it came the lovely new premise that what our CO_2 emissions are causing is neither warming nor cooling, *per se*, but rather "change." "What kind of change?" you ask. Invalid question. Just "change." Change from what? From some previous

year's "climate"? From some objective standard of what would have happened "naturally," had we icky humans not spewed the by-product of so much life-sustaining productivity into Gaia's aura? It makes little difference; no need to fuss about what exactly the "changers" are claiming is changing, since the particular changes that might occur from here on out are of no consequence to the theory. Any change will do – including no change at all, which can also be interpreted as a change, if you tilt your head a bit to one side.
The unanimous, settled scientists and their masters, the unanimous, settled proponents of global governance, have continued to act as though they still want you to accept that temperatures are rising every year, ice caps are shrinking, polar bears are drowning, and so on. "Global climate change" is, for most practical purposes, still "global warming." This is necessary, since global regulation requires global panic, and it would be much more difficult to stir panic over the idea – which is, officially, the theory of the moment – that "temperatures, and their effects, may or may not change in one way or another over any given period of time."

Global warming is indispensable as a political tool, even if it can only be preserved through a fuzzy bait-and-switch operation with global climate change

Global warming is indispensable as a political tool, even if it can only be preserved through a fuzzy bait-and-switch operation with global climate change. Nevertheless, the name change provided good backside protection. "Global climate change" takes a perfectly good bit of crackpot neo-religiosity and elevates it to the level of unfalsifiable pseudo-theory – unfalsifiable, as in nothing you could possibly present to the nutters by way of facts can ever be evidence to the contrary. Why not? Because there is no contrary.
If cooling, warming, and stasis are all evidence of anthropogenic global climate change, then science has finally followed the rest of the modern world into that realm of inescapable self-incrimination dubbed the Kafkaesque. We are guilty of global climate change. There is no proof. There is not even anyone to talk to by way of defending ourselves. Having been inexplicably accused, we will simply be sent on a dreamlike quest through a never-ending maze of inhuman obfuscation until, gradually, we come to accept that the accusation against us must be true, or else it would not have been made. At this point, we must desire our own demise, as the only "just" resolution, given the undefined crimes of which we have convicted ourselves.
At last, as the fight to defend global warming reached fever pitch over some e-mails seeming to discuss evidence-alteration – remember, this defense of warming took place years after the official line was that it didn't matter whether the temperature was rising or not – one of the main players in the scandal, and one of the most prominent and respected defenders of the cause-without-any-definable-effect, stepped forward to concede that there has been no warming since 1995. When asked whether he thought natural causes could account for the warming from 1975-1998, and if so, to what extent, he answered, "This area is slightly outside my area of expertise. When considering changes over this period we need to consider all possible factors (so human and natural influences as well as natural internal variability of the climate system)."
So let's get this straight: Dr. Phil Jones, one of the world's foremost authorities on global climate change, says that the question of the possibility and degree of natural climate influences is outside of his area of expertise. Translation: I don't do climate change; I do man-made climate change. His expertise is in trying to show the existence of an influence on climate that no one prior to 1970 thought was possible, and he thinks that looking at other influences which everyone has always known were real is outside of his area. In other words, looking at known facts of nature would get in the way of his career-advancing conjectures, so, as a matter of professional policy, he doesn't look at them.
Notice that when Jones lists "all possible factors" of warming from 1975-1998, he lists "human influences" first, as though this were the obvious first place to look for an explanation of a variation in global temperatures over a 23-year period – as though no 23-year period has ever shown a variation in temperatures before. His default assumption is the furthest one from common sense, namely that humans did it.
Likewise, in our latest contribution to unfalsifiability, in which cold winters have been interpreted as

a symptom of global warming – in spite of the fact that until recently, the party line was to deny that winters are still cold at all – the research project undertaken to reach this conclusion is described this way: "Cohen and his co-authors began by asking themselves why winter temperatures in the northern hemisphere aren't going up as quickly as in the spring, summer and fall." Once again, the default assumption is anthropogenic global warming. The task the researchers set for themselves was to explain away falsifying evidence. For example, why were they not trying to explain how the cold winters might be causing warmer summers? Because the paradigm they are working in demands that all apparent exceptions to global warming be explained away. Thirty-five years ago, they would indeed have been making the opposite argument, in order to salvage global cooling.
Recently, a former Korean student of mine made a typical unquestioning reference to global warming. Constitutionally averse to letting smart people say stupid things, I briefly offered some of the usual arguments against anthropogenic climate change. My student answered, diplomatically, that the issue seemed to be a "mystery," but that as she was unable to verify my facts in her first language, and as so many intelligent people were working on this issue at the UN, she was obliged to stick to her position. In other words, she was assuming, as we are all meant to do, that the burden of proof is on the "denier."
I asked her this question: If I went to the police and told them you were a murderer, should they arrest you? Why not? Because we put the burden of proof on the accuser, which is to say, on the person proposing something that falls outside of normal assumptions. Why do we do the opposite with man-made global climate change?

Global Warming Heresy, Charts that Graphically Demonstrate the Hoax

1-19-12

For those of you that follow my blog, this won't come as a surprise! Aivars Lode

Over the last 10,000 years the facts speak for themselves. (Note the horizontal time line is stretched out on the right hand side of the chart, making the LIA look like it lasted longer in relation to the previous cold periods on the chart.) There is no doubt that warm climates are more conducive to life, growth & advancement and always have been more than earth's cold periods. This is the ultimate irony of the entire global warming hoax.

Such a large portion of the recent data as well as the historical facts has been distorted and falsified that the entire climate alarmism community, (more accurately, virtually the entire environmental community is full of crap. The exceptions, while serious are few. The horrid way in which Texaco / Chevron trashed the environment in large portions of the Ecuadorian rain forest is one good one. Another is the way GE's factories in upstate NY poisoned a large stretch of the Hudson River Valley but dumping PCB'S in the river.

The IPCC actually showed the true climate history of the last thousand years in their first report from 1990. Then they realized that the fact of the MWP defeated their entire agenda by showing that we're in no way unusually or dangerously warm. So they changed it with Michael Mann's hockey stick, which is a complete fabrication. According to them they simply "normalized" the first 900 or so years of this period, and the entire right side where the temps soared is taken from northern hemisphere sources only, and even those figures have been substantially exaggerated.

We may think we're defeating this scam, but we're really not. For the last 3 + years, a mandatory Cap in Trade system has been operating in 10 north eastern states, and to date has cost utility customers in that region alone almost a billion dollars.

Forget Global Warming - it's Cycle 25 We Need to Worry About

1-30-12

Sun spot activity is something we have discussed before in this blog. Skylab fell back to earth and rained debris all over Australia as sunspots warmed the outside of the planet's atmosphere causing it to rise to the height of Skylab. Gravity took over and then pulled Skylab to earth. Aivars Lode

By David Rose, Mail Online

The supposed 'consensus' on man-made global warming is facing an inconvenient challenge after the release of new temperature data showing the planet has not warmed for the past 15 years.
The figures suggest that we could even be heading for a mini ice age to rival the 70-year temperature drop that saw frost fairs held on the Thames in the 17th Century.
Based on readings from more than 30,000 measuring stations, the data was issued last week without fanfare by the Met Office and the University of East Anglia Climatic Research Unit. It confirms that the rising trend in world temperatures ended in 1997.

A painting, dated 1684, by Abraham Hondius depicts one of many frost fairs on the River Thames during the mini ice age
Meanwhile, leading climate scientists yesterday told The Mail on Sunday that, after emitting unusually high levels of energy throughout the 20th Century, the sun is now heading towards a 'grand minimum' in its output, threatening cold summers, bitter winters and a shortening of the season available for growing food.
Solar output goes through 11-year cycles, with high numbers of sunspots seen at their peak.
We are now at what should be the peak of what scientists call 'Cycle 24' – which is why last week's solar storm resulted in sightings of the aurora borealis further south than usual. But sunspot numbers are running at less than half those seen during cycle peaks in the 20th Century.
Analysis by experts at NASA and the University of Arizona – derived from magnetic-field measurements 120,000 miles beneath the sun's surface – suggest that Cycle 25, whose peak is due in 2022, will be a great deal weaker still.

According to a paper issued last week by the Met Office, there is a 92 per cent chance that both Cycle 25 and those taking place in the following decades will be as weak as, or weaker than, the 'Dalton minimum' of 1790 to 1830. In this period, named after the meteorologist John Dalton, average temperatures in parts of Europe fell by 2C.
However, it is also possible that the new solar energy slump could be as deep as the 'Maunder minimum' (after astronomer Edward Maunder), between 1645 and 1715 in the coldest part of the 'Little Ice Age' when, as well as the Thames frost fairs, the canals of Holland froze solid.

Yet, in its paper, the Met Office claimed that the consequences now would be negligible – because the impact of the sun on climate is far less than man-made carbon dioxide. Although the sun's output is likely to decrease until 2100, 'This would only cause a reduction in global temperatures of 0.08C.'
Peter Stott, one of the authors, said: 'Our findings suggest a reduction of solar activity to levels not seen in hundreds of years would be insufficient to offset the dominant influence of greenhouse gases.'
These findings are fiercely disputed by other solar experts.
'World temperatures may end up a lot cooler than now for 50 years or more,' said Henrik Svensmark, director of the Center for Sun-Climate Research at Denmark's National Space Institute. 'It will take a long battle to convince some climate scientists that the sun is important. It may well be that the sun is going to demonstrate this on its own, without the need for their help.'
He pointed out that, in claiming the effect of the solar minimum would be small, the Met Office was relying on the same computer models that are being undermined by the current pause in global-

warming.
CO_2 levels have continued to rise without interruption and, in 2007, the Met Office claimed that global warming was about to 'come roaring back'. It said that between 2004 and 2014 there would be an overall increase of 0.3C. In 2009, it predicted that at least three of the years 2009 to 2014 would break the previous temperature record set in 1998.

So far there is no sign of any of this happening. But yesterday a Met Office spokesman insisted its models were still valid.
'The ten-year projection remains groundbreaking science. The period for the original projection is not over yet,' he said.
Dr Nicola Scafetta, of Duke University in North Carolina, is the author of several papers that argue the Met Office climate models show there should have been 'steady warming from 2000 until now'.
'If temperatures continue to stay flat or start to cool again, the divergence between the models and recorded data will eventually become so great that the whole scientific community will question the current theories,' he said.
He believes that as the Met Office model attaches much greater significance to CO_2 than to the sun, it was bound to conclude that there would not be cooling. 'The real issue is whether the model itself is accurate,' Dr Scafetta said. Meanwhile, one of America's most eminent climate experts, Professor Judith Curry of the Georgia Institute of Technology, said she found the Met Office's confident prediction of a 'negligible' impact difficult to understand.
'The responsible thing to do would be to accept the fact that the models may have severe shortcomings when it comes to the influence of the sun,' said Professor Curry. As for the warming pause, she said that many scientists 'are not surprised'.
She argued it is becoming evident that factors other than CO_2 play an important role in rising or falling warmth, such as the 60-year water temperature cycles in the Pacific and Atlantic oceans.
'They have insufficiently been appreciated in terms of global climate,' said Prof Curry. When both oceans were cold in the past, such as from 1940 to 1970, the climate cooled. The Pacific cycle 'flipped' back from warm to cold mode in 2008 and the Atlantic is also thought likely to flip in the next few years .
Pal Brekke, senior adviser at the Norwegian Space Centre, said some scientists found the importance of water cycles difficult to accept, because doing so means admitting that the oceans – not CO_2 – caused much of the global warming between 1970 and 1997.
The same goes for the impact of the sun – which was highly active for much of the 20th Century.
'Nature is about to carry out a very interesting experiment,' he said. 'Ten or 15 years from now, we will be able to determine much better whether the warming of the late 20th Century really was caused by man-made CO_2, or by natural variability.'
Meanwhile, since the end of last year, world temperatures have fallen by more than half a degree, as the cold 'La Nina' effect has re-emerged in the South Pacific.
'We're now well into the second decade of the pause,' said Benny Peiser, director of the Global Warming Policy Foundation. 'If we don't see convincing evidence of global warming by 2015, it will start to become clear whether the models are bunk. And, if they are, the implications for some scientists could be very serious.'

Signing Global Warming's Certificate of Death

2-1-12

Yet another article on the hoax of global warming. Aivars Lode

By Alan Caruba, The United West

The sixteen names of the scientists who jointly signed the article in The Wall Street Journal, "No Need to Panic About Global Warming" on January 27th are mostly unknown to the general public. Perhaps the best known would be Harrison H. Schmidt, a former Apollo 17 astronaut and U.S. Senator. Others might recognize Burt Rutan, an aerospace engineer and designer of Voyager and SpaceShip One. Moreover, not only were the signers distinguished scientists, but they came from places like Paris, France and Cambridge, England, Jerusalem, Israel, and Geneva, Switzerland. Mostly climatologists and meteorologists, some were physicists and astrophysicists. Antonio Zichichi, one signer, is president of the World Federation of Scientists. Not to put too fine a point on it, but the combined credentials of these men represent some of the best minds on planet Earth in their respective fields.

What brought them together? On the surface it was just another of the countless articles that have been published over the years as scientists of real merit and courage took on the juggernaut of those for whom global warming had become a vast flow of government and foundation funding.

The effort was to "prove" that carbon dioxide (CO_2) was building up in the atmosphere and would soon incinerate Earth by trapping the heat from the sun. It had not done that in the 5.4 billion years of the Earth's existence, but the "warmists" claims came day after day and year after year. They permeated every aspect of society and you can go into any school in America and find textbooks still selling this garbage.

Until, that is, 2009 when thousands of emails between the small clique of scientists working for the United Nations Intergovernmental Panel on Climate Change were leaked on the Internet and it became clear that even they knew the Earth had entered a cooling cycle around 1998. The challenges to their bogus computer "models" were coming like cannon balls against their academic castles in America and England.

Starting in 2008, The Heartland Institute, a Chicago-based 27-year-old, non-profit research organization, sponsored four international conferences on climate change, attracting the top scientists and world leaders courageous enough to speak out against the global warming hoax. The momentum of opposition began to build against those who, from the late 1980s had warned that, in Al Gore's words, "the world has caught a fever."

The Wall Street Journal article said, in the plainest language, that candidates for public office "in any contemporary democracy…should understand that the oft-repeated claim that nearly all scientists demand that something dramatic be done to stop global warming is not true."

In fact, scientists had been signing petitions opposing the global warming hoax for a very long time. The problem was that the mainstream media either paid them no attention or dismissed them as "skeptics" and "deniers".

With a light touch, the Wall Street Journal article noted that "Perhaps the most inconvenient fact is the lack of global warming for well over ten years now." It wasn't as if the warmists did not know it. It was more like they regarded it as a problem to be solved by changing references to global warming to "climate change."

Their current dying gasps have to do with warnings about "extreme climate events" that have been occurring for eons; tornadoes, hurricanes, blizzards, floods and earthquakes; now all routinely attributed to too much carbon dioxide.

The article calmly said, "The fact is that CO_2 is not a pollutant." Indeed, more CO_2 in the atmosphere is a good thing, aiding increasing crop growth and healthier forests and jungles worldwide.

Someone needs to tell that to the Environmental Protection Agency that is striving mightily to shut down coal-fired energy plants for emitting CO_2. Add their efforts to do the same to a wide swatch of American industry and you get an agency that is in great need of being abolished.

"There is no compelling scientific argument for drastic action to 'decarbonize' the world's economy. In time, historians may look back and conclude that the January 27th article was, in fact, global warming's death certificate, signed by an international group of scientists who could not be disputed no matter how many times the warmists jump up and down and cry that the sky is falling.

It has taken a very long time for most of the public to come to the conclusion that they have been the object of an elaborate hoax.In America polls demonstrate that global warming is at the very bottom of their concerns these days. In time, wind and solar power, electric cars, biofuels, and other environmental delusions will join that list.

You Thought Solyndra Was Bad? There's More On the Way

2-18-12

All as a result of man's effect on global warming. Aivars Lode

By Larry Bell, Forbes

You thought Solyndra's green energy taxpayer rip-off was something? Well there are plenty more equally colorful crony catastrophes where that came from. I'll mention just a few that haven't gotten much attention.

Of the stimulus grants so far, more than 80 percent have gone to wind farms (covering up to 30% of all project costs). A Meadow Lake wind development project in Indiana that is owned and operated by Horizon Wind Energy received $276 million. Horizon is a wholly owned subsidiary of EDP Renovaveis, a Portuguese company. The turbines are manufactured by Vestas in Denmark, and are mounted atop 350 foot towers imported from Vietnam. EDP and Horizon also own and operate the Blackstone wind farm in Illinois that received a $171 million grant.

When it comes to breezy U.S. wind shenanigans, Robert Bryce, a senior fellow at the Manhattan Institute, believes that General Electric's Shepherd Flat project in northern Oregon is worst in blowing lots of taxpayer resources. Not only did the Energy Department give GE and their partners a $1.6 billion loan guarantee, but as soon as the turbines start running, the Treasury Department will ante up an additional $490 million cash grant.

According to plan, an important intent of this charity is to create 35 permanent new "green energy jobs". Focusing upon just the $490 million cash grant alone, some skeptics may question whether the taxpayer cost of $16.3 million for each of those jobs might be just a little bit steep.

The Shepherd Flat deal is so lucrative for investors that even some of President Obama's top advisors including former energy policy czar Carol Browning and economic advisor Larry Summers thought it was lousy. Their October 2010 memo observed that the project backers had "little skin in the game" while the government would be providing "a significant subsidy (65+ percent)." The memo went on to say that while the sponsor's contribution amounted to only about 11 percent of the total cost, they would receive an "estimated return on equity of 30 percent." It also explained that the carbon dioxide reductions associated with the project "…would have to be valued at $130 per ton for CO2 for the climate benefits to equal the subsidies…more than six times the primary estimate used by the government in evaluating rules."

Here's another one for our Left Coast friends. Idaho Winds LLC which represents eight wind farms has hatched a plan to take advantage of California's carbon cap-and-trade lunacy. They have petitioned the Federal Energy Regulatory Commission to approve the sale of renewable energy credits to a third party. Idaho Winds would then immediately buy the power back, leaving just the credits which the third party would sell to a California utility. So in essence, no energy would actually be sold…just California credits for wind power sold in another state.

The shell game is driven by laws in California and other western states requiring that renewable sources provide a certain percentage of the state's energy use, and providing that each unit a utility buys or produces receives credit. A loopy loophole allows California utilities to "unbundle" the energy and energy credits following an initial purchase, and then just buy the credits. Idaho doesn't have such a law, so its utilities don't need the credits. If allowed by FERC, it will enable Idaho to literally create energy credits out of thin air and sell them to California utilities that pass on those costs to their unlucky customers.

Our U.S. Navy is spending lots of our green to go green too. They recently committed $12 million to purchase 450,000 gallons of biofuel at about $26.75 per gallon in order to offset requirements for standard JP-5 aircraft jet fuel that costs less than $3 per gallon. The good news is that the total fuel price will be only about five times more (rather than 9 times) after it is mixed with the standard stuff. But then again, the real cost to American taxpayers is more than that. The biofuel is being produced through a contract with Dynamic Fuels, a partnership of three firms including Solazyme which previously received $27.7 million from the American Recovery and Reinvestment Act (stimulus

money) to build its biorefinery. Coincidentally, T.J. Glauthier, a Solazyme strategic advisor, served on the Obama White House transition team where he focused on Recovery Act energy issues.
And get this…that green fuel purchased with green tax money will be consumed in naval air exercises near Hawaii next summer by…now get ready for this…the "Great Green Fleet Carrier Strike Force".

Do you suppose their mascot will be the Jolly Green Giant? (Ho-Ho-Ho.)
How much are you willing to pay for a plug-in hybrid electric car? A Chevy Volt with a $41,000 sticker price maybe? Would you buy one of those if someone else threw in a $7,500 cash-back incentive; and an additional $5,000 if you live in California? Okay, okay… what if the real vehicle production cost amounted to thousands of dollars more, and someone else chipped in the difference? Well someone already is, whether you buy one or not. Any guess who that might be? Look in the mirror for a clue.
Subject to meeting various employment and other milestones, U.S. taxpayers will kick in about $3 billion in federal and state loans, rebates, grants and tax credits towards Volt production. This includes $2.4 billion from the federal government, plus $690.4 million from the state of Michigan. Some of these contributions will go to GM directly, while others will flow through companies that supply Volt parts to them. For example, the Department of Energy awarded a $105.9 million grant to GM's Brownstone plant that assembles the batteries, and its Hamtramck assembly plant received nearly the same amount in state credits to construct facilities for electric drive systems.
Delphi Automotive Systems, a former GM division, received $89.3 million to expand manufacturing facilities for electric drive power components, and Compact Power, a company that supplies Volt batteries, has been awarded up to $100 million in refundable battery credits through a combination of tax breaks and cash subsidies.
But even with spectacular deals like these, GM has so far only managed to sell about 8,000 of their vaunted Obamacars. And despite another big gift we gave them in the form of a huge TARP bailout, the prognosis doesn't look good at all. Volt's lack of spark promises to be yet another in a long series of Obama green program fizzles.

Mars is Melting

8-3-12

NASA studies show that Mars' polar caps are melting. I guess that is due to man-made global warming as well …and nothing to do with the influence of the sun? Aivars Lode

By NASA

It's not every day you get to watch a planetary ice cap vanish, but this month you can. All you need are clear skies, a backyard telescope, and a sky map leading to Mars.
Actually, you won't need the sky map because Mars is so bright and easy to find.
Just look south between midnight and dawn on any clear night this month. Mars is that eye-catching red star, outshining everything around it. It's getting brighter every night as Earth and Mars converge for a close encounter on August 27th.

Mars has gotten so big in recent weeks that even a backyard telescope will show details on the planet's surface: dust clouds, volcanic terrains, impact basins. Best of all is the south polar cap. Made of frozen CO_2 or "dry ice," it reflects more sunlight than any other part of the planet. The southern hemisphere of Mars is tipped toward Earth and the bright cap is remarkably easy to see.
Don't wait too long to look, though, because the ice will soon be gone.
Like Earth, Mars has seasons that cause its polar caps to wax and wane. "It's late spring at the south pole of Mars," says planetary scientist Dave Smith of the Goddard Space Flight Center. "The polar cap is receding because the springtime sun is shining on it."

As the cap shrinks it develops rifts, dark spots, and a ragged border. Lately, for instance, amateur astronomers using 8-inch and larger telescopes have been watching a frosty mountain range emerge from the ice. Says Smith, "these are the Mountains of Mitchel"--named after the Ohio astronomer who first spotted them 150 years ago. A bold dark rift called *Rimas Australis* cuts through the polar ice just south of those mountains.

Something else to look for is the "Cryptic region"--a dark zone hundreds of km wide. Even after the ice above it recedes, the Cryptic region remains remarkably cold according to infra-red cameras onboard NASA's Mars Global Surveyor spacecraft. No one is sure what the Cryptic region is, "but it's probably big enough to see from Earth," notes Smith.

Here's an amazing fact: The seasonal polar caps are made of martian air that freezes during winter. Depending on the time of year, more than a quarter of the martian atmosphere can be found lying on the ground around the poles. (The atmosphere is 95% CO_2; that's why the seasonal polar caps are made of dry ice.)

As seasons come and go, carbon dioxide shifts back and forth--lying on the ground during cold months, floating through the air during warmer months. The world-wide air pressure rises and falls by 25%.

For comparison, the air pressure inside a hurricane on Earth is often only a few percent lower than ambient. You can experience a full 25% difference in pressure by traveling from sea level to the top of a 9000 ft (3000 m) mountain. Just try running a 100 yard dash up there.

The south polar cap is vaporizing now, which means $CO_2$is rushing back into the atmosphere. "Remember, though," adds Smith, "there are two polar caps on Mars--north and south. While the south polar cap is vaporizing the north polar cap is growing. It's a balancing act. Overall air pressure will be greatest when there's the least amount of CO_2 on the ground." The next such peak is due in early October--that is, early southern summer on Mars.

The boost in pressure has some interesting consequences. It won't make the martian atmosphere thick by Earth-standards. At best the air pressure on Mars is 100 times less than Earth. But it might become thick enough in some places for liquid water to flow.

NASA spacecraft have detected frozen water beneath the surface of Mars. Liquid water, on the other hand, is scarce. Why? On a warm summer day, ice doesn't melt, it vaporizes--skipping directly from solid to gas. This happens because the air pressure is so low. But a small boost in pressure could be enough to allow ice to melt and water to flow under a warm summer sun. Southern summer, therefore, might be a good time for future human explorers to visit.

On the other hand, thicker air also encourages dust storms, which are a big problem on Mars. Small dust clouds stirred by sun-warmed winds sometimes grow to encircle the entire planet. In 2001 such a storm lasted for months and frustrated astronomers who couldn't see through the haze.

Will that happen again this year? No one knows.

Winds Drive Growth in Antarctic Sea Ice

11-12-12

The arctic ice is melting, the Antarctic ice is growing… the comment at the bottom of the article says everything. We don't know why. Aivars Lode

By Robert Lee Hotz, The Wall Street Journal

Northward winds are driving the record growth of winter sea ice around Antarctica, which stands in contrast to the extensive melting of the Arctic sea ice in recent years, scientists reported Sunday.

Northward winds are driving the record growth of winter sea ice around Antarctica, which stands in contrast to the extensive melting of the Arctic sea ice in recent years. Robert Lee Hotz has details on Lunch Break.

Their new research, based on 19 years of daily ice-motion measurements recorded by four satellites of the U.S. Defense Meteorological Satellite Program, highlights how geography, weather and climate patterns are affecting the planet's polar regions in different ways.

Their analysis documented for the first time that long-term changes in the drift of annual sea ice around Antarctica were strongly affected by winds. The area of ocean covered by sea ice grew markedly in regions where the prevailing winds spread out the loosely compacted ice floes, they reported. It shrank in areas where the wind blew the floating ice up against the shore.

The researchers at NASA's Jet Propulsion Laboratory in California and the British Antarctic Survey reported their work Sunday in Nature Geoscience.

"We have evidence now that the wind is driving the ice cover," said JPL senior research scientist Ron Kwok, who led the study. "The expansion and contraction of ice around the continent is largely explained by wind forces, which is very different in the Antarctic than in the Arctic."

Broadly speaking, the Earth's polar regions are mirror opposites.

The Arctic Ocean is largely landlocked, surrounded by North America, Greenland and Eurasia, which limits the amount of sea ice there could be no matter which way the wind is blowing. Earlier this year, scientists reported that the extent of summer sea ice in the Arctic was the lowest since 1979, when satellite monitoring there began.

By contrast, Antarctica—the world's coldest and windiest continent—is covered by an ice cap two miles thick and surrounded by the Southern Ocean. The annual growth of sea ice around Antarctica is the largest seasonal event on the planet.

With the onset of the Southern Hemisphere winter in March, the ice expands at 22 square miles a minute. In 1992, the direction of the drifting sea ice changed, with the spread of the ice doubling in some regions, the satellite measurements showed. Earlier this year, Antarctica's sea ice reached a record expanse of 7.49 million square miles, before the spring thaw began.

In a separate study made public last month, climate scientists at NASA's Goddard Space Flight Center in Maryland reported that winter sea ice surrounding Antarctica has been increasing by about 6,600 square miles every year—an area larger than Connecticut—during the same decades that the Arctic summer sea ice has been shrinking.

The researchers didn't identify what was driving wind patterns around Antarctica. Generally, the annual ozone hole over Antarctica has strongly affected wind circulation throughout the Southern Hemisphere, studies have shown. Wind patterns around Antarctica also are linked to larger climate cycles such as El Niño.

"The larger connection to global climate change and warming is more difficult to say," Dr. Kwok said. "We don't understand that yet."

Chapter 2

Manipulation of Commodities

Introduction

One of the most fascinating observations I have made recently relates to a mention in a previous chapter regarding how I traded beef globally. I understand that trade is reasonably stable with a certain percentage of growth every year. Yes, there are swings and roundabouts in production based upon seasonal variances; however man is very creative and during the last decades we have worked to drive out as much variability as possible.

One of my partners is a sugar trader on the ICE exchange and he says that sugar is one of the most manipulated commodities around. I reference back to the market makers in Forex and the golden rule that "He who has the gold, makes the rules." Recently JP Morgan and the Australian merchant bank Macquarie have been toughing it out in the market by each playing blind man's bluff to see what sort of positions they can create before one of them caves in. They do not have enough gold to play the game in the same manner as any card game. Many of the investment banks actually own the ability to store oil and create artificial shortages. Port of Canaveral has an oil facility that gets used by a hedge fund to unload oil from leased tankers kept off shore to create shortage and create artificial price points. Traders talk about creating liquidity, they really are the ones that have sought to create volatility as that is when they make their money. Since my first book, gold was to be a store of value as the economies of the world were going to evaporate. I know many that were buying gold bars and putting them on big sail boats so that they could barter their way to eternity. So, what happened? The world did not blow up and the USD still is the currency of the planet.

By watching the booms and busts of a number of commodities, I started to see a pattern emerge and a common story evolving as follows:

1. Individuals in a foreign land do something that will create a shortage of the commodity. Then they get experts to comment in the press.

2. A group of individuals, generally foreigners, create excess demand that leads to further shortage of that commodity.

3. The country that is disadvantaged is the United States.

The market makers create a market and a story, as mentioned above, drive the prices up around 230 percent from a base and then step out of the market.

So here is how the story for oil panned out:

1. Saudis overstating their reserves

2. Chinese demand so large that there would be a shortage of oil

3. Prices of a barrel went to $100.

Then the price collapsed and now there are articles talking about an oversupply of oil from further reserves being found.

The story for sugar:

1. India changed the subsidy for farmers, thus leading to a shortage.

2. In response to the desire for energy independence from oil producers and the Chinese, demand increases astronomically. The United States needs to produce ethanol, which is creating increased demand for sugar ethanol; therefore, demand is hugely increased.

3. Prices increased 215 percent and then collapsed.

The story of cocoa. This is my favorite:

1. Ivory Coast individuals turned to pirating as it is more profitable than growing cocoa; therefore, there is a shortage of cocoa.
2. Demand for cocoa increases astronomically because of a move to eating more dark chocolate for health reasons.
3. We are still waiting for the collapse as prices had been driven up 180%.

So, do you get the picture? They did the same for building materials during the building boom to explain the increase in prices. You could build the same quality house in Oklahoma for $120 a square foot whereas the same speculative home in Naples, Florida was $320 a square foot. Why? All of my developer mates told me that the concrete timber and steel were all going to China even though concrete is abundantly available close to most major building sites all across the globe. When the housing starts stopped in the United States, the timber felling decreased measurably which suggested that demand was domestically based and not China-based.

The final snippet outlines how much annual production of gold goes into jewelry a year – yes, more than 70 percent. So, how could gold ever replace a currency like the USD?

So the manipulation continues.

Wall Street's Snake Oil Salesmen Are at it Again

10-14-10

Manipulation of markets… that is why they are making the profits. Aivars Lode
By Charles Purcell, The Sydney Morning Herald

The fat cats on Wall Street have not learned anything from the global financial crisis.

Sometimes you read the news and you have to wonder if this is really happening. It was reported yesterday that Wall Street's banks, hedge funds and financiers are preparing to pay a record $US144 billion ($147 billion) in compensation and benefits to executives and employees.

What the? This group of snake oil salesmen and flim flam artists who brought the world to what people are calling the Great Recession — and very nearly a world depression — are receiving record bonuses a mere two years after the disaster, after their speculation helped drive Greece to the wall causing riots in the streets, and the financial meltdown of Iceland, former home to the financial vikings of Europe?

But it gets worse. "The payout, according to a study published in The Wall Street Journal, covering bonuses, premiums and stock options for the firm's executives and employees, is a 4 per cent increase over the previous record $US139 billion that was paid last year."
Advertisement: Story continues below

So a mere one year after property bubbles and the excessive speculation of financial instruments so complex that barely anyone on Wall Street understood how they worked, let alone the laymen, one year after the US Government was flinging billions of relief money to institutions crying out for saving, one year after some of the major car companies of America almost went bust, Wall Street's fat cats were already pocketing record bonuses. In the space of 12 months they went from desperate supplicant to serial complainers about how government was stifling free enterprise.

In Japan, chairmen or chief executives of disgraced companies have the decency to resign (or worse) when hit by scandal. In the West, we hire PR companies to spin the disaster, wait for the world to forget, and continue on as normal with seemingly no shame at all.

In his book Collapse, American scientist and author Jared Diamond shows how societies destroy themselves from within long before external invaders hasten their collapse. The US is certainly making enough crazy decisions to hasten its own economy decline — and by extension, the rest of the world who are victims of the predations of Wall Street. And as the case with Greece, the world's pain is merely delayed, bailouts postponing the carnage for the length of a bond or a loan until we suffer another mini-global financial crisis a few years down the track when the loans and interest are due. What will the minions of Wall Street do then? Beg for more money?

If I had to pick two reasons for the decline of Western civilisation, I would choose financial irresonsibility (whose damage creates spiralling debt, allowing non-Western countries such as China to purchase our prime assets and industrial knowhow at bargain basement prices) and global warming as the two prime candidates. So why are the people who brought us the global economic crisis being excessively rewarded? And being penalised less than a footballer who broke a salary cap?

When someone robs your house, they go to jail. When someone threatens you, you can slap an apprehended violence order on them. Where is Wall Street's equivalent of an apprehended violence order? Where is the punishment meted out to those who have caused long-term harm to the wealth and competitiveness of Western society? Where is Obama's promised crackdown on Wall Street?

Surely one year is hardly enough time for Wall Street to pay penance for its role in the biggest financial disaster since the Great Depression, a global collapse that reached our very shores, Australia weathering it partly due to our robust mining industry and a much more prudential and secure banking sector.

I don't really know what the solution is. Certainly applying "stress tests" to US (and Australian) financial instutions to test their ability to endure future economic turmoil is a good idea. Eliminating or banning trading in a whole lot of financial instruments that create nothing but are little better than high faluting crap shoots is another. A small tax on share trading might reduce the millions of unneccesary trades made each day and make the market less of a giant casino. The thing they all fear, of course, is government ownership. The Gordon Gekkos of America couldn't wait to pay back Obama's loans so they could get out from under the "oppressive" hand of government.

Some might say it's best to let the market work things out. But the market brought us to the brink of financial doom. And if these overpaid captains of industry are intent on driving us towards another iceberg, it's time they were replaced at the wheel.

Cotton Hits Record High

10-15-10

Another commodity driven up in price by traders, with very little to do with demand. Read the story below, it plays out like the normal story as the market makers drive the price up. Crops wiped out in a foreign land, demand is going crazy. Any bets for how long it takes before the price crashes? Aivars Lode

By Dow Jones Newswires

NEW YORK—Cotton prices are at their highest in the 140 years the commodity has traded on an exchange, as heavy Chinese buying and poor harvests are expected to keep global supplies tight.

The ICE December cotton contract hit $1.1980 a pound minutes after trading opened, eclipsing the previous record high set in 1995 by more than 2 cents.

Cotton prices began rising in July on a post-recession rebound in demand. When flooding in Pakistan and heavy rains in China wiped out parts of the major producers' harvests, futures pushed past the $1 a pound level as traders feared a world-wide shortage.

While worries eased slightly after India and the U.S. reported strong production, Chinese mill demand has shown no signs of slowing and continues to boost the market. The U.S. Department of Agriculture said China bought 267,700 running bales of U.S. upland cotton last week, more than half of the total bales exported.

"We've never had a set of factors like this," Country Hedging analyst Sterling Smith said.

Manufacturers throughout the cotton production line cut costs during the recession by reducing inventories, forcing a scramble for supplies this year. And the U.S. dollar's steady fall has also encouraged exports and drawn investors to hard assets, including commodities.

"Inventories of yarn and fabric got low because of the recession, cotton inventories were low because production sank and all of the sudden demand comes back," said Andy Ryan, an analyst at FCStone Fibers & Textiles. "It's the perfect storm."

Cotton first traded on the New York Cotton Exchange in 1870, and is now offered on Intercontinental Exchange Inc. Prices reached their previous all-time high at $1.1720 a pound on April 24, 1995.

Analysts said the record prices are expected to damage profit margins for mills and merchants, with some fraction eventually passed on to consumers. Jeans maker Levi Strauss & Co. said earlier in the year higher cotton costs would result in price increases, and lower-end apparel retailers are expected to follow suit.

"The cost of buying at a wholesale level will rise," Mr. Smith said. "We'll start in February or March seeing a little bit of increases where [retailers] can get away with it."

Since hitting its high, the benchmark contract has backed off throughout Friday morning on profit taking. It recently traded 2.63 cents, or 2.3%, below Thursday's settlement at $1.1224 a pound.

Raw Sugar Advances to 29-Year High

11-4-10

Too much money chasing a return! Sugar is one of the most manipulated commodities on the globe and the stories that are in the press don't have anything to do with real demand! They are reported in order to draw new players into the market and then crush them when the market collapses by the market makers. Aivars Lode

Global output will be 167 million metric tons in the year that began this month, down from an estimate of 173 million tons, Paris-based Sucres et Denrees SA said yesterday. Production in Brazil's Center South tumbled 30 percent in the first half of October from a year earlier, Unica, an industry association, said on Oct. 28.

“People are very concerned about the Brazilian crop, for this year and for next,” said Jonathan Kingsman, the managing director of Lausanne, Switzerland-based sugar broker Kingsman SA.

Raw sugar for March delivery rose 1.5 cents, or 5 percent, to settle at 31.66 cents a pound at 2:01 p.m. on ICE Futures U.S. in New York. Earlier, the price reached 31.81 cents, the highest level for a most-active contract since Jan. 9, 1981.

The commodity gained for the seventh straight session, the longest rally since July 2009.

Global consumption this year will be 166.2 million tons, Sucden said. In the past three month, Brazil and Russia were the producers hurt most by adverse weather, the company said.

“The main problem is the lack of selling,” Kingsman said. “When people need to buy, there is no supply.”

India, the second-biggest producer and largest consumer, may export less than forecast, and shipments should be spread out to prevent global prices from slumping, a milling group said yesterday.

“India could also be a factor in sugar's rise,” Kingsman said. “If they are going to control or limit exports, that might be worrying some people.”

Sugar has more than doubled since touching a 13-month low on May 7.

In London, refined-sugar futures for March delivery climbed $27.70, or 3.7 percent, to $776.50 a ton on NYSE Liffe. Earlier, the price reached $777.40, the highest level since at least 1989. The commodity has gained 9.3 percent this year.

Gold Jumps to Record

11-4-10

We know what happens when records are set… they fall. Boy oh boy - 70% of Gold goes into jewelry annually, how can it be a currency? Wait for the pop. Aivars Lode

By Pham-Duy Nguyen, Bloomberg

Gold surged to a record price in New York as plans by the Federal Reserve to buy more debt drove the dollar lower, boosting demand for precious metals as alternative investments.

After settling at $1,383.10 an ounce on the Comex, gold rallied to $1,393.40, the highest ever, in after-hours electronic trading. The dollar fell to the lowest level in almost 11 months against a basket of major currencies after the Fed yesterday said it will buy an additional $600 billion of Treasuries through June to spur growth. Gold futures are up 27 percent this year, heading for a 10th straight annual gain.

“The Fed gave the green light to just continue buying gold,” said Matt Zeman, a metals trader at LaSalle Futures Group in Chicago. “You can just short the dollar and go long on commodities with impunity. Until the Fed mops up this liquidity, the sky is the limit for gold.”

Gold futures for December delivery rose $45.50, or 3.4 percent, as of the 1:30 p.m. close on the Comex in New York, the biggest gain for a most-active contract since March 19, 2009. The metal traded at $1,391.90 as of 4:27 p.m. Gold for immediate delivery in London rose to an all-time high of $1,393.55.

The Federal Open Market Committee said yesterday that it was compelled to act because “progress” toward objectives of full employment and stable prices “has been disappointingly slow.” The U.S. and other governments have kept interest rates low and spent trillions of dollars to revive the global economy.

‘Inflationary Threat’

“The Fed aims to weaken the dollar and create inflation,” said Peter Schiff, the president of Euro Pacific Capital in Westport, Connecticut. “Gold and non-dollar investments should benefit from their efforts.”

The dollar also fell to a nine-month low against the euro as the European Central Bank kept its benchmark rate at 1 percent, signaling it will likely stick with its stimulus-exit strategy. The federal-funds rate has been zero to 0.25 percent since December 2008.

“Investors are starting to think about the long-term inflationary threat,” said Adam Klopfenstein, a senior market strategist at Lind-Waldock in Chicago. “The $600 billion in bond purchases looks very friendly for buying anything tangible like gold. Commodities are going to look undervalued.”

The Thomson Reuters/Jefferies CRB Index of 19 raw materials rose to a two-year high.

“Commodity prices are far more likely to rise than to fall,” said Dennis Gartman, an economist and the editor of the Suffolk, Virginia-based Gartman Letter. The Fed has signaled that “it will do what it must to assure that deflationary pressures are dealt a death blow, that inflation is the better choice.”

Inflation expectations, based on the 10-year U.S. Treasury breakeven rate, have fallen to 2.17 percent from 2.4 percent at the beginning of the year. Gold is traditionally a hedge against accelerating consumer prices.

Sugar Rises to 29-Year High in New York; Cocoa, Coffee, Orange Juice Gain

11-9-10

When will it crash? Aivars Lode

By Stephen Morris & Leslie Patton, Bloomberg

Raw sugar rose for a 10th straight session, reaching a 29-year high, on concerns that India may cap exports to boost domestic supplies after a smaller-than-expected cane harvest. Cocoa, coffee and orange juice gained.

India, the world's second-biggest sugar producer, may export 1.5 million to 2 million metric tons of the sweetener, New York-based Commodore Research & Consultancy said yesterday. Earlier this year it predicted 3.5 million tons. Flooding in the state of Uttar Pradesh triggered cuts to forecasts, Commodore said.

"Further heavy rains in India are causing analysts to restrict upward production estimates," Michael McDougall, a senior vice president at Newedge USA, said in a note e-mailed today. "There is a finite amount of time for the Indian harvest to take place."

Raw-sugar futures for March delivery added 1.23 cents, or 3.9 percent, to settle at 33.11 cents a pound at 2 p.m. on ICE Futures U.S. in New York. Earlier, the price reached 33.32 cents, the highest level for a most-active contract since Jan. 7, 1981. The commodity has gained 23 percent this year.

Raw sugar will "fly to 35 cents in the coming days," said Jonathan Bouchet, a Geneva-based trader at OTCex Group.

U.S. Sugar Output

U.S. output will total 8.23 million short tons in the year that began Oct. 1, down 1.8 percent from 8.39 million forecast last month, the Department of Agriculture said today. Production estimates for Louisiana sugarcane and U.S. sugar beets were lowered.

Production numbers were "bullish based on trader's expectations, said Jimmy Tintle, an analyst at Transworld Futures in Tampa, Florida.

The U.S. will import 2.74 million tons, 21 percent more than was previously forecast, the agency said.

In London, refined sugar for March delivery gained for the sixth time in seven sessions, climbing $24.40, or 3.1 percent, to settle at $802.70 a metric ton on NYSE Liffe, after touching $810.10, the highest level for a most-active contract since at least January 1989, when Bloomberg began recording data.

Robusta coffee rose to the highest price in more than two years on speculation that adverse weather may delay crop collection in Vietnam, the world's second-largest grower. The harvest, which usually starts in November, may be delayed by rains in the Central Highlands, Andrea Thompson, an analyst at CoffeeNetwork in Belfast, Northern Ireland, said yesterday.

Coffee Rises

Robusta-coffee futures for January delivery climbed $14, or 0.7 percent, to settle at $2,060 a ton on NYSE Liffe, after reaching $2,098, the highest price since Sept. 29, 2008.

In New York, arabica-coffee futures for December delivery, the contract closest to expiration, added 8.95 cents, or 4.3 percent, to settle at $2.1705 a pound. Earlier, the price reached $2.1785, the highest level since June 1997. The March contract, which has the most open interest, advanced 9.05 cents, or 4.3 percent, to settle at $2.1975 a pound.

Cocoa futures for March delivery gained $56, or 2 percent, to settle at $2,884 a ton in New York. In London, the chocolate ingredient for December delivery advanced 44 pounds, or 2.4 percent, to settle at 1,873 pounds ($3,002) a ton in London.

Orange-juice futures for January delivery rose 6.25 cents, or 4 percent, to settle at $1.615 a pound on ICE, after falling in the previous three sessions.

Sugar Falls, Ending Longest Rally Since 2006

11-12-10

Well, well, well ...see my post a few days ago. The story was "the record has been reached" and my question was "when will it fall"? We did not have to wait too long. Aivars Lode

By Claudia Carpenter and Debarati Roy, Bloomberg

Raw sugar declined, ending the longest rally since 2006, on speculation that consumers will seek cheaper alternatives after prices surged to a 29-year high. Cocoa, coffee and orange juice also fell.

U.S. sugar use will drop 1 percent in the year that began on Oct. 1 after climbing 5.4 percent a year earlier, the Department of Agriculture said yesterday. Prices have more than doubled since touching a 13-month low on May 7 as adverse weather damaged crops in Russia, China and Brazil, the world's biggest producer.

"Demand for the time being is totally dead," said Naim Beydoun, a broker at Swiss Sugar Brokers in Rolle, Switzerland. "With high prices, we will have some substitution of sweeteners," such as high-fructose syrup made from corn, he said.

Raw sugar for March delivery fell 0.3 cent, or 0.9 percent, to settle at 32.81 cents a pound at 2 p.m. on ICE Futures U.S. in New York. The price rose in the previous 10 session, the longest advance since January 2006.

Yesterday, the commodity climbed to 33.32 cents, the highest level since January 1981.

"There is some profit-taking," Bruno Lima, a risk- management consultant at FCStone Group Inc. in Campinas, Brazil. "Some buyers may be waiting for prices to fall a bit before returning to the market."

In London, refined-sugar futures for March delivery dropped $12, or 1.5 percent, to $790.70 a metric ton on NYSE Liffe.

Coffee, Cocoa Slide

Arabica-coffee futures for March delivery declined 4.8 cents, or 2.2 percent, to $2.1495 a pound in New York. Earlier, the price climbed as much as 0.8 percent to $2.2145, the highest level since June 1997.

In London, robusta-coffee futures for January delivery slumped $76, or 3.7 percent, to $1,984 a ton.

Cocoa futures for March delivery fell $29, or 1 percent, to $2,855 a ton in New York and dropped 27 pounds, or 1.4 percent, to 1,872 pounds ($3,017) a ton in London.

Orange-juice futures for January delivery declined 3.5 cents, or 2.2 percent, to $1.58 a pound in New York.

What's Happening in China

11-20-10

Interesting perspective from one of our board members. Aivars Lode

By Trevor Rahill, Focus International

As 2010 draws to a close the jury is still out on whether the global economy is over the worst of things but at least the Flavor & Fragrance industry is reporting healthy gains compared to prior year which is an encouraging sign. Many of these companies are achieving this growth from China and the other BRIC countries and are investing heavily in these markets to establish a market position. On the other hand Food Ingredient commodity prices are seeing a lot of upward pressure particularly sugar and Cocoa which is creating problems and opportunities in the industry.

The China market continues its extraordinary growth - Freedonia predict that the Asian F&F market will be the number 2 regional market by 2014 behind only North America led by the 2nd largest market being China. I personally think the growth numbers they are using are conservative but lack of information will always mean that it is more of a guess but one thing is certain. What happens in China will have a big bearing on the future of not only the F&F Industry but nearly every industry and the rise of local players as effective global competitors is almost inevitable. The article on the size of the Chinese beer industry emphasises this as does the investments from the F&F industry such as Sensient and Cargill as well as the ramp up of Investment by Pepsi and Coca Cola.

Food safety and quality issues continue to be addressed by the Chinese Government and they are working closely with other organisations such as the FDA. The Chinese Government have started to encourage Chinese companies to start moving abroad and gain more of the value chain and are reducing approval requirements for SME's to make the move abroad.

While the market in China is big now, the future offers even more promise as the impact of urbanization will continue to drive growth for years to come. 2nd and 3rd tier cities as well as whole new cities will emerge as key centers of population and consumption. China is where the USA was in % of urban population in the early 1990's so we are witnessing a population movement unprecedented in human history and unlikely to be repeated. The F&F industry in China is extremely fragmented and estimates put the number of F&F companies anywhere between 800 to 1000 and this offers many interesting opportunities for foreign companies to enter the market without having to start from scratch. Focus International is a specialist in developing unique solutions for its clients looking to enter China or other International markets and would be very happy to talk with you to discuss your needs and strategic direction.

Here's Another Reason to Spend the Kids' Inheritance

12-1-10

Great headline! Here we go again with another similar story. So demand for copper is increasing because of electrification forcing the prices up because supply is constrained. Let's watch how long it takes for the price to run up and collapse as they find new reserves, so there is no longer the shortage reported here. Aivars Lode

By Barry FitzGerald, The Sydney Morning Herald

Bullish predictions on the price outlook for copper are a dime a dozen. It makes you wonder why people aren't cashing in their kid's endowment policies and loading up with copper, or at least producers of the red metal.

The reasons for the raft of bullish price predictions are well known. It's all about the growth in demand caused by the electrification of the emerging economies at a time of falling grades and reserves pressure at established mines, and the increasing number of approvals roadblocks faced by new projects.

London-based metals consultancy GFMS is one of the latest to outline a rosy future for copper. It reckons that apart from the impact on demand/prices from an economic slowdown in the first half of 2011, it will be a case of onwards and upwards thereafter.

So much so that GFMS is prepared to predict that copper prices will rally from the first half of 2011 setback to prices “well above” $US11,000 a tonne in 2013. That's more than 30 per cent from where the copper price currently sits.

Societe Generale's analysts have also chipped in, saying the rise of exchange-traded (metals) funds, and the resultant diversion of metal away from end users of the stuff, means that copper prices are likely to rise "significantly".

Local exposure to copper comes with the big three of the metal on the ASX – BHP Billiton, Rio Tinto and OZ Minerals. But as you might suspect, Garimpeiro's interest is in the more leveraged plays to the copper boom we keep getting told is unfolding.

BHP and Rio will do well out of a 30 per cent-plus rise in copper prices over the next three years. But who knows, over supply in iron ore might see them hit by tanking iron ore prices. That leaves OZ as the pure producer play. But it has to sort out what it is going to do with its cash pile of some $1.5 billion before we'll know what it will look like in 2013, or next year for that matter.

So it's back to the developers like Sandfire or Rex Minerals, or Garimpeiro's personal preference, the explorers, particularly those with unfolding leverage to the price spike we're told is coming.

Gold Coast-based Coppermoly falls in to that category. Garimpeiro had a look at the stock back in July when it was trading at 13 cents a share for a market capitalisation of a little more than $17.2 million.

On Tuesday it was a 14.5 cent stock worth $20 million on an undiluted basis. Not exactly a stellar share price performance. But there is a fair chance interest in the stock will build in the months ahead in response to a flow of exploration results from its joint venture with the world's biggest gold producer, Canada's Barrick Gold, on New Britain island in Papua New Guinea.

Earlier this year Barrick started a drilling program on Coppermoly's tenements on the island that are subject to a joint venture agreement under which Barrick can earn a 72 per cent interest by spending $20 million.

Results from the first of the holes drilled have been impressive. The most recent result – from the third hole drilled by Barrick in to the Nakru property (it was the first by Barrick in to the smaller Nakru 2 geophysical anomaly) – was released last week.

What's Bugging Gold?

12-2-10

Hmm, the last line in this article states that gold may drop more! Some of you may remember that gold follows the path of many other commodities; at some point after hitting a record high a record crash occurs. Aivars Lode

By Colin Barr, CNN

Gold usually shines in a crisis. But thanks in large part to changing views of China, the problems swirling in Europe and Korea have barely budged gold prices.

In just the past week, Ireland has been forced to take a bailout, Portugal has claimed it doesn't need any money and Spain has warned that speculators who bet against its bonds are cruising for a bruising. Oh, and North Korea started shooting at South Korea.

Gold vs. Chinese stocks

None of these events serves to make the globe look safer for investors or anyone else, for that matter. Yet gold, which has been known over the years as the go-to investment at times of distress, hasn't caught fire, in contrast to its breakouts in some earlier crises.

Gold futures for December delivery recently fetched $1,362 an ounce. That's down more than 3% from last month's nominal record above $1,400.

Part of the answer no doubt lies in the breakneck pace of gold's rally this summer. The price soared some 20% between late July, when investors began anticipating a new round of Federal Reserve aid, and early November, when the Fed announced the launch of the second round of quantitative easing. After that runup, even longtime gold bulls were heard predicting a pullback

But another explanation centers on a changing view of China's role in the global economy and financial markets.

This summer, demand from the world's fastest-growing big economy was seen as an irresistible force driving a global commodity price spike. China's thirst for growth and its demand for natural resources would spur a multiyear boom in markets for food, agricultural products, metals and other goods.

But now, facing worrisome food price inflation, China is tightening monetary policy in an effort to quell some of that demand. It has tightened bank reserve requirements twice this fall, and is expected to do so again in coming months.

With China and other emerging economies trying to keep a lid on the hot money surging in from slow-growing rich countries, the one-way bet on rising global commodities prices is suddenly looking like much less of a sure thing.

"Chinese tightening poses a negative for the 'risk trade' via the potential of hampering demand for commodities," writes CMC Markets strategist Ashraf Laidi. "In contrast, last spring's Greece crisis was a green light to buy gold" against both the dollar and the euro.

None of this is to say the green light for buying gold won't come on again. The dollar has rallied strongly against the euro in recent weeks as the Irish crisis has come to a head, and any success in defusing problems there may reignite the sell-the-dollar trade. At the same time, an escalation of either the European or Korean crises could spur new gold buying.

It is far from clear that the monetary moves China has made will be enough to cool down its economy or trim demand for commodities.

And over the longer haul many of the dynamics that have accompanied gold's rise remain in place. China and other developing world central banks are buying gold to diversify their dollar and euro holdings; negative real interest rates, which have a strong link to a rising gold price, appear likely to remain in place in the West for some time.

But if nothing else, the past month has offered a reminder that no trade goes one way forever -- which means the gold pullback, as unexpected as it has been, could yet go much further.

Have You Caught Gold Fever?

12-10-10

Just like other commodities there is always a story and then a crash! Aivars Lode

By Paul Keegan, CNN

FORTUNE -- I'm standing in a stream in upstate New York shoveling dirt into a bucket. Danny Miller, a 58-year-old retired industrial engineer, shows me how to scatter the dirt into a sluice propped against rocks in shallow water. He dumps the residue from the sluice into a green plastic pan and shakes it, looking for "color." "I almost thought I saw a little piece of gold," says Danny, who heads the New York chapter of the Gold Prospector's Association of America. "Boy, I thought I saw a speck there for a second."

Danny, there is no gold in your pan. There's no more than a few specks in this whole damn stream. In fact, all the unmined gold in the entire state of New York would probably fit into that one-ounce vial your buddy Zeke gave me before we headed into the woods. Worse, you explained all these dismal facts to me before I flew all the way to Syracuse, then drove another hour to meet you and seven other members of this nutty little club at a firehouse in West Eaton, N.Y. A giant American flag hung on the wall near the pool table as club member Kenneth Roman, 64, told the group that so far he has found exactly four specks -- "about a quarter the size of fly poop." Then you reminded us that according to an archaic law, any gold we do find belongs to the State of New York.

So what in the world are we doing out here?

Danny and the gang say they're not disappointed if they don't find gold -- they just love being outdoors. The truth is a bit more complicated: Danny and millions all over the world have caught gold fever, a condition that disrupts normal cognitive processes. With the price of gold tripling over the past five years -- reaching $1,400 per ounce in November -- it is an increasingly widespread disorder. Once primarily the obsession of libertarians, survivalists, and conspiracy freaks, gold appears to be going mainstream. When even a barren state like New York gets its own chapter of the

GPAA (launched in February), you know something strange is going on.

People are rummaging through their dressers for gold rings and bracelets to sell through Kmart, Sears (SHLD, Fortune 500), or to a new cash-for-gold company, Gold Promise, that rescued Mr. T from oblivion to become its pitchman. Gold vending machines are selling out in Abu Dhabi and Germany and heading to the U.S. Cable ranters from Jim Cramer to Glenn Beck urge viewers to buy gold. Hedge fund heavyweights like John Paulson and George Soros have loaded up, gold-mining stocks are hot, and exchange-traded funds have made it easy for average investors to own physical gold without having to bury bullion bars in their backyards. The president of the World Bank has suggested creating a modified gold standard for world currencies.

There is remarkably wide agreement that gold is or soon will be a bubble -- "The ultimate asset bubble is gold," Soros said earlier this year -- and the biggest question seems to be whether it will burst years from now or next week, the day after you bet your life savings on Krugerrands. And yet gold feels different from other recent manias, with none of the futuristic cool of tech or the flamboyance of real estate. Gold has a serious image problem, more redolent of Lyndon LaRouche than Steve Jobs. That's why your friends may be buying gold without admitting it, lest you think they'll start spouting paranoid theories about why there hasn't been an independent audit of the gold in Fort Knox since the Eisenhower administration. This makes it a queer, stealth mania, though it seems only a matter of time before -- wait a minute, why hasn't there been an independent audit of the gold in Fort Knox?

Confessions of modern-day gold investors

It's late October in the overflowing main ballroom of the Hilton New Orleans Riverside. Newt Gingrich and Dick Armey are onstage exulting over the impending Republican takeover of the House, columnist Charles Krauthammer is decrying the "parasitic" public workforce, and author Robert Ringer wonders where in the Constitution it says the government has the right to redistribute wealth. In the back row, a 32-year-old real estate agent from Alaska named Gerardo Del Real is shaking his head. "It makes me cringe," he says.

Del Real, you see, is an Obama supporter. The fact that someone like him is attending the New Orleans Investment Conference for the second straight year is a sure sign that gold mania is spreading beyond the fringe "God, guns, and gold" crowd. The event was founded in 1974 by a gold bug named James U. Blanchard III, who once hired a biplane to tow a "legalize gold" banner over President Nixon's inauguration (private ownership of gold was legalized in 1974). Many of the same 700 or so older white libertarians come here year after year to seek investment advice, listen to speeches, and hone their gold strategy: Physical or paper? Coins or bars? ETFs or mining stocks?
0:00 /05:36Debating gold's place in your portfolio

They also get an earful of conspiracy theories, like the one about how the U.S. government has been secretly swapping gold with other central banks to keep the price artificially low and prevent gold from competing with the dollar -- that's why there has been no independent audit of the gold in Fort Knox for more than 50 years, according to Chris Powell of the Gold Anti-Trust Action Committee, who spoke here. But gold is rising anyway. With paper currencies collapsing, government debt out of control, and the Fed pumping billions into the economy, the general consensus here is that the world is going to hell in a handbag. This creates an atmosphere of doomsday glee, summed up by Gary Alexander, emcee for the Gingrich-Armey panel: "All these crises have been very good for gold!"

The main motivations for buying gold, says conference host Brien Lundin, editor and publisher of Gold Newsletter, are the usual culprits: fear and greed. Del Real is happy to align himself in the greed camp, though he adds that it's on behalf of his wife and three children back in Anchorage, his Mexican immigrant parents, and the domestic-violence shelters and artists he wants to support. With slicked-back hair and the affable air of a born salesman, Del Real made some clever investments during the real estate boom and emerged with $90,000 before the bubble burst. Now he sees another boom in the making and is hoping for a big score, putting 85% of his money in junior gold exploration and mining stocks that carry considerable risk but enormous potential. "I'm not a geologist, but I am a decent judge of character," Del Real says, convinced he can find the honest players in an industry where the truth can be as hard to find as 24-karat nuggets. As we ride the escalator down to yet another gold workshop, he says, "I feel so lucky to be alive right now -- this is such a great time in history!"

Six top-performing gold funds

At the opposite end of the emotional spectrum are Dewey Mundwiller, 70, and his wife, Sandy, 56, financial advisers in St. Louis who are attending the conference for the first time. They never seriously considered investing in gold until the crash of 2008. With a low-seven-figure portfolio in stocks and cash, they had thought they were set for life, but now they're terrified of losing it -- to either runaway inflation or an economic cataclysm. They are leaning toward putting 10% of their holdings in some combination of gold CDs, mining stocks, and coins. "Fear is motivating me," Dewey admits over dinner at Antoine's Restaurant in the French Quarter. "I don't know that the economy is going to fall off a cliff, but in case it does, I want to have some options."

Will the story of gold mania validate Del Real's exuberance or the Mundwillers' dread? Either way, such volatile emotions don't seem conducive to rational thinking about investments -- unless you're Newt Gingrich. The former Speaker of the House and potential presidential candidate in 2012 believes economic conditions make gold seem like an eminently sensible option.

Trader Holds $3 Billion of Copper in London

12-21-10

Who knows if it is true? What is for sure is that it will cause speculation, which will be the aim to drive volatility. Aivars Lode

By Tatyana Shumsky and Carolyn Cui, The Wall Street Journal

Copper soared to a new record of $4.2705 per pound on Tuesday in New York, and is up 28.3% this year. Here, the Cerro Verde copper mine in the Atacama desert near Arequipa, Peru.
As commodity prices soar to new records, the ability of a few traders to hold huge swaths of the world's stockpiles is coming under scrutiny.
The latest example is in the copper market, where a single trader has reported it owns 80% to 90% of the copper sitting in London Metal Exchange warehouses, equal to about half of the world's exchange-registered copper stockpile and worth about $3 billion.
The report coincided with copper prices soaring to new records on Tuesday. Commodities prices rallied along with stocks. The Dow Jones Industrial Average gained 55.03 points, or 0.48%, to 11533.16, its highest level since August 2008. Crude oil jumped to its highest level in more than two years and topped $90 a barrel in late electronic trading in New York. Corn and soybeans rose amid worries about hot weather in Argentina.
r soared to a new record of $4.2705 per pound on Tuesday in New York, and is up 28.3% this year.
The LME's three-month copper contract closed at $9,353.50 a metric ton, up 1.6% on the day, a new record.
J.P. Morgan Chase & Co. recently had a large position in copper, though it is unclear whether the U.S. bank increased its holdings, or whether a new player has taken dominant position.
"Regardless of who owns it, the only thing of note here is that we are being told that one person has a substantial position," said David Threlkeld, president of Resolved Inc., a metals consultancy.
Single traders also own large holdings of other metals. One trader holds as much as 90% of the

exchange's aluminum stocks. In the nickel, zinc and aluminum alloy markets, single traders own between 50% to 80% of those metals and one firm has 40% to 50% of the LME's tin stockpiles.
While commodities exchanges scrutinize all holdings to ensure a single player isn't trying to corner the market, and many of the positions are owned by big firms on behalf of clients, the large holdings do result in a concentration of ownership that could skew prices.
At the same time, thousands of new investors are flooding into the commodities markets, either directly or through exchange-traded funds, seeking to take advantage of an expected rise in prices of raw materials as the global economy continues to recover.
While commodities regulators in the U.S. are considering restricting the amount of futures contracts any one trader can hold, they have no jurisdiction over physical holdings.
The LME has strict rules to prevent market squeezes but does not limit how much metal a single trader may hold. Instead, the exchange demands the dominant holder make metal available for short-term periods at very limited profit margins. The LME says it closely watches individual holdings.
Copper demand is likely to outstrip supply this year by an estimated 455,000 metric tons, says Barclays Capital. Copper inventories at the LME have been declining since February.
Consumption is growing rapidly in China, Brazil and the U.S. And the creation of ETFs to hold physical metal is helping drive demand. On Tuesday, ETF Securities, a London-based provider, said that its newly-announced copper-backed ETF has added about 850.5 tons of copper, up 43%, to reach 1,445.5 tons.
Last month, the LME reported that a single holder owned more than 50% of the exchange's copper. People familiar with the matter at the time said J.P. Morgan was the holder. On Tuesday, the LME reported that a single holder now has as much as 90% of the stockpiles, without naming the firm. The LME reports data two days in arrears, so the position increased on Friday.
In the aluminum market, about 70% of the LME metal is locked up, MF Global base metals analyst Edward Meir said during LME Week in London in October.
LME aluminum stocks currently total around 4.3 million metric tons.
As one example, Swiss commodity trading firm Glencore International AG bought about 1.6 million tons of the metal from United Co. Rusal Ltd. earlier this year, market participants said at the time. Glencore then turned around and presold the metal. So even though the aluminum is sitting in LME warehouses, visible to all traders, it is effectively locked up.
These sorts of deals have skewed physical trading in these metals, as other consumers have paid increasing premiums to get hold of stocks, even though the metal looked like it was available in warehouses.
Holding ready-for-delivery metals on an exchange isn't a cheap undertaking for traders, who are responsible for paying insurance, storage and financing costs. And "the end game is to find somebody to buy something you have already bought for a higher price," Mr. Threkeld said.
The recent boom in metal prices has enabled traders to purchase the physical metal, sell a futures contract at a much higher price and still make a profit after paying for storage and insurance.

Price of Silver Soaring

12-26-10

So how long before it crashes? Aivars Lode

By Carolyn Cui and Robert Guy Matthews, The Wall Street Journal

BIG CREEK, Idaho—An unexpected surge in investor demand is sending silver prices soaring—and speculators and mining companies are digging in.
In the past four months, the metal has upended forecasts, rising 51% to a series of 30-year highs, before inflation. Silver closed Thursday at $29.31 a troy ounce, up from $16.822 at the beginning of 2010.
Among the four major precious metals—the others being gold, platinum and palladium—silver is up 74% this year, on track to be the second-best performing commodity after palladium, which is up

86%. Gold, by contrast, is up 26% and copper just under 28%.
Silver's surprising rise has spurred increased mining activity in places including Silver Valley, Idaho, pictured.

Prices are rising despite oversupply and a lackluster recovery in industrial demand. Many analysts expected those factors would keep a lid on prices in 2010. What they didn't expect was an overwhelming flow of money into the market from investors eager to ride a commodities rally.
"This is a story almost entirely about investment," says Stephen Briggs, senior metals strategist at BNP Paribas.
The global silver appetite partly reflects world economic improvements. Investors from the U.S. to China turned to "hard" assets such as copper and other commodities in part as a hedge against inflation worries. Silver benefits from a dual role as industrial commodity and precious metal.
Here in the mountain-ringed Silver Valley, historically one of the world's largest silver production regions, workers are busy punching through rocks to open passages in the Crescent Silver Mine, which closed more than a dozen years ago when prices of silver dipped to $5 to $6 an ounce.
Even if prices retreat to $15 an ounce—a level seen as recently as early this year—some prospectors say they can break even, which means development will continue. "I think we are starting a new era in mining here," says Greg Stewart, president of United Mining Group, which has an 80% interest in the Crescent Silver Mine.
Exchange-traded funds backed with silver have enabled investors to invest in a market that traditionally was harder to participate in. The largest silver ETF, the $10.2 billion iShares Silver Trust, has seen a $1.1 billion net inflow for the first 11 months of this year. In recent months, concerns about inflation, the European debt crisis and the U.S. Federal Reserve's recent moves to boost the economy have driven investors to hard assets, also benefitting silver prices.
The craze has reached the coin market. In November, silver American Eagle coins sold by the U.S. Mint amounted to 4.26 million ounces, a monthly record in the agency's history.
Silver's reliance on investors to prop up the price could cause it to tumble suddenly. "When investor support for the metal fades, the downside is going to be pretty substantial," says Credit Suisse analyst Tom Kendall. He forecasts an average price of $30.10 per troy ounce next year as "a lot of factors that have led people to buy silver would still be there in 2011." But he cautions, "The number is only going to be achievable as long as fresh money keeps moving in."
Silver's all-time high was set in January 1980 at $48.70 an ounce, or $129.32 when adjusted for inflation.
This year investors are expected to pile a record $4.5 billion into the silver market, accounting for 24% of the world's total demand, says GFMS Ltd., a metals consulting firm in London. That's the highest level, in dollar terms, in decades. Silver's relatively small market size—$19 billion compared with $170 billion for gold—has also played a role in amplifying the impact of investors, according to GFMS.
The strength in silver prices has prompted a flurry of development around the globe and pushed anticipated production in 2010 to 733.2 million ounces, up 3.3% from 2009 levels, and up 14% since 2006.
Silver has some inherent appeal due to its industrial use in electronics, silverware and coins. And reserves are limited. According to the U.S. Geological Survey, there are fewer years of U.S. silver production left in the ground than any other precious metal including gold.
The recent price increase has been fueled by other factors in addition to investor interest. For instance, China recently abolished an exports tax rebate on metals. That has resulted in a 59% decline in silver exports.
China is a major silver producer and was a big exporter until 14 months ago. Strong demand there, coupled with the elimination of the tax break to protect domestic natural resources, have led Chinese producers to slash exports.
Concerns are lingering over excess supply. The market is set to see a surplus of 64.4 million ounces in 2010, says Barclays Capital, which could curb prices. This year's surplus will be 16% smaller than 2009's but much higher than previous years.
Overall, silver production has been rising steadily in the past five years, with most of the growth coming from mines in Mexico, Latin America and Australia. Gold Corp., a Vancouver-based mining

company, expects to more than triple output at its mine in Mexico, Penasquito, which is expected to produce 10 million ounces of silver in 2011, up from about 3 million ounces in 2009, according to GFMS.

Another new mine, Coeur d'Alene Mines Corporation's Palmarejo silver and gold mine in Mexico, is also ramping up to produce 9 million ounces annually. And BHP Billiton, which owns one of the largest silver mines in the world, Cannington, is looking to increase production and extend the life of the mine, located in Australia.

So-called junior miners like United Mining Group, which has an interest in the Crescent Silver Mine, are much smaller than mining giants like BHP and Rio Tinto. They often lack the capital or expertise to run a mine, which requires costly equipment and infrastructure. Instead, their geologists often scout projects and then sell an interest in them to larger companies.

United Mining Group is issuing shares on the Toronto Stock Exchange to raise up to $8 million to develop the Crescent Silver Mine, which is more than 90 years old. Located in Idaho's Silver Valley—an area peppered with colorfully named mines like Lucky Friday, Sunshine and Bunker Hill—it is expected to begin production in early 2012, with output just over 1 million ounces.

"The whole industry is like feast or famine," says Mr. Stewart of United Mining.

U.S. Commodities: Grains Rise as Food Protests in Africa Mount

1-6-11

We are seeing a lot of articles written about the shortages of commodities, which has happened all of a sudden. There are think tanks that have been created to show that the world is heading to a food shortage. Why? This is driven by hedge funds who are buying the land so that as farmland prices rise they then lobby the US government to provide subsidies to then provide the funds so they can exit with hefty profits. Aivars Lode

By Jeff Wilson & Whitney McFerro, Bloomberg

Wheat rose, capping the longest rally since November 2009, while corn and soybeans climbed as countries increase purchases from the U.S., the world's biggest exporter, to cut food inflation and quell civil unrest.

Food-exporting countries are "strongly advised" not to restrict shipments to prevent "more uncertainty and disruption" in world markets, the United Nations said. Governments in Egypt, Algeria, Morocco and Yemen have faced protests amid rising costs and high unemployment, and a revolt toppled Tunisia's leader.

"Sovereign nations are beginning to stockpile food to prevent unrest, and that will help to boost demand for U.S. grains," said Jim Gerlach, the president of A/C Trading Inc. in Fowler, Indiana. "You artificially stimulate much higher demand when nations start to increase stockpiles."

In other markets, hog futures surged to the highest in more than 14 years as prospects improved for U.S. pork exports to Asia. Sugar jumped more than 4 percent. The UBS Bloomberg Constant Maturity Commodity Index advanced 1.7 percent, the most this month, to 1,661.31.

Wheat futures for March delivery rose 18.25 cents, or 2.2 percent, to $8.565 a bushel on the Chicago Board of Trade, capping a seven-day advance of 11 percent. Earlier, the price reached $8.6125, the highest for a most-active contract since Aug. 6. The grain has jumped 73 percent in the past 12 months.

Corn futures for March delivery climbed 13.75 cents, or 2.1 percent, to $6.5775 a bushel. The price has surged 82 percent in the past 12 months.

Soybean futures for March delivery advanced 11 cents, or 0.8 percent, to $13.855 a bushel. The oilseed has gained 46 percent in the past year.

Hogs

Hog futures for April settlement rose the exchange limit of 3 cents, or 3.4 percent, to 90.125 cents a pound on the Chicago Mercantile Exchange, the highest since May 1996. The price has advanced 31 percent in the past year.

South Korea's Ministry of Strategy and Finance said yesterday that import tariffs will be removed on frozen pork through June to help stabilize local prices. The nation is culling livestock to combat its worst outbreak of foot-and-mouth disease. Wholesale pork, a gauge of demand, yesterday rose to the highest since Oct. 4, government data show.

"We had the news out of South Korea that was more friendly," said Christian Mayer, a market adviser at Northstar Commodity Investments Co. in Minneapolis. "That should bring some more demand to the U.S."

Sugar

Sugar futures jumped the most in two weeks on signs that rising demand in Russia, the world's largest importer, will compound a global production deficit.

Russia may reduce its import tax on raw sugar in March, two months earlier than planned, a unit of the Economy Ministry said. A proposal by the government in India, the world's second- biggest producer, to allow exports of 500,000 metric tons was put on review this month amid rising food-price inflation. Sugar futures have doubled since the end of June.

"The market is being helped by expectations that demand from Russia will rise," said Michael McDougall, a senior vice president at Newedge USA in New York. "Also, there is no news from India as yet."

Raw sugar for March delivery rose 1.29 cents, or 4.1 percent, to settle at 33.13 cents a pound on ICE Futures U.S. in New York, the biggest gain for a most-active contract since Jan. 7. On Dec. 29, the commodity reached 34.77 cents, the highest since November 1980.

Commodities settled as follows:

Precious metals: April gold up 70 cents to $1,334.50 an ounce March silver up 32.3 cents to $27.128 an ounce April platinum up $9.60 to $1,796.90 an ounce March palladium up $19.85 to $804.60 an ounce

Livestock: April live cattle up 1.125 cents to $1.12275 a pound March feeder cattle up 1 cent to $1.26125 a pound April lean hogs up 3 cents to 90.125 cents a pound February pork bellies up 1.5 cents to $1.08 a pound

Grains: March soybeans up 11 cents to $13.855 a bushel March corn up 13.75 cents to $6.5775 a bushel March wheat up 18.25 cents to $8.565 a bushel March oats up 7 cents to $3.88 a bushel

Food and Fiber: March coffee up 6.25 cents to $2.375 a pound March cocoa up $17 to $3,352 a metric ton March cotton up 5 cents to $1.6683 a pound March sugar up 1.29 cents to 33.13 cents a pound March orange juice down 3.5 cents to $1.6715 a pound

Energy: March crude oil up $1.14 to $87.33 a barrel February natural gas up 1.8 cents to $4.491 per million British thermal units February heating oil up 7.69 cents to $2.6698 a gallon February gasoline up 8.79 cents to $2.4306 a gallon

Falling Commodities Spook Investors

3-28-11

Boy oh boy. This should surprise no one reading my blog! So maybe there is not the demand that has previously been reported. Surprise, surprise! Aivars Lode

By The Wall Street Journal

Global markets tumbled Tuesday, dragged down by rising concern that the high cost of raw materials is eating into tight business and household budgets and undercutting prospects for economic growth.

Crude oil fell 3.3%, leading a broad reversal of the rally that had recently sent prices for copper, cotton and other commodities to record highs.

Oil prices have now dropped 5.8% this week, after spiking in recent months amid Middle East unrest.

Oil futures fell 3.3%. Above, raders work the crude oil options pit at the New York Mercantile Exchange April 12.
.Oil's dip came after the International Energy Agency, which represents big oil-consuming nations, and the Organization of Petroleum Exporting Countries both reported that demand is weakening amid high prices. Saudi Arabia has cut back production after ratcheting it up just a few weeks ago amid fighting in Libya, another major exporter.

Crude oil on the New York Mercantile Exchange settled on Tuesday at $106.25 a barrel, though prices are still up 16% this year.

Stocks also dropped broadly. The Dow Jones Industrial Average fell 0.9%, its biggest daily drop in almost a month.

Renewed worries about contamination from Japan's damaged Fukushima Daiichi nuclear-power plant also weighed on stocks.

Tokyo's Nikkei stock average dropped 1.7%, Hong Kong's Hang Seng index lost 1.3%, and Germany's DAX declined 1.4%.

Surging prices for raw materials have been stoking rising fears of inflation in recent months.

But Tuesday's simultaneous drop in stocks, oil and other basic goods underscored another immediate threat: that commodities have become too costly for cash-strapped customers still contending with high unemployment.

Government data released Tuesday showing that U.S. exports fell in February for the first time since August contributed to the worries and led many forecasters to reduce their economic-growth projections.

""The potential for a slowdown in the global growth story has finally come to fruition," said Jay Wong, principal and equity portfolio manager at Payden & Rygel. "I'm not saying we're going to get a recession, but if you look at the range of growth estimates for the year, people are coming in more toward the bottom of the range. It looks like expectations are on the muted side."

Macroeconomic Advisers, a forecasting group, cut its projection for first-quarter gross-domestic-product growth from 2.1% to 1.5%, while Morgan Stanley analysts reduced their forecast from 1.9% to 1.5%. The government will release first-quarter GDP data April 28.

Jonathan Cheng explains why oil prices slid very sharply today back to $106 a barrel and stocks tumbled on concerns about Japan, energy and Alcoa.
.For investors still struggling to gauge how the devastating earthquake in Japan and the continuing Middle East turmoil may affect growth, the tepid trade data offered an early sign of the economy's persistent fragility.

The negative economic indicators, and words of caution from the IEA and OPEC, came as investors were already digesting the recent commodity rally and weighing whether to take profits.

Goldman Sachs Group Inc., a commodity bull among Wall Street banks, on Monday recommended that clients sell a basket of commodities that had risen sharply in recent months.

Prices for the handpicked basket, consisting of crude oil, copper, cotton, soybeans and platinum, had surged 25% on balance since Goldman recommended buying the commodities in December.

The basket hit Goldman's return target eight months earlier than expected.

."Even though we have not changed our fundamental views, prices have moved rapidly," David Greely, head of energy research at Goldman Sachs, said in an interview Tuesday.

Tuesday's reversal also hit a range of commodities beyond oil, as investors sold out of hard assets that have benefited for months from low interest rates and lingering fears of financial turmoil.

Copper prices dropped 1.7%, wheat plummeted 4.9%, cotton shed 2.4%, and gold prices dipped 1%.

"A lot of people are doing the exact same thing" as Goldman Sachs by concluding it is time to sell their own commodity basket, said Nicholas Johnson, co-manager of Pimco's CommodityRealReturn Strategy Fund.

Even with the declines, many raw materials still cost significantly more than they did as recently as year end. Corn, for instance, is up 20% this year.

"We are still very positive on many commodities on a fundamental basis over the long run," Goldman's Mr. Greely said.

In its monthly report, OPEC cut its world oil-demand-growth forecast for 2011 by 50,000 barrels a day, though it still forecasts world-wide demand to grow by 1.39 million barrels a day in 2011. OPEC said U.S. gasoline sales fell by almost 1.3% in January, as people drove less and bought more efficient cars to make up for higher fuel prices.

The IEA, meanwhile, on Tuesday kept its global oil-consumption estimates for 2011 unchanged but warned that "preliminary January and February data suggest that high prices are already starting to dent demand growth."

High oil prices may pose the greatest threat to global growth. U.S retail gasoline prices rose 11 cents last week, to $3.79 a gallon, inching close to the level of $4 a gallon economists say will lead to cutbacks in spending by consumers. Diesel fuel, a key transportation cost, already is more than $4 a gallon.

In the first quarter, average gasoline prices in the U.S. rose 20%, which translates into an additional expense of about $150 per household, or a total increase in gasoline expenditures of $17 billion during the quarter, the Federal Reserve Bank of Dallas said Friday.

Businesses paid an extra $1.2 billion a week on imported petroleum over the same period of 2010, the bank said.

Commodity Prices Plunge

5-5-11

Yet once again. Aivars Lode

By Liam Pleven, The Wall Street Journal

Commodities prices tumbled on Thursday, led by the steepest oil-price decline in more than two years, triggering a selloff in stocks as well.

The Dow Jones Industrial Average fell 139.41 points, or 1.1%, to close at 12584.17, making the Dow's two-day slide its worst in nearly two months. The stock market previously had been mostly spared from the week-long downturn in raw-materials prices.

A surging dollar and a collapse in oil prices roiled commodity markets, as fears grow that high energy costs are undermining the global economic recovery. WSJ's Liam Denning and Oppenheimer oil & gas analyst Fadel Gheit discuss.
."It's a mass liquidation. I think it's just hedge funds got scared and everyone's running for the door right now," said Frank Cholly, senior market strategist with Lind-Waldock. "It just seems to be contagion."

Worries about overheated markets appear to have sparked the selling, which has been gathering steam all week. If raw-materials prices continue to drop, it will ease pressure on companies grappling with higher production costs and on consumers reeling from $4-a-gallon gasoline and rising food prices.

But commodities investors and analysts say that the global appetite for natural resources remains robust, which is likely to keep prices from falling dramatically for long.

Oil fell 8.6% on Thursday to $99.80 a barrel, the lowest closing price since mid-March. Copper, another closely watched economic barometer, shed 3% for the second day in a row, while cotton and sugar also fell, continuing their recent slides.

"We see funds and speculators looking at their balance sheets and seeing commodities and wanting to remove that risk," said Keith Flury, an agriculture analyst at Rabobank.

Journal Community
..All 10 sectors of the Standard & Poor's 500-stock index finished in negative territory, with energy and materials stocks among the worst decliners. Exxon Mobil Corp. fell 2.6%, Alcoa Inc. dropped 2.6%, and Chevron Corp. declined 2%. For about 15 minutes in the last hour of trading, stocks slid rapidly, with the Dow shedding more than 200 points at one point.

After the selloff, investors were bracing for Friday's monthly jobs report, which could further rattle the markets.

The long-sagging dollar, meanwhile, got a reprieve, rising 2% against the euro after comments from

European Central Bank President Jean-Claude Trichet that investors saw as a sign that a June rate increase isn't in the cards. A stronger greenback typically hurts dollar-denominated commodities, which get more expensive for buyers elsewhere.

Cheaper raw materials remove some pressure on companies to increase prices, and on consumers still wrangling with high unemployment. New filings for unemployment benefits increased last week to the highest level since last summer, according to Labor Department data released Thursday.

That, in turn, could make it less likely that the Federal Reserve will raise interest rates. Many analysts don't expect the Fed to move until 2012, at the earliest, for fear of choking off the economic recovery.

Tim Evans, an analyst at Citigroup's Citi Futures, said he doesn't expect oil's decline to translate right away into less expensive gasoline. But he said gas prices, which hit $3.96 per gallon on average Monday, may be at or near the peak for the year. U.S. oil prices have fallen for four consecutive days in the futures market, and are down 12.4% this week.

Still, even with the recent price declines, commodities from oil and copper to cotton and wheat remain far more expensive than they were a year ago.

The latest swings came amid a week-long nose dive in the silver market that accelerated Thursday with an 8% drop. As recently as Friday, silver was up 161% in a year, but it has lost a quarter of its value in four days.

Silver's sudden reversal acted as a spark, igniting the concerns of investors that commodity prices had raced too far too fast, and had become detached from the fundamental forces of supply and demand.

The latest U.S. data shows gasoline appetite basically unchanged in February from a year earlier—a sign that expensive oil and gasoline were already eroding household budgets.

"The big question always was on the demand side," said Olivier Jakob, editor of Petromatrix, an energy newsletter. Investors have already digested the impact on oil supplies from recent Middle East unrest, he added.

Farmers around the world are churning out more sugar and cotton, easing concerns about shortages that had pushed prices up dramatically last year. Cotton fell 4.5% and sugar fell 2.3% on Thursday, and are now down 23% and 41%, respectively, from their 2011 peaks.

With those declines already in motion, silver's drop fed into wider worry about whether the commodity rally might falter. But many observers still believe that the theory behind the rally that began last year—that fast-growing developing countries want to buy more often-scarce natural resources—will regain primacy soon.

Trend-following funds that use computer programs to trade rapidly can sometimes sell into market declines. "We believe they are the ones driving this selloff," said Mark Enman, head of global trading in hedge fund research at Man Investments. But, he added, commodity investors who track supply and demand are likely "buying the dip."

The dollar's sudden strength also may not last long. The drop in commodity prices hurt currencies from countries like Australia and Canada that are big raw-material producers. And some investors may have been looking to raise cash through profitable currency trades after suffering losses in the commodities, traders said.

Matthew Alexy, New York foreign exchange head for TD Securities, noted that before Thursday's selloff, the euro had risen more than 16% against the dollar from its January lows. "When you've got some big positions in the market, and the market has been trending, there are profits out there that people want to take and defend," he said.

The longer-term trends in both commodities and currencies might also depend on monetary policy. Since the Fed signaled last August that it was embarking on a second round of so-called quantitative easing, known as QE2, many commodity markets have rallied, which some observers attribute partly to a flood of cheap money from investors.

The recent selloff, by contrast, comes after the Fed last Wednesday said that it will stop its current bond-buying program in June, but signaled that it won't move quickly to increase rates. That has prompted some to question how investors will react in months to come.

"If commodities are already showing vulnerability even after the Fed confirmed its super-dovish stance," analysts at Gave-Kal said in a research note, "then what happens when QE2 ends?"

Traders Accused in Oil-Price Plot

5-24-11

In a conversation about inflation, this discussion is relevant as the prices increased by gaming the system. The price rises were not real, and as more commodities spike in price, there will be more investigations. The US population will not stand for these manipulations that decrease their spending power and give the false illusion of inflation. Aivars Lode

By The Wall Street Journal

Three years after launching a probe to determine whether the 2008 oil-market frenzy was fueled by excessive speculation, the U.S. accused two traders and their firms of mounting an international plot to manipulate prices.

In a federal-court lawsuit filed Tuesday, the Commodity Futures Trading Commission accused the traders of running a simple, but effective, scheme in early 2008 that reaped more than $50 million.

In one of the biggest cases ever pursued by the CFTC in the energy markets, the agency is seeking triple damages and disgorgement of gains, according to the complaint, which could amount to up to $200 million.
.The CFTC accuses the traders, Nicholas J. Wildgoose and James T. Dyer, who worked for Arcadia Petroleum Ltd., a Swiss commodity-trading firm, and its affiliates, of buying millions of barrels of oil, creating the illusion that supplies were critically low at the nation's central oil hub, Cushing, Okla. That drove up the value of derivatives contracts they already held, the agency says.

After pocketing the profits on those derivatives contracts, the complaint alleges, the traders then executed a similar scheme in reverse, dumping the physical oil they had purchased back onto the market and profiting in the derivatives market.

The traders continued their scheme from January until April 2008, the CFTC alleges in a civil suit filed in U.S. District Court in New York, ending only when they learned of a CFTC investigation into their conduct.

Phone messages left with Arcadia offices in Switzerland and London weren't immediately returned. Arcadia is owned by Farahead Holdings Ltd., a holding company headquartered in Cyprus and owned by Norwegian shipping magnate John Fredriksen. Parnon Energy Inc., an affiliate of Arcadia headquartered in Tulsa also named in the lawsuit, as well as an attorney for the defendants, didn't respond to phone messages. Mr. Dyer, reached at his home in Brisbane, Australia, declined to comment. Mr. Wildgoose, of California, couldn't immediately be reached for comment.

IntercontinentalExchange and CME Group Inc., which operates the New York Mercantile Exchange, declined to comment.

The charges come three weeks after President Barack Obama set up a Justice Department task force designed to "root out any cases of fraud and manipulation in the oil markets," after oil prices soared above $100 a barrel. Oil prices rose 1.9% on Tuesday to close at $99.59 per barrel, and are up 9% this year.

The case also comes as the CFTC is considering a new rule aimed at curbing speculation in commodities, a goal of regulators since the 2008 spike that sent crude-oil prices to a record high of $147 a barrel in July.

There is still disagreement about what caused the 2008 price spike. Major oil consumers and some Washington lawmakers blame financial speculators for driving prices up, but many traders and analysts argue that supplies became perilously tight.

Early in 2008, supplies in Cushing hit their lowest level since 2004, around 15 million barrels, making them especially sensitive to signs of a shortage.

Cushing's storage tanks are key because they are the delivery point for the main oil-futures contract traded on the Nymex, the world's most heavily traded oil contract and the benchmark off which much of the world's oil is priced.

"The case will likely turn on whether there is enough here that you can infer the causal relationship" or whether the defendants can say there were "others things going on in the market," said attorney Paul Forrester, a partner in the energy practice of Mayer Brown in Chicago.

In January 2008, Arcadia subsidiaries bought a majority of the West Texas Intermediate oil, the blend used to fulfill Nymex futures contracts, expected to reach Cushing in the following month. They also placed large bets that February futures would trade at an expanding premium to the March contract. As other traders began to notice that Cushing was due to run low on oil, that bet paid off.

Mr. Dyer and Mr. Wildgoose then took positions that would profit on March futures trading at a growing discount to April futures. When Arcadia began selling its oil, the rush of crude into Cushing deflated the value of the March contract. Arcadia repeated the trade two months later, but stopped when they became aware of the CFTC's investigation.

Betting on this gap, called the "calendar spread" or "time spread," is a common trade in the futures market. However, the CFTC alleged that Arcadia "wanted to lull market participants into believing that supply would remain tight; that they would not be selling their physical position."

As a result of the scheme, the complaint alleges, the spread between key oil contracts was "artificial" on 12 different dates in January and March of 2008.

An interesting perspective on Food Fuel and other commodities

5-28-11

Interesting commentary. Aivars Lode

1) There is plenty of evidence of climate change. In fact there is zero evidence that the climate is, has been, or ever will be static. There is also zero evidence that man's use of fossil fuels has a damn thing to do with it.
1a) There is a current mercury scare about coal fired electric generation plants. But human cremation puts more mercury in the atmosphere than all the coal fired plants in the world combined. Mercury is a naturally occurring material.
2) The climate is getting cooler and the climate is getting hotter - it just depends what starting point you pick.
3) Every time we think we have peak oil the price goes up or we discover new fields or we figure out new technology.
4) Any oil curve MUST include two dimensions besides time and quantity used. You have to plot price and governmental regulatory friction.
5) The alarmist forget that most oil supply is based on KNOWN reserves. We have no idea what we do not know.
Rumsfeld, "There are things we know, there are things we know we don't know, and there are things we don't know we don't know." Anyone stating that they know how much oil is out there does not know what they are talking about. Nobody has a bloody clue. All we know is as soon as we think we know, we find out we did not know.
4a) It does not follow that a warming climate is worse than a cooling climate.
6) There are vast areas of land that can be farmed for food that are not now. Some because like in California, for fake environmental reasons, we shut off irrigation to flush water into the sea. BTW, let me make this point in one word "the Mississippi."
7) There is no food shortage, There is a price inflation due to limits on oil production causing energy prices to go up. And we are turning food into fuel.
8) Based on this insane and frankly idiotic assessment of climate, food, and energy resources, I would guess he is also insane when it comes to other mined materials. I know for a fact that there are vast rare earths in the USA that are on public lands and politically off limits.

As far as I know the USA is the only country on mother earth that does not use its natural resource. The funny thing is Sweden gives Noble Prizes except the peace prize. That is given by Norway. The Norwegians gave the prize to Al Gore and the IPCC dude because they fight global warming. Either in a world-class case of hypocrisy or clever marketing. Why? Norway is one of the top exporters of crude oil on planet earth. LOL

Tripped Up by the Margin

6-8-11

The crisis we had in 2008 was driven by leverage that investment banks like Goldman Sachs were able to get as a percentage of the capital they had on their balance sheets when compared to a FDIC backed bank. Following the crisis and the bail out, investment banks were forced to reduce the leverage they could apply on capital to the same levels as banks backed by the FDIC. Reduction of leverage reduces the crazy bets that can be made with other people's money. Aivars Lode

By The Wall Street Journal

Commodity investors have long been used to wild market swings driven by wars and hurricanes. But recently a new risk has been added to their list: margin requirements.

Margins, the amount of collateral investors must post against their trades, are designed to help reduce the risk to exchanges and calm overheated markets.

But recently that safety valve is being blamed by some for wreaking havoc on markets such as silver, gasoline and cotton. As prices swung wildly, major commodity exchanges ratcheted up their demands for collateral, setting off a chain reaction that forced many investors to liquidate their holdings, sending prices tumbling.

."Whenever the margins are reacting to conditions, such as higher volatility, they can essentially exacerbate the impact of those conditions," said Craig Pirrong, a finance professor at the Bauer College of Business, University of Houston. "It tends to reinforce the initial shock."

Silver's tumultuous ride in late April is a case in point, Mr. Pirrong said. Investors are still crying foul over CME Group Inc.'s decision to raise margins five times over just eight trading days. Between April 25 and May 5, the exchange operator increased silver margins to as much as 12%, or $21,600 per contract, from 6%. Silver tumbled 25%.

"There's no way that the market could handle it," said Neal Greenberg, a silver trader in New Jersey. "Silver was on the ledge. CME basically shackled its legs with cement blocks and pushed."

In early May, CME also raised margins on gasoline by 48%. Gasoline prices then dropped as much as 15%. In mid-February, as prices of cotton rose toward $2 a pound, ICE Futures U.S. boosted its margin by 50%. Prices fell 5% the next day.

Exchanges, Mr. Pirrong said, "should at least have some sort of recognition" of the impact.

"We do consider the timing and the notice, trying to make sure the market will have the time to absorb the changes and be able to arrange the funding," said Kim Taylor, president of CME Clearing. She said the exchange focuses on price volatility, rather than direction.

Margin moves have "a small order effect" compared with other influences, she said.

Some traders say current margin levels are equally puzzling. Margins for silver, cotton and gasoline remain unchanged from their peaks, despite a big drop in volatility.

Commodities investors are particularly sensitive to changes in margin requirements. One of the biggest attractions of the commodities markets is their combination of high volatility and low margins—usually 5% to 8% of the underlying contract's value—allowing them to generate outsize profits with limited amount of capital. Stock trading typically requires 20%.

That presents a dilemma for exchanges, said Thomas Peterffy, chief executive of Interactive Brokers LLC. They want small margins to encourage trading, but they need to protect against the collapse of a trader or broker.

For most in the market, the process of setting margins is couched in mystery, making it hard to predict whether, or when, they may be raised or lowered.

The CME has a group of 15 to 20 risk managers in Chicago, New York and London who monitor a variety of factors such as intraday price moves and other volatility measures. They also take into account other market-moving events, such as a pending storm or political turmoil, Ms. Taylor said. Changes usually take effect a day after being announced.

ICE Futures, a commodity exchange owned by IntercontinentalExchange Inc., says it looks at a set of nine factors when determining margins. A spokesman declined to specify all the factors, though adding that they include the size of the daily move relative to recent days, along with "other observable price and statistical triggers."

The lack of disclosure riles John Gray, a researcher at EconMatters.com, a website dedicated to economic and market analysis.

"They need to be more transparent," Mr. Gray said, adding that margins should be a consistent percentage of the contract price, and that exchanges should give more warning of any moves.

Still, some say the current system works. If the exchange gives out details, traders can "game the system," said Todd Petzel, a former chief economist at CME Group.

Mr. Gray is among market participants who say the CME should have raised silver margins earlier. CME increased once in March, but didn't make any changes until a month later. Silver prices gained about 30% to $47.151 an ounce between those moves.

"It should have been a red flag to CME when silver crossed the $40 threshold that they needed to raise margins significantly," Mr. Gray said.

Other exchanges say their systems didn't pick up extraordinary volatility during silver's run up.

"The initial stage of that rally was relatively orderly," said Tom Callahan, chief executive of NYSE Liffe U.S., a competitor to CME, which started to raise margins on its silver contracts on April 27.

Brokers say they were well ahead of exchanges in taking action on margins.

Interactive Brokers in Greenwich, Conn., "overstepped the exchange twice" in hiking silver margins, Mr. Peterffy said. "It's too late to come in when prices are high," he said.

MF Global, another broker, had also charged more margins on silver than what was required by exchanges at the time, traders say. MF Global declined to comment.

Commodities Beckon Banks

7-5-11

This article is really interesting when you read it. I encourage you to ask the question: Can a Fox mind the chickens? Just another way that the commodity market is manipulated! Aivars Lode

By Carolyn Cui and Tatyana Shumsky, Wall Street Journal

About 600 miles from Wall Street, Goldman Sachs Group Inc. employees are busy doing deals. WSJ's Brian Baskin reports on one of the newest profit centers for big banks...warehousing metals and commodities. But instead of a sleek office tower, they work in a rundown warehouse deep in an industrial section of Detroit. And rather than trading in stocks or bonds, they move metal—lots of metal.

Goldman's warehouse on the banks of the Detroit River is one of more than 100 storage facilities controlled by the giant securities firm around the world. The warehouses are part of Wall Street's effort to forge a new frontier in the commodities markets: warehousing metal.

In the past 18 months, Goldman, J.P. Morgan Chase & Co. and trading firms Glencore International PLC and Trafigura Beheer BV have snapped up warehouse operators, all of them accredited to house metal traded through the London Metal Exchange, or LME. The buying binge means the four firms now are landlords to about two-thirds of the LME's entire metal stocks, from aluminum to copper to zinc.

LME metal stocks represent a small portion of the global supply. For example, LME's total aluminum stocks are about 4.5 million tons, or about 10% of the world's annual supply.

For Wall Street, warehouses are a way to earn extra income, especially as core businesses like trading are suffering. The facilities represent a relatively small but profitable way to bet on commodities markets without actually trading, the firms said.

But the growing muscle of securities firms in the metal-storage business is riling users and traders, who say the firms have both a bird's-eye view of supply and demand and the ability to control what goes in and out of their warehouses. These traders worry the firms could exploit their knowledge. The new owners say they keep their trading arms and warehouse operations separate, and there is no evidence to suggest they share information.

Traders and metal users have complained to the U.K.'s competition watchdog and the LME about companies acting as both trader and warehouse keeper. On Thursday, the Office of Fair Trade said the complaints lacked substance, and the agency won't investigate. The LME says it has no evidence to support claims the warehouses are used to gain an unfair advantage.

Goldman's operations in Detroit are at the center of the controversy, because aluminum prices are higher in that area than the trading price in London, and Goldman controls most of the warehouses in Detroit. Warehouses like the one along the Detroit River hold about one million tons of aluminum, or almost 25% of the LME's stocks.

Metal users such as beverage giant Coca-Cola Co. and can maker Novelis Inc. have expressed concern to the LME that the Detroit warehouses send out too little of the commodities they need. The LME has responded by instructing warehouse to release more commodities.

"This is inappropriate," says Nick Madden, chief procurement officer at Novelis, referring to the release limits and the wait to receive aluminum. Warehouses in Detroit owned by Goldman are only required to release 1,500 metric tons of metals a day. The warehouse only rarely surpasses this limit, according to LME data.

Novelis, a beverage-can maker, is the largest user of aluminum in the U.S. "We see it as very unhealthy for the market," he says. "The ultimate bill goes to the consumers."

Procurement officers at Coke and Novelis have said the limited releases are driving metal costs higher. A Goldman spokesman says its warehouse unit "is fulfilling the LME's requirements."

With record levels of commodities piling up, companies that own the warehouses are raking in nearly $1 billion in rental revenue each year, according to LME data.

Here is how it works: If a producer or merchant needs to store some aluminum, for example, it sends the metal to a warehouse, paying rent every day. In Detroit, Goldman charges 41 cents per metric ton of aluminum per day, or about $150 a year, according to LME data.

The rent is offset by big cash incentives warehouses pay to attract metal. But with millions of tons in storage, even a difference of a few dollars of income per ton can quickly add up.

The business was a backwater in the commodities markets for decades, dominated by small, independent operators. Then the financial crisis put the industry on the radar screens of Wall Street firms looking for new ways to make money. The firms correctly predicted a slump in metal demand during the recession, increasing the need for storage.

In 2010, J.P. Morgan acquired Henry Bath & Son as part of the New York bank's purchase of RBS Sempra Commodities. Goldman bought Metro International Trade Services LLC, a Romulus, Mich., warehousing company, for an undisclosed sum. Trafigura, the world's second-largest metal trader after Glencore, purchased U.K.-based NEMS Ltd. Glencore paid $209 million for Pacorini Metals, the metal-storage business of Pacorini Group, an Italian, family-run firm.

"The warehouses give the banks exposure to commodities without them having to be involved in price volatility," said Clare Eilbeck, a metals researcher at Brook Hunt, a subsidiary of commodities consulting firm Wood Mackenzie.

Simon Collins, a director at Trafigura, says the Amsterdam-based firm sees its warehouses as a "recession hedge" when other businesses slow. So far, the frenzy of warehouse buying is paying off. Glencore's Pacorini earned profits of $31 million in 2010 on revenue of $220 million, according to its recent initial-public-offering prospectus. Henry Bath was one of the biggest contributors to J.P. Morgan's base-metal business in the first five months of this year, according to people familiar with the matter. A J.P. Morgan spokeswoman declined to comment. A Glencore spokesman also declined to comment.

In Detroit, Goldman often offers a discount to attract customers to its warehouses but sometimes forces buyers to wait seven months or longer to get their inventory back, according to some users and LME data.

As a result of recent complaints, the LME will require most warehouses to release more metal on a daily basis starting next April. But analysts say the exchange's move isn't enough to alleviate the delays.

In New Orleans, warehouses owned by Goldman, J.P. Morgan, Glencore and Trafigura have accumulated 60% of all the LME's zinc stock. Right now, traders say, the delay in getting metal out of storage is about five days, but traders are worried that might increase—like in the aluminum market—as stocks rise but output remains constant. Greater stocks inside warehouses mean more clients potentially requesting the release of stored commodities.

"Clients are clearly not pleased with metals being tied up for many months," said Mike Frawley, global head of metals at Newedge USA LLC. Clients have little choice but to wait or find another source, such as buying directly from a producer or merchant.

But getting metal quickly from other sources for faster delivery costs extra. For aluminum, buyers are charged a premium of about $187 a ton, according to Karen McBeth, global director of Platts Metals Group, a commodities-information provider. Aluminum currently trades at $2,486 a metric ton at LME. Zinc users are being charged about $165 a ton more than the LME trading price.

There will be yet another problem if the economy picks up and buyers increasingly need metal they are storing in warehouses. "I am very worried," said Steven Spencer, chief executive of Traderight Ltd. "We have never seen stocks this high. It's going to be very hard to move so much metal around."

Inconvenient Truths About 'Renewable' Energy

7-10-11

Interesting perspective. Looks like green is not all that it is cracked up to be. Aivars Lode

By Matt Ridley, The Wall Street Journal

Last week the Intergovernmental Panel on Climate Change released a thousand-page report on the future of renewable energy, which it defined as solar, hydro, wind, tidal, wave, geothermal and biomass. These energy sources, said the IPCC, generate about 13.8% of our energy and, if encouraged to grow, could eventually displace most fossil fuel use.

.It turns out that the great majority of this energy, 10.2% out of the 13.8% share, comes from biomass, mainly wood (often transformed into charcoal) and dung. Most of the rest is hydro; less than 0.5% of the world's energy comes from wind, tide, wave, solar and geothermal put together. Wood and dung are indeed renewable, in the sense that they reappear as fast as you use them. Or do they? It depends on how fast you use them.

One of the greatest threats to rain forests is the cutting of wood for fuel by impoverished people. Haiti meets about 60% of its energy needs with charcoal produced from forests. Even bakeries, laundries, sugar refineries and rum distilleries run on the stuff. Full marks to renewable Haiti, the harbinger of a sustainable future! Or maybe not: Haiti has felled 98% of its tree cover and counting; it's an ecological disaster compared with its fossil-fuel burning neighbor, the Dominican Republic, whose forest cover is 41% and stable. Haitians are now burning tree roots to make charcoal.

You can likewise question the green and clean credentials of other renewables. The wind may never stop blowing, but the wind industry depends on steel, concrete and rare-earth metals (for the turbine magnets), none of which are renewable. Wind generates 0.2% of the world's energy at present. Assuming that energy needs double in coming decades, we would have to build 100 times as many wind farms as we have today just to get to a paltry 10% from wind. We'd run out of non-renewable places to put them.

You may think I'm splitting hairs. Iron ore for making steel is unlikely to run out any time soon. True, but you can say the same about fossil fuels. The hydrocarbons in the earth's crust amount to more than 500,000 exajoules of energy. (This includes methane clathrates—gas on the ocean floor in solid, ice-like form—which may or may not be accessible as fuel someday.) The whole planet uses about 500 exajoules a year, so there may be a millennium's worth of hydrocarbons left at current rates.

Contrast that with blue whales, cod and passenger pigeons, all of which plainly renew themselves by breeding. But exploiting them caused their populations to collapse or disappear in just a few short decades. It's a startling fact that such "renewable" resources keep running short, while no non-renewable resource has yet run out: not oil, gold, uranium or phosphate. The stone age did not end for lack of stone (a remark often attributed to the former Saudi oil minister Sheikh Ahmed Zaki Yamani).

Guano, a key contributor to 19th-century farming, was renewable fertilizer, made from seabird dung harvested off Peruvian and Namibian islands, but it soon ran out. Modern synthetic fertilizer is made from the air and returns to the air via denitrifying bacteria, yet few would call it a renewable resource. Even fossil fuels are renewable in the sense that they are still being laid down somewhere in the world—not nearly as fast as we use them, of course, but then that's true of Haiti's forests and Newfoundland's cod as well.

And then there is nuclear power. Uranium is not renewable, but plutonium is, in the sense that you can "breed" it in the right kind of reactor. Given how much we dislike plutonium and breeder reactors, it seems that the more renewable nuclear fuel is, the less we like it.

All in all, once you examine it closely, the idea that "renewable" energy is green and clean looks less like a deduction than a superstition.

As Cotton Unravels, Clothing Makers Revisit Pricing

7-21-11

Surprise Surprise… not!! As many of you have read previously in the blog, Cotton followed the same pattern as other commodities - a run up in price created by talk of shortage and then - oh suddenly a glut! With then the resultant price collapse. Aivars Lode

By Elizabeth Holmes and Caroline Cui, The Wall Street Journal

After hitting historic highs this spring, cotton prices are plunging, the result of higher production and lower demand.

It's an about-face for clothing makers that spent the last year grappling with higher costs and how much, if any, could be passed along to consumers. Now, retailers are wondering if the lower cotton prices, off 53% since their March 4 peak, will last or if the rollercoaster ride will continue.

"There's never been this kind of volatility in cotton—ever," Eric Wiseman, chief executive of VF Corp., the world's largest apparel company, said in an interview on Thursday.

Lower cotton prices won't show up in merchandise on store shelves until late spring of next year. But over the next few months, clothing companies will have to decide whether they can continue to charge more for their cotton T-shirts and denim jeans, allowing them to widen profit margins, or to pull back and give consumers a break.

VF, maker of Lee and Wrangler jeans, hopes its price hikes will stick. "In an ideal world, we'll be able to hold the current prices and recoup the gross margin we've lost," Mr. Wiseman said.

The swing in cotton prices has been particularly evident over the past year. Propelled by bad harvests in Asia and robust demand, cotton more than doubled between last July and March's $2.1515 a pound peak price, the highest in the 140 years that the commodity has traded on an exchange.

The surge late last year forced companies to decide among raising prices, taking a hit on margins or re-engineering their products to use lower-cost fabrics or less embellishment, said Christian Callieri, a principal in A.T. Kearney's consumer and retail practice. Fabric can account for as much as 60% of the cost of a garment.

But since spring, cotton prices have retraced their gains as signs of falling demand emerged. Cotton prices have lost 38% so far this month, closing at 99.33 cents a pound on Thursday at the Intercontinental Exchange.

In its latest monthly report, the U.S. Department of Agriculture cut its estimate of U.S. cotton exports by 8% to 12 million bales for the marketing year ending July 31, 2012. For the year ending July 31, U.S. exports are estimated to reach 14.5 million bales.

Brands that specialize in value-priced, cotton merchandise like T-shirts and jeans are the most vulnerable to price volatility because raw material costs make up a greater percentage of their total cost. The pressure is particularly acute for underwear makers, including Hanesbrands Inc., Fruit of the Loom Inc. and Jockey International Inc.

Hanesbrands has raised prices already this year and plans to do so again in the fourth quarter. Chief Executive Rich Noll said the company is in talks with its retailers on how to handle pricing for the second half of 2012. One likely option would be to increase the number of items in a package—adding a pair of underwear, for example—while keeping the higher ticket price. "In essence, you have offset the fact that cotton has come down," Mr. Noll said.

Many foreign mills that had purchased cotton during the price run-up are now rushing to cancel the contracts, figuring they can no longer afford the prices now that there is less demand, according to cotton merchants. China, the world's largest cotton consumer, reported a 32% year-on-year drop in its cotton imports in June, confirming market fears over weak demand.

Spinning mills, which turn raw-cotton into yarn, are caught in a dilemma. As yarn prices fall steeper than cotton, many mills would rather buy yarn directly to deliver to textile plants, said T. Jordan Lea, chairman of Eastern Trading Company, a Greenville, SC.-based cotton merchant. As a result, merchants are seeing waves of cancellations and even defaults from cotton buyers in countries like Indonesia and Bangladesh, who can't afford the pre-fixed prices or simply don't need the cotton any more. "It's extremely challenging," Mr. Lea said.

Japanese mill Kurabo Industries is not canceling contracts, said Ippei Sasaki, a mill representative. But the company is suffering from the volatility. "We are seeing smaller profits," he said. Since it buys raw material three months in advance, it still has cotton in inventories at $2 a pound, but has not raised prices too much because it is competing with lower-priced fabrics from China.

Oil wipes out all of 2011's gains on signs recovery is stalling

8-4-11

Just another cycle. Aivars Lode

By Margot Habiby, Bloomberg

Oil fell to the lowest level in more than five months in New York, erasing 2011 gains amid growing evidence the U.S. economic recovery is stalling and sapping demand in the world's biggest consumer.

Futures dropped 5.8 percent as a U.S. government report showed limited improvement in the labor market. The Dollar Index gained as much as 1.5 percent, curbing commodities' appeal as an alternative investment, and the MSCI All-Country World Index of stocks slid 10 percent from the year's May high.

“What you're looking at here is concerns about what demand is going to be doing because of the economy,” said Adam Sieminski, chief energy economist at Deutsche Bank AG in Washington. “The result of all this could be slower growth and the result of slower growth is less oil demand.”

Crude for September delivery declined $5.30 to $86.63 a barrel on the New York Mercantile Exchange, the lowest settlement since Feb. 18. It was the biggest one-day drop since May 5. The contract has fallen 5.2 percent in 2011.

Brent for September settlement on the London-based ICE Futures Europe exchange fell $5.58, or 4.9 percent, to $107.65 a barrel at 2:31 p.m. in New York. For the year to date, Brent is up 14 percent.

The European benchmark contract was at a $21.02 premium to U.S. futures, after reaching a record $22.67 on Aug. 2.

2011 Decline

Futures have tumbled 25 percent in New York since reaching a two-year intraday high of $114.83 a barrel on May 2 as European officials struggled to contain a debt crisis, U.S. lawmakers attempted to stave off a default and global economic growth showed signs of slowing.

U.S. gasoline demand, averaged over four weeks, slipped 23,000 barrels, or 0.3 percent, to 9.07 million barrels a day in the period ended July 29, its fourth consecutive decline and the lowest level since a report through May 27, the Energy Department reported yesterday.

Applications for jobless benefits decreased 1,000 in the week ended July 30 to 400,000, the fewest in almost four months, the Labor Department said in Washington. The four-week average also fell to the lowest level since April. Consumer confidence dropped to the lowest level in more than two months last week in the Bloomberg Consumer Comfort Index.

Slowing Growth

The U.S. economy grew at a 1.3 percent annual rate in the second quarter, the Commerce Department reported last week, less than the 1.8 percent median estimate of economists surveyed by Bloomberg News. The government also revised down its first- quarter estimate to 0.4 percent, less than the 1.9 percent previously indicated.

“With this continuous stream of poor economic data and the dollar really making impressive gains today, it's no wonder why the front-month contract is really under pressure,” said Addison Armstrong, director of market research at Tradition Energy in Stamford, Connecticut.

The Dollar Index, which tracks the U.S. currency against those of six trading partners, surged 1.5 percent to 75.140. The Standard & Poor's GSCI Total Return Index of 24 commodities tumbled 3.7 percent to 646.89. Twenty-one of the commodities dropped, led by silver, gasoline and crude oil.

The MSCI All-Country World Index of stocks in developed and emerging markets dropped 3.6 percent to 313.14, extending the decline from the near-three-year high on May 2 to 12 percent. The Standard & Poor's 500 Index fell 3.3 percent to 1,218.82, and the Dow Jones Industrial Average tumbled 345.39 points, or 2.9 percent, to 11,551.05.

Technical Support

Oil breached technical support at $89.84, the 50 percent retracement level on a Fibonacci study from the record $147.27 a barrel price set in intraday trading July 11, 2011, Armstrong said.

President Barack Obama signed a bill Aug. 1 that averted a debt default in the world's largest economy with one day to spare. In Europe, officials are trying to put a firewall around Italy and Spain, where bond yields have surged to euro-era records on concern that they will have to follow Greece, Ireland and Portugal in seeking bailouts.

“Even though the U.S. avoided a debt default, the specter of a potential systematic failure of the sovereign debt market has engendered a big drop in most markets,” said Jason Schenker, president of Prestige Economics LLC in Austin, Texas.

Prices also fell after crude stockpiles advanced for a second week in the seven days ended July 29, according to Energy Department data yesterday. U.S. inventories rose 950,000 barrels to 354.9 million barrels.

Oil volume in electronic trading on the Nymex was 857,518 contracts as of 2:35 p.m. in New York. Volume totaled 658,645 contracts yesterday. Open interest was 1.54 million contracts.

A Rush to Pipe Oil to Gulf

8-20-11

Glut or no glut, make up your minds. How can you swing from shortages to gluts so quickly? You don't! Aivars Lode

By Ben Lefebvre, The Wall Street Journal

The race is on to build pipelines to relieve a glut of crude oil in the U.S. heartland, but not all of the four plans will make it to the finish line.
It is a competition that is being closely watched in oil markets. The amount of pipeline capacity that eventually comes on line and the pace at which it is built will determine how fast U.S. and European benchmark oil prices will come together again, analysts say.
On Thursday, crude futures on the New York Mercantile Exchange settled at a record $26.49-a-barrel discount to Brent crude, now widely seen as a more accurate indicator of world oil prices.
Nymex crude lost 3.7% this week to close Friday at $82.26 a barrel, while Brent on the ICE futures exchange finished in positive territory, up 0.8% to $108.62 a barrel.
The difference between Nymex and Brent oil prices should narrow once an outlet for this glut is created, said Sander Cohan, an analyst with energy consultancy ESAI Inc.
"These pipeline projects are coming in part because of the conditions" causing the Brent-Nymex divergence, Cohan said.
Enbridge Energy Partners LP, Enterprise Products Partners LP and TransCanada Corp. are all in various steps of planning for new pipelines.
In addition to the new pipeline proposals, Magellan Midstream Partners said it is considering expanding its Longhorn pipeline and reversing its flow to bring crude from revived oil fields in West Texas to Houston instead of shipping the oil to Oklahoma.
The pipeline companies, which charge tolls on every barrel shipped along their lines, stand to profit from giving Gulf Coast refiners direct access to the bounty trapped in Cushing, Okla., an oil storage hub that acts as the delivery point for Nymex futures.
But the four proposals have a total capacity of 1.4 million barrels a day—about twice the amount that analysts have said is needed.
"The issue here is not all these projects will go through," Cohan said. "First movers will have the advantage."
Currently, there is no pipeline that takes oil south from Cushing, to the main U.S. refining hub on the Gulf Coast.
Crude is piling up at Cushing due to the oil boom in western Canada and in onshore producing regions in the U.S. That is what is keeping Nymex prices suppressed.

Gold near $1,900 set to go 'parabolic,' analyst warns

8-22-11

No more left to be said. Aivars Lode

By Bloomberg News

Gold's rally to a record near $1,900 an ounce pushed the metal to overbought levels according to technical analysis tools, as economist Dennis Gartman said prices will go “parabolic.”

Bullion's relative strength index has topped 70 since Aug. 5, a signal to some investors who study technical charts that prices may be set to decline. Gold hugged its upper Bollinger band most of this month, which may signal possible resistance, while a moving average convergence/divergence indicator and Elliot Wave patterns suggest prices are overextended, said Ross Norman, chief executive officer of London bullion brokerage Sharps Pixley Ltd.

Bullion climbed as high as $1,894.80 an ounce in London today and is up 16 percent in August, set for the best monthly gain since 1999. The metal has advanced as concern about debt crises and slower economic growth spurred investors to diversify holdings away from equities and some currencies. The biggest gold-backed exchange-traded product surpassed its equities counterpart as the largest by market value, while bullion rose to record prices in euros, British pounds and Swiss francs.

Set to Drop?

“I think we're overextended in the short term,” Axel Rudolph, a technical strategist at Commerzbank AG in London, said by phone. “I wouldn't be surprised if we were to fail around $1,900 to $1,922 and retrace a little bit for a few days or so. It's still very bullish longer term. Longer term, I think $2,000 will definitely be hit.”

Prices may slip to the Aug. 11 high of about $1,815 an ounce if gold stays below $1,925, which is near a 60-minute point-and-figure target, Rudolph said. The metal may move “sideways to up” if no decline takes place in the next couple of days, he said.

Still, a weekly close above $1,900 an ounce may push prices to the “psychological” level of $2,000, near the 200 percent extension of the rally from January's low to May's high projected from the May low, one of the levels singled out in so- called Fibonacci analysis, he said. Fibonacci analysis is based on the theory that prices tend to drop or climb by certain percentages after reaching a high or low.

Since 1920

Immediate-delivery bullion gained 1.6 percent to $1,882.05 an ounce by 5:21 p.m. in London. It's up 32 percent this year and heading for an 11th straight annual gain, the longest winning streak since at least 1920. The metal has outperformed global equities, commodities and Treasuries this year.

“Gold is strong in any and all currency terms, and it is now entering that stage when prices go parabolic,” Gartman said today in his Suffolk, Virginia-based Gartman Letter. “This will end when it ends; there is really nothing more that can or shall or should be said.”

Speculative demand from investors has pushed the gold market into a “bubble that is poised to burst,” Wells Fargo & Co. said in an Aug. 15 report. Prices may climb to $2,000 an ounce by the end of the year, according to the median forecast in a Bloomberg survey of 13 traders and analysts at a conference in Kovalam in South India on Aug. 20.

‘Panic Phase'

The precious metal's “rally when by rights a period of consolidation or profit-taking would be expected suggests that gold is either simply not in technical ‘mode' and that other external factors are driving us higher, or that we are in a panic phase which inevitably leads to a blow-off at the top,” Sharps Pixley's Norman said.

Demand for gold pushed holdings in ETPs to a record 2,216.8 metric tons on Aug. 8, data compiled by Bloomberg show. Investors' assets in the products were 2,211.1 tons on Aug. 19, more than all but four central banks. Central banks are also adding to gold reserves for the first time in a generation.

The market capitalization of the SPDR Gold Trust, the biggest gold-backed ETP, rose to $76.7 billion on Aug. 19, according to the most recent data compiled by Bloomberg. SPDR S&P 500 ETF Trust, which had been the industry's largest ETP since 1993, was at $74.4 billion.

Bullion's 14-day RSI, last at 82.67, reached 84.96 on Aug. 10, the highest level since October, according to data compiled by Bloomberg. Prices fell as much as 7.3 percent in the week after the gauge was at 84.61 on April 29 and traded in a $115 range for the next 2 1/2 months.

“You can actually make forecasts, even if it's trading at new all-time highs,” Commerzbank's Rudolph said. “The problem with gold right now is that in the last three days it's just accelerated higher, and when it's in this sort of move, it can still continue in fast spikes. It's very difficult to know where the spikes are going to end.”

Watchdog Warns of Gold Scams

8-24-11

What happens when tons of scams are coming to light? Generally it's not long before a crash. Aivars Lode

By Drew Fitzgerald, The Wall Street Journal

Even with gold futures retreating sharply Wednesday, surging gold demand is spawning a new breed of scams that lure investors with dubious claims about mining companies' reserves, the Financial Industry Regulatory Authority warned.
A rash of blogs, websites, YouTube videos and Twitter posts are pushing gold-related investment opportunities that could prove fraudulent, Finra said in a new report. Scammers are also using free lunch seminars to lure victims into giving money to so-called boiler-room operations.
"Con artists are using the run-up in the price of gold as a hook to part investors from their money," investor education Vice President Gerri Walsh said. "Investors should think twice before investing in any gold investment promising exponential returns, or any company that claims it is a buyout target for other mining companies."
The warning to investors comes after surge in gold prices this year, with the yellow metal breaching $1,500, $1,600, $1,700 and $1,800 amid a string of economic and financial-market worries. In recent trading, gold pulled back as investors locked in recent gains.
The most actively traded contract, for December delivery, touched a low of $1,763.80 and was recently down $87.70, or 4.7%, at $1,773.60 a troy ounce on the Comex division of the New York Mercantile Exchange. Thinly traded August-delivery gold fell $89.10, or 4.8%, at $1,769.20 a troy ounce.
Finra cited a recent Securities and Exchange Commission court action against a Florida-based company that allegedly issued news releases touting an Ecuadorian mining project that supposedly has more than $1 billion of reserves. Mining companies' stock value is often based on gold reserves that are difficult to estimate, much less verify, the industry group said.
The Commodity Futures Trading Commission also took three actions against precious-metals firms, including a telemarketing firm that claimed to buy more than $23 million of precious metals for customers.
Finra advised investors to beware of pitches that use scare tactics including the threat of inflation or economic meltdown, makes speculative claims comparing a new reserve's proximity to an existing reserve or describes a company that has changed its name or trading symbol to suggest it trades in gold.
One company that claims to mine gold was originally incorporated to offer golfers time on membership courses, for instance.

Gold plunges in 'pure panic selling'

8-24-11

My previous post says it all. Aivars Lode

By Jeff Benjamin, Investment News

As financial advisers and market watchers have questioned the upside limits of the price of gold over the past several months, a sudden pullback by the precious metal has introduced a new line of second-guessing.

“We think gold got very, very overbought and we don’t think the correction is over,” said Leo Larkin, equity metals analyst at Standard & Poor’s Equity Research.
After hitting a record $1,917 per ounce this week, up 16% from earlier this month, gold has plummeted more than 7% over the past two days to around $1,773 per ounce.
Mr. Larkin said S&P’s technical analysis has gold pricing in the $1,450 to $1,550 range “in the coming months.”
“Long-term, we’re still bullish, but short-term, it has gotten frothy,” he added.
Concerns over the spiking price have led some financial advisers to trim some exposure in client portfolios.
“Over the past few months, we’ve actually been reducing some positions as we’ve seen prices go up and up,” said Clinton Struthers, owner of Struthers Financial Services, a $100 million advisory firm. “I seriously question how much more upside there can be at this point and I do worry about a bubble in that sector.”
Adam Klopfenstein, a senior market strategist at MF Global Holdings Ltd., agrees. “This is liquidation from a crowded trade. In the short run, there's more optimism, and that doesn't bode well for gold. Investors have been using gold more as a fear barometer than a proxy for inflation.”
Some industry participants, however, don’t think economics or fundamentals are driving down the price of bullion. “This is just pure panic selling,” said Frank McGhee, the head dealer at Integrated Brokerage Services LLC.
Indeed, some advisers are telling clients to embrace the volatility — or avoid gold altogether.
“Gold is in a primary bull market, and if you own it, you need to be able to tolerate the pending 20% to 30% decline,” said Sam Jones, president of All Season Financial Advisors Inc. “But if you don’t own it, then one would wait for the same event to potentially buy.”
Mr. Jones, whose firm has $110 million under management, said the average investor is not particularly suited to being a gold bug. “Generally, gold and silver are too volatile for most investors to own in any size for long periods of time and through the natural declines. They would like to think they can handle it, but I know they cannot.”
Volatility is a fact of life when it comes gold, but investors shouldn’t read the latest price pullback as a sign that the rally is over, said Nick Barisheff, president and chief executive of Bullion Management Group Inc., a global gold bullion dealer that also has $670 million under management in precious-metals funds.
“To believe gold is in a bubble is to believe there has been a meaningful resolution to deal with the global sovereign-debt issues,” he said. “When investors lose faith in monetary management, there’s no place else to go but gold, silver and platinum.”
According to Morningstar Inc., domestic exchange-traded funds investing in precious metals had net inflows of $257 million in July, followed by $314 million in June, $21 million in May and $500 million in April.
Domestic mutual funds investing in precious metals, however, saw net inflows of $130 million in July, followed by three months of net outflows totaling more than $870 million.
Mr. Barisheff believes that individual investors are allocating to gold only superficially at this point and that much of the price rally can be linked to global sovereign-debt issues.
“Gold has been rising equally in all currencies, which means currencies are declining in value rather than gold rising in value,” he said.
Of the estimated $3 trillion worth of “above the ground” mined gold, Mr. Barisheff said half of that is held by the world’s various central banks, and most of the remaining $1.5 trillion is held by the world’s wealthiest families.
Gold’s volatility, he added, can be attributed to the fact it is a thin market relative to the $200 trillion worth of global financial assets, including paper assets such as stocks, bonds and mortgages.
“I would say about 1% of peoples’ portfolios are currently held in gold,” he said. “The public is not yet in, so most of this recent decline is just hedge funds and professional traders taking some profits.”

Debate Heats Up Over Commodities Holdings

8-31-11

In conversations here in Naples I have predicted that if prices fluctuate so sharply and affect the general populace that there will be investigations. Aivars Lode

By Ianthe Jeanne Dugan and Liam Pleven, The Wall Street Journal

A battle is heating up over whether investors in oil and other commodities markets should be required to lift the veil of secrecy that shrouds their trading bets.
The debate has simmered in the three years since oil prices spiked to record highs in 2008, sparking concerns that speculators were driving the move. But it intensified in recent weeks after The Wall Street Journal published confidential regulatory data that identified some of the biggest players in commodities markets, and big chunks of their positions, during that historic rally.
Unlike the stock market, there are no rules mandating public disclosure of commodities positions held by investors.
Industry groups representing traders in the market have opposed releasing any data that would expose the identities and positions of any firm or individual in the commodities markets because they say it would unfairly give away their trading strategies. They have called for a probe into how the information became public.
Others have seized on the data to push for more transparency, including the release of such information on a regular basis.
Tyson Slocum, a member of an advisory committee to the Commodities Futures Trading Commission and director of the energy group at advocacy organization Public Citizen, is leading a push to force commodities investors to publicly disclose the size and nature of their trading positions.

The debate over the role of investors exploded again this year when oil once again topped $100 a barrel and the Obama administration in April launched an inquiry into oil-market speculation. Above, oil pumps in operation near central Los Angeles, Calif, in June.

On Wednesday, Mr. Slocum plans to release a letter to members of Congress, as well as CFTC commissioners, seeking regular disclosure of data.
"We feel that regular disclosure of this level of data serves a crucial role in keeping markets transparent and providing critical information to decision makers and the public," Mr. Slocum said.
His group is pressing the CFTC and lawmakers to make this kind of disclosure mandatory, similar to how the Federal Reserve releases minutes of meetings within a certain time period.

Chilling Effect

Many people who buy and sell securities tied to oil, however, say that releasing the data could be harmful to their trading strategies and could prompt some to reduce their activity, having a potentially chilling effect on the market.

The Futures Industry Association has said that the release of the 2008 data "poses a serious threat" to the confidence of those in the market, who believed they were reporting their positions to regulators privately. The association said it will ask the CFTC to investigate whether any of its rules governing the handling of confidential data have been violated.

A CFTC spokesman declined to comment.

The CFTC collected the data during a "special call" in 2008, when it was attempting to figure out what was causing swings in the price of securities tied to oil. It used the data as the basis for a controversial report that concluded that supply and demand was behind the gyrations, not investors who neither produce nor consume oil on a large scale—a group critics call "speculators."

Rare View

The list contained more than 200 firms and traders, ranging from Goldman Sachs Group Inc. to Yale University to a Danish pension fund, giving a rare view into the murky world of commodities trading. Sen. Bernie Sanders (I-Vt.), who has distributed the CFTC information, is among lawmakers pushing regulators to limit investments in oil securities by speculators.
Keeping the names private, some argue, leaves the public at a disadvantage.
Amy Myers-Jaffe, a Rice University professor who co-wrote a report questioning the CFTC's methodology for weighing the impact of speculators, said the names of commodity investors should be made public information. "The only people who don't know who's in the commodities market is the public," Ms. Myers-Jaffe said. "I wouldn't hold my deposit in a bank with a giant position in the oil market. It could change on a dime with a shift in geopolitical position," she added
The debate over the role of investors exploded again this year when oil once again topped $100 a barrel and the Obama administration in April launched an inquiry into oil-market speculation.
Oil prices have since fallen again, and settled Tuesday up 1.9%, at $88.90 a barrel. But prices remain a concern for policy makers focused on how to stimulate economic growth, because of they can act as a drag on economic activity.

Q&A: Is this the end of the road for the gold rush?

9-22-11

You know what goes up, must come down. Aivars lode

By Reuters

(Reuters) - Growth is stalling, the euro zone is flailing, the Fed is spent and risk markets are melting down -- yet gold, the one asset that has consistently rallied in similar circumstances over the past year, is in a tailspin.
After a month of unprecedented volatility that has rattled some investors' confidence in gold's decade-long winning streak, the question is obvious: Is this what the popping of a gold bubble looks like?
The answer, of course, isn't obvious. The bursting of asset bubbles is best seen in retrospect, and gold's 10 percent decline from a record high just three weeks ago is far from its worst tumble; it last suffered such a setback in late 2009, and multiple times in 2008. It is only halfway to the 20 percent mark that separates a correction from a bear market.
While a survey of the best minds of the bullion market predicted this week that gold would continue to power higher over the next year, topping $2,000 an ounce, there are undeniable warning signs flashing along the way, threatening to undermine one of this year's top-performing assets.
Returns this year: r.reuters.com/suz52s
Spot gold prices tumbled more than 3 percent to a one-month low of $1,721 an ounce on Thursday, falling further out of favor as a global round of risk aversion triggered by weak Chinese manufacturing data and grim comments from the Federal Reserve hit commodity markets especially hard.
The U.S. dollar index .DXY rose 1.25 percent and U.S. stock indices fell nearly 4 percent. Brent crude dived by $5 a barrel, copper logged its biggest loss since October 2008 while sugar and grains slumped 5 percent.

Without calling a top in a market that has consistently proven all but the most intrepid gold bugs wrong, below are several factors to consider when weighing whether this is the end of the road or just a big bump in it.

RISK CORRELATIONS IN TATTERS, DOLLAR DRIVER RETURNS

The most alarming shift in the gold market in recent weeks has been the abrupt collapse in what had become a predictable risk-off trade. The 25-day correlation between gold and U.S. 10-year Treasuries had strengthened to the highest since at least 2005 at 0.7 by a week ago, but has since collapsed. The inverse link with the S&P hit its lowest in early September since the financial crisis, but has now bounced.

The dislocation has been increasingly evident this week, with gold falling in tandem with oil, stocks and copper, while the safe money rushed instead for Treasuries and the dollar.

The apparent cause? Possibly the rise of another popular correlation, one that had been largely set aside -- the dollar. On Thursday, the correlation returned negative for the first time in two weeks. It has averaged -0.4 for five years.

If that correlation holds strong, gold may be hostage to the greenback for some time. While the euro's woes and ultra-risk-averse investors may continue to help pull the dollar index .DXY up from near its 2008 record lows, few expect a sustained recovery that could drag down gold.

INFLATION BEGONE

Along with the loss of its safe-haven status, for the moment at least, gold's long-standing favor as a hedge against inflation hasn't been evident for months, with Western economies closer than ever to another recession.

Even so, with the Fed pledging to keep interest rates at near zero for the next two years, gold's lack of yield is less of a penalty than in normal times.

VOLATILITY BITES

On top of the disrupted correlations, gold has extended a period of unprecedented volatility, with day-to-day price movements in excess of 2 percent during 15 of the last 37 trading sessions -- a run unrivaled except for in 2008. On an absolute basis, intraday swings of more than $50 an ounce have not been regularly witnessed since 1980.

"When something can move 3, or 5 or 6 percent in the course of two days, that's not a safe haven. Safe havens should be quiet and stable ... not violent," said Dennis Gartman, a longtime professional commodities investor who has regularly traded in and out of the bullion market.

OPTIONS FLASH AMBER

The extraordinary whipsaw trade has bled into the options market, where implied volatility -- a measure of the cost of buying options either to bet on prices rising or to protect against prices falling -- has surged lately.

The CBOE's gold volatility index .OVX based on COMEX futures prices spiked in August to its highest in two years, and surged anew on Thursday as prices crashed.

More tellingly, traders say there is growing demand for buying put options, which protect an investor if prices fall. In the past, they say, far more investors wanted call options to benefit from gold's seemingly unyielding rise.

TEMPORARY LIQUIDITY RUSH?

Over the past few years, gold has occasionally tumbled in tandem with stocks and other "riskier" assets simply because investors in those other markets were desperate to raise cash in order to cover margin calls or offset losses. This had little to do with any safe-haven issues or correlations and everything to do with the need for immediate liquidity.

That occurred most recently in June, with several days of in-sync losses. But the impact tends to ebb quickly, and few analysts see that as a compelling factor at the moment, suggesting the bounce-back may not be as swift.

China's Factory Activity Slipped in September

9-22-11

Is this the precursor to the end of Australia's and Canada's booms? Aivars Lode

By Aaron Back, The Wall Street Journal

BEIJING—A preliminary gauge of China's manufacturing activity fell in September, indicating that growth in the world's second-largest economy continued to slow.
The preliminary HSBC China manufacturing purchasing managers index fell to 49.4 in September from a final reading of 49.9 in August, HSBC Holdings PLC said Thursday.
A reading below 50 indicates contraction from the previous month, while a reading above 50 indicates expansion.
The decline in the PMI could reignite some concerns over a sharp economic slowdown in China, due to weakening global demand for Chinese goods and various tightening measures at home.

The Australian dollar, which is sensitive to Chinese demand for Australian commodities, slipped after the data were released, falling below parity to the U.S. dollar for the first time since Aug. 8.
HSBC economist Qu Hongbin, however, said in a note that the data are consistent with a "soft landing" scenario. "Fears of a hard landing are unwarranted," he wrote. "External demand weakened a little but official trade data still show solid export growth."
Mr. Qu said he expects China's gross domestic product growth to be around 8.5% to 9% in coming quarters, down from 9.5% in the second quarter. The manufacturing output subindex fell to 49.2, a two-month low.
The preliminary China PMI figure, also called the HSBC Flash China PMI, is based on 85% to 90% of total responses to HSBC's PMI survey each month and is issued about a week before the final PMI reading. September's final reading is due Sept. 30.

Steel industry braced for price cuts

10-9-11

Watch what this does to the strength of the Aussie and Canadian dollars and economies. Aivars Lode

By Peter Marsh, FT.com

The steel industry faces tough times with companies braced for falling prices as buyers delay orders due to extreme nervousness about global economic weakness.
The expected drop in prices threatens the outlook for profits at some of the biggest steelmakers just as their chief executives gather in Paris on Monday for the annual meetings of the World Steel Association, the industry's main international body.

Behind the gloom are worries about the build-up of government debt in the US and Europe, coupled with the sense that the eurozone crisis could be about to worsen in the wake of a default by Greece. There are concerns over Chinese demand too as inflationary pressures have forced Beijing into cutting back on the supply of credit, slowing down growth of steel consumption in China. The country has been chief locomotive in recent years driving up the expansion of the global industry.
Bruno Bolfo, chairman of Duferco, a Swiss company that is the world's biggest steel trading business, said: "Prices for some grades of steel in Europe are at a disastrous level and are either at or only just above companies' break-even position. Buyers are staying out of the market because they think prices may go down even more."

"Prices for some grades of steel in Europe are ... at or only just above companies' break-even position" - Bruno Bolfo, chairman of Duferco
Sajjan Jindal, chief executive of JSW, a big Indian steel producer, said he foresaw the turbulence spilling over to 2012 – a year he said was likely to be marked by "short-term economic and financial issues impacting long-term economic sustainability".
Average world steel prices are forecast by Meps, a UK steel consultancy, to fall to $838 a tonne by December, which would amount to an 8 per cent decline since May this year.
Weakening demand for steel – by volume the world's biggest selling industrial commodity, used in sectors from construction to automotive – is expected to feed through to only subdued production increases over the remainder of 2011.
Underlining the difficulties for the sector, the composite share price of all the world's listed steel makers has underperformed global stock markets by 30 per cent since the beginning of the year.
Some steel companies in Europe – where weak consumption is creating especially severe trading difficulties – have cut back on production through temporary plant closures.
The strategy has been led by Lakshmi Mittal's ArcelorMittal, the world's biggest steelmaker. Due to temporary shutdowns and routine maintenance, only just over two-thirds of its European blast furnaces will be in action in the fourth quarter of 2012.
ArcelorMittal said this move was intended to protect its market share and remain competitive in the event that "the environment becomes recessionary".
According to a survey for the FT by six industry experts, world steel shipments are set to slow next year to a rise of 4.9 per cent after a likely increase this year of 6.6 per cent.

China Could Face 2012 Trade Deficit That Threatens Social Stability And 70% Of Jobs

10-18-11

Do you think that will stop growth in Australia and Canada? Whose economy has boomed on a commodity boom supplying China?

By Agustino Fontevecchia, Forbes

Weakness across the globe has already stifled demand, putting pressure on Chinese exporters. But an even deeper problem is the European sovereign debt crisis. Europe is China's largest trade partner, Wei explained, with trade in 2010 reaching $480 billion, about 16% of total trade volumes (total trade with the U.S. hit $456.8 billion in 2010).
As the crisis in Europe took a turn for the worst, with Greece failing to implement austerity measures and structural reforms and contagion spreading to Spain and Italy, and the continued slowdown of France and Germany (which Goldman Sachs' head economist, Jan Hatzius, says are already in recession), trade with China has fallen steeply. (Read *Goldman's Hatzius: U.S. To Avoid Recession As Bernanke Unveil QE3, Europe Doomed*).
Along with a fall in trade volumes has come a fall in China's trade surplus with Europe, which totaled $183 billion in 2010 and will likely round off the year around at around $50 to $100 billion, Wei warned. China's trade surplus with Europe fell for a second consecutive month in September to $14.5 billion. (Read *As Europe And The U.S. March Toward Recession, Markets Are Waiting For Godot*).
"Growth in emerging markets will not compensate for China's losses in Europe," said Wei, noting that the slowdown in the U.S. was also affecting exports, which fell to 17.1% in September from 24.5% in August. While emerging markets will be the world's engine of growth in 2012, as the IMF has forecasted, they won't be able to pick up the slack left behind by Europe and the U.S., Wei believes.
With China's economy on path for a government-engineered soft landing, the situation for exporters appears set to deteriorate even further. Both domestic demand and export growth will suffer from policy tightening and weak external demand, according to a report by Barclays on the GDP release,

and China won't be able to decouple from the developed world if there is another global recession. The export sector employs about 70% of the country's workforce, according to Wei, and if these enterprises failed it would deliver "a massive blow to the economy." Small and medium-sized firms in Zhejiang and Guangdong, two of the main provinces for export-production, "are under intense cash-flow pressure and are unable to get loans," Wei said. (Read *China Buys Shares In Major Banks As Shadow Banking Credit Grows*).

With the Chinese economy set to slow to 8.5% in Q4 and 2012 GDP to average 8.4%, according to Barclays, the Chinese government will have to be on its A-game to avoid a crisis in the export sector that could undermine their precious social stability.

Experts like George Friedman agree that the Chinese government is fearful of social unrest and recognizes the risk of a slowdown. Friedman, like China-bear Jim Chanos, believes the Chinese economy will crash from these cash-flow pressures and the growth of its shadow banking sector as smaller companies begin to default on their loans and spark a chain reaction.

To avoid such an outcome, Wei suggested that China use part of its $3.2 trillion in foreign reserves, something like $50 to $100 billion, to support the export sector. Fast growing companies like Baidu and Dang-Dang have escaped pressure to a certain extent, but the export sector's inherent reliance on the global economy puts it on a dangerous path.

It remains to be seen whether China manages to execute an expected soft landing. What is clearly a reality, though, is that added to the intense pressure on the banking sector coming from policy tightening and an ever-growing shadow credit system, the apparent invulnerability of the export sector is now being called into question, sowing serious doubt over the near future of the world's second largest economy.

America's Vast Energy Resources SHOCKING

12-7-11

If you can get past the political rhetoric, I am sure that you will find this shocking! Aivars Lode

By John Hinderaker, Powerline

For a long time, the Left has gotten away with underselling America's energy resources. The old chestnut that the U.S. uses 25% of the world's oil but only has 2% to 3% of the world's oil reserves has been repeated endlessly by Barack Obama and many others. This claim fooled millions of people who didn't understand that in the U.S., "reserves" means petroleum that is 1) legally available for development, and 2) profitably extracted at current prices. So if Democrats would stop preventing drilling, we could vastly increase our "reserves," as legally defined, overnight.

Happily, the publicity that has recently been given to massive shale oil and natural gas deposits in North Dakota, Pennsylvania and elsewhere has awakened many Americans to the fact that our energy resources are truly vast–greater, in fact, than any other country's. The point is driven home by a new report that has just been released by the Institute for Energy Research. IER describes the problem (and the opportunity) bluntly:

Access to affordable, abundant energy is, fundamentally, a means of freedom. But for those seeking to create a crisis that provides an opportunity to direct the way we live, work and act, affordable, reliable, abundant, domestic energy is a threat. In a very real sense, the more energy we have, the less power they will have. Energy abundance ends the justification for central energy decision-making.

The report is worth reading in its entirety, but here are a few graphics that sum up the bottom line.

First, North American oil; click to enlarge:

The IER report pinpoints the obstacle to millions of new jobs and the creation of vast wealth that will be shared by all Americans in the form of lower energy costs:

As it turns out, many of the problems of energy scarcity and rising costs in the United States have been caused by the government itself. In 2004, the U.S. Department of Energy issued a report that outlined many of the policy and regulatory constraints that impact domestic energy production.

While the report focused on natural gas specifically, many of the laws and procedures also represent roadblocks to any form of safe and responsible energy production. The list of energy barriers included the following policies, all of which can limit access to U.S. resources, increase delays related to exploration and production, and/or increase costs of development:
The list of statutes and other legal impediments that follows is three pages long. Only liberal politicians stand between the American people and development of our vast energy resources.

Corrected: Oil Fund BlueGold Loses Focus, Sinks Deep into Red

12-26-11

Once you change your focus from what you know to what you don't know, this is what happens. Investors beware to what the investment team has experience in. Aivars Lode

By Barani Krishan, Reuters

NEW YORK (Reuters)—Respected commodities hedge fund **BlueGold** has veered from its energy-focused strategy, betting 30.5 percent of its money on equities and other trades that are worrying investors as it turns in its first down year. The London-based fund, founded by former Vitol oil traders **Dennis Crema** and **Pierre Andurand**, is heading for a negative annual return, losing 34 percent through mid-December. Its asset base is down to $1.2 billion from $2 billion about a year ago. The change in fortunes has raised concerns among some investors who question an increase in exposure to equities, as well as "macro-hedges" which investors say is unfamiliar territory for the fund that made its name in crude derivatives. Macro-hedges are used to eliminate risk across a portfolio of assets, with a fund often taking offsetting positions for each of its assets. Many funds specialize in such cross-market hedging, but the strategy has not paid off for BlueGold, say investors who have been with Messrs. Crema and Andurand since they launched their fund in 2008, after leaving Vitol. "They are just not qualified to put on these kind of hedges. It's something that's worrying us. And from what we know, it's also worrying others who are invested with them," said an investor, speaking on conditions of anonymity because of the confidentiality of the information.

BlueGold's latest risk profile, made available to Reuters by the investor, shows the fund having a 15 percent exposure to macro-hedges and 30.5 percent to equities. Together, that accounts for half of the fund's risk, versus a 35 percent exposure to energy, and the balance for other commodities and currencies. At the start of 2011, Bluegold's exposure to equities was as low as 5 percent and it had no macro hedges at that time, according to another contact who works with the investor source.

"We've no idea what specific trades they've been doing on equities or the macro side," the contact said. "We don't know the pluses and negatives of those trades either. What we know is they've fallen deeper and deeper into the red and that's not comforting." It was not immediately clear if the shift in focus was aimed at improving performance or part of a broader strategy to diversify away from oil.

BlueGold did not return phone calls and an e-mail from Reuters seeking comment. This year's performance contrasts starkly with its debut in 2008 when the fund grabbed world attention with a 200 percent gain when most of the hedge fund universe was blowing up. BlueGold and its almost pure play on crude derivatives were an enigma to many in the oil industry as it rode the market's ups and downs to best its peers year after year. So heady was its influence at one time that when crude prices tanked 5 percent in a day in February last year, the London-based fund was blamed for dumping long positions that exacerbated the sell-off. Mr. Crema denied the accusation. This year has been tough on some of BlueGold's rivals too. **Clive Capital**, a $4 billion fund led by former **Moore Capital** star commodities trader **Chris Levett**, is down about 9 percent through November. **Astenbeck**, another true-blue $2 billion oil fund run by **Phibro** trader **Andy Hall**, is flat after surviving months of losses. Oil prices saw more than their share of volatility in 2011, finishing the first quarter strongly on the back of Libya's crude export ban, then slumping on the European debt crisis and the dollar's strength before rebounding just two months ago on falling U.S. crude supplies.

Despite the swings, Chicago-based Hedge Fund Research reports that the average energy fund is up 0.46 percent through November. "One thing that's certainly true in the case of BlueGold is that they were scarred by their macro environment," said another long-time investor with Messrs. Crema and Andurand. "I always worry when any manager changes their stripes or tries to add a new strategy or even just a twist. It doesn't mean they can't pull it off swimmingly, but more often than not, they don't."

Abundant Natural Gas Leads To Record-Low Prices; Natural Market Forces Will Correct The Oversupply

12-31-11

There is no shortage of anything, just manipulation of prices. Aivars Lode

By Dan Strumpf and Ryan Dezember, The Wall Street Journal

"U.S. natural gas prices fell to their lowest point in more than two years, underscoring how the nation's booming energy business is becoming a victim of its own success. Mild weather and oversupply have pushed the fuel's price below $3 (see chart above).

Prices for the commodity have been under pressure over the last couple of years, as new drilling techniques unlocked vast new stores of natural gas from shale formations and other so-called unconventional reservoirs. But in the last two months, the steady price decline has turned into a free-fall, as unusually mild temperatures across much of the U.S. have damped demand for gas to heat homes and offices.

Natural gas for February delivery settled Friday at $2.989 per million British thermal units, the lowest closing price for the commodity since September 2009 (see chart). It closed below $3 in the winter for the first time in nearly a decade.

"The sub-$3 levels for gas prices in the winter really point to the incredible amount of nonconventional gas that has come onto the market the last two years," said Gene McGillian, analyst at Tradition Energy in Stamford, Conn. "Our production levels, our mild winter and the gas we have in storage have combined to crush natural gas prices this month."

Natural gas traded as high as $13 per million British thermal units in July 2008. But in recent years, domestic production boomed, with horizontal drilling techniques and hydraulic fracturing, or "fracking," helping producers unleash a flood of gas from shale formations in Pennsylvania, Arkansas and elsewhere.

Natural gas production in the lower 48 states hit a record 71.3 billion cubic feet a day in October (see CD post). The bonanza has ushered in lower prices for many consumers and businesses. New Jersey's Public Service Electric and Gas Co., citing lower costs partly due to shale drilling, reduced residential gas rates on Dec. 1 by 4.6%, bringing to 35% the utility's total decrease since January 2009.

Shale drilling has also created jobs and the prospect of greater energy independence, while raising environmental concerns. But the fresh abundance of natural gas has also weighed on its price, undercutting the profitability of the business for energy companies.

Still, due in part to the structure of the business, the torrid pace of natural gas production shows few signs of slowing. Producers often have a limited time to begin drilling once they lease property, which leads many to drill wells regardless of commodity prices or risk losing their hold on reserves. Other companies are forced to drill by the terms of joint ventures they signed when the outlook on gas prices was rosier."

MP: Overall, this is a good temporary "problem" to have and demonstrates that the price system and competitive market forces are working as expected: an abundant supply of natural gas leads to falling prices, which lowers the profits of producers, which then leads to automatic, self-correcting adjustments and responses as the natural gas market moves towards equilibrium. Those adjustments might include: a) increased demand for natural gas as residential and commercial consumers shift from oil and electricity heat towards natural gas (see CD post), b) increased demand by energy-intensive manufacturing companies for steel, plastics, chemicals, etc. c) increased demand for vehicles powered by natural gas, d) increased demand for natural gas for electricity generation, and e) reductions in the production of natural gas as it becomes less profitable. All of those automatic adjustments will raise the price of natural gas as it finds a natural market-clearing equilibrium and eliminates the current "over-supply."

Alcoa to Close Smelter in Alcoa, Tenn.

1-5-12

Hello mates, this is why we do not have inflation, as there is overcapacity in any number of different industries, therefore pushing prices lower! Aivars Lode
By John W. Miller, The Wall Street Journal

PITTSBURGH—Alcoa, the world's biggest aluminum company, said it will slash global smelting capacity by 12%, as high costs and slumping prices threaten profits.
Alcoa said it will permanently close the smelter in Alcoa, Tenn., a small community founded in 1919 around the company's aluminum plant.
"The plant would have needed a major investment to be competitive with other smelters around the world," said Mark Johnson, Alcoa's city manager. The smelter was idled in 2009. Alcoa spokesman Mike Belwood said the company has no current layoff plans and said the handful of workers maintaining the Tennessee smelter since 2009 will be reassigned.
Alcoa Chief Executive Klaus Kleinfeld promised the company would work with unions and affected communities to "explore ways to redevelop" the closed facilities. "We recognize our responsibility to the people and communities of the affected facilities."
Alcoa, Tenn., pop. 6,920, lies in the foothills of the Great Smoky Mountains. "We're here because of the company," said Patricia Tipton, a spokeswoman for the mayor's office. The town will not have to change its name just yet: It will hold on to keep an Alcoa recycling plant that employs 1,000 people.
Thursday's decision comes days before Alcoa kicks off the earnings season with its fourth-quarter results, which promise to be disappointing due to difficult market conditions and now, added restructuring charges.
Alcoa said total restructuring-related charges for quarter are expected to be between $155 million and $165 million after-tax, or 15 cents to 16 cents a share. Prior to the announcement, analysts forecast the company's earnings per share at around breakeven, down from 21 cents in the fourth quarter of 2010.
Aluminum prices have fallen more than 27% from their peak in 2011, due to slowing housing construction in China, which consumes almost half the world's aluminum, and debt chaos in Europe depressing economies there.
"These are difficult but necessary steps to improve Alcoa's competitiveness, preserve and grow shareholder value and protect jobs in the rest of the Alcoa system," said Mr. Kleinfeld.
In addition to closing the smelter in its namesake town, Alcoa also said it would close two of its six lines in Rockdale, Texas. The Texas closures alone will cut annual capacity by 291,000 tons, or 7%. An additional 5% of undisclosed capacity will be curtailed in the first half of 2012.
Alcoa, which is based in Pittsburgh, currently smelts some 4.5 million tons of aluminum per year, for the beer and soda can, auto, aviation, construction, and other industries.
Lloyd O'Carroll, an analyst with Davenport & Co., said aluminum prices are "bottoming out around now." He said "there should be a small uptick [for Alcoa] in the first half of 2012, and a larger one in the second half." Aluminum is selling for about $2,000 a ton on the London Metals Exchange and is expected to reach $2,300 per ton for the year.
Cutting production will help, and is part of the company's wider strategy. Alcoa "is phasing out production in high-cost places, and increasing it in low-cost places," says Mr. O'Carroll.
For example, the company is building a massive new plant in Saudi Arabia, taking advantage of natural gas flares. Power is the main cost component in making aluminum. That's why production is

often to be found in energy-rich places like Russia, which has plentiful gas, or Iceland, which has hydropower.

Why Oil Prices Are About to Collapse

1-15-12

The following is an explanation of how commodity prices have been artificially manipulated. Aivars Lode

By Chris Cook, The Oil Drum

All is not as it appears in the global oil markets, which have become entirely dysfunctional and no longer fit for its purpose, in my view. I believe that the market price is about to collapse as it did in 2008, and that this will mark the end of an era in which the market has been run by and on behalf of trading and financial intermediaries.
In this post I forecast the imminent death of the crude oil market and I identify the killers; the re-birth of the global market in crude oil in new form will be the subject of another post.

Global Oil Pricing
The "Brent Complex" is aptly named, being an increasingly baroque collection of contracts relating to North Sea crude oil, originally based upon the Shell "Brent" quality crude oil contract that originated in the 1980s.
It now consists of physical and forward BFOE (the Brent, Forties, Oseberg and Ekofisk fields) contracts in North Sea crude oil; and the key ICE Europe BFOE futures contract, which is not a deliverable contract and is purely a financial bet based upon the price in the BFOE forward market.
There is also a whole plethora of other 'over the counter' (OTC) contracts involving not only BFOE, but also a huge transatlantic "arbitrage" market between the BFOE contract and the US West Texas Intermediate (WTI) contract originated by NYMEX, but cloned by ICE Europe.
North Sea crude oil production has been in secular decline for many years, and even though the North Sea crude oil benchmark contract was extended from the Brent quality to become BFOE, there are now only about 60 cargoes each of 600,000 barrels of BFOE quality crude oil (and as low as 50 when maintenance is under way) delivered out of the North Sea each month, worth at current prices about $4 billion.
It is the 'Dated' or spot price of these cargoes – as reported by the oil price reporting service Platts in the 'Platts Window'– that is the benchmark for global oil prices either directly (about 60%) or indirectly, through BFOE/WTI arbitrage for most of the rest.
It will be seen that traders of the scale of the oil majors and sovereign oil companies do not really have to put much money at risk by their standards in order to acquire enough cargoes to move or support the global market price via the BFOE market.
Indeed, the evolution of the BFOE market has been a response to declining production and the fact that traders could not resist manipulating the market by buying up contracts and "squeezing" those who had sold forward oil they did not have, causing them very substantial losses. The fewer cargoes produced, the easier the underlying market is to manipulate.
As a very knowledgeable insider puts it….
The Platts window is the most abused market mechanism in the world.
But since all of this short term 'micro' manipulation or trading (choose your language) has been going on among consenting adults in a wholesale market inaccessible to the man in the street, it is pretty much a zero sum game, and for many years the UK regulators responsible for it – ie the Financial Services Authority and its predecessor - have essentially ignored it, with a "light touch" wholesale market regime.
If the history of commodity markets shows us anything, it is that if producers can manipulate or support prices then they will, and there are many examples of which the classic cases are the 1985

tin crisis, and Yasuo Hamanaka's 10-year manipulation of the copper market on behalf of Sumitomo Corporation.
When I gave evidence to the UK Parliament's Treasury Select Committee three years ago at the time of the last crude oil bubble, I recommended a major transatlantic regulatory investigation into the operation of the Brent Complex and in particular in respect of the relationship between financial investors and producers, and the role of intermediaries in that relationship.
I also proposed root and branch reform of global energy market architecture, which in my view can only come from producer nations and consumer nations collectively, because intermediary turkeys will not vote for Christmas.

A Meme is Born
In the early 1990s, Goldman Sachs created a new way of investing in commodities. The Goldman Sachs Commodity Index (GSCI) enabled investment in a basket of commodities – of which oil and oil products was the greatest component – and the new GSCI fund invested by buying futures contracts in the relevant commodity markets which were 'rolled over' from month to month.
The genius dash of marketing fairy dust that was sprinkled on this concept was to call investment in the fund a 'hedge against inflation'. Investors in the fund were able to offload the perceived risk of holding dollars and instead take on the risk of holding commodities.
The smartest kids on the block were not slow to realise that the GSCI – which was structurally 'long' of commodity markets – was taking a long term position which was precisely the opposite of a commodity producer who is structurally 'short' of commodities because they routinely sell futures contracts in order to insure themselves against a fall in the dollar price; ie commodity producers are offloading the risk of owning commodities, and taking on the risk of holding dollars.
So, in 1995 a marriage was arranged.

BP and Goldman Sachs get Married
From 1995 to 2007 BP and Goldman Sachs were joined at the head, having the same chairman – the Irish former head of the World Trade Organisation, Peter Sutherland. From 1999 until he fell from grace in 2007 through revelations about his private life, BP's CEO Lord Browne was also on the Goldman Sachs board.
The outcome of the relationship was that BP were in a position, if they were so minded, to obtain interest-free funding via Goldman Sachs, from GSCI investors through the simple expedient of a sale and repurchase agreement - ie BP could sell title to oil with an agreement to buy back the oil later at an agreed price.
The outcome would be a financial 'lease' of oil by BP to GSCI investors and the monetisation of part of BP's oil inventory. Such agreements in relation to bilateral physical oil transactions are typically concluded privately, and are invisible to the organised markets. However, any risk management contracts which an intermediary such as Goldman Sachs may enter into as a counter-party to both a fund and a producer are visible on the futures exchanges.
Due to the invisibility of the change of ownership of inventory 'information asymmetry' is created where some market participants are in possession of key market information which others do not have. This ownership by investors of inventory in the custody of a producer has been termed 'Dark Inventory'
I must make quite clear at this point that only BP and Goldman Sachs know whether they actually did create Dark Inventory by leasing oil in this way, and readers must make up their own minds on that. But I do know that in their shoes, what I would have done, particularly bearing in mind that such commodity leasing is a perfectly legitimate financing stratagem that has been in routine use in the precious metals and base metal markets for a very long time indeed.

Planet Hype
The 'inflation hedging' meme gradually gained traction and a new breed of Exchange Traded Funds (ETFs) and structured investment products were created to invest in commodities. In 2005, Shell entered quite transparently into a relationship with ETF Securities which enabled them to cut out as middlemen both investment banks and the futures market casinos, and with them the substantial rent both collect.

Other investment banks also started to offer similar products and a bandwagon began to roll. From 2005 to 2008, we therefore saw an increasing flood of dollars into the oil market, and this was accompanied by the most shameless and often completely misleading hype, and led to a bubble in the price.
There was (and still is) no piece of news which cannot be interpreted as a reason to buy crude oil. The classic case was US environmental restrictions on oil products, which led to restricted supply, and to price increases in oil products. Now, anyone would think that reduced refinery throughput will reduce the demand for crude oil and should logically lead to a fall in crude oil prices.
But on Planet Hype faulty economic logic – the view that higher product prices are necessarily associated with higher crude oil prices – was instead used as justification for the higher crude oil prices which resulted from the financial buying of crude oil attracted by the hype.
You couldn't make it up: but unfortunately, they could, and they did.
More worrying than mere hype was that a very significant amount of oil inventory had actually changed hands from producers to investors. Only those directly involved were aware that below the visible part of the oil market iceberg lurked massive unseen 'Dark Inventory'.

Greedy Speculators and Hoarding
The pervasive narrative among people and politicians, and which is spread by a campaigning press, is of 'greedy speculators' who are 'hoarding' commodities and 'gouging' consumers in search of a transaction profit.
There is no better example of this meme than the UK's Daily Mail scoop on 20th November 2009. Here we saw pictures of shoals of some 54 shark-like tankers loaded with oil and lurking off the UK coast with millions of barrels of 'hoarded' crude oil, some of them having been there since April 2009. The Mail's story was that these tankers were full of hoarded oil whose greedy owners were waiting for prices to rise before gouging the public.
The reality was rather different.
The motivation of the investors involved was not greed but fear. The Fed had been busily printing another trillion in QE dollars to buy securities and the sellers, and other investors aimed not to make a dollar profit but rather to avoid a dollar loss.
So they poured $ billions into oil index funds and similar products and the oil leases/loans which accommodated these funds' financial purchases of oil had the effect of raising forward prices and of depressing the spot price, thereby creating what is known as a market 'in contango'.
When the forward price is high enough in a contango market, what happens is that traders will borrow money to buy crude oil now, and sell the oil at the higher price in the future. Provided the contango is high enough, they will cover interest costs and the cost of chartering and insuring the vessel and its cargo, and lock in a profit for the trader at the end.
This is exactly what traders did through the summer of 2009, until the winter demand by refineries for crude oil and a reduction in the flow of QE dollars into the market combined to see the stored oil gradually delivered to refineries and the sharks depart the UK shores.
The point is that the widely held perception of high oil prices being the fault of hoarders and greedy speculators is – apart from very short term 'spikes' in the price - entirely misconceived. And even when speculators do dabble in oil markets, they are almost always pillaged by traders and investment banks with much better market information, which is probably what is happening right now.

The Bubble Bursts
In 2008 there was an influx of genuine speculators in search of short term transaction profit. The motivation of inflation hedgers, on the other hand, is the avoidance of loss, which leads to different market behaviour and the perverse outcome that they have been responsible for causing the very inflation they sought to avoid.
The price eventually reached levels at which demand for products began to be affected and shrewd market observers began to position themselves for the inevitable bursting of the obvious bubble. But those market traders and speculators who correctly diagnosed that the price would collapse were unaware of the existence of the Dark Inventory of pre-sold oil sitting invisibly like an iceberg under the water.

Traders who had sold off-exchange Brent/BFOE contracts or deliverable WTI contracts found themselves 'squeezed' because title to the crude oil which they thought would be available at a cheaper price to fulfil their contractual commitment had been 'pre-sold' to financial investors. This meant that they had to scramble to buy oil at a higher price than they had expected.

The price spiked to $147 per barrel, and then declined over several months all the way to $35 per barrel or so, as many of the index fund investors pulled their money out of the market in late 2008 and joined a stampede to the safety of US Treasury Bills. What was happening here was that the Dark Inventory which had been created flooded back into the market, and overwhelmed the market's capacity to absorb it.

Convergence and Futures Pricing

The oil market price is – by definition – the price at which title to dollars is exchanged for title to crude oil.

But there is very considerable debate among economists about the effect of derivative contracts on this spot market price, and whether it is the case that the futures market converges on the physical market price or vice versa.

Now, in the case of a deliverable exchange futures contract, a price is set for delivery of a standardised quantity of a particular specification of a commodity at a particular location within a specified period of time. If that contract is held open until the expiry date and time then there will indeed be a spot delivery and payment against documents at the original price. In accordance with the exchange's contractual terms.

But the key point is that this futures contract will not be held open to the expiry date at the original price unless the physical market price – which is set by physical supply and demand – is actually at that price at that specific point in time. If the physical price is lower or higher, then the futures contract will be closed out through a matching purchase or sale and a profit or loss will be taken.

I managed the International Petroleum Exchange's Gas Oil contract for six years, which was deliverable in North West Europe, and the final minutes of trading before contract expiry were Europe's greatest game of 'chicken'.

Moreover, no IPE broker in his right mind would dream (because the broker was responsible to the London Clearing House for defaults) of letting a financial investor with no capability of making or taking delivery hold a position into the last month before delivery. And if a broker was not in his right mind, it was my job to act under the exchange rules to ensure such positions were liquidated.

In other markets, the ability to own physical commodities – eg. through ownership of warehouse warrants – is much more straightforward for investors. But the logistics of oil and oil products are such that financial investors are simply incapable of participating in the physical market. In my view, the use of position limits for financial investors in crude oil and oil products is of little or no use if the clearing house, exchange, and brokers are doing their job.

Finally, now that the US WTI contract is just the tail on the Brent/BFOE physical market dog, this discussion has moved on, since the ICE Brent/BFOE futures contract is in fact settled in cash against an index based on trading in the BFOE forward market, with no physical delivery. It is simply a straightforward financial bet in relation to the routinely manipulated underlying BFOE physical market price – ie., the question of convergence does not arise.

Anything but Dollars

With interest rates at zero per cent, and with the Federal Reserve Bank printing dollars through QE, a tidal wave of money flowed into equity and commodity markets purely as an alternative to the dollar, and they did so through a proliferation of funds set up by banks.

Note here that the beauty of such funds for the banks is that it is the investors who take the market risk, not the banks, and the marketing and operation of funds has become a very profitable use of scarce bank capital.

So a flood of financial purchasers of oil were looking for producers willing and able to sell or lease oil to them.

Producers in Pain

Producing nations who had massively expanded their spending in line with a perceived 'sellers' market' paradigm where they had the whip hand, were badly hurt by the 2008 price collapse and OPEC took action to restrict production.

But might some OPEC members or other producing nations have gone further than this?
What is clear is that the price rose swiftly in 2009 and then remained roughly in a range between $70 and $90 per barrel until early 2011 when twin shocks hit the oil market. Firstly, there was the supply shock in Libya which saw 1.5m bbl per day of top quality crude oil leave the market, and secondly, the demand shock of Fukushima, which saw a dramatic switch from nuclear to carbon-fuelled energy.
My thesis is that Shell directly, and others indirectly, were not the only ones leasing oil to funds. I believe that it is probable that the US and Saudis/GCC reached – with the help of the best financial brains money can rent – a geo-political understanding with the aim that the oil price is firstly capped at an upper level which does not lead to politically embarrassing high US gasoline prices; and secondly, collared at a level which provides a satisfactory level of Saudi/GCC oil revenues.

The QE Pump Stops
In June 2011, the QE pump which had been keeping commodity and equity markets inflated and correlated stopped, and price levels began to decline. Consumer demand – as opposed to financial demand – for commodities had also been affected not only by high prices, but by reduced demand from developed nations for finished goods. In September 2011, more than $9bn of index fund money pulled out of the markets for the safe haven of T-bills.
What happened as a result was that the regular rolling over of oil leases, and the free dollar funding for producers of their oil inventory ceased. So the leased oil returned to the ownership of the producers, while the dollars returned to the ownership of the funds.
Since the 'repurchases' were no longer occurring, the forward oil price fell below the current price, and this 'backwardation' was misinterpreted by market traders and speculators. They believed that the backwardation was – as it usually is - a sign that current demand was high and increasing relative to forward demand, whereas in this false market the current demand is unchanged but the forward demand is **decreasing.**
As in 2008, speculators and traders were again suckered too soon into the market, and this led to profits at their expense to those with asymmetric information, and a 'pop' upwards in the price as they were forced to close speculative short positions. My information is that a major oil market trader was successfully able to 'squeeze' the Brent/BFOE market on at least two occasions in late 2011 precisely because they were aware of the true situation of inventory ownership, and the rest of the market was not.
As an insider puts it……
You can't have proper price discovery when half of the inventory is being sold elsewhere at a different price. On exchange physical doesn't even exist. Futures are converging to physical, but only the physical which is visible for Platts assessment.
….pointing out that transactions in respect of physical ownership of oil do not take place on an exchange, and that there is effectively a 'two tier' market. Only a proportion of spot or physical Brent/BFOE transactions therefore actually form the basis of the Platts assessment of the global benchmark oil price.

Enter Iran
In my view, there is little or no chance of military action against Iran, and having been to Iran five times in recent years, and as recently as two months ago, there is much I could write on this subject. While financial sanctions have been pretty smart, and increasingly effective so far, the medium and long term effect of the proposed EU oil embargo – which will in fact affect only a pretty minimal and easily accommodated amount of demand which is evaporating anyway – is more apparent than real. While there would undoubtedly be a short term price rise – cheered on by the usual suspects – in the medium and long term the embargo will act to reduce oil prices. This is because Iran will necessarily have to sell oil at below market price to China and others, and since the market is over-supplied, particularly in Europe, this will undercut market prices generally.
Mexico has routinely hedged oil production for years, and Qatar – who are very shrewd operators – began to do the same in November 2011 since they expect the price to fall this year. In the short term

the Iran 'crisis' is in my view being hyped for all it is worth to entice yet more unwary speculators into the oil market so that other producers may sell their production forward at high prices while they last before the inevitable and imminent collapse.

Current Position
If you believe the investment banks – who all have oil funds to sell to the credulous – Far Eastern demand is holding up, supplies are tight, and stocks are low, so prices are set to rise to maybe $120 or above in 2012, even in the absence of fisticuffs involving Iran.
I take a different view. I see real demand – as opposed to financial demand and stock-piling, such as in the copper market – declining in 2012 as the financial crisis continues at best, and deepens at worst, particularly in the EU. Stocks are low because bank financing of stock is disappearing as banks retrench, and it makes no sense for traders to hold stocks if forward prices are lower than today's price.
As for supplies, US crude oil production is probably higher, and consumption lower, than widely appreciated. Elsewhere, there is plenty of oil available now that much of the Dark Inventory has been liquidated, and this liquidation was probably why in November 2011 we saw the highest Saudi monthly deliveries in 30 years.
Finally, we see North Sea oil being shipped – for the first time since 2008 – half way around the world to find Far East buyers. We also see Petroplus, a major independent Swiss refiner, crippled by inflated crude oil prices, and shutting down three refineries because demand for its products has disappeared, and it can no longer finance crude oil purchases now that banks have pulled its credit lines.
In my world, refineries closed due to reduced demand for their products imply a reduction in demand for crude oil: but not, apparently, on the Planet Hype of investment banks with funds to sell.
History does not repeat itself, but it does rhyme, and my forecast is that the crude oil price will fall dramatically during the first half of 2012, possibly as low as $45 to $55 per barrel.

Then What?
As the price collapses we will see producer nations generally and OPEC in particular once again going into panic mode, and **genuinely** cutting production. We will also see the next great regulatory scandal where a legion of risk-averse retail investors who have lost most or all of their investment will not be pleased to hear that they were warned on Page 5, paragraph (b); clause (iv) of their customer agreement that markets could go down as well as up.
At this point, I hope and expect that consumer and producer nations might finally get their heads together and agree that whereas the former seeks a stable low price, and the latter a stable high price, they actually have an interest – even if intermediaries do not – in agreeing a formula for a stable fair price.
We can't solve 21st century problems with 20th century solutions and I shall address the subject of resilient global energy market architecture in my next post.

Oil demand falling, IEA warns

1-18-12

Those reading my blog and book will find this amusing due to all the press of shortages, not so long ago justifying price increases. Aivars Lode

By Punch.com

The IEA warned in its monthly report on Wednesday that mild weather, high oil prices and a rising likelihood of a global recession will depress demand in 2012, Reuters reported.
Although worries about disruptions to Iranian oil exports have supported prices, consumption fell in the last quarter of 2011 year-on-year due to mild winter weather in the northern hemisphere and the overriding fears about an impending recession in the euro zone, the IEA said.

"Two inherently destabilising factors are interacting to give an impression of price stability that is more apparent than real," it said. "The first is a rising likelihood of sharp economic slowdown, if not outright recession, in 2012."
"The second factor, which is counteracting bearish pressures, is the physical market tightening evident since mid-2009 and notably since mid-2010".
The Paris-based agency, which advises industrial countries on energy policy, cut its global oil demand estimates as the threat of the euro zone debt crisis and restricted private sector credit remained.
The IEA reduced its 2012 demand growth forecast by 220,000 barrels per day from its previous monthly report to 1.1 million barrels.
Further downgrades to global GDP estimates will trigger cuts in estimates of global oil consumption, it said, adding that a one-third cut to GDP growth would see this year's oil consumption unchanged at 2011 levels.
"This alternative scenario is based upon the very real possibility that Europe's current financial and economic woes - with many nations already bogged down in the early stages of recession - remain unsolved, spilling over into significantly lower growth elsewhere," it said.
Mild winter weather, the European economic malaise and elevated oil prices also contributed to a drop in demand in the last quarter of 2011, down 300,000 barrels per day to 89.5 million barrels, and "pushing demand back towards a clearly declining year-on-year trend for the first time since the global credit crunch".
Tensions with Iran over its nuclear programme, together with worries about Nigerian and Iraqi supplies, have kept prices above $100 a barrel.
Iran has warned neighbouring Gulf Arab oil exporters against raising output to replace the barrels it loses as it faces international sanctions. It has also threatened to disrupt flows in the Strait of Hormuz, a chokepoint through which around a fifth of global oil output passes.
By 1035 GMT, Brent crude futures were up 26 cents at $111.79 a barrel.
"At least a portion of Iran's 2.5 million barrels per day crude exports will likely be denied to OECD refiners during second half 2012, although more apocalyptic scenarios for sustained disruption to Strait of Hormuz transits look less likely," the report said.
European refiners could get some short-term support from the closure of three Petroplus refineries, but the IEA said that even if the company were to shut down all five of its plants, "a looming embargo on Iranian crude and potentially reduced gasoline demand from Nigeria could still provide further challenges ahead".

The death of peak oil

2-29-12

All I can say is remember the price fluctuations of the past; they have nothing to do with supply, just manipulation. Aivars Lode

By Alan Kohler, The Drum

Another structural transformation to add to all the others that you have to get your head around: it's the transformation of global energy markets as a result of shale oil and gas. We've already got the digital revolution and the switch from consumption to savings after the GFC, not to mention the rise of China and India. Now we have the death of peak oil. For years we have assumed that fossil fuel reserves were running out, that peak oil production had occurred some time ago and that it was only a matter of time before the oil price rose to such heights that energy-dependent economies would be crushed, starting with the United States. In a way these assumptions have helped underpin the movement against global warming (that is, we'll have to give up oil anyway since it's running out, so we might as well make the best of a bad lot and embrace electric cars and wind farms and save the planet from climate change while we're at it). In fact the existence of vast reserves of oil and gas in shale formations, mainly in the United States, combined with the return of the oil price to $US100 a barrel without, so far, causing a global recession, is producing a profound transformation of energy markets. Forget declining oil, there is a new global oil rush. The US has an estimated 2 trillion barrels of shale oil reserves – about 70 per cent of the world's total and eight times the oil reserves of Saudi Arabia. The gas reserves, in the US, Australia and elsewhere, are vast. The cost of extracting shale oil ranges from $US95 per barrel down to $US12, although the process of fracking, where water is pumped in to break up the shale and release the oil, is very controversial – as highlighted on the ABC's Foreign Correspondent program last night. But where there's oil there's a way. BHP Billiton has paid $15 billion for shale oil and gas acreage, through its acquisition of Petrohawk, and now owns four large areas in Arkansas, Louisiana and Texas. The company is spending billions developing the project; its Haynesville project in Arkansas is already the largest shale play in the US, producing 6.5 billion cubic feet of gas per day. There was an earlier shale energy rush in the 1980s, following the second oil shock, but it quickly collapsed with the oil price. However, now the price is back to where it was in real terms, making it economic, and extraction technology has advanced enormously as well. It wasn't until the late 1980s and early 1990s that the first commercial horizontal wells were successfully drilled and modern 'multi-stage' hydraulic fracturing (fracking) techniques did not emerge until ten years ago. Production of shale gas in the US began to increase rapidly in 2010 thanks to advances in fracking technology. It has now been used in more than 1 million wells, and operators are currently fracturing about 35,000 wells a year. It's a remarkable process: the reserves are usually about five kilometres below the surface (much deeper than coal seam gas); wells are drilled down to them and then horizontally through them for another five or six kilometres; the horizontal part of the well is perforated by explosives and then fluid and sand are pumped down at high pressure to fracture the shale. The hydrocarbons then flow to the surface. The opposition to this in the US is similar to the growing opposition to coal seam gas developments in Australia; whether any of the opponents get anywhere is a different matter, especially in the US. The drive for self-sufficiency in oil and gas is very powerful indeed, and in pursuit of that there is a massive boom in shale energy development, leading to big fortunes being made in infrastructure and servicing, not to mention the energy itself. Australia has relatively small shale oil reserves – here it's more about coal seam methane. China has more shale energy reserves in total than the US but they're deeper and the geology is more difficult. There are big reserves in Poland and France, as well as Russia and the Congo in Africa. But so far it's all about the United States, which has the reserves and the largest market close by. The importance of this for the world is hard to exaggerate. The distribution of energy on the planet is shifting: the stranglehold that Middle Eastern dictatorships have over the world's energy supply is loosening and just as the rise of manufacturing in China shifted the world's economic axis, so will the rise of shale energy in North America. There will be a rapid substitution of coal by cleaner gas, especially as (or perhaps if) emissions trading schemes and carbon taxes spread. It means renewable energy and nuclear will become less and less economic as the supply of gas increases, whether it's from coal seams or shale. Gas is less carbon intensive than coal, but it still produces greenhouse gases, so it may be that the policy response to reduce global warming will actually have to increase if the world moves too far towards gas and away from renewables and nuclear. If the United States could become self-sufficient in energy, its current account deficit would disappear and the US dollar would start rising again. In fact, shale energy could be responsible for the resurgence of the United States as an economic superpower, with cheap local energy underpinning the second coming of its manufacturing industry as well as helping to balance its twin deficits – the current account and federal budget. One thing is for sure: the world isn't running out of oil and gas any more

Oil Hedge Fund BlueGold to Liquidate

4-5-12

I love the words used in this story, "took bold BETS". Is investing in hedge funds and commodities about making bets or making a return? Aivars Lode

By Reuters

LONDON (Reuters)— BlueGold Capital, an oil-focused fund that made headlines in 2008 by calling the peak of the market, is liquidating after four years of trading—the last of which put it at the bottom of commodity hedge fund rankings.

BlueGold is conducting an "orderly closure" of its business and expects to return about 98 percent of investor capital before the end of the year, the London-based fund said in a letter to investors on Thursday, a copy of which was obtained by Reuters.

It did not give a reason for its closure. A person who answered the phone at BlueGold's London office declined comment.

BlueGold was one of the worst performers among commodity hedge funds last year, industry data gathered by Reuters shows. It lost 35 percent through 2011 and its asset base shrunk to about $1.2 billion from $2 billion a year as before.

The fund was co-founded by former Vitol oil trader Pierre Andurand, who made his mark with a more than 200 percent gain in 2008 as other rival funds suffered. However, it appeared to veer from its energy roots last year, irritating some investors by placing half its bets on equities and other assets, Reuters reported in December.

An investor who redeemed money from BlueGold in January said he still regarded the fund as "a pretty talented group" that may have given investors concern about the risk it was taking, its apparent change in tack and the rapid growth in assets until last year.

"Performance is always a symptom that something is going wrong, even when things may otherwise seem fine. For instance, if you're constantly hitting the sweet spot, you might be extremely skilled, but you could also either be taking too much risk or getting lucky," the investor said. "In BlueGold's case, they also took in a lot of money, which when fully invested, meant more risk being deployed. And as far as process and trading methodology is concerned, investors also don't like it when you say you're changing your stripes midway."

Mr. Andurand, a 35-year-old Frenchman, has made a name for himself in pursuits as divergent as sports, oil trading and movie-making. Mr. Andurand is an avid kickboxer and former member of the French junior national swimming team. He's also a director at Shangri La, a Chinese movie production company that has three films to its credit, with the latest, "Sin-Jin," due to be released in December this year.

In the oil market, he took bold bets that once paid handsomely for him and his investors. His meteoric rise in trading came after he moved to Singapore in 2000 after earning finance and engineering degrees from top French universities. He started as an oil trader at Goldman Sachs, then climbed the ranks at Bank of America and Swiss oil trading giant Vitol before launching BlueGold with Vitol colleague Dennis Crema in early 2008.

Several oil traders said Mr. Andurand had earned a $20 million bonus in one year at Vitol, after helping the company book a trading profit of $200 million. The bonus figure could not be confirmed, but in 2008 Mr. Andurand and Mr. Crema both made the ranks of the world's top 20 hedge fund earners, with payouts of $90 million apiece, according to research firm Hedgeable.

Mr. Andurand's near-perfect run in 2008 became the stuff of oil market lore. He accurately anticipated crude's rise to a record $147 a barrel in July of that year, then shifted positions to cash, ending BlueGold's exposure as prices fell to as little as $33 in December, people who tracked the fund said. The fund was up 209 percent that year.

BlueGold also made money in 2009, returning a commendable 55 percent.

Its winning streak ended last year as oil prices were locked in a range through most of the year, thanks to intermittent spikes in the dollar and a mixed global economic outlook, before breaking out in a late rally.

Even before BlueGold's fortunes turned, Mr. Andurand faced major losses. In 2003, he was a principal oil trader in the Bank of America team that suffered a loss of up to $89 million in the jet fuel market when the SARS virus led to a collapse in air travel worldwide.

In February 2010, BlueGold was briefly thrust into the spotlight when a sudden crash in oil markets brought the fund down as much as 14 percent. It, however, recovered to finish up nearly 13 percent that year.

Commodity Prices Sag; More Downside Likely

4-8-12

Looks like no shortage. Surprise, surprise! Aivars Lode

With a number of technical oscillators on weekly charts bearishly positioned, the Reuters/Jefferies CRB Total Return Index continued to slip last week, extending a decline that originated in late February. Natural gas prices have led the path lower and have proved to be the weakest. Despite oversold conditions and a reduction in drilling rigs from 886 a year ago to 647 now, some observers predict that sub $2 prices will arrive soon. In contrast, gasoline prices have increased steadily and are now at uncomfortable levels. Nevertheless, the notion of rising commodity prices has been waning in recent weeks due to diminished expectations for another round of quantitative easing (QE). In turn, this has resulted in lower precious metal prices as well as lower prices of copper, nickel and aluminum. A number of grain charts, including soybean, wheat and corn, also suggest that a correction to lower levels appears likely over the months just ahead. Friday’s weaker-than-expected employment data, however, could revive the idea that QE is not entirely off the table. Increased signs of a more pronounced decline in global growth (particularly in the Euro zone and China) might also raise the prospect of more QE in the months just ahead. For now, the Reuters/Jefferies CRB Total Return Index appears to be aimed for a test of key “cross” trend line support located at the 293.50 level. If that level fails to hold as support, however, the worry would be that a solid extension to the downside could result. While troublesome for commodity producers and farmers, such a break would be very positive news for consumers as well as for companies who are large commodity users. That being said, it is worth keeping a sharp eye on the 293.50 level. Jim Donnelly, Olson Global Markets

Delta ups the ante in war against Wall Street

4-12-12

I have discussed manipulation of the commodities space many times in this blog; enjoy the latest addition. Aivars Lode

By Cyrus Sanati, CNN

FORTUNE -- Delta Air Lines is upping the ante in its war with Wall Street over jet fuel prices. The airline is hiring away oil traders from the Street and is now angling to buy a refinery on the east coast in an effort to cut costs and bypass speculators. If successful, Delta could encourage other airlines to follow suit, delivering a blow to the trading floors at some of the big banks.

The airline industry has lobbied Congress for years to rein in the explosion in financial speculation in the commodity markets. They believe that too much speculation in the physical and futures markets for oil products by Wall Street has led to artificially high jet fuel prices, crushing their profit margins. But while Congress has entertained hearings on the subject on several occasions, the airlines' calls have fallen mostly on deaf ears as they were pitted up against the financial services lobby, which has far greater pull in Washington.

Now Delta is looking to beat Wall Street at its own game by getting into trading. Its merger with Northwest Airlines in 2008 has given Delta the heft and enough cash on hand to start buying and selling jet fuel for its own account. Before the merger, Delta procured jet fuel in much the same way it bought snacks and napkins for its inflight service -- a refiner, broker or bank would quote them a price for fuel and they would take it or risk not flying that day.

In the last year Delta (DAL) has started to look at jet fuel as more of a financial product as opposed to just another line item of expense, a person with knowledge of the situation told Fortune. It has moved its jet fuel procurement division into its treasury services department and started to hire traders away from Wall Street, this person said. Delta recently hired oil trader Jon Ruggles away from Merrill Lynch to build out its trading operations in Atlanta. Ruggles has extensive experience trading oil products with stints at ConocoPhillips (COP), Trafigura and later at Merrill. Delta did not respond to requests for comment.

Delta wants to move from being a price taker to a market maker. To do that, the airline is moving to buy or control some of the physical assets associated with jet fuel production and distribution, like a refinery. Owning physical assets is a tactic big banks like Goldman Sachs (GS) and Morgan Stanley (MS) have used for years to gain an informational advantage over their competition. Morgan Stanley owns crude and refined product storage tanks and pipelines to track the flow of oil products throughout the U.S., while Goldman bought power plants to give its electricity traders an edge.

Morgan Stanley continues to be a large player in energy trading, especially in jet fuel, where it is by far the largest financial player, according to independent brokers in the space. Morgan Stanley does not break out revenues from its jet fuel trading business, but it is believed to be substantial given the amount of volume it trades. Citigroup (C), Macquarie, JP Morgan (JPM) and Barclays (BCS) all have a sizable presence in trading jet fuel, but to a much smaller degree than Morgan Stanley. Meanwhile, Goldman has largely exited the jet fuel market as it scales down its trading operations, brokers say.

It is unclear what Delta is going to do with a refinery just yet, but it may be trying to emulate Macquarie, the Australian investment bank, in its arrangement with the Come-by-Chance refinery in Canada. The bank has what is known as a physical off-take agreement with the refiner, according to a person with knowledge of the contract. That means it agrees to buy most of the products the refinery pumps out. Macquarie would then take that physical supply and try to broker it out to end users, like the airlines. This agreement makes sense for Delta, as it could gain an informational edge in trading and a physical edge in flying without burdening itself with the cost and headache of owning a refinery.

But to gain real pricing power over other airlines and to cut Wall Street out at the same time, Delta may choose to buy a refinery outright. The company is reportedly looking to buy the Trainer refinery in New Jersey, which is located near its hub at JFK Airport in New York City. The Trainer refinery is currently owned by ConocoPhillips, where Delta's new fuel chief cut his teeth trading oil a few years back.

The Trainer refinery could possibly be retooled to pump out more jet fuel, but that would require significant capital expenditures. The cost savings, though, may be worth the initial cash outlay. The price differential between a barrel of crude and a barrel of jet fuel in the last year on the east coast has ranged from as low as $16 a barrel this winter to as high as $45 barrel last summer. Built into this differential are refining and trading costs associated with the supply and demand of jet fuel relative to that of crude. Delta could significantly tighten that price differential buy using its own jet fuel and by swapping it directly with other refiners that could supply fuel to Delta's other hubs.

Delta's success could encourage other airlines to trade and own physical assets associated with jet fuel production, essentially squeezing Wall Street traders and brokers out of the game. But Delta's success isn't guaranteed. Trading is a dangerous game where losses can pile up quickly. While the airline stands on much firmer financial ground than in the past, it still doesn't have a strong enough balance sheet to withstand considerable trading losses, especially with a refinery on its books.

The Myth Of The Free-Market Gold Standard

4-20-12

An interesting perspective. Aivars Lode

By Timothy B. Lee, Forbes

In my last post I suggested that a fall in the value of the dollar due to money creation by a central bank is little different, morally speaking, from an oil company pushing down the price of oil by increasing production. Commenters raised a number of objections; here I want to focus on the oft-mentioned argument that money is different than oil because the government has a monopoly on money, while no one has a monopoly on oil.

On the surface, these seem like totally distinct questions. It’s been a very long time since we’ve had a genuine free market in currency, and so it’s hard to predict what such a market would look like. In principle, there’s no reason to assume that a private issuer of currency would produce a stable price level.

I think the reason so many people see a link between free markets and stable prices is that they see a gold standard as the alternative to central banking. And it’s true that the gold-backed currencies of the 19th Century held their value better than modern-day fiat currencies do. But the 19th Century gold standard was instituted by an 1873 act of Congress, it was hardly the result of market forces. Moreover, it’s easy to overstate the extent to which gold- and silver-backed currency standards limited the government’s control over inflation rates. While the 1896 presidential campaign was nominally about whether to allow silver to be used as currency, the actual policy question was whether to expand or contract the money supply. The “free coinage of silver” advocated by Williams Jennings Bryan was the quantitative easing of its day. Bryan’s easy money views were no more or less free-market than the hard-money policies of his opponent William McKinley.

Even assuming that the free market would have produced gold-backed currencies in the 19th century, that by no means implies that it would do so today. During the 20th Century, we went from a world in which most people dealt in cash to one in which most people pay by check and (increasingly) credit card. In a world dominated by electronic methods of payment, interoperability is extremely important. And this means that as a practical matter, the incumbent banks that control the nation's major payment networks would have a tremendous amount of influence over the choice of currency standard. And it's hard to see why they'd go with a commodity-backed currency. After all, the ability to create money is extremely profitable.

Supporters of a gold standard believe that consumers would reject private fiat currencies in favor of commodity-backed currencies because the latter is likely to have a lower inflation rate over the long run. But observing consumers' actual behavior tells another story.

Consider the case of credit cards. Credit card companies charge fees of around two percent for every transaction. Merchants and their customers can avoid paying those fees by dealing in cash. Yet most merchants find the convenience of accepting plastic to be worth the cost, and few customers go out of their way to patronize cash-only establishments because their prices are 2 percent lower.

The same point would likely apply to competing currencies. Obviously, consumers would eschew currencies with extremely high inflation rates. But given a choice between a convenient currency with a four percent inflation rate or an inconvenient currency with a zero percent inflation rate, most consumers are going to pick the more convenient currency. And that means that the market-leading currencies would have some room to expand the money supply (making large profits for themselves in the process) without much risk of lost market share.

So it's far from obvious that a free market in currency would produce an inflation rate of zero. To the contrary, a free market in currency would likely result in a consortium of large banks controlling the money supply. This consortium would have a strong incentive to maximize real economic output, since doing so would maximize the profitability of its money-supply franchise in the long run. And so if, as many economists believe, the output-maximizing inflation rate is around 2 percent, that's likely the inflation rate private issuers of currency would target.

Olson Global : Global Worries Could Send 10-Year Treasury Yields To New Lows

5-7-12

Interesting to note in the following report is the reference to the highest oil inventories in 21 years. Most familiar with this blog will recall the stories about global shortages of oil. Clearly not true. Aivars Lode

By Jim Donnelly, Olson Global Markets

A weaker-than-expected 2.2% rise in Q1 GDP, a disappointingly dismal monthly jobs report and a likely political shift away from austerity measures in Europe sent German 10-year bunds to a record low yield of 1.58% last week. In concert with German yields, yields on U.S. treasury 10-year note (TNX) fell to a closing level of 1.88%. While Friday's close was still above its record low of 1.696% set last September, they appear poised to set new record lows in the weeks just ahead. While a shift away from austerity in Europe hints of a move toward massive fiscal stimulus and the possibility of a rise in inflation rates, the more immediate threat of a default on sovereign debt in Spain or Greece is troublesome in the near-term for stability of European banks. Adding to the likelihood of a move toward lower 10-year note yields was a sharp drop in crude oil prices on Friday. An unexpected 2.84 million gain in crude oil inventories pushed the overall U.S. stockpile to 375.9 million barrels, a 21-year high. Although monthly technical oscillators remain in an extreme condition on U.S. 10-year Treasury notes (TNX), a push down toward key "channel bottom" support (in terms of yield) that now sits at the 1.40% level is clearly possible. Currently, U.S. 10-year notes remain above German bunds as well as Japanese JGBs, which are currently offering yields below the 1% level making U.S. bonds relatively attractive. Nevertheless, the Treasury department is scheduled to sell $24 billion fresh 10-year treasury notes on Wednesday, which could temporarily depress bond prices and lift yields a bit in front of the auction. It will be the auction results and the digestion of those notes that could trigger a renewed move toward lower yields.

Think Commodity Fundamentals Look Grim? Check Out the Charts

5-25-12

May the games continue. Aivars Lode

By David Sheppard, Reuters

NEW YORK (Reuters)—To a growing list of fundamental reasons to be worried about commodity markets, add one more: prices are threatening to crash below key chart levels that may unleash a new deluge of selling.

A host of external factors has fueled the 8 percent selloff in raw material markets this month — the deepening crisis in the euro zone, a U.S. economy struggling for traction, signs that China's once-explosive growth may be cooling.

But for chart-watchers all that is largely irrelevant. Far more worrying are the moving averages, Fibonacci retracements and congestion zones that foretell the next big move. And even after May's selloff, one of the worst of the past two years, they say most indicators are pointing lower still.

"Our sentiment indicator has fallen like a stone to almost zero," said Julien Turc, head of Société Générale's Cross Asset Quantitative Strategy group in Paris. He said the speed of the decline was a very bearish technical indicator, and noted that credit spreads are near levels last seen at the peak of the financial crisis in October 2008. "You don't need to have a PhD to know that's a bad signal for the economy and risk assets."

Three key price points stand out for technical analysts: $1.25 for the euro; $88 for U.S. crude oil futures; and around $1,520 an ounce for gold.

As three of the largest and most active markets for commodity traders, these can set the trends that smaller markets like coffee and grains follow — and all three markets are within a hair's breadth of those pivots.

"The reason these levels are important is they have acted as key supports in earlier selloffs," said Dominick Chirichella at the Energy Management Institute in New York, adding he thought the "commodities up-cycle" is due for a pause. "As a result, traders will have a lot of automatic buy- or sell-stops just above or below them. Commodity markets don't tend to move in 'V' patterns, they move into a new range and then consolidate."

Growing Influence

While technical analysis has been part of commodity trading even since Japanese grain merchants started studying patterns in price movements in the 18th Century, quantitative traders and funds have come to exert even greater influence over markets in recent years.

The growth of multibillion dollar algorithmic trend-following funds like Winton Capital, and the rise of lightning-speed high frequency traders, makes technical support and resistance levels more important than ever.

It was apparent at least twice this week in soft commodity markets.

New York sugar prices dived abruptly after breaking below the psychological 20-cent level on Tuesday [May 22], while coffee followed a day later after crashing below the $1.74 level that had held firm for the previous six weeks.

Other warning signs have flashed elsewhere.

The Thomson Reuters-Jefferies commodities index .CRB has gapped lower three times in two weeks. U.S. crude oil prices dropped below their 200-day moving average in early May.

Copper, which some analysts view as an early indicator of global economic expansion or contraction due its use in construction, has retraced almost 60 percent of its near $2,000 a metric ton (1.1023 tons) rally to $8,765 between October and February.

Gold, one of the assets most susceptible to technical trading since is it viewed by many as an alternative currency, has been hit hard of late, threatening to collapse below the $1,522 low of last December. It is down 19 percent from a record high of more than $1,920 an ounce last September, flirting with a technical bear market.

Kris Kaufman at Parallax Financial Research in Washington state said he expects gold to fall by more than $200 an ounce in the coming months toward $1,300, despite it often being viewed as a safe haven in times of financial stress.

"We had an enormous extension top in gold last year and since then we've been telling clients that gold's untouchable on the long side for the next three to four years," Mr. Kaufman said. "We're similarly bearish on the euro — and as a result other risk assets. We now see it falling to $1.10 by the end of the year. It's hard to see dollar-priced commodities performing well in that environment."

As the dollar strengthens it generally weighs on assets priced in the greenback, as they become more expensive for holders of other currencies.

Darkest Before the Dawn?

Technical trading is, however, more of an art than a science, and some analysts expressed a contrarian view.

Brian LaRose, technical analyst at United-Icap in New Jersey, said that while he does not see the market embarking on a prolonged rally, the recent selling may be overdone.

"While I'm very bearish in the medium to long term, there are signs across the broad markets that we could be in for a multi-week corrective bounce in the short-term," Mr. LaRose said, adding that he had been telling clients to "sell in May" since April, when U.S. crude was about $20 above where it is now. "The euro will be key — its domination of other markets was dormant for a short time earlier this year, but now it's back with a vengeance. The must-hold levels are $1.255 to $1.235 — if that holds I think we'll see something of a rally."

The correlation between the euro and U.S. crude oil futures has risen to above 95 percent since the middle of May, from less than 50 percent at the beginning of the month. That means moves in the euro are currently matched almost 1-for-1 with crude.

U.S. crude oil's "relative strength index," which rises and falls based on the speed of rallies and selloffs, has been below 30 since the middle of May, a sign for technical traders that it could be oversold.

In the last 17 trading sessions, U.S. crude oil has finished lower 14 times, though it rose 1.2 percent on Thursday. The euro weakened slightly, but held above $1.25 against the dollar. Gold was almost unchanged at $1,560 an ounce.

Mr. LaRose said that while he still has a 'conservative' medium-term target for U.S. crude of $75 a barrel, "I'd rather be taking off shorts than adding to them here."

Shale gas. The promised gas revolution can do the environment more good than harm

6-2-12

The amount of gas available is interesting. Aivars Lode

By The Economist

THE story of America's shale-gas revolution offers hope in hard times. The ground was laid in the late 1990s, when a now-fabled Texan oilman, George Mitchell, developed an affordable way to extract natural gas locked up in shale rock and other geological formations. It involves blasting them with water, sand and chemicals—a technique known as hydraulic fracturing, or "fracking". America's shale-gas industry has since drilled 20,000 wells, created hundreds of thousands of jobs, directly and indirectly, and provided lots of cheap gas. This is a huge advantage to American industry and a relief to those who fret about American energy security.

The revolution should continue, according to a report published this week by the International Energy Agency (IEA). At current production rates, America has over a century's supply of gas, half of it stored in shale and other "unconventional" formations. It should also spread, to China, Australia, Argentina and Europe. Global gas production could increase by 50% between 2010 and 2035, with unconventional sources supplying two-thirds of the growth (see article).

A number of things could prevent this, however. Many of the factors behind America's gas boom, including liberal regulation of pipelines (which encouraged wildcat exploration by small producers), a well-aimed subsidy and abundant drill-rigs, do not exist elsewhere. Its sheer rapidity is therefore unlikely to be matched. A greater threat stems from environmental protests, especially in some European countries, which could kill the shale-gas industry at birth. France and Bulgaria have banned fracking. Greens in America and Australia (see article) are also rallying against the industry.

The anti-frackers have reasonable grounds for worry. Producing shale gas uses lots of energy and water, and can cause pollution in several ways. One concern is possible contamination of aquifers by methane, fracking fluids or the radioactive gunk they dislodge. This is not known to have happened; but it probably has, where well-shafts passing through aquifers have been poorly sealed.

Another worry is that fracking fluids regurgitated up well-shafts might percolate into groundwater. A graver fear is that large amounts of methane, a powerful greenhouse-gas, could be emitted during the entire process of exploration and production. Some also fret that fracking might induce earthquakes—especially after it was linked to 50 tiny tremors in northern England last year.

But the risks from shale gas can be managed. Properly concreted well-shafts do not leak; regurgitants can be collected and made safe; preventing gas venting and flaring would limit methane emissions to acceptable levels; and the risk of tremors, which commonly occur as a result of conventional oil-and-gas activities, can be contained by careful monitoring. The IEA estimates that such measures would add 7% to the cost of the average shale-gas well. That is a small price to pay for environmental protection and the health of a promising industry.

For as well as posing environmental risks, a gas boom would bring an important environmental benefit. Burning gas emits half as much carbon dioxide as coal; so where gas substitutes for coal, emissions will fall. America's emissions have fallen by 450m tonnes in the past five years, more than any other country's. Ironically, given its far greater effort to tackle climate change, the European Union has seen its emissions rise, partly because of an increase in coal-fired power generation in response to Europe's high gas price.

Cleaner, but not clean enough

By itself, switching to gas will not reduce emissions to anything like the levels required to avoid a high risk of serious climate change. This will take much crunchier policies to boost renewable-energy sources and other clean technologies—starting with a strong price on carbon emissions, through a market-based mechanism or, preferably, a carbon tax. Governments are understandably unwilling to take these steps in straitened times. Yet they should plan to do so; and in the coming years cheap gas could help free cash for more investment in low-carbon technologies. Otherwise the bonanza would be squandered.

Gold May Have Been Manipulated Like LIBOR - St. Louis Fed Starts Tracking London Gold Prices

7-9-12

Surprise, surprise. NOT if you have been reading my blog! Aivars Lode

By Jesse's Café Américain Blog

What is set in London by a small group of relatively unknown individuals, affects wealth as a benchmark of value around the world, is tracked by the US Federal Reserve and the financial system, and may have been subject to manipulation by some of the big Banks, with the silent acquiescence of the government and their central banks?   Given recent revelations one would likely answer LIBOR, but an equally correct answer might be gold.   The St Louis Fed has added six daily gold prices in their FRED database. The prices are all from the LBMA.   They are the AM and PM gold price fix in Dollars, Euros, and Pounds.   Given the rather opaque and somewhat quixotic nature (100:1 leverage and volumes in excess of world production) of the trading at the LBMA, it would not surprise one at all if the gold price has its analogue in the LIBOR price-fixing scandal.

A peak may be in sight for commodity prices

7-28-12

When I was back in Australia everyone there told me about a two speed economy, fast driven by the commodity boom, and slow for everyone else. Well it looks like the fast will slow down and then Australia will be slow all over. Aivars Lode

By The Economist

ASSIGNING analysts to cover the humdrum world of commodities and mining was once investment banking's punishment for low-flyers or copybookblotters. Then China's pulsating economy and appetite for raw materials sent the prices of industrial metals and bulk commodities soaring. It turned watching the dismal world of copper, zinc and nickel, and the mining firms that dug them up, from a role tantamount to constructive dismissal to glamour.

Can it last? Signs that China's economy is coming off the boil—recent figures put annual growth in the second quarter at a mere 7.6% compared with the double-digit rates of the past few years—have led some to suggest the commodity boom is over and prices are likely to crumble. That prognosis looks premature.

The past decade has been a remarkable one for metals and bulk commodities—iron ore and coal. Consumers, desperate to get their hands on raw materials, paid well over the cost of production as demand outstripped supply, which was constrained by years of underinvestment by mining firms. Many analysts talked of a "supercycle", a long-term surge in prices lasting for decades on the back of Chinese demand.

Chinese urbanisation has been the fundamental force behind that demand. Until the start of the millenium China, the world's biggest producer of many commodities, was largely self-sufficient or even a modest exporter. Economic reforms have turned it into a manufacturing and exporting behemoth, and have prompted a vast movement of people away from the countryside to the cavernous factories and sprawling megacities of the new China. The housing, roads, railways and infrastructure supporting this shift required massive imports of minerals.

China's steel production grew by 16% a year between 2000 and 2011. Around half the world's steelmaking raw materials and two-fifths of its copper and aluminium now disappear down the dragon's maw. The price of copper, which had fallen by 0.8% a year in the 1980s and 1990s to reach little more than $1,300 a tonne a decade ago, exceeded $10,000 a tonne in early 2011 and still stands at around $7,500.

A slowdown in China has led people to wonder whether the supercycle is over. The evidence suggests that it has reached a peak. Academics probing supercycles over the past 150 years reckon that the expansionary phase lasts between 15 and 20 years. Most analysts put the start of the most recent cycle around 2000 (see chart 1). HSBC, which thinks this cycle is just seven years old, concedes it faces the onset of "creaking middle age" and that a long senescence might follow. Ruchir Sharma of Morgan Stanley sees in a 200-year history of commodity prices a repeated trend of two decades of price declines followed by one decade of gains.

Commodity bulls and the world's big mining companies have an answer to all this. They reckon that China still has far to go in building the cities, motorways and airports it needs. Marius Kloppers, the boss of BHP Billiton, the world's biggest miner, points out that 200m Chinese swapped village for city between 2000 and 2010; he expects another 250m to follow over the next 15 years.

Copper-bottomed boom

Even the bulls accept that demand for copper and steel tends to level off in the later stages of a country's economic development. They just reckon that China is not there yet. They brandish charts of "metal intensity"—consumption of commodities measured against GDP per head. By this measure China still lags far behind richer countries such as South Korea and America for copper (see chart 2) and most other commodities. The theory is that China should be expected to catch up rapidly, with South Korea at least.

Too simplistic, say analysts convinced that the supercycle is about to freewheel downhill. Nomura, a bank, observes that this measure ignores China's high level of investment relative to GDP. Figures on per capita consumption are only part of the story; China's vast population means the country already consumes a huge amount of metal, making further bumper growth tricky. (In 2010 China used 577m tonnes of steel, compared with 91m tonnes in America.) Nomura calculates that in 2011 China used 104 tonnes to generate $1m of GDP, compared with 6.7 tonnes in America. The picture is similar for copper and aluminium: China's economy cannot keep metal consumption growing at the current rates of about 5% a year.

More factors suggest that metal intensity might waver, according to UBS. Returns on fixed capital formation—buildings, roads, other infrastructure, plant and machinery—are waning. The bank says that a frenzy of investment after the credit crisis of 2008, when total bank loans doubled in three years, led to seven years of infrastructure spending in a mere three years. Many of the projects were either premature (subway stations standing lonely in bleak landscapes waiting for a town to arrive), not terribly productive (motorways in the hinterland rather than between the biggest cities) or not needed at all.

That investment splurge means that infrastructure spending may have peaked already. The upshot, according to Julien Garran of UBS, is that supply has now caught up with demand for coal and nickel, and will do so for copper next year and iron ore in 2014. Mining companies have spent heavily trying to adjust to China's hunger for minerals. Citigroup says they are poised for more capital expenditure in the next five years than in the past 20 years combined. But if it is true that China's appetite is less ravenous than expected, then investment will fall too. Big projects due to start in the next three years are locked in, but beyond that all are up for grabs.

Even if the supercycle is drawing to an end, China will still be a huge market with enormous influence over prices. But the sheen may be fading, as on a lump of steel left out in the rain.

Corn price as high as an elephant's eye — but beware

8-10-12

I wonder how long before the price collapses? Aivars Lode

By Jason Kephart, Investment News

The price of corn hit an all-time high Friday as the Agriculture Department cut its forecast for this year's crop by 16.9% to 10.7 billion bushels. Analysts were expecting just over 11 billion bushels. Corn futures were trading at $8.4375 a bushel on Friday, up from $5 in mid-May.
The lowered expectations are the result of the severe drought in the Midwest, which could be the worst since the Dust Bowl days of the 1930s. Now there's a lot of uncertainty around just how much of the corn crop in the ground will survive to be harvested. "The market's on edge right now," said Dave Kavanagh, president of Grant Park Funds.
The Teucrium Corn ETF (CORN) has been the biggest beneficiary of the rise in prices. The exchange-traded fund, which invests in corn futures contracts, is up 21% so far this year and up 41% over the past three months. By comparison, gold is up only 2% over the last three months.
While there definitely is an opportunity for more short-term gains from taking advantage over this year's meager crop yield, the longer-term outlook for the grain isn't as bullish.
"The greatest cure for high prices," said Morningstar analyst Ben Johnson, "is high prices."
The demand for corn, which is used in everything from animal feed, barbeque sauce, fuel, soda and bourbon, is likely to soften, thanks to the rising prices, Mr. Johnson said. Farmers, spurred on by the potential profit from high prices, are likely to be even more aggressive when planting next year's crops. That, in turn, should boost supply — assuming next summer isn't as dry and hot as this one, Mr. Johnson said.
While corn seems unlikely to keep up its blistering investment performance, there still is a case to be made for long-term exposure to agricultural commodities in general.
"This summer has really highlighted the global phenomenon that's going on," Mr. Johnson said. "The world population continues to grow and is eating more and more."
Emerging markets in particular have seen a steady increase in meat consumption, as the growing middle class demands a more Western diet, he said. The best way to invest in that long-term trend, however, isn't through the commodities themselves, Mr. Johnson said, but rather the companies that

supply the commodities.
“The longer-term beneficiaries of these trends are the suppliers of the industry,” he said. That includes fertilizer companies such as Potash Corp. of Saskatchewan (POT), equipment suppliers, like Deere & Co. (DE). Of course, there's also an ETF for agribusiness exposure, the Market Vectors Agribusiness ETF (MOO). Yes, MOO.
Be warned, though, that equities tied to commodities can be swayed by stock market volatility as much as the price of commodities.

How China drives commodities down

8-24-12

It looks like the slowdown in commodity consumption by China in Australia and Canada is drawing closer, as I predicted nearly a year ago. Aivars Lode

By Melanie Stern, BBC

Australia's resources minister, Martin Ferguson, has caused a stir with his assertion that the country's mining boom, one of the biggest drivers of its economic growth, is "over".
As he acknowledged, the state of the global economy has depressed demand for Australia's minerals and led to sagging commodity prices.
But those commodity prices have not just taken a tumble in Australia.
They have fallen globally, seemingly because Chinese economic growth has finally started to slow.
That is in part because European demand for its products has slowed. So China has started to produce less of those products, and needs smaller quantities of raw materials such as iron, copper, zinc and gold to do so.
Could Mr Ferguson's call on Australian commodities also be true for the global commodities market at large?
Exit the dragon
You know how you so frequently see "Made in China" stamped on the back of your toys, phones, in clothing labels, and on your food packets?

To make that volume of products that quietly dominate our lives, China has had to suck in a huge amount of the world's commodities.
According to the International Monetary Fund (IMF), in 2010, China consumed 40% of the world's base metals - aluminium, copper, lead, tin, zinc or nickel, all widely used in manufacturing the gadgets and goods we use every day - and 23% of the world supply of major agricultural crops like wheat and corn.
And to build the cities, roads, ports and factories needed to produce that stuff, China has staged a construction boom - upping its need for commodities even more.
But Chinese policymakers have decided it is time for their economy to move away from that.
Thomas Helbling, a research chief at the IMF, said that China's latest five-year plan for growth "strives to move the economy from investment- to consumption-driven growth".
In other words, it wants to stop pumping cash into importing commodities and building infrastructure, and focus on selling products and services to its growing middle class instead.
Changing it up
As China buys less raw material, the effect of its dominance becomes apparent and global prices are now going down.

That is having an impact on economies as a whole, as Australia's Mr Ferguson suggested.
Australian mining giants recently disappointed the country's politicians. One, BHP Billiton, said it would put on hold its Olympic Dam extension project, reportedly worth as much as $30bn, which it was hoped would create 25,000 jobs in South Australia.

Some thought BHP Billiton's decision was evidence of China's change in growth expectations beginning to impact global demand, and other economies as a whole.
And having been protected from global recession by their mining boom, Australians do not want to hear that this is now under threat.
But BHP Billiton said it thought shrinking commodities demand would stabilise in 2013, including from China.
Ruchir Sharma, head of global emerging markets equity at Morgan Stanley, told the BBC that China's economy was simply maturing, but that resulting lower global commodity prices could be good for emerging markets.
"China is moving to a much lower growth trajectory," Said Mr Sharma.
"It is maturing, just as Japan did in the 1970s, [South] Korea in the 1980s and Taiwan's economy in the 1990s.
"It has become too large to grow that quickly, and it is becoming less commodity intensive."
Mr Sharma thought lower commodity prices would benefit a lot of developing countries such as Turkey and India, and even developed countries including the US.
And he added that the price of oil was more likely to fall than to keep rising, in his view.
"If China's slowdown is managed right, it will be OK," he said.
Supply and demand
One thing that has kept commodity prices high has been the lack of supply to meet a huge growth in demand.
The demand has been fuelled by China's stellar growth, as it has become a major producer of the mobile phones and cheap T-shirts we use daily.
Commodities businesses all over the world have grown quickly off the back of that demand, making investments in mines, oil exploration, and boosting soybean production in Brazil, among other things.
But those investments often take time to bear fruit.
So commodities companies such as BHP Billiton are now deciding that the reduced demand for their products from China make it harder to justify investing in those projects for the moment.
For example, Jim Rodgers, co-founder with George Soros of the Quantum Fund, told the BBC that a lack of farmers played a starring role in a recent spike in food prices - grain, corn and soybean being critical parts of the food supply chain.
"The main determinant to commodities is supply and demand," said Mr Rodgers. "We are running out of farmers because nobody has gone into agriculture for the past 30 years."
The US, France and Mexico have said they may convene an emergency meeting at the end of August to address the high price of grain.
But Mr Rodgers does not think commodity prices will decline.
"I don't see any significant new supply to bring this bull market to an end," he said.

As Goes Steel, So Goes China

9-16-12

This does not bode well for Australia or Canada. Aivars Lode.

By Gordon G. Chang, Forbes

“We reckon traders and mills have accumulated steel inventory of almost 100 million tons,” said Citigroup analyst Scarlett Chen to the *Wall Street Journal* this month. Steelmakers are the core of Chinese manufacturing, and manufacturing is the core of the Chinese economy. The gross overproduction of steel tells us China will not recover this year.

CISA thinks the trend will continue for the remainder of the year. A report on its website, written by Xue Heping of Steelinfo Consultancy, says steel production could fall 10% in the second half of this year. As he writes, “A significant decline in China’s second half steel output is a foregone conclusion.”

In the middle of August, inventories were 26% higher than a year earlier, according to the China Iron & Steel Association, CISA. It's no surprise, therefore, that last month steel production fell. Output, according to official statistics, was off 1.7% from the same month last year and 4.8% from July. How significant? Steel output, he projects, will reach 678.7 million metric tons this year. That represents a 0.7% decline from 2011's record 683.3 million tons. Mr. Xue, in short, is projecting the first fall in 31 years.

Is CISA trying to exaggerate the woes of the mills to get even more government help? Actually, the situation is probably worse than the trade group represents. CISA surveys only large producers, which are doing better than their smaller counterparts. Moreover, there is suspicion that mills are inflating their production figures. "There are a lot of incentives to not report what is happening," said J Capital's Tim Murray to the *Australian Financial Review*.

So how bad is the situation? According to Murray, production may have fallen 10% over the first half of August. "There are some seasonal factors at play, but the volume coming off is unusual," he said. In any event, CISA said producers were selling products below cost and that prices had more room to fall. A four-month price decline looks set to continue. The association also says steelmakers' profits were down a stunning 95.8% in the first half of this year compared to the same period in 2011. Stanley Li of Mirae Asset Securities, speaking to the*South China Morning Post*, said most steel mills lost money in August.

So mills are cutting production, losing money, and trying to dump inventory. Why is Beijing authorizing the building of even more of them? At a time when as much as a quarter of the nation's steelmaking capacity is going unused and many mills will not restart production after the summer repairs, the National Development and Reform Commission approved the building of two more plants with a total construction cost of $20.5 billion.

One of the projects became famous in China in May when a photo of Wang Zhongbing was splashed across the country. The celebrated pic showed Wang, the mayor of Zhanjiang in Guangdong province, kissing a document just outside the offices of the National Development and Reform Commission in Beijing. The NDRC, worried about overcapacity, sat on his city's request for a steel mill for more than a decade—the plant was first conceived in the 1970s—but Beijing's new desperation meant that the happy mayor got his approval pronto.

Wang, however, won't be so ecstatic when the plant faces difficulties because it doesn't have enough customers. As financial columnist Yu Fenghui said to the*Want China Times*, "Mayor Wang kissed the approval today, but the next mayor might cry over it." It's no secret that the industry's current troubles are the result of wild expansion—China makes just about half the world's steel—and the new approvals can only make matters worse.

Unless Beijing starts shuttering mills soon, profitability of Chinese steel producers will be poor for far longer than the next two years that analysts predict. "Globally steel companies are all hurting, but the Chinese industry could be the worst off," said S&P's Suzanne Smith, chief of Asia-Pacific commodities ratings, in a conference call early this month. "In Europe, a number of blast furnaces have been closed down, but we have not seen much of that in China."

China has been plagued by overcapacity since 2005, but the country is now building even more mills. Beijing is scrambling for things to spend money on, and local officials need the tax revenue and employment that the plants provide. So it was perhaps inevitable that the NDRC approved Mayor Wang's dream. It may have made sense 34 years ago when his city first conceived of the project, but it makes no sense now, except in the very short term.

In the longer run, Wang can expect troubles at the new mill to ripple through his city. As CISA points out, problems at steel plants affect suppliers. Suppliers' problems, in turn, burden the banks, put people out of work, depress property markets, and ultimately decrease consumption in affected communities.

The NDRC does not seem to mind, however. Beijing technocrats are pushing China's steel industry off a cliff—and the rest of the economy with it.

American Oil Growing Most Since First Well Signals Independence

12-18-12

Amazing how all this oil has been found when only a couple of years ago, there was a shortage reported just to justify price increases. Aivars Lode

By Asjylyn Loder, Bloomberg

The U.S. expanded its oil production this year by the most since the first commercial well was drilled in 1859, upending a belief that Americans were increasingly hooked on foreign crude.
Seven years after President George W. Bush declared "America is addicted to oil, much of which is imported from unstable parts of the world," the country has so much crude that it was able to join Europe in choking off exports from Iran without pushing U.S. benchmark prices over $100 a barrel. And refining capacity helped make the U.S. the world's largest fuel supplier. Even in Venezuela, where Exxon Mobil Corp. (XOM)'s assets were seized, more and more cars run on gasoline made in America. Domestic output grew by a record 766,000 barrels a day to the highest level in 15 years, government data show, putting the nation on pace to surpass Saudi Arabia as the world's largest producer by 2020. Net petroleum imports have fallen by more than 38 percent since the 2005 peak and now account for 41 percent of demand, down from 60 percent seven years ago, moving the U.S. closer to energy independence than it has been in decades.
"The U.S. has a huge lead in the 21st century in maintaining its superpower status," said Ed Morse, global head of commodities research at Citigroup Inc. in New York. "There was absolutely no way to anticipate the level of growth in the oil supply."

Faster, Cheaper
America's latest oil rush was spurred by new technology that has made drilling faster, cheaper and better at unleashing oil from rock formations, even as it has raised alarms among environmentalists about the potential danger to drinking-water supplies and intensifying greenhouse-gas emissions. Producers, eager to profit from prices that have remained above $75 for more than two years, deployed as many as 1,432 rigs, the most in records going back to 1987. Trucks bearing pipe traversed Wyoming's high desert plains and Oklahoma's back highways, geologists pored over well logs from Colorado to New Mexico, and landmen trying to secure mineral rights crowded into courthouse record rooms from North Dakota to the Gulf Coast.
The U.S. will produce an average of 6.41 million barrels a day this year, a 14 percent increase from 2011, according to a Dec. 11 report from the Department of Energy. It's the biggest annual gain in the number of barrels since the industry began when Pennsylvania's Drake well ignited the first American oil rush in 1859, department data show. Saudi Arabia pumped 9.7 million barrels a day in November, according to data compiled by Bloomberg. The Paris-basedInternational Energy Agency said last month the U.S. is on track to become the top producer in about eight years.

'New Thing'
"The shale oil revolution is a new, new thing," said Francisco Blanch, the head of commodities research for Bank of America Merrill Lynch in New York. "It has come out of nowhere in the last year and a half."
The nation's stockpiles increased by a record 13 percent this year, and U.S. refiners are paying less for crude than much of the rest of the world. Landlocked by export restrictions and limited transportation, the glut of U.S. light, sweet crude -- cheaper to process than the high-sulfur, sour grades pumped by Saudi Arabia and Venezuela -- pushed domestic prices down to as much as $28 a barrel less than Brent, the European blend that sets prices for more than half the globe's oil.
That discount handed Gulf Coast refiners an advantage over competitors and helped the U.S. become a net fuel exporter last year for the first time since 1949, surpassing Russia as the world's largest. Venezuela quintupled its imports from the U.S. this year to a record 196,000 barrels a day in September, according to Energy Department data.

Global Clout

Rising output from the U.S. has also increased the nation's sway in the global market by forcing the Organization of Petroleum Exporting Countries into an unpalatable choice: Increase production to bring prices down and maintain market share; or keep prices high to sustain state spending, and thereby subsidize the competition from U.S. producers, which can provide crude to domestic refineries at a lower price.

The unprecedented gains came so quickly that the industry is rushing to regroup. The 500-mileSeaway pipeline, which was reversed last year and now carries U.S. crude south to Gulf Coast refineries instead of moving imports north, will expand to 400,000 barrels a day as early next year from 150,000 now.

Northeastern fuel makers, on the verge of insolvency a year ago, have begun replacing foreign cargoes shipped by tanker from Africa, Europe and the Middle East with cheaper domestic oil brought in by rail. A pipeline shortage has boosted profits at tank-car maker American Railcar Industries Inc. and at BNSF Railway Co., owned by Warren Buffett's Berkshire Hathaway Inc.

Exports Limited

Even if there were enough pipelines to carry more crude from swelling storage hubs to the coasts, oil exports are limited by rules imposed by Congress following the 1973 Arab oil embargo.

Exports may be necessary to avert a surplus that would depress prices and discourage drilling, said Bank of America's Blanch. West Texas Intermediate oil, the U.S. benchmark contract, could fall to as low as $50 a barrel within the next two years unless the rules are eased to relieve the glut, he said. Until prices drop, it may be difficult for politicians to persuade the American public to allow expanded exports.

"What I see is basically an inability to go out and explain to the public that we have to change the rules before the prices give us the signal," Blanch said. "If you're in the White House, why are you going to change the crude-export rules that the U.S. has right now when the country is still importing 8 million barrels a day of oil?"

Forestalling Glut

At least one member of the Obama administration has begun making the case that the U.S. is building toward a crippling surplus. Adam Sieminski, head of the U.S. Energy Information Administration, the statistical arm of the Energy Department, said limited transactions with other countries may help forestall excess supplies that could undermine prices and hobble the industry.

"That's going to be a policy decision of the Congress and the administration," Sieminski said. "It's just a question of what the economics are."

The surge in oil output, coupled with record natural gas production, allowed the U.S. to meet 83 percent of its own energy needs in the first eight months of 2012, on track to be the highest since 1991, Energy Department data show. The last time self-sufficiency was achieved was in 1952. While the U.S. still imported some petroleum then, exports such as coal more than offset foreign cargoes.

Overseas Shocks

That interconnectedness means U.S. consumers will still be vulnerable to supply shocks overseas, Sieminski said. An Energy Department forecast shows the country will import 10 percent of its needs in 2035. That doesn't account for slowdowns because of new regulations, which may tighten because drilling has been linked to groundwater pollution and earthquakes, he said.

Then there's the problem of how burning all these fossil fuels may contribute to climate change, said Anthony Swift, an attorney with the Natural Resources Defense Council in Washington.

"There's a real environmental cost to investing billions of dollars in new sources of carbon-intensive fuels when we know we really need to be investing in clean energy," Swift said. "It's better for our environment, better for our economy and better for energy security."

Tightened automobile-mileage requirements helped reduce consumption of petroleum products by 16 percent through September since peaking in August 2005, a drop of 3.5 million barrels a day, Energy Department data show.

Dakota Boom
The U.S. oil boom began in 2004 with a North Dakota well completed by Continental Resources Inc., which confirmed that a combination of two technologies could unlock profitable amounts of crude in pockets deep underground.
Continental paired horizontal drilling, in which the well is bored at an angle to run lengthwise along the richest slice of rock, with hydraulic fracturing. Better known as fracking, the process forces a high-pressure stream of sand, water and chemicals underground to crack apart the rock and free the crude. Since then, North Dakota's oil production has increased to 728,000 barrels a day, surpassing Ecuador, an OPEC member.
Harold Hamm, Continental's founder and chief executive officer, has called for expanding U.S. production. The company estimates the Bakken and other formations under North Dakota contain the equivalent of 27 billion to 45 billion recoverable barrels of oil. By comparison, Nigeriahas an estimated 37.2 billion barrels of proven reserves, according to OPEC.

Wildcatters Compete
Hamm's success set in motion an oil rush that spread across the U.S. as wildcatters competed to be first to new prospects. Chesapeake Energy Corp. made a deal in early 2007 to buy a million acres of Wyoming's Powder River Basin, near the Teapot Dome formation that gave its name to the notorious bribery scandal of the 1920s.
Exploration intensified in Oklahoma's Mississippi Lime, the Eagle Ford Shale in Texas, Ohio's Utica formation, Louisiana's Tuscaloosa Marine shale and New Mexico's Bone Springs.
Competition grew heated as oil prices above $75 encouraged more drilling. In one Wyoming courthouse, the county clerk brandished a cattle whip to keep order among the crowds of landmen packing in to research mineral rights. Joe Thames, a Denver-based contract lease buyer who has worked for companies such as Chesapeake, said rivals once followed his best landman from his motel to try and find out where he was buying.

'Big Gamble'
When results of EOG Resources Inc. (EOG) 2009 Jake well in northeastern Colorado leaked, lease prices quintupled in less than two months, said Bob Coskey, a Denver geologist. That play, called the Niobrara, turned out to be smaller than people thought, Coskey said. Overnight, acreage outside the best zones became almost worthless.
Hanging over this activity is the specter of past busts. The last boom in the late-1970s came crashing to a halt in 1985 when Saudi Arabia, in an effort to regain declining market share, flooded the world with crude and sent prices to $10 a barrel in 1986. U.S. production fell for 21 of the next 22 years.
"It's a big gamble," said Mike McDonald, an Oklahoma wildcatter and president and co-owner of Triad Energy Inc. "Everyone thinks it's Beverly Hillbillies: You shoot a gun and oil comes out. It's not."
It was unclear until this year whether producers would be able to replicate Hamm's results outside of the Bakken. The answer is yes. Texas pumped the most oil since 1988. Output from Wyoming grew 7 percent, the biggest jump in records going back to 1981, Energy Department figures show. New Mexico's increased by 13 percent, and Oklahoma's by 18 percent.
Morse, whose bullish predictions of U.S. energy self- sufficiency early this year met with skepticism, said North America will be able to meet its own needs by 2020. The pace of growth and the potential for worldwide gains driven by ever- improving technology toppled the theory that the world supply of oil had had peaked and begun an inexorable decline, he said.
"Peak oil is dead," Morse said.

Soft Commodities Fall Hard In 2012

12-31-12

More manipulation of the news for commodities; they ran it up and now it comes back down. Aivars Lode

By Leslie Josephs, The Wall Street Journal

Most markets were very good to bulls this year. Soft commodities, however, were a painful exception. In a sharp shift from the supply concerns of 2011 that had lifted prices of raw sugar, cotton and arabica coffee to multi-year highs, overstock was king in 2012.

Futures of arabica coffee, the world's most widely consumed variety, plunged nearly 37% – one of the steepest declines across commodity markets – on ICE Futures U.S. this year. The culprit: big production.

The International Coffee Organization expects record global coffee output in the 2012-13 crop year, which started in October, to the tune of 146 million bags. Brazil, the source of around one-third of the world's coffee, reaped a record crop this past season of 50.8 million bags.

The South American nation, also the world's biggest sugar producer, was also partially responsible for a drop futures of the sweetener. Raw-sugar prices dropped 16% this year, after Brazilian mills ramped up production following unseasonable rains at the start of the harvest in May. The International Sugar Organization in November forecast a 6.2 million-ton surplus in the 2012-13 year, started Oct. 1, with world production at a record 177.6 million tons.

Cotton prices also saw a steep decline, as weak global demand on the heels of a violent price swing in 2011 and ample supplies of the fiber pressured the market. The U.S. Department of Agriculture expects the world to end with a record 79.4 million bales at the season's end on July 31. Cotton futures lost 18.1%, settling Monday at 75.14 cents a pound.

The bulls don't have much cause to clink their glasses for tonight, either, since there isn't much to lift prices on the horizon.

"Until (consumers) work down these surpluses, it'll be pretty tough to rally," says Jack Scoville, a vice president at Price Futures Group.

Chapter 3

Direct Comparisons with Australia

Introduction

It happened somewhere else and here's why it is relevant to the USA today.

The one thing that I do not have is a crystal ball. However, what I do have are observations from other parts of the world. During the past couple of years I authored a blog designed to show similarities between what I have observed before and how it applies to us today in the United States. My intent is to record in writing - together with dates - key global events that prove my observations.

This does not mean that I think that Australia is better than the United States or that Australia is a global power. How could it be with only 20 million people and the same sized geography as the United States? Yet, for some reason, Australia matured faster than the United States by about 20 years; so, by examining what is happening there, I have been able to identify similarities with the United States. Data on the web is difficult to search for at times, and much of what transpired in the 90's in Australia occurred at a time when the Internet was not around. Therefore, some of what is noted in my blog is based on my own recollection. These memories stand out quite vividly and enable me to identify patterns and apply them to today's events.

As I have mentioned previously, three broad events occurred beginning in the mid-80's in Australia. 1) A dividend tax at the same rate as capital gains tax was put in place. 2) A financial crisis occurred of the same proportion as what happened here in the United States. I experienced my house drop in value by at least half. 3) Growth stopped and a focus on delivering transparent, stable earnings began. One of my mates was the treasurer of Coles Myer, the sixth largest retailer in the world and they went from hoarding cash to paying out dividends and increasing them annually through cost cutting and efficiency drives.

The following articles outline what is happening today in the USA and relates to parallels I draw with what I saw in Australia. In the 90's, banning texting whilst driving happened almost as soon as the mobile phone came out. City and county local government equivalents started to merge in order to reduce layers of government and to ensure that taxes would not increase. I remember standing on the beach in Naples conversing with a councilman about the time that two cities were looking to merge in Naples and talking about why this would eventually happen in the USA. Today in the United States Tea Parties are evolving in an effort to reduce government spending and campaign to balance the budget and reduce the deficit.

In addition, red light cameras were introduced 15 or so years ago. What happened after red light cameras? Speed cameras proliferated. Why? The revenue served as an indirect tax generated for the government. Smoking was banned from restaurants and public offices some 20 years ago. Australians have been drinking espresso for over 30 years, but Starbucks didn't start to take off until 10 years ago. Wine consumption outpaced beer consumption some 20 years ago and we are seeing the same shift in tastes here in the States. In fact, even Chardonnay and Cabernet Sauvignon fell in popularity some 10 or so years ago in Australia as palettes matured whilst Chardonnay and Cabernets still enjoyed great popularity here in the States.

Our family friends owned car dealerships in Australia, they told me how their dealerships generated a very skinny margin and they primarily made their money from the prudent management of the money as opposed to the actual sale or service of vehicles. Imagine my surprise when I meet people here in the States that own dealerships and have a 25% profit margin. I could see that certain models would not last as the manufacturers were subsidizing every sale of a vehicle. Surely, that could not last, and sure enough, it did not.

We purchased hotels in the 90's as the NAB, one of Australia's largest banks, owned half of the hotels in Victoria. We did so at cents on the dollar with the equity of the previous owners being wiped out the same away that it is occurring now.

I saw the Australian tax department going after wealthy individuals who had offshore accounts 10 to 15 years ago in order to find more revenue so as not to have to increase taxes more broadly and risk being thrown out of power. Today, the US Internal Revenue Service is doing the same.

What Does Florida's Favorable Business Tax Rank Tell Us?

11-1-10

With crumbling infrastructure, higher taxes, and super cold winters ... how long before you see the move to Florida? With brand new, cheap infrastructure, housing, sunshine and ... did I mention lower taxes? I have been on this band wagon for a while now, as more articles like this get printed people will start to work it out. Aivars Lode

By Robert Trigaux, Tampa Bay Times

For a state where business taxes are condemned as too high and detrimental to economic growth, consider this:

Florida's got a better business tax climate than all but four other states. And not one of those four is east of the Mississippi or comes close to being a big population state.

Florida ranks fifth overall in the annual "state business tax climate index" — an annual analysis of the relative competitiveness of states based on their business tax structures. In fact, Florida has remained consistent at No. 5 on this index since at least 2006. Many other states vacillate in rank from year to year.

The index is assembled by the Tax Foundation, a 73-year-old nonpartisan, educational organization in Washington, D.C. The foundation found that states that kept their taxes low, their systems simple and — this one likely comes as a surprise to many people — minimized tax incentives to lure businesses tend to benefit the most.

"The top eight tax systems all raise sufficient revenue without imposing one or two of the three major state taxes" that include sales taxes, personal income taxes and corporate income taxes, said foundation president Scott Hodge.

The tax group argues that states with the best tax systems will be most competitive in attracting new businesses and best at boosting economic and employment growth.

In a period of U.S. history when so many folks — especially politicians trying to get elected this coming Tuesday — insist that there's no good tax but a lower one, Florida achieved its overall No. 5 status based on a weighted composite of these five taxes:

1. The state ranked 15th in corporate taxes.

2. The state shared the No. 1 spot in the category of individual income taxes. The state has none.

3. The state ranked 30th in sales taxes. Florida relies heavily on sales taxes because so many tourists visit the state and their purchases help support the tax base without additionally burdening state residents. Florida also can rely on sales taxes because neighboring states such as Georgia or Alabama are far from Florida's population centers and none offers big breaks on sales taxes. So there's no incentive to cross the state line in search of lower sales taxes.

4. The state ranked third in unemployment insurance taxes. These taxes are paid by employers into a program to finance benefits for workers recently unemployed. The good news is this state tax is low. The bad news — given Florida's 11.9 percent unemployment — is the state unemployment insurance program was overwhelmed last year. Rather than significantly raise the rate, the state has borrowed funds from the federal government to meet state unemployment obligations.

5. Finally, the state ranked 28th on property taxes levied on the wealth of individuals and businesses.

These include taxes on real and personal property, net worth, and the transfer of assets. This is a touchy topic in Florida where property values have plummeted in recent years, but property taxes have not fallen nearly as much.

Bottom line? If Florida boasts the fifth best climate for business taxes in the country, why are cutting state business taxes or providing tax-free incentives to small businesses in such political vogue?

That's what happens when a big recession meets a too-close-to-call election.

Real Estate 'shake-out' Coming

11-4-10

Some of you may recall that I have been commenting on this for some time. The commercial space has not had its fallout yet. Here in Naples, I was bemused a couple of years ago when realtors talked about getting out of housing and into commercial, as it was booming. I thought at the time, "Why would they still be building commercial, when the people are not coming and buying the residential?" Self interest; don't stop building until you are forced to or you run out of money. It will be interesting to watch this unfold. Aivars Lode

By Christopher Witkowsky, PEI

Schwarzman: Real estate 'shake-out' coming
The Blackstone Group will not have a problem attracting LP capital for its next real estate funds, unlike other firms, according to the firm's chief Steve Schwarzman.

The real estate private equity market is headed for a "shakeout" with many firms unable to raise any capital for new funds, Steve Schwarzman, chief executive officer of The Blackstone Group, said during an earnings call Thursday.

"There will be a huge shake-out in [real estate]," Schwarzman said, answering a question about whether limited partners are still allocating capital to real estate funds. "People have been devastated in that area, but it remains a big asset class."

"We have what we think is the best record in the developed world … so we're anticipating a very good response to our next fundraising, but that will be at the expense of some people who won't even get to market again," Schwarzman said.

Institutions like pensions are looking for the cash flow from real estate investments "to meet their actuarial assumptions", Schwarzman said.

Blackstone has seen improving revenues in the hospitality side of real estate, according to Joan Solotar, senior managing director at the firm.

In real estate, the fund's net return in its carry funds was 16.9 percent for the third quarter, compared with a negative 2 percent in the same period last year. Net returns for the real estate debt hedge funds declined slightly to 3.3 percent in Q3, compared to 7.8 percent in the same period in 2009.

Overall revenues in real estate in the third quarter increased in the third quarter to $258 million, compared to $100 million in Q3 2009. Over nine months, revenues increased to $618 million, compared to negative $131 million in the same period last year.

The revenue increases were due to improvements in performance fees and allocations and losses in investment income, which improved this year through better operating performance, projected cash flows and exit multiples across the real estate segments' investments, the firm said.

The firm invested $689 million in the third quarter, up from $35 million in the third quarter of 2009. The firm has about $1.6 billion in investments that haven't closed yet, he said.

Australia's Healthcare System Also Costs Less Than Half America's

11-20-10

Interesting commentary on pension funds towards the end of the article. Also some insight in the last two paragraphs as to why health care is so much more expensive here in the USA when compared to Australia, which has approximately 5 percent of the people in the USA. Aivars Lode

By Malcolm Maiden, Sydney Morning Herald

One conclusion from the Future Fund's decision to vote against every motion put up at Telstra's annual meeting yesterday is that the tenure of chairman Catherine Livingstone and chief executive David Thodey is now bound up with the pace of the fund's retreat as a shareholder.

The fund cited specific reasons for voting against Telstra's remuneration report, a reduction in maximum number of directors from 13 to 11, and the confirmation of a new director, Nora Scheinkestel.

The lower cap on director numbers and the appointment of Scheinkestel, a finance and banking specialist whose portfolio of board seats includes AMP and Orica, created a full board that still does not have enough telecommunications experience, it said.

And it said Telstra's remuneration plan was too vague, about how the $1 billion ''Project New'' attempt to upgrade Telstra's sales marketing effort will be evaluated, and about how long-term incentives that depend partly on cash flow will be affected by the $9 billion cash payment Telstra will book if it sells copper network into the new National Broadband Network, as planned.

Only one Telstra director, John Zeglis, has a telco background, as AT&T general counsel, and chief executive of AT&T wireless. Nora Scheinkestel continues the pattern of appointing well-credentialled generalists.

Project New also came in for criticism for containing no public targets when it was rolled out to investors in August and September. Telstra's shares are down about 22 per cent since early August, when it posted soft earnings and predicted flat revenue and a high single digit profit decline in the current financial year (those forecasts were confirmed yesterday, with Livingstone predicting that Telstra will maintain its 28¢ a share payout this financial year and next).

The fund lobbied Telstra ahead of the meeting. It voted against the motions after failing to secure a board appointment it was prepared to back, and after failing to get the clarity it wanted on the remuneration plan. Significantly, it did not campaign publicly ahead of the meeting, and it says it will continue to ''engage constructively''.

But this was, in effect, a vote of no-confidence in Telstra's leadership, and it could snowball.

The Future Fund is headed for the door. It sold down from a 16.4 per cent stake to 10.9 per cent in a block trade in August last year, and announced last month that it had sold another 1 per cent or 114 million shares, leaving it with just under 10 per cent, or 1.2 billion shares.

It gave itself three to five years two years ago to get its stake down somewhere near Telstra's share of overall market capitalisation, and still has more than 1 billion shares to go.

And the recent sale was done on-market in small parcels that never accounted for more than 14 per cent of the daily trade. At that rate the fund will be a major player for a couple of years, and a lightning rod for other dissatisfied institutional shareholders.

I HAVE returned this week from a trip to Wall Street, where the answer from chief executives, economists and analysts to my opening question - is it safe? was pretty much unanimous: it's still too early to tell: concern lingers that America's private sector is unprepared for the baton-pass from public sector stimulus that is under way.

But quite a few of the people I spoke to also had a question for me: how did Australia escape the global financial crisis? I got better at answering as I progressed, and argued that it was more than luck.

Scott Vows to Merge 5 Agencies' Functions

2-1-11

I have commented before that in Aussie during the 90's, the focus was on cutting costs, and that is what is happening here now in the USA! Aivars Lode

By Zac Anderson & Lloyd Dunkelberger, Herald Tribune

THE VILLAGES - Gov. Rick Scott's first concrete proposal to cut state spending Monday was heavy on symbolism and light on specifics.

Using one of the state's mega-developments, just south of Ocala, as a backdrop, Scott announced he would merge the functions of at least five state agencies, including the department that regulates growth and development.

The proposals to "streamline" government will spark growth and save the state $1 billion, Scott said while standing in front of three new homes under construction in this sprawling Central Florida retirement community.

The event was the first time Scott has released any details of his much-anticipated budget, and it marked the beginning of the new governor's push to deliver on a series of highly ambitious campaign pledges to cut taxes and slash government spending.

Scott summarized his plan to save $1 billion over two years in a 270-word press release, but provided no details on how the savings would be accomplished. His aides said the details will be in his formal budget proposal, which he will submit to state lawmakers on Monday.

They added that the total $1 billion in savings would come from the overall agency consolidations and mergers — not just the ones mentioned Monday.

It remains unclear how Scott will resolve a budget shortfall of more than $3.6 billion and provide more than $2 billion in promised cuts — including a reduction in the corporate income tax and a $1 billion cut in school property taxes — while still meeting state needs for schools, health care, roads and other programs.

Scott said he would take the "regulatory functions" away from the DCA, the state's top agency for land-planning decisions. He has called the DCA, which has a $780 million budget and 358 employees, a "job-killing" agency.

The DCA duties, which currently involve oversight of local land-use plans and major regional developments, would be shifted to other state agencies. But Scott did not specify which agencies would take over those duties.

His transition team had advanced the idea of combining the DCA with Department of Environmental Protection and the Department of Transportation and calling the new agency the "Department of Growth Leadership."

The idea is to "expedite the review of local comprehensive plans by minimizing the state's role and defer to local governments, local businesses and local communities," Scott said, without indicating whether he would cut staff or permitting requirements.

The governor also plans to consolidate tax collections by moving alcohol and beverage tax authority from the Department of Business and Professional Regulation to the Department of Revenue, the largest state agency involved in tax collections. The Department of Business and Professional Regulation would pick up responsibility for licensing and the regulation of drugs, devices and cosmetics from the Department of Health — which has a $2.9 billion annual budget and 17,400 employees — under the governor's proposal.

Florida Governor Hits Road to Sell His Budget Overhaul

2-3-11

Does this sound familiar to what I have been Blogging about for the last 3 years?! Aivars Lode

By Arian Campo-Flores, Wall Street Journals

LEESBURG, Fla.—Gov. Rick Scott is crisscrossing Florida this week, offering glimpses of what he says will be one of the nation's most fiscally conservative budget proposals this year.

In his push to close a $3.6 billion budget deficit and make good on his promise to create 700,000 private-sector jobs in the next seven years, the Republican governor aims to slash spending, cut property and corporate income taxes and overhaul state government, making Florida an example of limited government.

In an interview with WSJ's Arian Campo-Flores and Betsy McKay, Florida Governor Rick Scott outlines his plans for mending the state's budget crisis by cutting the size of government and reducing business regulations.
.Among the proposals he has unveiled this week is a goal of cutting $1.4 billion annually from the budget by requiring state employees to contribute to the state's public pension system for the first time, and by channeling new hires into 401(k)-style plans that wouldn't guarantee set benefits upon retirement.

"We're going to be the model," Mr. Scott said in an interview at this central Florida town's airport, where his personal private jet was parked. (He plans to sell the state's planes.)

The 58-year-old former health-care executive undoubtedly faces significant obstacles, with opposition coming from unions and environmentalists, and skepticism from some in his own party.

Mr. Scott's pension proposal amounts to a pay cut for public workers, said Mark Pudlow, spokesman for the Florida Education Association, the teachers union. "While [Gov. Scott] wants to cut corporate and property taxes, it seems he wants to do it on the backs of state workers," he said.

Environmentalists are howling about Mr. Scott's intention to unleash more development.

In the legislature, Republican dominance of the state House and Senate would seem to boost Mr. Scott's chances of pushing through his agenda. Yet some members of his own party have cast doubt on his plan to cut taxes now, along with spending.

"We need to cut spending first," said Senate President Mike Haridopolos. "If he can show us the budget to make those cuts, we're all ears." But, Mr. Haridopolos added, "it's one step at a time."

Mr. Scott isn't cowed. He is promising to slash Florida's budget by $5 billion, a feat he says he will accomplish by cutting spending and streamlining government. Some of the savings are expected to come from the pension overhaul, and he says a proposal to reorganize various state agencies would save $500 million, on average, a year. Among its provisions: a recommendation to fold the state's Department of Community Affairs, which oversees land planning and development, into the Department of Environmental Protection.

Mr. Scott also wants to purge the budget of what he considers frivolous spending items. He harbors particular disdain for "alligator marketing," a $150,000 pet project that lawmakers inserted in last year's budget to help sellers of alligator hides and other products promote their goods. "The state shouldn't be in that business," he said.

Florida Gov. Rick Scott with first lady Ann Scott and building contractor Richard Murray during a tour of a home in The Villages, Fla., Monday.
.Some economists doubt there are billions of dollars in waste lurking in the budget, as Mr. Scott says. Lawmakers have been hacking at state outlays for years, as Florida's finances have steadily deteriorated. "I'm not sure there's that much left to cut," said Sean Snaith, a University of Central Florida economist.

Mr. Scott's job-creating plans center on making Florida the most business-friendly state in the U.S. "We're competing with 49 states and a variety of other countries now where people are willing to invest their dollars," he said. "My job…is to make this the place where people want to do business."

Threats to Town Halls Stir Voter Backlash

6-8-11

Well well, here we go. I had these conversations nearly 4 years ago with a local councilman – I said that consolidation would happen as a crisis would drive it. So consolidation of cities is now here. The questions asked in this article are answered by looking at what cities did in the 90's back in Australia. Consolidation saved money and ensured that taxes did not increase by eliminating the duplicity of functions. Aivars Lode

By Kate Linebaugh, Wall Street Journal

ONEKAMA VILLAGE, Mich.—Michigan has 1,773 municipalities, 609 school districts, 1,071 fire departments and 608 police departments. Gov. Rick Snyder wants some of them to disappear.

The governor is taking steps to bring about the consolidation of municipal services, even whole municipalities, in order to cut budgets and eliminate redundant local bureaucracies. His blueprint, which relies on legal changes and financial incentives, calls for a "metropolitan model" of government that would combine resources across cities and their suburbs.

In doing so, Mr. Snyder, a Republican, is taking aim at that twig of American government so cherished by many citizens—the town hall. The long national tradition of hyperlocal government prevails in much of the Northeast and Midwest, with their crazy quilts of cities, towns, villages and townships.

"You do have to ask: 'Boy, do we really need 1,800 units of government?'" says Mr. Snyder's budget director, John Nixon. "Everybody likes their independence, and that's nice to have. But if you're not careful, it can cost you a lot more money."

.Around the country public officials are asking themselves similar questions. Plunging property-tax receipts and rising pension and health-care costs have pushed many municipalities to the brink of financial collapse. The idea is that local governments can operate with fewer workers and smaller budgets if they do things like combine fire departments, create regional waste authorities and fold towns and cities into counties.

But selling the notion in small communities like Onekama is no easy job. Public officials have floated a proposal to merge this village of 1,500 along Lake Michigan into the township that encircles it. Some residents worry that a leaner government risks becoming a less responsive one.

Snow plowing already has emerged as a potential sticking point. If the merger passes a vote later this year, Manistee County would take over snow removal, and Onekama's quiet streets would be among the last sections cleared.

Bonnie Miller, a village resident for 43 years who emerged as an early opponent of the merger, doesn't want anyone to mess with the current plowing schedule. "At five in the morning, you can hear the plow truck is already out," she says.

Over the years, consolidation proposals haven't fared well with voters. Of the 105 referendums on city-county mergers since 1902, only 27 have passed, the most recent in 2000, when Louisville, Ky., merged into Jefferson County, according to David Rusk, a Democratic ex-mayor of Albuquerque and a proponent of consolidation. Last year, voters vetoed a merger of Memphis, Tenn., with Shelby County. In March, Memphis voters approved a merger of the city and county school systems, over strong suburban opposition. The county board of education has sued to block the merger.

Proponents of consolidation come from both ends of the political spectrum. Some conservatives argue that having fewer layers and divisions of government is cost-efficient and improves the economic climate by streamlining regulation and taxation. Some liberals support eliminating local-government boundaries that they say have cemented economic and racial disparities between cities and surrounding towns.

Researchers, however, have raised questions about whether such consolidation actually delivers significant savings. Typically, they say, only a few administrative positions overlap between jurisdictions, and further savings can't be realized without compromising service. Public-safety agencies, for example, need a certain staff level to ensure the response times that residents demand.

A 2004 study by Indiana University's Center for Urban Policy and the Environment found that costs creep back in, partly because bigger pools of employees can negotiate for better wages, offsetting the savings of job cuts. Academic studies of Jacksonville, Fla.'s combination with Duval County, and Miami's merger with Dade County found that costs actually rose post-merger as new bureaucracies emerged.

Hernando Official Would Slash Dozens of Jobs, Then Rehire at Lower Pay

6-10-11

It is interesting watching companies and governments struggle with what to do when the answer is readily available by looking at what happened in Australia in the 90's. Many of you are aware that I have commented a number of times previously in my BLOG about how cities and counties merged in order to balance budgets and ensure there were no increases in Taxes. Aivars Lode

By Barbara Behrendt, Tampa Bay Times

BROOKSVILLE — Still more than $4 million away from balancing next year's Hernando County budget and with yet another bleak year expected after that, County Administrator David Hamilton is floating a drastic plan to save money.

First, Hamilton would terminate some of the positions of county directors, managers and supervisors. Then, he would readjust the job descriptions and cut salaries to reflect the current job market and pay scales.

Finally, he would re-advertise the positions. The county employees who had held the jobs could apply for their old jobs, of course, but so, too, could others.

Left unclear Thursday was whether Hamilton's position would be one of those emptied and then re-advertised.

On Thursday, Hamilton said he has talked to county commissioners about his idea, which is part of his larger strategy to shrink the cost of government. He declined to reveal what sort of reaction he has received.

He said that as he was filling out layoff forms Wednesday for nine workers, he realized that the county was cutting from the wrong end of the work force. Gone would be the jobs of a painter, a secretary, a veterans services officer, traffic technicians and others — people on the front line providing services that the residents of the county expect.

Because the idea is just a concept now, Hamilton couldn't say how many county workers might be affected. None of the people in the targeted positions are members of the Teamsters Union, which represents roughly 440 of the county's 663 employees.

"We want to do this rather than an across-the-board wage cut to allow us to rebalance the organization and meet the market levels,'' Hamilton said of his plan.

Hamilton already has some of the information needed to determine proper pay levels for his management staff from a study done months ago. At the time, he was recommending some small salary changes involving his leadership team. The County Commission told him it wanted a more comprehensive recommendation.

"Some of our salaries are out of synch with the overall salary structure,'' Hamilton said. Some managers earn almost as much as directors, for example.

"We want to look at what is out of synch and especially what the market is today'' and target those positions for closure and re-advertising, Hamilton said.

A similar budget-cutting technique is in place in Hillsborough County. Hamilton said he talked about the idea with Hillsborough County Administrator Mike Merrill last week, and Merrill's staff has offered to help show how the process might work in Hernando.

The idea of cutting higher-level pay has come up several times during budget talks in the past few months. Several commissioners have even supported cutting their own salaries, which are set by the state. A new law, however, would allow them to cut their own compensation.

Australia's Promise

6-2-11

As many of you have read, I compare the financial crisis here in the States in 2008 to the one in Aussie in the 90's. Australia came out of the crisis stronger as evidenced by this article and undoubtedly so will the USA. Interesting that today, politically, Australia seems a little rudderless and is at a crossroads leadership wise with regard to the direction that it should take. Aivars Lode

Published in The Economist

IMAGINE a country of about 25m people, democratic, tolerant, welcoming to immigrants, socially harmonious, politically stable and economically successful; good beaches too. It sounds like California 30 years ago, but it is not: it is Australia today. Yet Australia could become a sort of California—and perhaps a still more successful version of the Golden State.

It already has a successful economy, which unlike California's has avoided recession since 1991, and a political system that generally serves it well. It is benefiting from a resources bonanza that brings it quantities of money for doing no more than scraping up minerals and shipping them to Asia. It is the most pleasant rich country to live in, reports a survey this week by the OECD. And, since Asia's appetite for iron ore, coal, natural gas and mutton shows no signs of abating, the bonanza seems set to continue for a while, even if it is downgraded to some lesser form of boom (see article). However, as our special report in this issue makes clear, the country's economic success owes much less to recent windfalls than to policies applied over the 20 years before 2003. Textbook economics and sound management have truly worked wonders.

A flash in the pan?

Australians must now decide what sort of country they want their children to live in. They can enjoy their prosperity, squander what they do not consume and wait to see what the future brings; or they can actively set about creating the sort of society that other nations envy and want to emulate. California, for many people still the state of the future, may hold some lessons. Its history also includes a gold rush, an energy boom and the development of a thriving farm sector. It went on to reap the economic benefits of an excellent higher-education system and the knowledge industries this spawned. If Australia is to fulfil its promise, it too will have to unlock the full potential of its citizens' brain power.

Australia cannot, of course, do exactly what California did (eg, create an aerospace industry and send the bill to the Pentagon). Nor would it want to: thanks to its addiction to ballot initiatives, Californian politics is a mess. But it could do more to develop the sort of open, dynamic and creative society that California has epitomised, drawing waves of energetic immigrants not just from other parts of America but from all over the world. Such societies, the ones in which young and enterprising people want to live, cannot be conjured up overnight by a single agent, least of all by government. They are created by the alchemy of artists, entrepreneurs, philanthropists, civic institutions and governments coming together in the right combination at the right moment. And for Australia, economically strong as never before, this is surely such a moment.

What then is needed to get the alchemy going? Though government should not seek to direct the chemistry, it should create the conditions for it. That means ensuring that the economy remains open, flexible and resilient, capable, in other words, of getting through harder times when the boom is over (a sovereign-wealth fund would help). It means maintaining a high rate of immigration (which started to fall two years ago). It means, above all, fostering a sense of self-confidence among the people at large to bring about the mix of civic pride, philanthropy and financial investment that so often underpins the success of places like California.

Many Australians do not seem to appreciate that they live in an unusually successful country. Accustomed to unbroken economic expansion—many are too young to remember recession—they are inclined to complain about house prices, 5% unemployment or the problems that a high exchange rate causes manufacturing and several other industries. Some Australians talk big but actually think small, and politicians may be the worst offenders. They are often reluctant to get out in front in policymaking—on climate change, for instance—preferring to follow what bigger countries do. In the quest for a carbon policy, both the main parties have chopped and changed their minds, and their leaders, leaving voters divided and bemused. There can be little doubt that if America could come to a decision on the topic, Australia would soon follow suit.

Its current political leaders, with notable exceptions, are perhaps the least impressive feature of today's Australia. Just when their country has the chance to become influential in the world, they appear introverted and unable to see the big picture. Little legislation of consequence has been passed since 2003. A labour-market reform introduced by the Liberals was partly repealed by Labor. A proposed tax on the mining companies was badly mishandled (also by Labor), leading to a much feebler one. All attempts at a climate-change bill have failed. The prime minister, Labor's Julia Gillard, admits she is unmoved by foreign policy. The leader of the opposition, Tony Abbott, takes his cue from America's tea-party movement, by fighting a carbon tax with a "people's revolt" in which little is heard apart from personal insults. Instead of pointing to the great benefits of immigration—population growth is responsible for about two-fifths of the increase in real GDP in the past 40 years—the two parties pander shamelessly to xenophobic fears about asylum-seekers washing up in boats.

…or a golden future?

None of this will get Australians to take pride in their achievements and build on them. Better themes for politicians would be their plans to develop first-class universities, nourish the arts, promote urban design and stimulate new industries in anything from alternative energy to desalinating water. All these are under way, but few are surging ahead. Though the country's best-known building is an opera house, for example, the arts have yet to receive as much official patronage as they deserve. However, the most useful policy to pursue would be education, especially tertiary education. Australia's universities, like its wine, are decent and dependable, but seldom excellent. Yet educated workers are essential for an economy competitive in services as well as minerals. First, however, Aussies need a bit more self-belief. After that perhaps will come the zest and confidence of an Antipodean California.

CVS, Wal-Mart Join Winn-Dixie in Offering Gas Discount Programs

7-14-11

Yep, you guessed it. About 15 years ago we saw this in Aussie. Aivars Lode

By David Bauerlein, the Consumer Advocate, Jacksonville

While driving to work, I noticed a message on a CVS Pharmacy sign about how shoppers can get $10 of free gas.

Here's how it works. CVS customers who have an ExtraCare card will get a coupon for $10 of free gas at the checkout counter if they buy at least $30 worth of "qualifying products." That means you cannot get the discount for buying anything in the store for a total of at least $30. They to be products identified in the store with a logo for the gas program. For information, go to CVS web site.
Walmart also has rolled out its own program to cut the cost of gas at select Murphy USA and Walmart stations. In Florida, customers who pay with a Walmart credit card will get a 10-cent per gallon rebate on their credit card statements. Pay with a Walmart gift card and you'll get a 5-cent discount at the pump, and pay with a Walmart MoneyCard and also get a 5-cent discount.

Find the lowest gas prices in the Jacksonville area. In Jacksonville, the participating gas stations are at Walmart locations at 6830 Normandy Blvd., 8808 Beach Blvd., 4250 Philips Highway, and 11900 Atlantic Boulevard.

The Walmart discount program will run through Sept. 30. Andrea Woroch, who has a blog with tips for consumers, suggests people can increase their savings by purchasing Walmart gift cards from one of the online resellers of gift cards. If you can get a Walmart gift card from a reseller for 5 to 10 percent off the face value, that will generate some nice savings when coupled with the discount at the pump. Type in "gift card exchange" on a search engine such as google.com and you'll find lots of places that buy and sell gift cards.
Woroch said Kellog's also is offering a $10 gas card for people who clip and mail in 10 UPCs from cereal boxes. That program runs through the end of the year.

Winn-Dixie's Fuelperks program also is a way to save money on gas. It's been around for a while, before gas prices soared. For each $50 amount spent at a Winn-Dixie, you'll be able to get a 5-cent per gallon discount on gas at a participating station. For people who shop regularly at Winn-Dixie, that will really add up to a healthy discount at the pump. Enrollment is free, but you'll need to be sure you have a Winn-Dixie card that can keep track of your purchases and provide the discount at the gas station

Sharp Rift in a Strike at Verizon

8-8-11

In Australia during the 90's, as our crisis was coming to a head, strikes were common place and it was through these strikes that individuals realized there was no additional money and the only alternative was to take a pay cut or be outsourced. New businesses were formed providing the same services without the involvement of the unions. There is 9% unemployment in the USA today, therefore there are plenty of people who want a job. Aivars Lode

By Steven Greenhouse, New York Times

The decision by 45,000 workers at Verizon Communications businesses to go on strike Sunday over proposed benefit cuts reflects sharp battle lines. On one side is a highly profitable telecommunications company that is eager to trim costs in its declining businesses; on the other are unionized workers who fear that the many concessions demanded by their employer will force them to give up decades of hard-won gains.

The walkout is unusual at a time when unemployment is steep and organized labor has lost several big battles. But union leaders are angry that Verizon has budged little from its long list of demands during six weeks of negotiations. The unions have resisted Verizon's requests for concessions on scores of issues because the company has been very profitable overall, with net income of $6.9 billion in the first six months of this year.

Verizon notes that most of its lines of business that deliver services over wires — the part of the company where the striking workers are employed — are in decline. The bulk of the company's profits come from Verizon Wireless, a thriving, nonunion joint venture that is majority-owned by Verizon.

The strike is the largest in the nation since 74,000 General Motors workers walked out for two days in 2007, although some union leaders warned that the Verizon strike could last much longer because the two sides remain far apart.

Union leaders and workers said the walkout would inevitably cause significant delays in phone repairs and in installations of its fast-growing FiOS television and Internet services in customers' homes. But Verizon officials said the company had tens of thousands of managers ready to step in to do the work normally done by the striking workers.

Verizon's chief executive, Lowell C. McAdam, took a hard line on Sunday, arguing that workers in Verizon's heavily unionized wireline businesses must agree to cost reductions. The wireline businesses, which include home and business telephone landlines as well as the FiOS services, have had declines in their customer base and profitability in the last decade, amid growing competition from mobile phones, cable companies and services like Skype and Vonage.

"It is clear that some of the existing contract provisions, negotiated initially when Verizon was under far less competitive pressure, are not in line with the economic realities of business today," Mr. McAdam wrote in a letter on Sunday to the company's management to discuss the strike. "As the U.S. automobile industry found out a few years ago, failure to make needed adjustments — when the need for change is obvious — can be catastrophic."

The strike involves Verizon repair technicians, FiOS installers and call center workers from Massachusetts to Virginia. The walkout was called by the Communications Workers of America, which represents 35,000 of the strikers, and the International Brotherhood of Electrical Workers, which represents 10,000.

Verizon wants the unionized workers to start contributing to their health care premiums, including $1,300 to $3,000 a year toward family coverage. The company has also called for freezing pension contributions for current employees, eliminating traditional pensions for future workers, limiting sick days to five a year, and eliminating all job security provisions.

"What they're asking is hard for us to swallow because the company had profits of $22 billion over the last four years," said Joe Iorio, a field technician based in Brooklyn, who has worked for Verizon for 15 years. "They're crying poverty, they say they can't afford to pay us. We're just not going to stand for it anymore."

Several union members said they were insulted that they were being asked to make deep concessions when Verizon's top five executives received a total of $258 million in compensation, including stock options, over the last four years.

Verizon says its unionized employees are well paid, with many field technicians earning more than $90,000 a year, including overtime, with an additional $50,000 in benefits. Union officials say the field technicians and call center workers generally earn $60,000 to $77,000 a year before overtime and that benefits come to far less than $50,000 a year.

Why This Crisis Differs From the 2008 Version

8-9-11

Not a bad summary of the differences between 2008 and now. The results are the same though investors are sitting on the sidelines. This time the governments will need to restructure and take out costs, similar to what happened in Australia in the 90's. Aivars Lode

By Francesco Guerrera, editor of the Wall Street Journal's Money & Investing section

It is a parallel that is seducing Wall Street bankers and investors: 2011 as a repeat of 2008, the history of financial turmoil playing in one endless loop.

As a big fund manager muttered darkly this past weekend while heading into the office to prepare for a tumultuous Monday, "The sense of déjà vu is almost sickening."

Those who think of 2011 as "2008 -- The Sequel" now have their very own "Lehman moment." Just substitute Friday's historic downgrade of the U.S. credit rating by Standard & Poor's for the collapse of the investment bank in September 2008, et voilà, you have a carbon copy of an event that made the unthinkable happen and spooked markets around the globe.

They got the last part right. Investors looked decidedly spooked on Monday with Asian and European bourses down sharply and the Dow tumbling 643.76 points, or more than 5%.

But market turbulence alone isn't enough to prove that history repeats itself.

To borrow a phrase often used to rationalize investment bubbles, this time is different, and the bankers, investors and corporate executives who look at today's problems through the prism of 2008 risk misjudging the issues confronting the global economy.

There are three fundamental differences between the financial crisis of three years ago and today's events.

Starting from the most obvious: The two crises had completely different origins.

The older one spread from the bottom up. It began among over-optimistic home buyers, rose through the Wall Street securitization machine, with more than a little help from credit-rating firms, and ended up infecting the global economy. It was the financial sector's breakdown that caused the recession.

The current predicament, by contrast, is a top-down affair. Governments around the world, unable to stimulate their economies and get their houses in order, have gradually lost the trust of the business and financial communities.

That, in turn, has caused a sharp reduction in private sector spending and investing, causing a vicious circle that leads to high unemployment and sluggish growth. Markets and banks, in this case, are victims, not perpetrators.

The second difference is perhaps the most important: Financial companies and households had feasted on cheap credit in the run-up to 2007-2008.

When the bubble burst, the resulting crash diet of deleveraging caused a massive recessionary shock.

This time around, the problem is the opposite. The economic doldrums are prompting companies and individuals to stash their cash away and steer clear of debt, resulting in anemic consumption and investment growth.

The final distinction is a direct consequence of the first two. Given its genesis, the 2008 financial catastrophe had a simple, if painful, solution: Governments had to step in to provide liquidity in droves through low interest rates, bank bailouts and injections of cash into the economy.

A Federal Reserve official at the time called it "shock and awe." Another summed it up thus: "We will backstop everything."

The policy didn't come cheap as governments world-wide poured around $1 trillion into the system. Nor was it fair to the tax-paying citizens who had to pick up the tab for other people's sins. But it eventually succeeded in avoiding a global Depression.

Today, such a response isn't on the menu. The present strains aren't caused by a lack of liquidity -- U.S. companies, for one, are sitting on record cash piles -- or too much leverage. Both corporate and personal balance sheets are no longer bloated with debt.

The real issue is a chronic lack of confidence by financial actors in one another and their governments' ability to kick-start economic growth. If you need any proof of that, just look at the problems in the "plumbing" of the financial system -- from the "repo" market to interbank lending -- or ask S&P or buyers of Italian and Spanish bonds, how confident they are that politicians will sort out this mess.

The peculiar nature of this crisis means that reaching for the weapons used in the last one just won't work.

Consider Wall Street's current clamor for intervention by the monetary authorities -- be it in the form of more liquidity injections (or "QE3") by the Fed or the European Central Bank.

So 2008.

Even if the central banks were inclined that way, pumping more money into an economy already flush with cash would provide little solace. These days, large companies are frowning all the way to the bank, depositing excess funds in safe-but-idle accounts, as shown by Bank of New York's unprecedented move last week to charge companies to park their cash in its vaults.

As for jittery investors, a few more billions minted by Uncle Sam or his Frankfurt cousin are unlikely to be enough to persuade them to jump back into the market.

In 2011, the financial world can't go cap in hand to the political capitals, hoping for a handout. To get out of the current impasse, markets will have to rely on their inner strength or wait for politicians to take radical measures to spur economic growth.

A market-led solution isn't impossible. At some point prices of assets will become so cheap that they will reawaken the "animal spirits" of both investors and companies.

As Warren Buffett once wrote to his shareholders, "we have usually made our best purchases when apprehensions about some macro event were at a peak".

The alternative is to hope that politicians in the U.S and Europe will introduce the fiscal and labor reforms needed to reawaken demand and investment growth. But that is bound to take time.

As often, the past looks a lot simpler than the present. But the reality is that, unlike 2008, governments' money is no good in today's stressed environment.

Australia is Also on the Front Lines of Globalization's Biggest Challenges

9-14-11

The title above comes from the body of this article and supports what I have discussed many times. What has happened in Australia in the past is just happening now in the USA and we can learn and anticipate from that. Aivars Lode

By William Pesek, Bloomberg.

It's as predictable as political leadership gets: When things go awry at home, escape overseas for a while, grip and grin with a foreign head of state and change the subject.

Barack Obama may have this tried-and-true strategy in mind as he plans to visit Australia, which is about as far as a U.S. president can get from the rancor in Washington. Yet as he meets with Prime Minister Julia Gillard in November, it will be hard not to wonder about the weak leadership imperiling not only their economies, but also the world at large.

The similarities between Gillard and Obama are striking. Both are trailblazers -- Australia's first female leader, the U.S.'s first black one -- who pledged to change the tone in their capitals. Both are likable politicians who inspire visceral and often inexplicable dislike and face daunting levels of opposition from cynical foes out to derail their every effort. Both confront a news media that has swung from fawning to churlish.

Obama is struggling to get any legislation passed while the economy stalls and U.S. standing wanes. Gillard's inability to get her policies passed risks squandering a once-in-a-lifetime opportunity to harness the benefits of a mining boom and prepare for when the resources run out.

So maddened are their opponents that they forget what they once stood for. Gillard can't garner support for a refugee bill that lawmakers probably would have supported before June 2010, when she came to power. Opposition leader Tony Abbott now opposes an emissions-trading system his party championed a few years ago.

Bad Hands

In the U.S., Republicans are down on Obama's plan to cut payroll taxes, something they would have supported in an instant in the past. In both cases, the opposition would rather hand leaders political defeats than stay true to their own convictions.

What's more, both Obama and Gillard were, to varying degrees, dealt bad hands of cards. Australia's economy steered around the worst of the 2008 financial crisis, its national budget isn't far from balance and exporters have a reliable customer in China. One might argue that Gillard's predicament is partly of her own making as an ouster of predecessor Kevin Rudd in a political coup fueled public discontent.

On Autopilot

Yet Gillard inherited a long to-do list because Rudd (2007 to 2010) and John Howard (1996 to 2007) had largely left the economy on autopilot. Most of the heavy lifting was done by past prime ministers like Bob Hawke (1983 to 1991) and Paul Keating (1991 to 1996). Howard and Rudd opted to coast and ride China's boom. Gillard doesn't have that luxury as the world economy slides anew.

Obama faces a far more intractable set of obstacles. A variety of crises came to a head as he entered

the White House in 2009. Yet Republicans have taken an over-our-dead-body position against Obama's every effort.
The only answer for Gillard and Obama is to get radical -- be bold, think big and fight for your ideals. Neither leader seems set to do that, or able to sell their messages. Much the same can be said of the rest of the world, not to mention Asia.
Japan's growing list of premiers since 2000 is a who's who of weak leaders. From India to Malaysia to South Korea, Asians are struggling amid tepid stewardship. Those with vision and backbone, Susilo Bambang Yudhoyono of Indonesia and Benigno Aquino of the Philippines, are up against institutionalized corruption fighting their every move.

China to Rescue
Europe too is a mess. Germany's Chancellor Angela Merkel personifies the long list of leaders needing opposition support just to stay in power. As Greece burns and euro-area credit ratings get slashed, leaders are looking to a developing nation for help. Italy is the latest to reach out to China about buying its bonds. Who needs the International Monetary Fund when China is ready to step up with its surplus cash?
And if you think we're going to get leadership from the Group of 20, you're dreaming. It's great that this broader, more representative group replaced the Group of Seven. The time when the G-7 could have its way with markets passed long before Lehman Brothers Holdings Inc. collapsed in 2008.
The trouble is, which G-20 leader is coming to the table with new and innovative ideas? In a more perfect world, Australia would be doing just that. For all its challenges, it boasts the kinds of statistics officials in Brussels, Tokyo and Washington would kill for. While the Federal Reserve and Bank of Japan hold interest rates at zero, Australia's central bank has set overnight rates at 4.75 percent. That gives it plenty of monetary ammunition should world growth crash.

Front Line
Australia is also on the front lines of globalization's biggest challenges: the effects of climate change, an aging population, immigration, a widening gap between rich and poor, creaky infrastructure and an education system that needs an overhaul to maintain competitiveness. On these and other issues, ones shared by Obama, Australia's voice should be sought early and often.
Yes, Gillard and Obama will have much to discuss come November. That is, if she's even in office. Canberra is abuzz with talk that the Labor Party will soon dump Gillard and go with Rudd once again. Stranger things have happened, as Gillard's peer in Washington can tell you all about, too.

Mayor Bloomberg's Remarks at the UN General Assembly High Level Meeting on Non-Communicable Diseases

9-20-11

Specifically with regard to smoking in Australia, it was banned from restaurants, planes, trains, public offices now more than 30 years ago. Aivars Lode

The following are Mayor Bloomberg's remarks as delivered this afternoon at the United Nations:
"Thank you, Mr. President. Excellencies; distinguished guests: Thank you all, good afternoon to everyone. For those of you who have come to our city for this meeting, and for the upcoming session of the United Nations General Assembly, welcome to New York. We are always delighted to be your hosts. And I am honored to have this opportunity to address you.
"Improving public health has long been one of my passions, and it's why I'm devoted to enhancing one of the world's preeminent schools of public health at my alma mater, the Johns Hopkins University, which is dedicated to saving lives, millions at a time.
"Public health remains an intense focus of my philanthropic work, as well as of my public service as Mayor of the City of New York. And without a doubt, the greatest public health challenges in the world today are those that you've identified: the dangers of chronic, non-communicable diseases.

"The increase in cardiovascular disease, cancers, diabetes, and chronic respiratory diseases has, as the World Health Organization warns, reached epidemic levels. Unless we head off this epidemic now, each year tens of millions of people across the globe – especially in low- and medium-income nations – will be subjected to crippling pain and disability caused by cardiovascular disease and cancer.

"Tens of millions more will be left speechless and immobile by debilitating strokes, or maimed and enfeebled by diabetes. And tragically, tens of millions of others will face early and painful deaths, leaving families bereft and, often, impoverished.

"We have made reducing non-communicable disease the focus of public health policy here in New York City, a city of about 8.4 million people. And I'm happy to report that we have had considerable success as a result. It's fundamental to why for New Yorkers today, life expectancy has increased faster and remains higher than for Americans overall. Between 2001 and 2008, life expectancy in our city grew by more than a year and a half. That's an outcome we take pride in and that we've worked hard to achieve. And I believe all nations worldwide can achieve similar success.

"At the outset of our Administration, we recognized that non-communicable diseases – especially heart disease and cancer – far outstripped all other causes of death in our city and that the single most effective thing that we could do to reduce them was to discourage smoking. Since then, we have implemented a range of policies to achieve precisely that goal.

"We have, for example, made New York City's bars and restaurants, like our other workplaces, smoke-free. Recently, we extended that ban to our parks and public beaches. We've also mounted hard-hitting educational media campaigns that graphically depict the dire consequences of smoking. We've made smoking cessation programs far more widely available. And very importantly, we've increased the excise taxes to make cigarettes purchased in our city the most expensive in the nation at about $11 a pack.

"Here are the results of these efforts. Before 2002, the proportion of adult smokers in our city had been constant for many years; roughly 22 percent. Today, that has dropped to 14 percent – the lowest on record. There are now some 450,000 fewer adult smokers in our city than there were in 2002. That means we've already saved at least 1,500 lives a year. Most encouraging of all, the proportion of public high school students who smoke has been cut by more than half, from 18 percent to just 7 percent. And that will save even more lives in the years ahead.

"Such results can be – and must be – replicated worldwide. Because when it comes to preventing tobacco-related illness and death, we are in a race with time – a race we can't afford to lose.

"Here is what is at stake: By the end of the decade, the WHO expects 7.5 million tobacco-related deaths worldwide, every year. Some 80 percent of these deaths will take place in the world's low- and middle-income nations – nations where tobacco companies have stepped up their marketing briskly.

"As The Economist has put it: 'The tobacco industry is getting the world's poor hooked before governments can respond.' Unless we do respond, the results will be one billion pre-mature deaths worldwide during the 21st century.

"That would be a calamity of the first magnitude – and that's why I've also made tobacco control a major priority of Bloomberg Philanthropies. Since 2006, we've established partnerships with governments and citizens' groups around the world to implement public policies designed to defeat the global tobacco epidemic. These policies are familiar to many of you. They carry out the intent of the historic 'Framework Convention on Tobacco Control,' the world's first public health treaty, ratified by some 170 nations – and many nations are now taking action.

"For example, two years ago, the Brazilian State of Sao Paulo mandated comprehensive smoking-free public places. Since then, six more Brazilian States have followed. Turkey has adopted similar policies nationwide, and also mandated graphic cigarette pack warnings and raised tobacco taxes. And so far this year, Nepal, Lebanon, Argentina, and Ecuador and other nations have enacted comprehensive tobacco control laws.

"The progress we're seeing on tobacco is encouraging action on other fronts as well. To attack diabetes and heart attacks, for example, in New York, we have also taken the lead in promoting healthier eating. In 2008, we became the first jurisdiction in the United States to require restaurant chains to post calorie information on menus and menu boards. Surveys now tell us that customers who observe these postings buy food with fewer calories.

“In 2009, we enacted the first restriction on cholesterol-raising artificial trans fat in the city’s food service establishments. Our licensing of street ‘Green Cart’ produce vendors has greatly increased the availability of fresh fruits and vegetables in neighborhoods with high rates of diet-related diseases.

“We’ve led a national salt reduction initiative and engaged 28 food manufacturers, supermarkets, and restaurant chains to voluntarily commit to reducing excessive levels of sodium in their products. And we’ve mounted a public education campaign highlighting how consuming sugar-sweetened drinks contributes directly to the obesity epidemic that plagues far too many New Yorkers, especially our children.

“Bloomberg Philanthropies has also begun to address another major and non-contagious cause of death and disability in the world, with another vital change in the fabric of our daily life: Improving road safety, especially in rapidly motorizing nations.

“We’ve identified ten low- and middle-income countries that account for nearly half of all road deaths globally. And in partnership with governments and non-governmental organizations, we’ve begun to improve life-saving policies. That includes, for example, passing and enforcing seat belt laws, and laws requiring motorcyclists to wear helmets.

“We’ve also focused on traffic engineering that improves road safety; and on upgrading urban transport that not only unclogs crowded roads and streets but that also enhances air quality and quality of life. The problems of modern life are deeply inter-related. And so, thankfully, are their solutions.

“As the chair of the C40 Cities Climate Leadership Group, I can tell you that improving transit, and other steps cities around the world are taking to shrink their carbon footprints, have the immediate, additional benefit of also improving air quality and public health.

“In fact, one of the key lessons we’ve learned is that making our environment healthier often creates such multiple benefits. And before leaving you, let me touch on four other lessons as well.

“First, we’ve learned that changing the social and physical environment is far more effective than changing individual behavior alone. Making workplaces and places of entertainment smoke-free; reconfiguring city streets to make them safer; creating ways for consumers to find healthy food. Such social and physical changes that make the healthiest route are also the ones easiest to follow.

“Second, and very importantly in today’s world, healthy solutions are not necessarily costly solutions. Far from it. New York’s smoke-free air act, our restrictions on trans fats, and our requirements concerning calorie posting in restaurants cost virtually nothing in public funds to implement. And raising cigarette taxes raises public revenues.

“Third, collaboration with the private sector – as in the national salt reduction initiative – and with non-government organizations – as in traffic safety efforts worldwide – are very important. Collaboration across borders, among national and local governments and agencies, is also critical. The challenges before us are too vast and complex for individual governments to overcome alone.

“But fourth and finally, while government action is not sufficient alone, it is nevertheless absolutely essential. There are powers only governments can exercise, policies only governments can mandate and enforce, and results only governments can achieve. To halt the worldwide epidemic of non-communicable diseases, governments at all levels must make healthy solutions the default social option.

“That is, ultimately, government’s highest duty. And one of the spiritual founders of the United Nations – America’s Franklin Delano Roosevelt – once put it: ‘The state’s paramount concern should be the health of its people.’ So why don’t we all resolve to renew our efforts now to address the worldwide crisis of non-communicable disease, and bring better health, and greater hope, to all the people of our good Earth.

“Thank you, and enjoy your stay in New York.”

Redefining the Meaning of No. 1

10-9-11

In many conversations, I have discussed what happened in Australia after the crash of the 90's. Individuals in Australia became focused on what would increase their quality of life. The same will occur here in the States. Once individuals realized that they could not rely on their pensions, they set up a business that they had a passion about...and went all out to make it the best that it could be. Aivars Lode

By David J. Rothkopf, New York Times

HERE in America, we seem to be more interested in finishing first than we are in figuring out what race we ought to be in.

The refrain is insistent, from President Obama on down. He, like others in both parties, urges us on — to build or educate or invest or cut the deficit — so that "America can be No. 1 again."
We want to be No. 1 — but why, and at what?
The size of our economy is one measure of success, but it's not the only measure.
Isn't the important question not how we remain No. 1 but rather, what we want to be best at — and even, whether we want to lead at all?
But we are Americans and we seem to think the rest of the world looks best when framed in our rear-view mirror.
We outstrip the world by many measures but lag, sometimes shockingly, in many others. The metrics by which we choose to measure our success determine our priorities. Yet, some of the metrics we rate as most important, like G.D.P., stock indices or trade data, are so deeply flawed as to be irrelevant or worse, dangerous distractions. And at the same time, countries that could hardly hope to outperform the world in any category are far ahead of us when it comes to things that matter more to people. Choosing metrics to measure our society is not a value-free process. As a country we have consistently relied on indicators that keep us focused on the interests of business, financial institutions or the defense industry whereas equity, quality of life and even social mobility metrics are played down.
Calculating national income is a relatively new concept. Previously, countries measured their economic well-being by tallying land holdings or counting railroad boxcars. But in the midst of the Great Depression, Congress, showing a great deal more intellectual curiosity than it does today, commissioned a group of economists led by a future Nobel Prize winner named Simon Kuznets to better measure economic activity.
Although Kuznets and his team fulfilled their mission, they released their results with considerable unease. Not only were they aware that the statistic they devised ignored many types of economic activity — from the work of housewives to illegal enterprises — they also knew their number did not assess the social benefits of what they were tracking.
Kuznets warned of this: "The welfare of a nation can, therefore, scarcely be inferred from a measurement of national income" like the one they created. That hasn't stopped us from making this misleading number perhaps the most influential statistic in the world.
Americans use G.D.P. in discussions about how well we are doing. It's at the heart of discussions of whether we are in a recession or not, ahead or falling behind.
Yet, when China "passes" us, it will remain for the most part a very poor country racked with social problems. And as we have seen, though the past decade was marked mostly by United States "growth," recent Census data shows that since 1999, median American incomes have fallen more than 7 percent while the top 1 percent showed gains. Almost one in four American children live in poverty. We have a high level of unemployment compared to many of our peers.
THE G.D.P. number is not the only culprit, of course. Listening to the news, you might be forgiven if

you thought that stock market performance was linked to reality. But markets are oceans of teeming emotions that make the average hormone-infused high school look calmly rational, and much of the "data" that moves markets is just bunk. Trade deficit numbers may be scary but they are also frighteningly flawed, doing a terrible job of accounting for trade in services, trade via the Internet, and inter-company trade, to pick just three among many problem areas.
Worse than the shortcomings of these statistics are the consequences of our over-dependence on them as measures of the success of our society. A country, for example, that overemphasizes G.D.P. growth and market performance is likely to focus policies on the big drivers of those — corporations and financial institutions — even when, as during the recent past, there has been little correlation between the performance of big businesses or elites and that of most people.
Furthermore, of course, the purpose of a society is not merely the creation of wealth, especially if most of it goes to the few. Even John Locke, who famously enumerated our fundamental rights as being to life, liberty and property, qualified this by asserting that people should appropriate only what they could use, leaving "enough and as good" for others. Thomas Jefferson later consciously replaced the right to property with a right to "the pursuit of happiness." And happiness has become the watchword for those seeking different measures that might better guide governments.

According to the economist Carol Graham, the author of a recent book called "The Pursuit of Happiness: An Economy of Well-Being," "happiness is, in the end, a much more complicated concept than income. Yet it is also a laudable and much more ambitious policy objective." While she notes distinctions between approaches to happiness — with some societies more focused on goals like contentment and others on the creation of equal opportunities — she joins a growing chorus of leading thinkers who suggest the time has come to rethink how we measure our performance and how we set our goals.

This diverse group has included thinkers and public figures like President Nicolas Sarkozy of France, who established a commission in 2008 to address the issue that was co-led by the Nobel Prize-winning economist Joseph E. Stiglitz; the Columbia economist Jeffrey D. Sachs; the British prime minister, David Cameron; and the trail-blazing people of Bhutan, who since 1972 have set a goal of raising their gross national happiness.
Dr. Graham admits that it's a challenge to set criteria for measuring happiness. However, in a conversation, she told me she did not see it as an insurmountable one: "It doesn't have to be perfect; after all, it took us decades to agree upon what to include in G.D.P. and it is still far from a perfect metric."
But for Americans, beyond choosing the right goals, there remains the issue of being No. 1. Many of us have lived our lives in a country that has thought itself the world's most powerful and successful. But with the United States economy in a frustrating stall as China rises, it seems that period is coming to an end. We are suffering a national identity crisis, and politicians are competing with one another to win favor by assuring a return to old familiar ways.
This approach, too, is problematic. We, as a developed nation, are unlikely to grow at the rapid pace of emerging powers (the United States is currently ranked 127th in real G.D.P. growth rate). Europe and Japan, too, are grappling with the realities of being maturing societies.
But maturing societies can offer many benefits to their citizens that are unavailable to most in the rapidly growing world — the products of rich educational and cultural resources, capable institutions, stability and prosperity.
AS a consequence, countries that at different times in history were among the world's great powers, such as Sweden, the Netherlands, France, Britain and Germany, have gradually shifted their sights, either in the wake of defeat or after protracted periods of grappling with decline, from winning the great power sweepstakes to topping lists of nations offering the best quality of life.
When Newsweek ranked the "world's best countries" based on measures of health, education and politics, the United States ranked 11th. In the 2011 Quality of Life Index by Nation Ranking, the United States was 31st. Similarly, in recent rankings of the world's most livable cities, the Economist Intelligence Unit has the top American entry at No. 29, Mercer's Quality of Living Survey has the first United States entry at No. 31 and Monocle magazine showed only 3 United States cities in the top 25. On each of these lists, the top performers were heavily concentrated in Northern Europe, Australia

and Canada with strong showings in East Asian countries from Japan to Singapore. It is no accident that there is a heavy overlap between the top performing countries and those that also outperform the United States in terms of educational performance — acknowledging, of course, the mistake it would be to overemphasize any one factor in contributing to something as complex as overall quality of life. Nearly all the world's quality-of-life leaders are also countries that spend more on infrastructure than the United States does. In addition, almost all are more environmentally conscious and offer more comprehensive social safety nets and national health care to their citizens. That virtually all of the top performers place a much greater emphasis on government's role in ensuring social well-being is also undeniable. But the politics of such distinctions aside, the focus of those governments on social outcomes — on policies that enhance contentment and security as well as enriching both human capabilities and opportunities — may be seen as yet another sign of maturity.

It is also worth noting that providing the basics to ensure a high quality of life is not a formula for excess or the kind of economic calamities befalling parts of Europe today. For example, many of the countries that top quality-of-life lists, like Sweden, Luxembourg, Denmark, the Netherlands and Norway, all rank high in lists of fiscally responsible nations — well ahead of the United States, which ranks 28th on the Sovereign Fiscal Responsibility Index.

What these societies have in common is that rather than striving to be the biggest they instead aspire to be constantly better. Which, in the end, offers an important antidote to both the rhetoric of decline and mindless boosterism: the recognition that whether we are falling behind or achieving new heights is greatly determined both by what goals we set and how we measure our performance.

Public Anger and Shareholder Unease Threaten Tax Havens' Tranquility

10-18-11

As we saw happen in Aussie over a decade ago. Aivars Lode

Published in The Economist

UNDER intense international pressure to lift banking secrecy, the first and biggest of the world's "tax havens"—places that charge low or no taxes to foreigners—is ceding some ground. In a deal signed on October 6th, Switzerland agreed to tax money held in its banks by British residents (it had already done a similar deal with Germany). These customers face a levy of up to 34% as well as, from 2013, a withholding tax.

That could bring the British treasury around £5 billion ($7.8 billion). But Nicholas Shaxson, author of "Treasure Islands", a book on offshore finance (and a former contributor to this paper), calls it a "Swiss tax swizz": the country will in effect pay a fat fee to avoid revealing clients' names. That undermines efforts at the Organisation for Economic Co-operation and Development, a Paris-based club of mostly rich countries, to set international standards on tax evasion.

The fact that Switzerland did a deal at all reflects a changing climate for offshore finance, which has flourished for 50 years. Its defenders still have strong arguments to muster. The most controversial is the Swiss stance, which sees tax as a morally neutral battle of wits against the fiscal authorities: quite different from money-laundering or fraud. From that viewpoint, banking secrecy is a human right and states that try to overturn it are overreaching their powers.

Other less idealistic arguments abound. Some say that companies' legal duty to shareholders necessitates using offshore finance to reduce and simplify taxes; it is all the more important when regimes and rates differ wildly in the onshore world. Offshore jurisdictions also provide the tax and regulatory competition that keeps grasping governments and officials in check. Even if a company's profits are higher as a result of using a tax haven, that money will flow out and eventually be taxed, for example as dividends when it reaches shareholders. Offshore financial centres compete by being well run and regulated—with tougher standards (for example on knowing your customer) than some supposedly respectable countries. Rather than cracking down offshore, the need is for simpler, clearer tax regimes onshore, where companies do their real business.

Cold arguments for sunny places

As public faith in the universal benefits of markets and globalisation wobbles, and public coffers empty, such arguments pall. Small firms are angry that clever offshore schemes favour their bigger competitors. Citizens and policymakers are readier to hear a broader case: that offshore finance skews the global distribution of wealth, away from poor countries and those that levy taxes to pay for public goods (including the ones that benefit companies).

Global Financial Integrity, a campaigning group, says poor countries “lose” more than $1 trillion a year to tax havens, around ten times the aid they receive. Two-thirds of this is tax evasion and avoidance, the group says, the rest transfers by criminals and the corrupt. Another outfit of fiscal inquisitors, the Tax Justice Network (TJN), cites research by the Bank for International Settlements, the Boston Consulting Group and McKinsey to calculate that global offshore deposits amount to at least $9 trillion, some $2 trillion more than the total held at home by American banks. ActionAid, a charity, published research this week showing that the companies in the FTSE 100 index had 8,492 offshore subsidiaries.

Legal and rational though this activity may be, the results of the offshore boom can be startling. Mauritius is the largest investor in India, the British Virgin Islands one of the biggest in China.

Practical worries are growing too. As blasé attitudes to financial stability give way to concern, tax havens make it harder to gain a true picture of where debt and risk lie, for example in hedge funds trading exotic derivatives. Enron’s finances were obscured by its habit of hiding debt in its hundreds of subsidiaries in the Caribbean.

Tax havens make easy money from registering companies and processing payments—in effect, earning a rent from their sovereign status. Most would otherwise be merely indifferent tourist destinations. But putting pressure on a handful only pushes business elsewhere—from the Channel Islands and Switzerland, say, to Mauritius and Singapore. Rules so far have slowed, not reversed, a race to the bottom.

One avenue for reform is to place a greater duty on companies to explain what profits they make where. That would help prevent the worst abuses of transfer pricing scams, in which tax havens play a handy role. The muddled Dodd-Frank reforms, passed by Congress in America and now being implemented by regulators, supposedly go some way towards this; so does legislation being drafted in the EU.

Campaigners also want to see more countries agree to the automatic exchange of tax information on non-residents. Bilateral tax treaties normally require such exchanges only on request. This works if the government seeking information knows precisely what it is looking for and if the host government can obtain it. As this issue has moved up policymakers’ agendas, some havens have voluntarily become more co-operative. The Isle of Man, for instance, now automatically swaps information (though Jersey refuses to follow suit for fear of losing “competitive advantage”).

Overall, however, resistance to change remains strong, not least in big Western financial centres such as Wall Street and in the City of London, which see the flexibility offered by tax havens as an essential part of their business model. Public discontent may be filling the campaigners’ sails, but political support for reforms is still patchy. France, which holds the presidency of the Group of 20 (a club of the world’s biggest economies) wants to discuss tax havens at next month’s meeting in Cannes. But other countries are less keen, and more urgent items crowd the agenda.

Perhaps the most potent pressure comes from inside the system. Company shareholders, especially ethically minded pension funds, are increasingly asking about the risks (both reputational and other) of using tax havens. Britain’s Barclays bank was publicly embarrassed in January when a British lawmaker quizzing its boss, Bob Diamond, asked him how many subsidiaries it had in the Isle of Man, Jersey and the Caymans. He didn’t know: the answer was 249. Another risk is the effects of a crackdown in home countries. Investors are “starting to calculate how it might affect equity valuations,” says one consultant. Returns, not ranting, may be the tax havens’ biggest woe.

Going Once, Going Twice...: Brothers to Auction Mansions

10-20-11

A couple of decades ago, this started in Melbourne, Australia and now, virtually every property is sold by auction. Aivars Lode

By Adam H. Beasley, Miami Herald

Two Golden Beach brothers are poised to voluntarily auction off their posh homes, hoping to rewrite the rules of how properties are sold in South Florida.
Cardiologists and brothers, Steven and Robert Fox moved to South Florida from Philadelphia to set up practice, and in 1990, they bought matching homes in Golden Beach, the exclusive oceanfront enclave.
Now retired and empty-nesters, it's time to sell. Like most everything else, they're doing it together. But there's a twist.
Instead of brokering traditional sales through a real estate agent, the Foxes have decided to auction off their multi-million dollar mansions to the highest bidder — a practice usually reserved for properties that have been foreclosed or seized.
But these sand-dune palaces are not in distress. Rather, Steve and Bobby Fox simply tired of waiting after their homes languished on the market for years, and decided to force the issue.
And so, on Nov. 10, the bargain-hunting ultra-rich can gather in Steve's Ocean Boulevard estate home for what could be the most lucrative voluntary property auction in South Florida history.
"In these economic times, everybody is counting their money; everybody has less," said Steve Fox, 64. "But we felt the best way to get the most flies on the wall is an absolute auction."
Lamar Fisher, whose Pompano Beach-based company is handling the auction and will rake in a 10 percent premium — payable by the buyers — said more than 100 deep-pocketed prospectors from at least seven countries have expressed interest. Fisher expects roughly 20 registered bidders to participate in the auction, which will be conducted both in person and online.
They'll need to make serious commitment just to get in the door. A refundable deposit of $500,000 is required merely for the right to bid on one of the houses. Those interested in both homes will need to deposit $1 million.
The winning bidder's deposit will then be applied to the 10 percent cash down payment required to buy the home. From there, things move quickly. Closing is within 30 days — a relief to the Fox brothers and their wives.
"I'm ready to downsize," said Helene Fox, married to Bobby. "It's been 21 years, we've raised our children, but we're ready for a simpler existence."
But with speed comes risk.
When listed traditionally, both four-bedroom, 6,000-square foot homes had asking prices that topped $11 million. That assured Steve and Bobby the right to brush off unacceptable asking prices.
But on auction day, they have no choice but to accept the winning bid, no matter how low.
"In the last five years, the high-end market is down, but not as much as the rest of the market," said Fisher, perched in Steve's living room Wednesday. "The wealthiest are still willing to spend.
"There's no more of that left," Fisher added, pointing over his shoulder to the swelling Atlantic Ocean. "Can't build any more of that."
Steve and Bobby, 58, are poised to turn an enviable profit, even if their homes go for half their original asking price. Steve bought his home, a one-story with pool, private beach, wide open layout, graceful palm trees and attractive courtyard, for $1.6 million, and even with the real estate crash, the county estimates its market value is still $8.4 million.
Bobby's two-story house has a fountain, hand-painted tiles in every bathroom and Pecky cypress ceilings, in addition to the requisite pool and private beach.
While popular overseas, non-bank auctions are rare in the United States, usually occurring in areas where property sales are not strong, said Ron Shuffield, president of Esslinger-Wooten-Maxwell Realtors.
Shuffield believes a properly priced home — regardless of its opulence — can always be sold in the

traditional method.
“An auction creates a lot of excitement, but also the expectation you’ll buy something at a low price,” he said. “My experience has been that [auction homes] sell for less, but the counter side to that is they sell it very quickly. They’re going to know that they’ve sold it. For some people, that outweighs what they’re losing.”
The Fox Brothers believe they can have a sale that’s both quick and fair. Certainly, Fisher hopes so. “We’re going to get the best possible prices for our homes,” Bobby Fox said. “We’ve advertised internationally. We’ve extensively marketed. Whoever’s interested is going to show.”

Farmland prices in the Midwest soar

11-25-11

So about a year ago, I was standing at my daughter's Soccer game with a large American food producer who had been asked to be part of a think tank out of Washington to prove that there is a coming food shortage. Through work that we have completed in creating exchanges we are aware that 50% of food leaving the farm is already destined to spoil due to the huge inefficiencies in allocation (therefore no shortage). Part of the story that the producer gave me for the reason of the coming food shortage was the change in tastes that Chinese are having as their economy grows, this all after a few week trip to the region. After having lived in Asia and done business globally for nearly a decade I knew this was significantly overstated. As many of you that have read my previous book know, commodities are manipulated and this is no different. I mentioned to many of my colleagues that I bet we would see a run up in the price of agricultural land as the Banks that created the think tanks would have been buying agricultural land and concurrently would be lobbying the government to provide subsidies to purchase farming land to avert a global shortage of food. Benoit sent this article with the comment that I am scary, I guess because I foresaw this. Aivars Lode

By Logan Burruss, New York, CNN Money

Agricultural land value is soaring in the Midwest, with parts of the region surging 25% from last year, according to two recent Federal Reserve surveys. The jump is the highest increase in three decades. Record farmland prices are also being reported in the northern Plains.

Surveys released by the Kansas City and Chicago Federal Reserves Tuesday find that despite a struggling U.S. housing market, agricultural land in their districts is booming. And the run-up in prices may have yet to peak, they said.
"District farmland values surged to a record high in the third quarter," the Kansas City survey said. "Cropland values rose more than 25 percent over the past year, and ranchland values increased 14 percent."
In particular, Nebraska experienced exceptionally strong gains in the Kansas City District due to bumper crops -- especially productive seasons for certain crops -- reporting a roughly 40% rise in farmland prices from one year ago.
The surveys indicate that good credit conditions, successful harvests, and elevated levels of farming income helped to contribute to this large surge in an already strong agricultural property market.
According to the Chicago Fed, farmland values in its district had their largest increase since 1977, jumping 7% from the previous quarter.
Iowa farmland prices led the Chicago Fed's district, jumping 31% from last year's 3rd quarter. However, not every state in the region had such historic success.
The southern Plains, Oklahoma in particular, saw more modest increases -- mainly due to devastating droughts, affecting yields from crops and livestock.

Miami's Billion-Dollar Real Estate Boom

12-5-11

I have commented a number of times that a new building does not stay empty long. As properties go through the restructuring process and prices come down they fill up and the old stuff empties. Specifically with regard to Miami, I have said a number of times it will be the Hong Kong of the west without the crowds. Aivars Lode

By Mike Vogel, Florida Trend

"They see Miami has all the potential to be at another level in three or five years, and they're paying top dollar. These guys from Asia are grabbing everything."
— condo developer Harvey Hernandez

Even by the standards of the city that put the "over" in overbuilding, the projects announced this year for Miami are colossal:
Swire Properties, a global real estate company based in Hong Kong, unveiled plans for Brickell CitiCentre, a $700-million retail, office, hotel and condo tower project totaling 4.6 million square feet on nine acres off Brickell Avenue in downtown Miami.
Then, Malaysia's largest conglomerate, casino-resort developer Genting Group, paid more than $400 million to secure more than 30 acres on the bayfront for its $3.8-billion Resorts World Miami. The project will include four hotels that total 5,200 rooms; a casino; 1,000 condos; a pool more than three football fields long; and a column-free convention ballroom that will be one of the largest in the nation.
Both developers have such deep pockets that they won't have to worry about the credit markets. And Genting says it will build regardless of how the legislative scrum plays out on casino gambling.
Meanwhile, the construction crane has returned to the city's skyline with an Argentine company's new condo tower. Foreign developers — and projects backed by foreign investors — have emerged in force ["Foreign-Backed Projects," page 44], and more may be in the offing. "There are a lot that have invested — and it's not even public — that are of equal financial strength and stature as Genting and Swire," says a land-use attorney for those two firms, former Miami Beach Mayor Neisen Kasdin, managing shareholder for Akerman Senterfitt's Miami office.
"This is completely different in quality and quantity and depth and staying power than anything we've ever seen before, and it bodes very well for us," says Kasdin. "It's a recognition that Miami has arrived as a major global gateway city."
What a change for a downtown that was ground zero for the real estate recession. Beginning in 2003, developers put up 22,250 condo units in 80 projects downtown, begetting excess inventory, foreclosures, falling prices and
discounted sales. As recently as 2009, it was projected to take a decade to
absorb. Instead, the last of those units will be sold by next year, projects Peter Zalewski, principal of Bal Harbour-based real estate firm Condo Vultures.
Seven of 10 new buyers, says Zalewski, come from abroad, and the wider Miami area is on pace to pass the sales volume at the height of the boom in 2005, according to the Miami Association of Realtors.
A bustling, more densely populated downtown is emerging. Women feel comfortable jogging alone. Parents exit condo lobbies with kids in strollers. Spanish, Portuguese, Russian and German are spoken.
The foreign buyers and investors are responding to multiple draws: The city's location and appeal, a new strength in the arts, the widening of the Panama Canal, a strong market for renting out units, a weak dollar, fears of political developments in home countries and real estate that's cheap relative not only to New York but also to São Paulo. Prolific condo developer Jorge Perez says South Americans "have effectively saved the real estate market."
And they've prompted new building. Zalewski counts eight towers totaling 2,800 units planned for

downtown Miami alone. Melo Group, an Argentina family business, has an 18-story, 96-unit condo tower rising in the city's arts district. Another condo developer, Harvey Hernandez, hopes to break ground in the second quarter on Brickell House, a 46-story condo tower he's building with backing from U.S. and foreign investors. He has his eye on foreign buyers. They pay cash and, as is customary back home, put 70% down during construction.
Jobs will be welcome in Miami. Unemployment countywide in September was 11.5% — higher than both state and national averages. Construction employment has fallen by 45% — 25,300 jobs — from the 56,200 who were working in 2007, the market's peak.
Condos aside, direct foreign investment in Miami commercial real estate also has rebounded, hitting $472 million this year. That marks a huge jump from 2010's $16 million, though well off the recent peak of $1.5 billion in 2008, according to Real Capital Analytics, a New York research and consulting firm. Market analysis director Ben Thypin says the $472 million figure is almost certainly understated because the firm tracks only direct commercial investments of more than $2.5 million, not individual condo purchases or investments through conduits. "A lot of people in the industry have been shocked by how less volatile Miami was in the last few years," Thypin says.
Hernandez, a native of Venezuela who has built in Florida for 20 years, says "what you're seeing nowadays is unprecedented." Miami always has drawn foreign investors interested in a condo or two or a single commercial property. "Now what we're seeing is a lot of the tier-one investors," Hernandez says. "They see Miami has all the potential to be at another level in three or five years, and they're paying top dollar. These guys from Asia are grabbing everything."
One of those guys is Tan Sri Lim Kok Thay, 60, executive chairman of Genting, who Forbes reckons is worth $665 million. (In Miami, he goes by the westernized K.T. Lim. Tan Sri is a title awarded to select Malaysians.)

Lim's late father, Lim Goh Tong, a native of China, emigrated to Malaysia in the 1930s. The elder Lim owned the only casino in Malaysia and built a conglomerate from the proceeds. His son first came to Miami 40 years ago, "literally backpacking," while on break from studying civil engineering at the University of London. He went on to Orlando — "I only wish I had bought real estate. I should have followed Walt Disney." And he enjoyed a grandstand seat for an Apollo night launch. "I felt the earth shake and the heat. It was one of the incredible experiences."
Lim joined his father in business and took Genting international with casino resorts and Genting Hong Kong, the world's third-largest cruise line. "K.T. Lim is a brilliant man, a visionary, a strategic thinker," says Walter Revell, a former Florida Secretary of Transportation who has known Lim for 12 years through serving on the board of Norwegian Cruise Line, of which Genting now owns 50%. Lim broke the cruising mold at Norwegian with the introduction of freestyle cruising.
Genting's "crowning achievement," according to a six-minute promotional video it plays for community leaders, will be Resorts World Miami. "Approach from any direction and prepare to be awed," a narrator intones. A seven-story terraced base will hold 50 restaurants and bars. Atop that will sit a four-acre pool stretching from Biscayne Boulevard to Biscayne Bay. Rising above that will be towers with the hotel rooms and condos. "A $3-billion investment in Florida, an engine for more than 15,000 direct and indirect construction jobs and another 30,000 jobs for the years to come," the narration concludes. "A vacation hot spot, an economic catalyst, an architectural icon, the heart of the city of Miami, a source of pride for all Floridians. This is Resorts World Miami."

Not to mention — which the video doesn't — a casino, perhaps the largest in the world. Genting says that if Florida rejects casino gambling, it still will build its resort, but over the course of up to 15 years rather than in three to five years after groundbreaking. Genting U.S. principal Colin Au told a Greater Miami Chamber of Commerce audience in October that the Genting tide will lift all ships. In contrast with local "racinos" that attract local customer bases with a mix of horse or dog racing and slot machines, Genting's casino aims to attract gamers from outside the state and country. "Gaming cannot be parasited on the local economy around it because it is never sustainable. In Asia, we have what we call an export mentality. We want to get people from far away from us, as far as possible." Namely, Latin America and its 560 million people. "Miami is our proxy for Latin America," Au said. Between Latin America and the northeast U.S., he says, Miami will draw 5 million more tourists a year, with windfalls for airport concessions, local attractions, venues and hotels, shops and tax coffers.

Plenty of other gambling industry players, however, don't want Genting to be the only game in town. Potential competitors include Fortune 500 casino company Las Vegas Sands, Wynn Resorts and others. More than a few in Miami worry that the city could end up as Vegas on the bay. In their view, Miami is doing just fine, thank you, as an international city without gambling. Already, nearly eight of 10 city residents speak a language other than English at home. Approximately 1,000 multinational companies and 41 international banks have a Miami-Dade County presence as well as 71 foreign consulates and 20 trade offices. Two of the 10 largest Florida-based banks, City National Bank and Sabadell United, both based in Miami, are owned by Spanish banks.

Some of the most concerned about casinos are business people historically eager for economic development. "God forbid we be like Las Vegas," says Miami businessman and developer Armando Codina.

Codina, who led an anti-gambling effort in the past, plans no role in the latest contest but hasn't changed his personal views that gambling is a regressive tax, "like the lottery," a magnet for social ills and a siphon from local business. "Traditionally, casinos are very selfish businesses," Codina says. "They encourage you to spend all your money inside their establishment. As a result, very little tends to grow in the shadow of a casino. I will be happy and pleased should Genting break with that pattern if they come to Miami."

The Unexpected Shockeroos Of 2011

12-26-11

Not so much of a shockeroo if you had read my blog and/ or book! Aivars Lode

By Robert Lenzner, Forbes Magazine

I bet you didn't know that in all the world's financial markets– you'd have been better off staying in American multi-national companies that protected your capital– and even made you a tad of a positive return when dividends are added to market appreciation. This is Shockeroo Number One.

Shockeroo Number Two; You lost about 20% on your holdings in France and Italy, as well as China. Brazil and a whole host of other emerging markets. I bet you never expected that to happen, as all the Wall Street wise men were preaching the EMs as the way to make up for the stagnation in developed economies.

Shockeroo Number Three; Deflation, not inflation, ruled government bond markets, driving down yields in 10 year and 20 year US Treasuries to levels not experienced since the 1950s. You missed a bull market in Treasuries, you know, those securities the Chinese wish they didn't own.

Shockeroo Number Four. Famous billionaire hedge fund managers like John Paulson just plain got the bullish on cheap bank stocks concept totally wrong. It's embarassing to buy BankAmerica because you and the gang predict it's a $25 stock. More like $5.00 and heading south. These positions were taken without the foggiest idea of what lay out of vision on the bank balance sheets. JP Morgan Chase is selling at 50% of book value. Citigroup is still a basket case. Goldman is off 44%.

Shockeroo Number Five. Gold prices don't grow to the sky. The long expected gold bubble did not take place. Instead, after a lovely run-up from $1348 to $1920, came a cooling off correction of $300 an ounce or 17%. Healthy. Soros and my number one gold guru both sold last summer at a tad under $1600 an ounce. Margin buyers above $1700 got wiped.

Shockeroo Number Six. After laughing off Greece and the PIIGS, investors in European sovereigns and banks received a rude and brutal treatment by the endangered zone of a contagion. Europe does matter after all to the US, to China. And no "bazooka" of cheap financing changes a hugely worrisome hangover coming.

Shockeroo Number Seven. The silly vapid notion of a "Santa Claus" rally does not trump no energy

plan, no growth agenda, no concrete opportunity for infrastructure, a 2 month extension of the payroll tax exclusion, only 9% confidence in the lawmakers.
Shockeroo Momentum is strong. I'm sure we can expect more upsetting moments in 2012. Goldman Sachs is calling fior only 1% growth in the first half,:PIMCO says zero growth. Welcome to the land of Shockeroos.

Shared and Regional Services Are on the Rise

1-4-12

As previously commented on in this blog years ago, cities and counties will be forced to consolidate in order to reduce costs and not increase taxes. How did we know this? Because that is what happened in Australia during the 90's recession. Aivars Lode

By David Raths, Government Technology

Early last year, Montana CIO Dick Clark was driving down Interstate 90 west of Missoula when he had an epiphany. He and other state CIOs had just been talking about their experiences negotiating with cloud computing vendors. Clark pulled off the road and had his administrative assistant call Oregon CIO Dugan Petty and Utah CIO Steve Fletcher to set up a brief conference call. "Right there, by the side of the road, I explained to them I wanted to work on a request for information with cloud storage vendors to pool our purchasing power."
Clark's big idea was for the states to band together and purchase cloud storage in volume, driving down each state's costs. "I thought we could start with GIS, because there are not a lot of security issues with the data but there are volume and disaster recovery issues."
That first phone call led to a March 2011 meeting in Helena, Mont., between cloud service providers, including Amazon and Google, and representatives of the three states as well as Colorado. Utah is taking the lead in the development of a four-state RFP. "I have had calls from other states wanting to get in on this," Clark added. "This may be a new paradigm for contracting that could put us on an equal footing with much larger states."
For all the business sense it makes for neighboring governments to share resources, these efforts have often been hamstrung by turf politics, mistrust and technology shortcomings. But thanks to the toughest economy since the Great Depression and technological advances like Web-based applications and broadband connectivity, there appears to be an uptick in regional activity.

Clark has advocated for greater cooperation for years, but when he brought it up at National Association of State Chief Information Officers (NASCIO) meetings a few years ago, "nobody really took me up on it because they had money," he recalled. "Then everyone got a wake-up call from the recession and started to see the benefits of collaborating." Indeed, Clark starts his PowerPoint presentations with a quote from Winston Churchill: "Gentlemen, we have run out of money. Now we must think."

Clearly CIOs have started to think. The topic "shared services" ranked 5th on the 2011 NASCIO survey of state CIO priorities. The federal government also is nudging states to work together in new ways. The U.S. Department of Labor has funded a collaborative effort between Tennessee, North Carolina, South Carolina and Georgia to modernize their unemployment insurance systems. This Southeast Consortium has spent several months working on a feasibility study for the development of a common core system to replace large portions of the legacy systems of multiple states.

"Three years ago, the Department of Labor made clear it does not want to help fund 50 separate software development programs," said Jim Mahony, director of the Unemployment Insurance practice at CSG Government Solutions in Chicago, which facilitated the feasibility study work. "The programs are actually very similar. The difference is in the business rules and processing layers."

Much of the work was in developing a common set of requirements for a systems architecture and governance structure. The consortium had to write a memorandum of understanding between all four states and agree to let the lead state, Tennessee, do the procurement. Although the four states are still working out some structural issues, the project is expected to cost much less than if each state did the process individually, Mahony said. The feasibility study was completed early and on budget. “That is a good harbinger, I think,” he added.

Meanwhile, California hopes to attract cities and counties to use state-hosted applications. Scott Paterson, enterprise solutions and services manager at the California Technology Agency, said the Golden State has just started an outreach effort on sharing services with local governments. The idea is for the state to host local governments’ applications in its OTech federated data center and to offer managed email and disaster recovery services. “We are just at the concept stage right now,” Paterson said. “We have been talking to the cities of Fresno and San Francisco and Marin County. I don’t have a success story to offer yet, but I bet I will in six months.”

Counties Helping Cities
On Oct. 11, 2011, Westchester County, N.Y., put on a Shared Municipal Service Expo and published a guide describing dozens of the county’s shared services. Representatives from 15 county departments set up displays to educate participants on the wide variety of county services available to local governments, schools and other districts. One of the stars of the show was IT. Services offered include wide-area network management, email, GIS and access to a training center.

“Whatever we do, we try to include municipalities in,” said Marguerite Beirne, CIO of Westchester County. For instance, by piggybacking on the county’s Cablevision Lightpath Inc. fiber-optic network contract, municipalities save several hundred thousand dollars each month, she said. “When there are five open seats in an Excel 2007 course, I try to fill them up by offering them to cities at cost. That seat is just going to be empty otherwise.”

The financial slump has made shared services more attractive to government IT leaders over the past few years. But shared services are not a fad in Minnesota, where small cities have banded together on IT services for almost 40 years under the name LOGIS (Local Government Information Systems). Their experience with evolving governance issues may prove valuable to other regions starting on similar sharing agreements. In 1970, seven city finance directors began working together on a shared financial system, which ran on a mainframe at the Hennepin County government data center. A few years later, they decided to split away, find their own facility and create a new structure with an independent board of directors. They used a joint powers act to form a separate entity as a government organization run by its members. Since then, the organization has gradually added applications and services and has grown to 45 members. Headquartered in Golden Valley, LOGIS manages 11 core applications ranging from payroll to public safety to utility billing for those 45 member cities with a staff of only 54 people.

One study 15 years ago by finance directors found that a small city of 20,000 people was saving approximately $60,000 per year. “We haven’t done an in-depth cost-saving study,” said Mike Garris, LOGIS’ executive director, “but I think it is safe to say we have saved millions for these cities over the years.”

The membership ranges from tiny hamlets to large cities like St. Paul. The governance is set up more like the U.S. Senate than the House of Representatives, noted Garris. “It is structured so that Oak Grove, population 2,000, has the same vote as Bloomington with 90,000.” He added, however, that cities must be vested to a certain level to have board representation.

LOGIS also had to change its charging structures over the years. It used to charge by connect time or the number of central processing unit hours during the mainframe era. “We have worked to improve it and use a better yardstick to divide cost,” Garris said. “For instance, with utility billing software it might be number of accounts and how often you bill."

Garris noted that almost every example of shared services is vertical in nature — that is, owned and controlled by one public-sector agency, which can lead to friction. "For some reason, cities often don't get along with the counties they are in," he added with a laugh.

Showdown Over 'Showrooming'

1-22-12

It is only going to accelerate change as the equivalent store to Best Buy in Australia, Harvey Norman, has seen its profit slashed from 250k per store last year to 65k, mostly due to Internet sales. Australia does not have the same transportation infrastructure as the USA so we will only see this trend accelerating here as people try to get more bang for their buck! Aivars Lode

By Ann Zimmerman, Wall Street Journal

Target Asks Vendors for Help Keeping Comparison Shoppers

Target Corp. is tired of being used.

In one of the starkest signs yet that chain stores fear a new twist in shopping, Target is asking suppliers for help in thwarting "showrooming"—that is, when shoppers come into a store to see a product in person, only to buy it from a rival online, frequently at a lower price.
Last week, in an urgent letter to vendors, the Minneapolis-based chain suggested that suppliers create special products that would set it apart from competitors and shield it from the price comparisons that have become so easy for shoppers to perform on their computers and smartphones. Where special products aren't possible, Target asked the suppliers to help it match rivals' prices. It also said it might create a subscription service that would give shoppers a discount on regularly purchased merchandise.

Vendors are likely to have little choice but to play ball with Target because of its clout as the second-largest discount chain.
"What we aren't willing to do is let online-only retailers use our brick-and-mortar stores as a showroom for their products and undercut our prices without making investments, as we do, to proudly display your brands," according to the letter, which was signed by Target Chief Executive Gregg Steinhafel and Kathee Tesija, Target's executive vice president of merchandising.
Showrooming is an increasing problem for chains ranging from Best Buy Co. to Barnes & Noble Inc., at the same time that it's a boon for Amazon.com Inc. and other online retailers. This year store sales overall edged up 4.1% during the holiday shopping season, while online sales jumped 15%. And while online sales represent only 8% of total sales, that is up from just 2% in 2000.
Other retailers also are likely to take steps similar to Target's plan, according to Deborah Weinswig, Citigroup retail analyst, who mentioned the letter in a research note Friday and said it was likely to have gone to suppliers of consumer electronics, health and beauty products and food.
Vendors are likely to have little choice but to play ball with Target because of its clout as the second-largest discount chain. Major suppliers, including Kraft Inc., TV maker Vizio and Procter & Gamble Inc., either wouldn't confirm they received the letter or didn't return calls seeking comment.
Target declined to comment other than to issue a statement saying that it "has long prided itself on having truly collaborative vendor partnerships and we continually work with our vendors to remain competitive in the ever-evolving retail environment."
Some analysts said Target's new tactics are unlikely to reverse the showrooming trend, because they

fail to address the root problems traditional retailers face. Online-only retailers have significantly lower labor costs and, at least, for the time being don't collect sales tax in most states.
More important, the growing competition from Amazon is based on a different business model entirely: Amazon can sell products so cheaply because it uses its other profitable units—such as cloud data storage and fees it charges others to sell on its website — to subsidize the rest of its business.
"The traditional retailers are still doing business the old way while Amazon has reinvented the model," says Sucharita Mulpuru, retail analyst at Forrester Research. "Wal-Mart and Target are willing to sell a few things at a loss. Amazon's whole business is a loss leader."
Consumer preferences are also moving to online. "That is where we're heading," said Adrianne Shapira, retail analyst at Goldman Sachs. "You can try and dance around it, but it's a fact."
Retailers like Target and industry giant Wal-Mart Stores Inc. have a lot of catching up to do, as analysts estimate their websites account for only 1% to 2% of their annual sales.
Target had a tough Christmas season, with sales at stores open at least a year rising just 1.7%, about half of what the company expected. As a result, Target recently lowered its fourth-quarter earnings per share range to between $1.35 and $1.43 from $1.43 to $1.53.
The company said sales were particularly disappointing in electronics, movies, books and music—products whose sales have migrated most significantly to the Internet. Those products accounted for 20% of Target's annual sales of $65 billion in 2010, down from 22% in the prior year.
This fall Target relaunched and upgraded its website, which had been operated by Amazon for the last decade. But the site crashed several times, most notably when shoppers rushed to buy a special line of items made by Italian fashion house Missoni.
Target has a long tradition of getting suppliers to provide exclusive products. It has teamed up for years with fashion designers to offer time-limited discount clothing collections, and it recently announced it will open a series of temporary boutiques featuring clothes, food and home furnishings from popular regional stores.
These programs set Target apart from less fashionable rivals such as Wal-Mart, but "they are completely immaterial" to the company's bottom line, said Colin McGranahan, retail analyst at Sanford C. Bernstein.

China's Housing Market is Set for a Hard Landing

So mates, what happened when the USA went through a hard landing? Australia and Canada will be the hardest hit when their currencies are revalued downwards as the commodities' growth they enjoyed will not be there. Aivars Lode

1-23-12

By Shawn Tully, FORTUNE

The Chinese government's announcement last week that growth for 2011 slowed only slightly to a still impressive 9.2% was greeted enthusiastically by the world's stock markets. Investors also remain buoyant on China's future. They appear to be buying the official line that the gigantic property price bubble is gradually and smoothly deflating, posing little risk to an engine that's so crucial to the future of global trade.
But the math tells a different story. The housing frenzy has driven prices so high, so fast, that a crash on the scale of the real estate collapse in Japan in the 1990s is a virtual certainty. And China's already exaggerated official growth rate could take a pounding, all the way to the zone of the unthinkable, into the low single-digits.
For this analysis, I'll borrow heavily from my former professor and mentor at the University of Chicago's Booth School of Business, Robert Aliber. Affectionately known to his students by his initials "RZA," Aliber is now retired to New Hampshire, but he writes a superb newsletter for his friends and clients. He spotted the reckless credit expansion, huge trade deficits and asset bubbles that now haunt both the U.S. and European economies long before most experts.

As Aliber puts it, "In China, the housing boom is a far bigger source of growth than is widely recognized, and it's totally unsustainable."
Aliber got his first clue that the craze spelled disaster from a former student living in Beijing. The young Chicago alumnus told Aliber that he'd just moved into an apartment building with several hundred units, and was the only one living there. Investors had bought all the other apartments that hadn't sold.
Later that year, Aliber visited the office of an upscale developer in Beijing, who was getting $600,000 for 1100 square foot units with bare walls. The folks doing the purchasing were earning between $20,000 and $30,000. Given those modest incomes, it was obvious that the buyers weren't purchasing an affordable new residence, but speculating in real estate, either to live there for awhile then flip the unit, or simply leave it vacant while seeking a buyer willing to hand them quick windfall.

Rent vs. price
What amazed Aliber was the chasm between the prices of the apartments and the rents they fetched. A typical $600,000 unit brought a landlord less than $1000 a month in rent after expenses (assuming no mortgage). It wasn't the rental yields that attracted investors, it was the huge price appreciation, averaging from 20% to 30% from 2008 until last year.
Rents -- the cost of living in the unit -- exercise a sort of gravitational pull on prices. That's because people won't pay far more to own a home than to rent a similar one, unless they think prices will keep soaring -- a view that's a sure sign of casino mentality, and never lasts. In China, prices in the frothiest markets are fifty or sixty time rents. That's the case with the example we discussed above, where the price is $600,000, and the rent is $12000, a ratio of 50-to-1. The 50 to 60 multiple is far above the level in most U.S. markets at the height of the bubble in 2006; in those heady days, a multiple of 40 was considered giant.
So how far do China's prices need to fall so that the cost of owning is reasonably close to the level of rents? Aliber reckons that the rental yield on apartments will eventually go from less than 2% to 5%, or even a bit higher.
The rental yield is simply the annual rent divided by the market price, just as the yield on a bond is the fixed interest payment divided by the price of the bond that day. In the U.S., the rental yield averages around 6%, meaning the multiple of prices to rents is around 17. The adjustment to a 5% rental yield in China would push prices down by 60%.
Aliber is by no means the sole China expert to predict that a steep drop is coming. "I estimate that a decline of 60% or even more is the upper end of the range, but is indeed possible," says Derek Scissors, an economist at the Heritage Foundation.
The adjustment has already begun. While the government's official figures show modest declines starting late last year, those numbers are famously unreliable. A better view comes from owners trying to sell their units. Losses of 30% aren't uncommon. In fact, many owners who paid, say, $600,000 in 2010 are furious that their landlords are now offering unsold units in the same building for $450,000.
What's the probable hit to China's vaunted growth rate? It's important to recap the forces that caused the frenzy. China imposes tight restrictions on returns on bank accounts, government bond yields and other domestic investments. Inflation for 2011 exceeded 5%, but 10-year bond yields are just 3.5%. It's extremely difficult to find investments that yield more than inflation. When the easy money policies took charge after the worldwide crash of 2008, the excess cash flowed into the only place with big returns -- real estate.
For around four years, China has been building around 1 billion square meters of housing a year, ten times the figure in the U.S. The amount needed to accommodate real owners -- people moving from farms to the cities, for example -- is 700 million square meters.
So let's assume that demand goes back to that level. China is also swamped with seven to eight million vacant units. If around two million of those are sold a year, China will need to build just 500 million square meters annually -- half of the total over the past several years. That decline will pound not just expenditures on apartments, but production of steel, copper and appliances.
By Aliber's reckoning, the sharp decline in housing production could lower China's growth rate by a full five points. In his view, around three points of its 9.2% growth rate in 2011 came from the bubble. Shave two more points for the empty apartments that need to be sold, and future growth

looks far less robust than the official projections.
Unlike the post-crash U.S., China will keep growing after the bubble bursts, though at a far slower rate. What bears watching is the effect of another gigantic stimulus program to compensate for the decline in housing. If renewed inflation follows, so will a slowdown needed to bring tame it.
Or as Aliber observes, "China's spurt of a 10% growth rate is likely to be history."

4% Withdrawal Rule Called into Question

1-23-12

This article talks about how wealth advisers are advising their clients that they will probably have to work in their retirement. This is exactly what happened in Australia in the 90's. The result was the creation of a plethora of new businesses. Retirees are now doing something they had always had a passion for. Creating the best muffin, the best wine, the best restaurant, the best design of a building, updating their homes etc. We will all benefit from the change. Aivars Lode

By Darla Mercado, Investment News

Uh oh, three may be the new four.
For nearly 20 years, many financial advisers have operated under the notion that most retired clients can confidently spend a maximum of 4% of their nest egg — adjusted for inflation — each year without worrying about running out of money. Now, thanks to myriad factors that include the economic downturn and relentless stock market volatility, many are reconsidering whether the so-called 4% rule makes sense.
“The reason for rethinking the 4% rule is that we believe returns will likely be lower than they were over the last 75 years and that volatility will be higher,” said Harold Evensky, president of Evensky & Katz Wealth Management. “There's a strong consensus that forward-looking returns are going to be modest.”
Jim Heitman, an adviser at Compass Financial Planning, agrees.
“We're a little less aggressive on the withdrawals; we aim at taking 3.5%,” he said. “For most of my clients over the last few years, that rate has dropped down to 3%.”
The 4% figure is the product of research by financial planner William P. Bengen, who analyzed different withdrawal rates and asset allocations to see how each would have fared over a 30-year retirement period starting every year from 1926 on.
In 1994, after examining the historical returns of a portfolio of 50% stocks and 50% bonds, Mr. Bengen determined that a client who started withdrawals anytime between 1926 and 1976 could have lived off the portfolio for at least 30 years if he or she made 4% annual withdrawals that were adjusted for inflation.
In 2004, he added small-capitalization stocks to the model and revised the withdrawal rate upward to 4.5%.
Fast forward to the present.
Like they have with some other long-held investment beliefs — “stocks outperform bonds over the long term” and “diversification is king” — advisers are starting to question the validity of the 4% rule. Some are recommending withdrawal rates as low as 3%.

PROCEED WITH CAUTION
Even Mr. Bengen, who serves as president of Bengen Financial Services Inc., is warning clients that now is a good time to err on the side of caution with regard to withdrawals.
“We don't know where this is going to end up, but this is a good time to be conservative and prepare for a possibility that we may enter a period of time that's even worse than the 1970s,” he said.
Mr. Bengen readily admits that the 4% rule isn't perfect.
For one thing, it starts to unravel during periods of high inflation, when withdrawal rates can quickly escalate to unrealistic levels.

Also, the rule is based on a buy-and-hold strategy, which “is nuts in this environment,” Mr. Bengen said.
“You get zero returns by just holding,” he said. “I try to get my clients out of the market when it's expensive and get them in when it's cheap, rather than just sitting there and getting beat by the market.”
But the buy-and-hold component isn't the only reason why an update is warranted, experts said. Low interest rates hurt the earnings from fixed-income investments held in the portfolio.
“A big chunk of your withdrawals is made of earnings from interest, and right now, that's going to be depressed,” said Steve Vernon, actuary and president of Rest-of-Life Communications. “Four percent is a good starting point, but you ought to reflect whether your assets went up or down.”
More and more advisers are resigning themselves to the notion that there is no such thing as a one-size-fits-all withdrawal rate.
“You need to put the withdrawal rate in context: How old are you? What other assets do you have?” said Moshe A. Milevsky, associate professor of finance at York University.

UNIQUE CIRCUMSTANCES

In calculating withdrawal rates, advisers must take into account clients' unique circumstances, such as whether they stopped working amid a major downturn.
One of the biggest risks that clients face early in retirement is so-called sequence-of-returns risk — that is, that negative returns early in a withdrawal program can create disastrous initial conditions from which recovery is nearly impossible. That is especially true for clients with most of their assets in 401(k) accounts.
As a result, Mr. Milevsky deems a withdrawal range of 3% to 6% to be acceptable — the lower end for those who lean entirely on their 401(k)s and the upper end for investors who also have a pension or lifetime income through an annuity.
“When people have a great defined-benefit pension that they can fall back on if all hell breaks loose, then they can use that 6%,” he said.
“People have to start thinking about the withdrawal rate question together with their balance sheet. You can't determine it in a vacuum,” Mr. Milevsky said.
Investment fees are another component to weigh, as actively managed funds cost more than their passively managed counterparts.
Retirees need to account for fees' drag on the funds' performance, Mr. Vernon said.
“You should only do 4% if you're finding index funds with low expenses, and you should make it 3% if you're going with an actively managed fund,” he said.
Although experts can point to facts underpinning their rethinking of the 4% rule, advisers are finding that this is a tough conversation to have with clients.
In some situations, investors and advisers feel that anything less than that standard withdrawal amount would be insufficient for retirees.
“People need to know they shouldn't take income if they don't need it, but how do you go lower than 4%?” asked Meg Green, founder of Meg Green & Associates.
Meanwhile, others simply get their investors used to the idea of living on less.
Victoria L. Fillet, founder of Blueprint Financial Planning, aims to provide clients a fixed dollar amount that can cover their living expenses. She has also had to brace clients for the prospect of working part time during retirement.
“There are always clients who think that you're crazy, and go somewhere else,” she said. “I'd rather be cautious when I'm 70 and early in my retirement so that later on, the money will be there.”

Is the Wimpy Recovery Morphing into a Recession?

4-3-12

As I noted years ago, the stimulus packages merely delayed the right decisions. The USA needed to take its medicine in order to move forward. Aivars Lode

By Rana Foroohar, Time Magazine

We've just begun coming to grips with the wimpy recovery. Are we actually in for another recession? That was the implication of a couple of economic reports I read this week, including one by ITG Investment Research, which tracked how the pace of this recovery (which was never great to begin with) has by some measures been slowing, particularly among middle-income consumers and industries producing for overseas markets. (Europe is definitely in a double dip, and many emerging markets are slowing too, as I've written about many times.)

One of the most interesting snippets from the report: While there are fewer goods on sale in American malls and retail shops than there were last year around this time, what is on sale is being discounted at much steeper rates — and not just at dollar stores but at outlets catering to middle- as well as lower-income people.

That's not surprising given that the gains we've seen during this recovery have mainly gone to the upper classes. Stocks are up, but it's mostly rich people who own those. The residential real estate market, where most Americans keep the majority of their wealth, is still down. (I met Robert Shiller for lunch last week, and he said we've got years of pain to go on that front.) Salaries are also down – there's been almost no growth in real income throughout the wimpy recovery.

Robert Reich's FT blog yesterday summed up the bifurcated nature of the recovery well. He pointed out those shocking Berkeley numbers that have been getting so much press lately – in 2010, 93% of the economic gains went to the richest 1% of the population. Most of the bottom 90% lost ground. The 2011 figures aren't in yet, but there's no reason to think they'll be any different. No wonder middle-income, as well as working-class, shoppers aren't in a buying mood.

The question now is whether this will remain a wimpy recovery, or turn into something darker. I'm not ready to call another downturn yet, but the folks at ECRI, an economic research firm, are. Payroll job growth is up, and probably will be when new numbers come out on Friday (though perhaps less than last month), but a number of the indexes they track — which tally up other things like industrial output, income, sales, and consumer spending — are down. The result is that they've already made the double-dip call to their clients. I wouldn't pay so much attention, except for the fact that they've correctly called three recessions, with no false alarms in between.

I find myself consoled (oddly) by a speech Larry Summers gave last year at an INET conference in Bretton Woods, where he noted that all the big macroeconomic vectors in play, from the growth and political future of China to technology-related job creation and destruction to the commodities bubble, are so complex and so intertwined that it's hard to predict exactly where the U.S. and global economies are headed. Fingers crossed, it isn't toward another double dip.

Meet the Upscale Gas Station

4-4-12

As Companies in Australia searched for profits, this was the direction Australia took in the 90's. Aivars Lode

By Dan Mitchell, FORTUNE

It's hard to imagine that gas stations will become "the next Whole Foods." But making them less unpleasant would be good business.

A new report concludes that gas-station convenience stores should go "upscale" to boost business, a notion that might sound counterintuitive given the industry's slim profit margins as well as the fact that most shoppers at such stores are in a hurry.

Problem is shoppers increasingly swipe their credit cards at the pump, never entering the store at all. That means fewer impulse purchases of Doritos, Mountain Dew and Kenny Loggins compilation albums. Turning a gas-station shop into more of a destination by, for example, offering fresh foods, can boost bottom lines, according to the report (pdf) prepared by the Association for Convenience and Fuel Retailing and the Coca-Cola (KO) Retailing Research Council and presented Wednesday in Chicago.

Another big part of the problem is that other kinds of retailers are increasingly competing with convenience stores for shoppers. Drug stores, big-box retailers, and supermarkets are all "trying to win their convenience business," says the report. And when you're paying for your gas, you might think to yourself that you'd like a Butterfinger, but you need to stop at Target (TGT) for paper towels anyway so why not just pick it up there?

By offering fresh baked goods, high-quality coffee, and even a wide selection of fresh produce, convenience stores can offer incentives to enter the store and even linger over the merchandise for a while. One crucial element, the report notes, is that the shopping experience should be pleasant. That runs counter to the usual image of grungy, overlit, ill-decorated stores that seem designed to dissuade people from hanging around too long. "Grab and go" has been the philosophy of the convenience industry throughout most of its history.

Such big upgrades, of course, are expensive and risky. Crain's Chicago Business, which wondered whether gas stations are "the next Whole Foods," cited one local convenience store owner who seems to have thrived by going upscale. But while making convenience stores less unpleasant couldn't hurt, it's hard to imagine "high end convenience" becoming a widespread trend.

Homeowners Try to Sell By Themselves as S. Florida Market Rebounds

5-19-12

I have always wondered why commissions to agents are so high here in the USA vs what we pay in Australia. Aivars Lode

By Paul Owers, Sun Sentinel

As the once-beleaguered housing market improves, homeowners are showing more interest in selling solo.

Delray Beach-based BuyOwner.com says home sales in Miami-Dade, Broward and Palm Beach counties are up 200 percent this year, compared with the same period of 2011. Listings have increased 150 percent, the company said.

ForSaleByOwner.com, a Chicago-based site, has seen a 400 percent increase in Florida sellers visiting the site from January through April, compared with the same period a year ago. That far outpaces the 183 percent increase in sellers nationally. The two websites declined to release specific figures.

"People are starting to hear more stories from their neighbors about how quickly they're selling," said Eddie Tyner, general manager of ForSaleByOwner. "There's more confidence now that the market is recovering."

ForSaleByOwner is owned by a division of the Tribune Co., which owns the Sun Sentinel and other newspapers.

During the housing boom of 2000 to 2005, homes often sold themselves for top dollar, prompting many sellers to eschew a real estate agent charging a standard 6 percent commission based on the sale price. A homeowner selling for $300,000, for instance, would save the $18,000 commission.

The housing crash that followed sent many sellers back to agents and the multiple listing service, the collection of homes for sale in a particular area.

Now, though, multiple offers and bidding wars have returned, mostly on homes $200,000 or less. That is convincing owners of homes near that price that they may be able to sell on their own through Craigslist or one of the for-sale-by-owner sites.

Sellers can buy packages on the websites, spending less than $100, up to a few thousand dollars.

Basic packages give sellers a handful of home photos and listings on various websites. More-expensive services include access to a local MLS and assistance handling the contract from a real estate attorney.

For-sale-by-owner isn't for everyone, said Jon Holbrook, president of BuyOwner. One of his employees, Dan Bodenstein, has sold three houses by himself, including one in October.

"Cash-wise, it's silly not to try it," said Bodenstein, 43, of Royal Palm Beach.

Some solo sellers don't save as much as they first thought because they end up hiring lawyers to review the contracts. Also, some have to pay a 3 percent commission to a real estate agent who brings them a buyer.

Agents, of course, say for-sale-by-owner generally is a bad idea.

They're trained negotiators who earn their money in casting a wide net for buyers and coordinating appraisals and home inspections, said Jon Klein, an agent for Real Living 1st Choice Realty in Coral Springs. "The hardest part is from the signed contract to the closing," Klein said. "There are so many things that can happen."

Sarasota Cashes in on Red-light Cameras

8-16-12

We saw rapid growth in red light and speed cameras during the 90's in Australia during our recession. Originally justified as preventing accidents, government officials who had difficulty in balancing their books quickly realized that these cameras were a great revenue source; so plan on seeing more of them. Aivars Lode

By Doug Sword, Herald Tribune

Florida cities and counties handed out nearly $100 million in tickets generated by red-light cameras during the last year, and Sarasota has quickly become a statewide leader in fining red-light runners.

The statewide total is nearly triple the number of automatically generated fines collected the year before.
The city of Sarasota was a latecomer to the red-light camera trend, starting its ticketing in January. But by June, the city was the 10th most-active ticketer among the 71 Florida cities and counties that

use the cameras.
In all, more than $1 million in fines were paid by people accused of running red-lights in Sarasota during the first six months of this year. In Bradenton, the city's cameras generated $1.2 million in fines during the 12-month period that ended June 30, records show.
In Sarasota, nearly 1,500 drivers were ticketed and paid fines in June, putting the city ahead of Orlando, Tallahassee and Fort Lauderdale in collections even though those cities have at least three times the population.
Despite a push by opponents to repeal the 2010 law that approved the cameras, their use continues to grow in popularity among Florida cities and counties. Forty-eight municipalities started using them in the first year they were allowed, and another 23 added them in the past year, including Sarasota, St. Petersburg and Boca Raton.
Bradenton was an early adopter of the cameras, collecting its first ticket revenues in September 2010, two months after the law went into effect.
Etienne Pracht, a University of South Florida professor who is a critic of the cameras, wonders why the number of tickets issued keeps going up when these cameras were supposed to curtail red-light running.

"These things were installed as a means to prevent red-light running, but looking at the numbers, if it's going up, you have to ask the question. 'Is it working?'" he asked.
Use of the cameras was approved by the Legislature in 2010 with the passage of the Mark Wandall Traffic Safety Program, named after a Bradenton man killed by a red-light runner in 2003. Tickets are mailed to offenders once the violation is confirmed by authorities.
The tickets are $158 each, with $83 of that going to the state, mainly to its general fund. The remaining $75 goes to the local government that writes the ticket. The camera vendor receives a flat per-camera fee each month.
Adding together all 71 cities and counties that use the cameras, there were 615,000 tickets issued in Florida during the 12-month period that ended June 30. That is a 160 percent increase over the number of tickets issued during the previous year.
Whether the ticketing is improving road safety is disputed by some. Some studies say the cameras cut down on accidents — particularly deadly T-bone accidents at intersections. But other studies have shown the cameras increase the number of rear-end collisions as drivers screech to a stop when they realize they are at an intersection with cameras.
Cities and counties with cameras must make their first official reports on the results, including the impact on public safety, by Oct. 1. The Florida Department of Highway Safety and Motor Vehicles will compile all those reports into one that it will present to the governor by year's end.
This year, a trio of University of South Florida professors, including Pracht, wrote a scathing analysis of an insurance group study reporting that cities with red-light camera programs had fewer red-light running fatalities than cities that did not use the cameras.
Among the problems with that study was that two of the cities not using the cameras had zero fatalities to begin with, so they could not have had a reduction.
Removing some of those biases from that study, the USF professors found that cities that used the cameras had 25 percent more fatalities than cities that did not use them.
Much of the big increase in ticketing in Florida occurred because of a surge in the number of cities and counties using the cameras.
And some of the new players are among the most active ticketers. Boca Raton, which just started collecting red-light fines in May, collected on 2,600 tickets in June, the third-highest total in the state. Miami and Tampa did the most ticketing in June. Boca Raton was third and Apopka, with a population of only 42,000, was fourth.
Part of the reason for the surprisingly high number of tickets issued in Sarasota is that courts are upholding the tickets in some jurisdictions, but are prone to overturn them in others, said Sarasota attorney David Haenel.
"There's been major challenges, successful challenges, especially against the cities of Winter Park and Orlando," he said.
Haenel says that he has fought tickets issues in Sarasota, but, as of yet, none successfully.

Coalition Haunted by Horror of 1993

11-9-12

Even the politics have resemblance to things that are happening here in the USA today and what happened in Aussie in the 90's. Aivars Lode

By Geoff Kitney, Australian Financial Review

As they watched Mitt Romney conceding he had lost what had once been seen as the unlosable US presidential election, some Australian conservatives had horror flashbacks to this country in 1993.
Nearly 20 years on, the loss by John Hewson to Paul Keating of what came to be known as "the Fightback election" still haunts the Coalition side of politics.
The bitter experience of that loss still profoundly influences the political thinking of key Coalition team members.
Tony Abbott (a key Hewson adviser) and his shadow finance minister Andrew Robb (then Liberal campaign manager) have memories of that loss seared into their political brains.
It's an experience which is strongly factored into their strategic thinking today.
The Coalition's absolute determination not to release detailed policies and the costings that underpin them until as late as possible can be traced back to the early release of Hewson's intricately detailed and costed Fightback manifesto and the amount of time Hewson gave to a rampaging Keating to rip it to shreds.
This week's spat over the ham-fisted effort by Treasurer Wayne Swan's office to use Treasury costings of a handful of opposition policies to put pressure on Abbott over his refusal to come clean about how he will fund his promises is a reverberation of those events nearly two decades ago.
As it turned out, the latest message Labor intended to send about Abbott's shiftiness got lost in the Coalition's successful efforts to deflect the debate to the way in which the material was released and away from the issue of its costings.
Senior Labor strategists insist that one lesson to be learnt from the US election is that Romney failed to overcome voter doubts about him and, while he said he had a plan for the future of America, he never produced a detailed plan with plausible costings.
The Gillard team believes that Abbott, trapped in a time-warp fear of producing detailed costings, will be making a grave error if he does what Romney did and not substantiate the detailed elements of his plan for the nation's future.
Coalition figures retort that Labor "would say that, wouldn't they".
They see this week's events as a sign that Labor is getting desperate to pressure Abbott into releasing policy detail.
A long game of bluff and counter-bluff in the battle of budget numbers can be expected to continue through to the federal election.
Key Coalition insiders concede that the timing of the release of its detailed alternative economic strategy will be a critically important decision.
But they are also counselling against any temptation within Coalition ranks to be panicked by Labor into releasing policy details too soon.
Senior Coalition frontbenchers are working to calm concerns that have been sparked by recent signs of a shift in base voter support back to the Labor Party as Abbott's ferocious anti-carbon tax campaign has begun to run out of steam.
For example, in Canberra Coalition MPs have been reassured that the Liberal Party's research shows there are no signs of any significant shift back to Labor in key battleground electorates such as in western Sydney.
MPs are being told that hostility towards Labor and Prime Minister Julia Gillard among the so-called "battlers" remains intense.
Senior Abbott team members say cost of living pressures are potent electoral poison for Labor.
This is not likely to change before the election, even if Gillard holds out until the latter part of next year to call it (still the most likely timing, even though Labor is readying for a possible snap election

in March).
The Coalition has detailed cost of living breakdowns for the key battleground seats which show prices for a range of sensitive products and services – ranging from electricity prices to medical costs – have risen by far more than the rate of inflation.
Liberal strategists also insist that the voters in those areas where the cost of living pressures are intense are still extremely hostile to the carbon tax.
They say their research shows that Abbott's promise to repeal the tax has entrenched support and this is why he has not and will not relent from attacking it.
Labor knows the cost of living issue is hot and dangerous for the party in western Sydney, where any loss of seats would make it impossible for the government to be re-elected.
But it says the political dynamics of the issue are shifting.
They say that in recent months, particularly since the carbon tax compensation money started rolling out, voters who had previously given up on Labor were now prepared to have a conversation about cost of living pressures, their causes and their cures.
Labor believes the "Cash for You" message it uses to sell the carbon tax compensation and an average annual $4000 fall in mortgage costs due to lower interest rates can be translated into a hard-hitting campaign on the cost of living issue.
Labor plans a finely targeted grass roots campaign (using proven US Democrats techniques) to convince voters that it has a cost of living strategy as part of a comprehensive and detailed plan for the future, while Abbott only has slogans.
Of course, both sides are aware that their plans will face intense scrutiny from the experts, who will want to know where the money is coming from.
But in the end it will be the battle for the battlers that really matters.

Chapter 4

Investing and Returns

Introduction

From my first book, this is a theme that has continued to strengthen. I have attended presentations by Black Rock, Morgan Stanley and others that now say Dividends are the future. Everyone should look for stable earnings.

As I mentioned at the opening of the previous chapter, three broad events occurred beginning in the mid 80's in Australia. 1) A dividend tax at the same rate as capital gains tax was put in place. 2) A financial crisis occurred of the same proportion as what happened here in the United States. The conversation in Australia at the time was so depressing that I left and went to Singapore where there was growth. I was left with the impression that Australia was done for and would never recover. Every conversation revolved around how miserable life was, how much money everyone had lost, and the fact that many could not see a way out of the situation (Sound familiar?). 3) Growth stopped and a focus on delivering transparent stable earnings began. My mate who was the treasurer of Coles Myer, the sixth largest retailer in the world, went from hoarding cash to paying out dividends and increasing them annually through cost cutting and efficiency drives. We have seen talk of inflation turn to deflation and the expected recovery by consumers has not occurred. This further delays capital investment by companies.

One of the articles cited here lists ten of the top 100 dividend paying companies on the globe based in Australia. Numerous articles talk about the move by corporations to dividends. Why? Many companies are sitting on reserves of cash and shareholders are asking the management and board what they are going to do with the cash. There are not enough investments to be made to use up all the cash. Microsoft and Cisco are announcing higher dividends. So since my first book, Apple is now paying dividends and JP Morgan has come out and announced to its investors that they should be looking at dividend stocks for yields. As we discussed in the first book, dividends would become more important and as we drew the parallels from Aussie, they have come to fruition and this chapter shows the continued focus on shareholders returns.

We are already seeing the signs of cost reduction efforts. JetBlue is looking to move to Orlando, Florida in order to reduce taxes and reduce employee cost of living. There will be profound changes in where companies are based due to the move to dividends. All across Florida there are numerous empty condos, houses and offices due to the crazy building that occurred over the last five years, the collapse of the property market, and the foreclosure process that has been depressing property values. Property values have deflated so far that companies and individuals are able to buy property or rent at rates not seen for over a decade and well below replacement costs of equivalent properties. Combine that with no revenue growth, high state taxes and crumbling infrastructure in the many older and more established states versus brand new infrastructure, freeways that are underutilized, brand new empty commercial and residential properties and no state taxes. If you move from Manhattan to Florida, you have an instant 20 percent pay increase by not having to pay all the state and city taxes along with other hidden costs. Plus, you have better weather so it's really a no-brainer.

Why are companies verticalizing? It is so they are able to capture a larger part of the profit pool; they are increasing profits by squeezing out distributors and non-value adding contributors to the value chain. Ultimately, this returns a greater dividend through increased cash flows as we saw in Australia in the 90's.

Part One: Dividends

Blackstone: Buyout Business Is Overheated

10-29-10

I sit here and wonder if the PE space is overheated the same way that the VC and Quant funds space was / is. This resulted from pension funds allocating a percentage of their funds to these asset classes because of past performance, and now there is too much capital in these classes chasing the same deals and bidding them up amongst themselves. Aivars Lode

By Gregory Zuckerman, Wall Street Journal

The buyout business, flat on its back two years ago, has rebounded so strongly that Blackstone Group LP has grown queasy about competing for deals against high-bidding rivals.
In comments eerily reminiscent of the late stages of the buyout boom that ended in 2007, Blackstone's President Hamilton "Tony" James pointed his finger at competitors during a conference call with journalists on Thursday.

'It has gotten pretty hard to find companies we like,' said Blackstone President Hamilton 'Tony' James, shown in September.
"We're routinely priced out of the market," Mr. James said. "We haven't been close" to the prices commanded in recent takeovers that some rivals have agreed to, he said. "It's gotten a lot harder to find things of attractive value; we just can't get to the prices required, partly driven by robust debt markets."
Whether intentional or not, Mr. James's remarks came just as Blackstone competitor Carlyle Group announced its second large deal in as many days, bringing the two-day total to $6.5 billion.
On Thursday, Carlyle agreed to buy technology- and business-solutions provider Syniverse Technologies Inc. for $2.6 billion, or $31 a share. On Wednesday, the buyout firm agreed to pay $3.9 billion to purchase telecom-equipment maker CommScope Inc.
In some ways, Syniverse and CommScope are aggressive deals for Carlyle. Both companies are growing rapidly, are leaders in their markets and have exposure in foreign markets. As such, it isn't clear what Carlyle can do to improve operations, something leveraged-buyout firms sometimes are able to do.
And the target companies' prices aren't cheap—CommScope's price is roughly 8.5 times this year's earnings before interest, taxes, depreciation and amortization, while Syniverse's price is 10 times, according to analyst estimates for this year.
For their part, Carlyle executives argue that the companies have impressive growth prospects and that Carlyle can help them expand globally.
While the number and size of buyouts are nowhere near what they were at their peak, a flood of money into high-yield, or junk, bonds and leveraged loans has jump-started the buyout business. The average yield in the junk-bond market is at its lowest level since October 2007, falling to 8.74% on Thursday. Declining yields on Treasurys have fueled the demand for corporate debt, in turn causing a sharp reduction in spreads that had ballooned during the financial crisis.
New junk-bond sales this year reached $218 billion through Oct. 21, already 31% more than for all of in 2009, according to data from Standard & Poor's Leveraged Commentary & Data. Leveraged-loan issuance, has already cleared $179 billion year to date, more than double the entire volume of $76 billion for 2009.
Examples of recent leveraged-buyout deals that LBO executives acknowledge as expensive include children's clothing store Gymboree by Bain Capital, which offered a premium of almost 60% over the children's clothing store's share price before reports of a possible deal emerged, and Carlyle's $3.8

billion deal for nutritional supplement maker NBTY, which came with a premium of more than 40% over the share price.
With investors so eager to buy the debt, even more expensive deals are likely, buyout pros say.
Blackstone on Thursday announced a 23% increase in third-quarter profit to $339.3 million, excluding costs tied to its 2007 IPO, driven mainly by a continued recovery in its real-estate funds. But taking into account such costs, it reported a third-quarter net loss of $44.4 million, or 12 cents a unit, compared with a year-earlier loss of $176.2 million.
However, its private-equity business—the foothold of the firm—paled in comparison. Revenue dropped to $214.9 million in the third quarter from $226.9 million a year earlier, hurt by a decrease in performance fees and allocations, though that was partially offset by appreciation of privately held investments and increases in the share prices of publicly held portfolio investments.
Mr. James in his comments after the report said that Blackstone likely will see better growth from its GSO hedge-fund unit than from buyouts over the next few years, even though it is about to close on a new $13.5 billion buyout fund.
That is partly because prices for companies in auctions have become more expensive, and Blackstone is choosing to stick with smaller deals in Asia, energy transactions, and purchases in which it has few competitors, Mr. James said.
Indeed, he said his firm has been outbid on various properties in recent weeks and that Blackstone is focusing on selling, not buying.
"It's a better market to exit than to buy, prices are pretty full," Mr. James said. "The current financing market is excellent, it's almost hard to believe...there's a feeding frenzy for yield," Mr. James said.

Cash-Rich Cisco to Begin Paying Dividend

3-20-11

Right on track as we saw in Aussie after the crisis, companies started to pay dividends. Aivars Lode

By Roger Cheng, Wall Street Journal

Cisco has finally heeded to investor clamoring and will pay a quarterly dividend of six cents a share to shareholders. The payout comes following several disappointing quarterly earnings reports, and as Cisco faces questions about the strength of its core networking business.
.Cisco will pay a quarterly dividend of six cents a share. The company will make the payment on April 30 to shareholders of record on March 31.

The networking giant, like many of its technology peers, has long built up a war chest of cash and investments. As of Jan. 29, the company had $4.9 billion in cash and $35.3 billion in investments. The dividend would cost the Cisco some $335 million a quarter.

The dividend payout comes as Cisco faces questions about the strength of its core networking business. Cisco has been combating the notion that it is no longer a growth company, exacerbated by several quarters of disappointing results. Cisco shares recently rose 1.9% to $17.32. The stock has been down roughly 35% over the past year.

"Cisco's leadership position in the markets we serve is strong, and the time is right for Cisco to pay our first-ever cash dividend," Chief Financial Officer Frank Calderoni said.

Cisco first said in September that it would begin paying a dividend, targeting a yield of 1% to 2%. At the time, Chief Executive John Chambers said the dividend would be funded through cash generated from its North American operations.

Standard & Poor's equity analyst Ari Bensinger said the current amount would result in a 1.4% yield.

"We like that Cisco is increasing its commitment to enhancing shareholder value and putting some of its large $40 billion cash stockpile and strong free cash flow generation to better use," Mr. Bensinger said in a note.

Cisco previously used its cash stockpile to make acquisitions, such as the $3.3 billion purchase of teleconferencing company Tandberg. On Monday, it purchased digital media company Inlet Technologies for $95 million in cash. It also preferred repurchasing stock over dividends.

Much of the company's cash, however, is held overseas as a result of its extensive global operations. Chief Executive John Chambers has long been a proponent of eliminating taxes for companies looking to repatriate that cash.

Cisco follows other technology titans that began paying a dividend. Microsoft Corp. began issuing a dividend in 2003. In 2009, Oracle Corp. began paying a dividend.

A host of companies have been ramping up shareholder-friendly moves such as dividend increases and stock buybacks as corporate cash piles have recovered and financial uncertainty in the immediate wake of the crisis has waned.

Conversations re Dividends

5-30-11

Once again, pretty much the conversations that occurred in Aussie in the 90's. Aivars Lode

By Jason Zweig, Wall Street Journal

There is a cash crisis in corporate America—although it comes not from a shortage of the stuff, but from a surplus.

In the first quarter, the five companies with the greatest cash hoards—Microsoft, Cisco Systems, Google, Apple and Johnson & Johnson—added $15 billion in cash and marketable securities to their balance sheets. Microsoft alone packed away roughly $9 billion, or $100 million a day. All told, the companies in the Standard & Poor's 500-stock index are sitting on more than $960 billion in cash, a record.

To be sure, at many companies the cash piling up is at global operations that generate "undistributed foreign earnings" that can't be brought home, under U.S. law, without incurring taxes of up to 35%. But hundreds of billions in cash remain available—and idle.

Meanwhile, the payout ratio—the proportion of earnings paid out as dividend income to shareholders—fell to 28.9% for the past four quarters. That, says S&P senior index analyst Howard Silverblatt, is the lowest level since 1936. Dividends are going up—Intel, UnitedHealth Group and WellPoint have recently raised them—but cash is still piling up far faster than most industrial giants can possibly find a prudent use for it. Of course, investors themselves might have a better use for the cash, if they could get at it.

As Daniel Peris, co-manager of the Federated Strategic Value Dividend fund, says, "The likelihood of spending money poorly is increased by having a surplus of it."

Microsoft's purchase price for the online telecommunications firm Skype, widely criticized as too rich at $8.5 billion, almost precisely matches the amount of cash that Microsoft raked in last quarter. Was that torrent of cash burning a hole in Microsoft's pocket?

"No way," says Bill Koefoed, general manager of investor relations at Microsoft. "We see this as being a very strategic acquisition."

The heart of the problem, as the great investor Benjamin Graham pointed out decades ago, is that the best interests of corporate management and outside investors are at odds. That is especially true for giant companies whose growth has been slowing. "The more dubious the company's prospects…the more anxious management is to retain all the cash it can in the business," Graham wrote. "But the stockholders would be well advised to take out all the capital that can be safely spared, because these funds are much more valuable to them if in their own pockets, or invested elsewhere."

Amnesia is another culprit. In the past, companies paid out vastly more of their profits as dividends, and they should again. "If there were a greater historical sensibility among investors and managers," Mr. Peris says, today's low payouts "would be called out as an abnormal situation that's likely to lead to that money being less well-spent than it otherwise might be."

Dividends have gotten short shrift in recent years as investors have come to favor companies that instead use cash surpluses to buy back their shares. Meanwhile, with the economic recovery barely out of the sickbed, many companies are reluctant to invest heavily in expansion. Others want to keep cash handy for potential acquisitions. So cash sits idle—even as interest rates, after inflation, are so low that cash often produces negative real returns.

Benjamin Graham made three simple proposals in 1951 that deserve to be revived.

First, investors need to realize that a company's cash is a valuable asset, even when interest rates are low; if management won't put it to good use, investors must speak up. As Graham wrote: "When the results on capital are unsatisfactory, it is appropriate for stockholders to…insist that it be returned to stockholders on an equitable basis."

Second, companies should set formal dividend policies. Rather than paying or raising dividends out of the blue, they should state in advance what proportion of earnings they expect to pay out as cash dividends. If, instead, they plan to use excess cash to buy back shares, they should offer hard evidence that the stock is undervalued.

Finally, Graham advocated that leading companies should pay out two-thirds of their earnings as dividends. That rate isn't as radical as it might sound, even though it would amount to more than a doubling from today's levels. The dividend payout, as a percentage of total profits, has averaged 52.3% since 1936 and 46% over the past two decades, according to Standard & Poor's.

If the companies in the S&P 500 raised their payout ratio to 50%, Mr. Silverblatt estimates, that would put an extra $207 billion into investors' pockets—at a time when shareholders' dividend income is taxed at historically low rates.

"Companies are basically earning more than they've ever made before, but their payouts are nowhere near that high," says Mr. Silverblatt. "They're holding their cash really tight. You can call them Scrooges if you want."

At Morgan Stanley, Focus Put on Costs

6-8-11

As I have discussed many times before in this blog, growth is over as it was in Aussie in the 90's and the focus will go to driving out costs and a consistent dividend that will provide stability of earnings. Aivars Lode

By Aaron Lucchetti and Brett Philbin, Wall Street Journal

Morgan Stanley offered a glimpse into Wall Street's future, and the outlook has changed so much from the heady days of the past that the firm is planning to keep a close watch on BlackBerry usage.

New cost-cutting moves were the focus of a 45-minute discussion at a Deutsche Bank conference by Morgan Stanley Chief Financial Officer Ruth Porat aimed at showing how the securities firm is trying to boost profits in the next few years. Barely mentioned were revenue opportunities that dominated other recent Morgan Stanley presentations.

.Morgan Stanley's penny-pinching obsession is a sign of the struggle inside many banks and securities firms to overcome sluggish revenue growth and the looming costs of new regulatory and capital requirements. Banks including Wells Fargo & Co. and Bank of America Corp. have launched cost-cutting efforts, with BofA looking to reduce its branch count by 10%.

For Morgan Stanley, that means monitoring even routine expenses much more closely, ranging from travel to mobile devices. Brokerage clients will be prodded to give up paper account statements for cheaper electronic documents.

"We periodically ask employees to self-certify their usage of such services, which leads to constant monitoring and reduction of nonessential, redundant services," Ms. Porat said on Tuesday.

The overall expense-savings target: about $500 million in 2012, revving up to $1 billion in the next three years.

Some job cuts are likely over time in the company's 62,000-person work force, though Morgan Stanley's investment-banking and trading division won't be touched for now, according to a person familiar with the situation. Ms. Porat also said the number of financial advisers in the firm's majority-owned Morgan Stanley Smith Barney joint venture with Citigroup Inc. might shrink below the previous target of 17,500 to 18,500.

In March, Morgan Stanley dumped about 300 trainees and lower-producing brokers. The joint venture has 17,800 financial advisers, down 2% from a year ago. While the tech-investing frenzy is a pleasant distraction from those deeper troubles, investment banking is at a cyclical low until the economy improves, Ms. Porat said. She said she remains confident that the company is well-positioned.

Morgan Stanley's challenges are even bigger because the Wall Street company came so close to death in 2008. Then, the firm pared back substantially in early 2009, just as bond trading enjoyed a heyday that fattened profits at Goldman Sachs Group Inc. and J.P. Morgan Chase & Co. Last year, Morgan Stanley's net income of $4.7 billion was slightly more than half of Goldman's.

In 2009, Morgan Stanley doubled down on the retail brokerage business by forming the joint venture, which is more stable than many of the firm's trading businesses but still dependent on a rising stock market.

Recent signs that cost-cutting was rising in the pecking order of strategic moves at the top of Morgan Stanley include the February announcement of a new office in charge of re-engineering and expense management. The office is led by Jim Rosenthal, the company's chief operating officer. Through a company spokesman, Mr. Rosenthal declined to comment.

This year, Morgan Stanley's shares have sunk more steeply than financial stocks overall as investors fret about how fast Chief Executive James Gorman, who took over at the start of 2010, can improve the bottom line as regulators rein in trading and other businesses.

Morgan Stanley's shares fell 26 cents, or 1.2%, to $22.26, in 4 p.m. New York Stock Exchange composite trading Tuesday, leaving them near a two-year low and down 18% for the year. By comparison, an exchange-traded fund following a Standard & Poor's financial-services index has fallen about 7%, though Goldman has fallen more—21%.

Mr. Gorman sarcastically joked at the company's annual shareholder meeting in April that the languishing stock price filled him with joy. He added that he was focused on things Morgan Stanley can control over the medium and long term.

Longer-range cost-cutting moves include outsourcing certain tasks, reducing the number of legal entities that Morgan Stanley is affiliated with and expanding operations in locations outside metropolitan areas, Ms. Porat said. Belt-tightening on BlackBerrys and travel likely will target relationships with vendors and perhaps employee usage, according to a person familiar with the matter.

David Trone, an analyst at JMP Securities, compared those moves to using a fine-toothed comb. "When you are trying to save peanut shells, you are really putting the effort in," he said.

One Morgan Stanley employee joked Tuesday that he planned to return a phone call from a land line because he didn't want to use a BlackBerry.

Like Goldman, Morgan Stanley will keep spending big money on technology, Ms. Porat said. Technology investments in institutional securities, global wealth management and asset management will "help us to execute better for clients but lead to better cost savings over time," she said.

About one-third of the firm's 14,000 technology-related employees and consultants are working on the integration of Morgan Stanley Smith Barney. Morgan Stanley plans to buy Citi's 49% stake in the next several years.

Ms. Porat said Morgan Stanley is plowing ahead with revenue-boosting plans in emerging markets in Asia and Latin America, as well as an effort to increase the firm's market share in fixed-income trading.

One of the biggest cost-savings opportunities at any investment bank didn't come up Tuesday. Ms. Porat said not a word about cutting salaries or bonuses.

Dividends CA Management Announced the Long-term Goal

8-1-11

As we have discussed in this blog, the move to focus on Dividends vs Growth. CA starts to move that way. Aivars Lode

By JP Morgan North America Equity Research

Friday we attended CA's analyst day in NYC. It has been 15 months since CA's last analyst day, and we appreciate the additional disclosure that management provided with regards to their business segments, plans to return value to shareholders, and an updated long-term financial outlook. While there was nothing that changes our positive view of the shares, we believe the following to be of interest to investors.
• Share repurchases & dividends. Management announced the long-term goal (for fiscal 2013-15) of allocating 40-50% of free cash flow for dividends and share repurchases. This represents a significant increase versus 28% for both FY11 and FY10 and 9% during FY09.

• FY12 guidance reaffirmed. CFO Rich Beckert reiterated the company's FY12 guidance.
• Long-term goals revealed. We discuss this herein.
• We continue to rate CA Overweight with a $30 price target based on scenario 3 of our DCF.

Digging Deep for Income Streams

8-8-11

As we have discussed many times in this blog, the move to stable dividends will be driven by an aging population looking for stable returns. This is gaining more momentum in articles penned by investment advisers. Aivars Lode

By Thomas Applegate and Rachael Camargo, Investment News

Recent studies have shown that about 78% of the financial assets in the United States are held by retirees and baby boomers over 50. A large portion of this group isn't covered by a traditional pension plan. They will need to rely on personal savings and rollovers from their 401(k) plans to support themselves during retirement, which could last 20 years or longer. As such, it is urgent for financial advisers to help clients construct portfolio solutions that provide steady, consistent income while maintaining or increasing principal to help ensure that they don't outlive their assets.

In today's low-interest-rate environment, creating such a portfolio seems like a Herculean feat. Traditionally, retirement portfolios have consisted of an ample weighting to safe, income-yielding investments — such as Treasury or high-quality corporate bonds for income, and dividend-paying stocks — to add a little growth and income.
However, with 10-year Treasuries and the Barclays Capital U.S. Aggregate Index yielding 3.2% and 2.8%, respectively, and dividend yields from the S&P 500 near 2%, the opportunity to generate sufficient income from traditional retirement investments alone is questionable. Further complicating the issue is the negative impact on principal that bonds face, should interest rates rise. Although the search for a consistent payment stream may seem daunting, if we expand our idea of what an income portfolio should look like, and utilize the full range of investment alternatives and financial tools available, we can construct a portfolio designed to provide dependable distributions and the potential for capital appreciation.

DIVERSIFICATION REVISITED
To start, we need to rediscover the concept of diversification. In modern portfolio theory, diversification is used to help improve the risk-adjusted return of a portfolio. It also can play an important role when focusing on generating income.
Combining multiple sources of income, we can create a portfolio that provides a regular payment stream by relying on different sources during various economic and market cycles.
Diverse income sources can be drawn from a robust list of asset classes beyond traditional stocks and bonds. For example, we can generate interest from floating-rate loans, and high-yield and global bonds, while dividends can come from international developed, emerging-markets and small-cap stocks, as well as from real estate investment trusts.
Including alternative investments also may improve diversification.
Using mutual funds to construct such a portfolio makes gaining exposure to these asset classes relatively easy and efficient. Yields from funds in these categories — which can be estimated based on current averages, historical trends and market conditions — can be allocated to create a relatively predictable "base case" portfolio yield.
To capture additional payment sources, we can expand our income opportunity set further to include such items as capital gains, premiums from writing call options and the potential return of capital.

VOLATILE MARKETS
Using a covered-call strategy to generate income in a portfolio is a common practice for advisers and

investors alike.
Writing call options on indexes that track the underlying holdings in a portfolio or mutual fund closely also can help generate income and provide a source of distributions during volatile or down equity markets.
Returning capital can be an additional way to support a dependable payment stream if all other sources within a portfolio fall short of distribution needs. When the net asset value of the portfolio is rising, returning capital merely represents a return of unrealized gains, and the original principal is maintained or increased.
However, if capital is returned to cover distributions and the net asset value falls, the capital returned actually reduces the balance of the investor's principal, in essence returning a portion of the original investment.
As the boomers move into retirement, advisers will be increasingly called upon to create endowment like portfolios that deliver a consistent payment stream while also maintaining or increasing principal balances.
Combining several of these concepts and techniques may help provide a solution.

GE to Buy Back Buffett's Financial Crisis Stake

9-13-11

What does this mean? That if we had not all panicked everything would have been alright! Or as Buffett said, when everyone is greedy be scared, when everyone is scared be greedy! Aivars Lode

By Scott Malone and Ben Berkowitz, Reuters

General Electric Co (GE.N) said on Tuesday it would buy back Berkshire Hathaway Inc's (BRKa.N) preferred stake in the largest U.S. conglomerate, handing back a lifeline it grabbed during the 2008 financial crisis.
The company said in a regulatory filing it would pay $3.3 billion, plus unpaid dividends, to cash in famed U.S. investor Warren Buffett's stake, which paid a 10 percent dividend. The redemption date has been set for October 17.
With the long-awaited move, GE Chief Executive Jeff Immelt will aim to close one of the most difficult chapters in the company's history, when trouble at its GE Capital finance arm threatened to take down the entire company.
Buffett bought his preferred stake in GE in October 2008, just a week after taking a $5 billion preferred stake in Goldman Sachs Group Inc (GS.N). The investments were intended to signal his confidence in two storied U.S. companies during a financial crisis he likened to an "economic Pearl Harbor."
That vote of confidence came at a price: GE will have paid Berkshire nearly $1 billion in dividends over the life of the investment.
In his annual investor letter earlier this year, Buffett lamented the likelihood that GE would redeem the shares, saying it would be an "unwelcome" event that would hurt Berkshire's earnings power.
GE shares fell 3 percent to $14.95 in after-hours trading. Berkshire shares were unchanged.
(Reporting by Scott Malone in Boston and Ben Berkowitz in New York; Editing by Phil Berlowitz)

Dividend Stocks Get New Respect

11-24-11

As predicted a couple of years ago on this blog. Aivars Lode

By Amy Feldman, contributor FORTUNE

Tom Huber started managing the T. Rowe Price Dividend Growth fund (PRDGX) right around the time the tech bubble burst in 2000 and has seen plenty of market tumult since then. Through it all, the 45-year-old Wisconsin native has stuck with the slow and steady strategy of betting on companies with strong balance sheets and rising dividends. When stocks were soaring, that might have seemed boring. But with the markets seesawing wildly, its appeal is clear. The $2 billion fund has consistently beaten the market over the past decade, with a 4.1% annualized return, vs. the S&P 500's (SPX) 3.2%. Huber makes the case for dividend stocks -- including struggling bank shares -- and discusses what he has been buying. Edited excerpts:

With the current market volatility, dividend-paying stocks look attractive to skittish investors. Is now the time for a dividend strategy?
The idea of getting some level of return, regardless of the direction of the stock price, is at the top of investors' minds right now because of the environment. There's a lot of skittishness, as you called it, or nervousness. And with the low level of interest rates, it's very difficult for investors to find competitive yields without taking undue risks. I think dividend growth is an investable strategy over market cycles, but there are periods when it's going to do better than the market, and now is probably one of them.

Companies have been stockpiling cash since the financial crisis. What has been the impact on dividends?
We've seen a nice recovery since the big recession, when financial services pretty much eliminated their dividends, and other more cyclical companies took a hit as well. The payout ratio for the S&P 500 is now hovering at 30%, which is historically low. The historical rate is closer to 50%. There is capacity for dividend growth.

Financials make up 13% of your portfolio, even in a tough year for them. Why?
Financials are historically very good dividend payers and very good growth stocks. I owned a lot of financials going into the crisis. We took our hits, certainly, but we avoided the biggest disasters. I had minimal Citi (C) shares, no AIG (AIG), and never owned Bear or Lehman. At this point, we've consolidated into names like U.S. Bancorp (USB), Wells Fargo (WFC), and J.P. Morgan Chase (JPM). USB and Wells, in particular, are predominantly U.S. banks, and they're very well-capitalized, well-managed companies. Both have reinitiated dividends. Banks are all suffering right now, but we want to be in those stocks that are going to act rationally in a difficult environment and come out strongly on the other side.

Pfizer is your largest holding, and was the fund's top performer earlier in the year. But with top-selling Lipitor coming off patent, it doesn't seem like a growth play. What's your thinking?
This wasn't such a growth idea, but one where we thought there was a lot of value, an attractive yield, and a tremendous amount of free cash flow over the next several years. The company went through a management change, and the new management has been a breath of fresh air in terms of allocation of capital to shareholders. We've seen a healthy level of buybacks, dividends, and dividend growth. Pfizer (PFE) is facing big patent issues, but that's no secret. It has a pipeline with a few new drugs going through the FDA that should help offset some of the loss. I think it's a safe investment, and one where we see fair value of $24 to $25 [compared with a recent $20]. On top of a 4% yield, that's a nice return.

What have you been buying recently?
One that's moved into the top five is PepsiCo (PEP). We have a valuation bias, so when we notice a company of Pepsi's quality that seems to be struggling, we'll do the work. It has underperformed relative to its peers, in part because of losing some market share domestically to Coca-Cola. I think it is now making the right decisions to increase marketing and ad spend. If you look out a few years and

assume a reasonable multiple, you can make 15% to 20% without taking on undue risk. Another one in the consumer area is Kohl's (KSS), the department store chain. It just this year initiated its first dividend, and the yield is under 2%. It was your classic rapid-growth darling stock that matured. It had grown the store base 15% to 20% a year, year in and year out. Eventually the market can't support that level of growth. Kohl's is a very well-managed company and figured it out very quickly. It will now grow square footage only 2% to 3% a year. It won't be investing in stores that wouldn't pay off for us as shareholders. For us, in an economy that's hardly growing, 5% to 6% topline growth is not bad.

You've made a big bet on industrials. What do you like there?

United Technologies (UTX) [which makes everything from air conditioners to elevators to helicopters] is well positioned in the industrial world and is a good way to play global GDP growth. It does about 20% of its business in emerging markets. That's important now, and it's only going to become more important. We think it could earn close to $6.80 in 2013. It trades around 11 times that number, and it could get a higher multiple in an environment where people feel better about the global economy.

The New ‘Dividend Aristocrats’

12-10-11

As I have commented numerous times before, more and more importance will be placed on stable dividend returns vs crazy returns that are hugely risky, like MF Global. Aivars Lode

By Ben Levisohn, Wall Street Journal

Standard & Poor’s is adding AT&T and nine other companies to its S&P 500 Dividend Aristocrats Index, which consists of companies that have raised their dividend payment for at least 25 years. AT&T may be the worst carrier in the U.S., according to a Consumer Reports survey, but it’s now a “dividend aristocrat,” says Standard & Poor’s.

So there.

S&P announced on Dec. 1 that it is adding AT&T and nine other companies to its S&P 500 Dividend Aristocrats Index, which consists of companies that have raised their dividend payment for at least 25 years.

AT&T’s addition will have a major impact on the index, which is weighted by the dollar amount of the dividend payment, because it is the largest dividend payer in the world, paying out about $10.2 billion, with a yield of about5.9%. The changes to the index will occur on Dec. 16. That could give AT&T a boost going into the end of the year, says S&P index analyst Howard Silverblatt, as funds that track the index or use it as a benchmark add the company to their portfolios.

S&P is also adding three financial companies to the index—Franklin Resources, HCP and T. Rowe Price, doubling the number of financial companies. Silverblatt noted that investors shouldn’t shy away from financials, despite the damage caused during the Great Recession. In a note this morning, he wrote:

I counted 40 financial listed issues which have increased their dividend rate at least ten years in a row, averaging a 4.11% yield, with 24 of them having…a dividend coverage rate (12-month earnings divided by the current dividend rate) of at least 1.5. While the financial sector remains the most volatile, investors should not discount the entire sector, but explore for potential dividend issues, evaluating the higher degree of risk, along with the return.

Also added to the index were Colgate-Palmolive, Genuine Parts, Illinois Tool Works, Medtronic, Nucor and Sysco. CenturyLink was removed from the index.

Silverblatt says that interest in dividends is extremely high, but warned investors not to invest on yield alone. “We found out in 2007 and 2008 that buying dividend on a yield is a suicide run,” he says, referring to the period when dividend payers got hammered along with the rest of the market. “Companies should be making money and not straining themselves.”

Dow Jones Utility Index: The Pursuit Of Yield Continues

12-26-11

From Olson Global, as I have written about 3 or so years ago, dividends will become more sought after in the search for Yield. Aivars Lode

By Jim Donnelly, Olson Global Markets

As 2011 comes to a close, it is clear that the pursuit of reliable yields persists. As noted in previous alerts, a bullish reverse Head & Shoulders pattern on the Dow Jones Utility Index (DJU), which is eerily similar to one that developed back in 2002 and 2003, continues to play out to the upside. With nominal interest rates at much higher levels during 2002 and 2003, the beginning point of the previous reverse Head & Shoulder pattern was from much lower price levels.

At present, short-term interest rates are expected to stay near zero for at least the next 18 months. Moreover, "operation twist" continues to force yields on longer-term treasuries to ever lower levels. As a result, conservative investors, retirees as well as pension managers are finding dividend yields on a wide array of utility shares appealing. The prospect of capital appreciation adds to their luster.

The "objective" of the current bullish reverse Head & Shoulders pattern remains at the 525 level, which suggest that a 13.4% rise in the DJU index is technically expected to be achieved from Friday's close.

While the outlook for utility prices remains promising, a general concern that an unexpected rise U.S. interest rates, as well as a rise in other nations' sovereign debt yields, could derail the present optimism for utility shares. A change in the treatment of dividends
rom a tax point-of-view could also become a much bigger issue in 2013.

For now, however, the Dow Jones Utility Index appears to be headed for much higher levels as revenue strapped investors try to find conservative sources of income.

How Dividends Could Save the Day

1-2-12

This is not news if you have read my blog or book. Aivars Lode

By Paul J. Lim, New York Times

WHEN the global economy slowed last year, investors looking for reasons to be bullish could at least point to one positive sign: the continued strength of corporate profits.

Even as the pace of economic growth in the United States fell to 1.7 percent in 2011 from 3 percent in 2010, profits among companies in the Standard & Poor's 500-stock index climbed by an estimated 15.8 percent. Revenue, meanwhile, surged by a surprisingly strong 10 percent.

Yet as investors usher in a new year, their faith in the profit outlook is starting to wane — and for good reason. Corporate earnings are projected to rise only around 4 percent through June, and 8 percent for the full year, according to estimates by S.& P. Capital IQ. That's down from earlier projections of 13 percent growth for 2012.

The recent adjustments to the predictions were to be expected, said Christine Short, senior manager at S.& P. Capital IQ. "There's a cloud of uncertainty engulfing Europe," she said, "and analysts don't

know how to position their forecasts."
There are other reasons to be concerned, said John Butters, senior earnings analyst at FactSet, a financial research firm. "When you look at 2012, the two sectors that are expected to drive growth are financials and technology," he said.
Mr. Butters said the modest 2012 growth projection for the overall S.& P. was dependent on financial sector earnings climbing by around 25 percent this year. Last year, banks, brokers and insurers collectively saw their profits rise just 6 percent. The forecast also depends on tech sector profits expanding by around 10 percent this year.
"The question is, do people have a lot of confidence that financial companies will perform so well?" he asked. As for technology, Mr. Butters pointed out that one tech leader, Oracle, recently reported worse-than-expected revenue growth, which could be a harbinger of the challenges faced by the broader tech sector as well as the general economy.
Technology revenue growth, for instance, is expected to slow to 7 percent this year from 12 percent in 2011. Similarly, sales growth for the entire S.& P. 500 is expected to slow to around 4 percent in 2012, a sign that the global economic slowdown is starting to seep into corporate results. Global gross domestic product growth is expected to slip to 2.7 percent this year, from 3 percent in 2011, according to IHS Global Insight.
So if investors can't rely on strong earnings growth or a rapidly expanding economy, what's left to keep the bulls hopeful?
One possible answer may be dividend growth, market observers say.
"In an environment where economies around the world are slowing, growth is starting to get scarce," said Thomas Huber, a portfolio manager at T. Rowe Price, "and interest rates are so low, it makes sense to focus on companies that can grow their dividends over time."
Unlike corporate profits, which rebounded to record levels last year, overall dividends paid by domestic companies have yet to recover fully to the highs reached before the global financial crisis. Yet that could change early this year. S.& P. 500 dividends are expected to grow by nearly 11 percent in 2012, said Howard Silverblatt, senior index analyst at Standard & Poor's. "The dividend story is good and should continue to be good," he said.
Yes, there is always the possibility that companies could reverse course and cut their payouts to shareholders. "But if companies cut, forget dividends — that's a sign that the economy is really shot," he said.
MR. SILVERBLATT says one reason for continued strength in dividends is that companies are sitting on record amounts of cash. And "companies have been pounding their chests about the importance of dividends, yet the dividend payout ratio is a little under 30 percent," he said, referring to the percentage of earnings that corporations are passing along to shareholders as dividends.
Historically, he said, the payout ratio has hovered around 50 percent for S.& P. 500 companies.
Low interest rates are another reason that investors are likely to focus on dividend growth. Since 1962, the dividend yield of the S.& P. 500 has averaged about 40 percent of the yield on 10-year Treasury notes. Today, however, the S.& P. is paying more, dividend-wise, than 10-year Treasuries.
In such an environment, market strategists say, investors tend to lean toward dividend-paying stocks. And if corporate profit growth slows as expected, that interest will only grow.

PepsiCo Said to Plan Job Cuts to Boost Profits

1-5-12

A lot of you will not be surprised at this as companies start to focus on providing yield through dividends. See my previous book which talks about the move to dividends. Aivars Lode

By Duane D. Stanford, Bloomberg

PepsiCo Inc. (PEP) may cut jobs to boost earnings, a person familiar with the plans said.
The company, led by Chief Executive Officer Indra Nooyi, hasn't determined how many of its 300,000 global employees will be eliminated, said the person, who asked not to be identified because the

plans are private.
"We are evaluating efficiencies in all areas of our operations -- including employment levels and benefits," Peter Land, a PepsiCo spokesman, said in an emailed statement.
The evaluation is part of a business review that has been going on since last year and mirrors what other companies are doing in "today's environment," Land said.
PepsiCo announced Nov. 8 that it would extend a review of its 2012 and long-term business plans after costs soared and North America beverage sales stagnated. PepsiCo shares rose 1.6 percent last year, compared with a 6.4 percent gain by Coca-Cola Co. (KO), prompting calls for the company to spin off its beverages unit to boost returns.
Earlier today the New York Post reported that as many as 4,000 people would be fired.
"Information contained in certain media reports is inaccurate and any changes affecting our employees will be communicated to them first," Land said.
Jack Horner, a spokesman for News Corp., the New York Post's owner, didn't immediately return phone messages seeking comment.
PepsiCo is considering whether some salaried employees will continue to receive both a pension and 401K match, the person said. The company won't eliminate its 401K match for all employees as reported earlier by the New York Post, the person said. The company also has no plans to freeze salaries, the person said.
PepsiCo fell less than 1 percent to $66.21 at 2:23 p.m. in New York today.

Yes, They Pay a Dividend, but Can You Afford Them?

1-8-12

Dividends as part of an investment strategy, how novel! Not for the readers of my blog. Aivars Lode

By Paul J. Lim, New York Times

In fact, the four best-performing categories of equity funds in 2011 — portfolios that specialize in utilities, health care, real estate investment trusts and consumer companies involved in food, beverages and other household products — all dabble in dividend-rich parts of the market. And all of these groups produced average gains of more than 7 percent last year, when the Standard & Poor's 500-stock index rose a mere 2 percent, according to the fund tracker Morningstar.

But almost as quickly as investors rediscovered dividend payers, they've started to learn that this strategy is becoming expensive.

"It does beg a little closer inspection," said Mark D. Luschini, chief investment strategist at Janney Montgomery Scott. "Investors have plowed into these areas without much regard for what underlying securities are actually producing these yields and what their valuations are."

Mr. Luschini noted, for instance, that because of their recent popularity, shares of many utilities and consumer-staples companies — businesses that produce basic household necessities like food and toothpaste — are now at or near their recent highs.

Utilities, which have historically traded at a significant discount to the S.& P. 500, owing to the sector's slower-than-average growth, have an average price-to-earnings ratio of 15, based on the trailing 12 months of earnings. That means the sector trades at a premium to the overall market P/E of about 13.

And as far as real estate investment trusts go, their prices are starting to become uncomfortably high, said Chris Cordaro, chief investment officer at RegentAtlantic Capital. "We've been in REITs for clients for more than 20 years, but we're completely out of them right now because of their valuations," he said.

Still, prices in income-producing sectors haven't reached the point where strategists recommend abandoning the search for dividends. Instead, they say, investors just need to be more mindful of how they use the strategy.

Thomas H. Forester, manager of the Forester Value fund, which outperformed 56 percent of its peers last year, noted that his fund sold its shares of a giant utility, Dominion Resources, when they were trading at a P/E of above 15.

But his fund has not given up on the sector entirely. It continues to own shares of utilities with lower-than-average P/E ratios, like American Electric Power, which is trading at just 11 times last year's earnings.

Mark R. Freeman, co-manager of the Gamco Westwood Balanced fund, which beat 65 percent of its peers in 2011, adds that investors would be wise to focus on high yielders and on companies with the potential to methodically bolster payouts over time. "This is the wrong time to reach for stocks with the absolute highest yields," he said. "I'm a bigger fan of companies that are yielding 2 to 4 percent now but that promise earnings growth in the future and higher-quality balance sheets."

FOCUSING on dividend growth should help create a more stable portfolio, market strategists say. After all, companies that can bolster their earnings and payouts consistently are likely to withstand an economic downturn better than their peers.

What's more, this approach should help investors find dividend-payers in less-expensive sectors of the economy.

Henry B. Smith, chief equity investment officer at the Haverford Trust Company, an asset management firm in Radnor, Pa., said that the firm maintains two separate blue-chip dividend stock strategies. The first focuses on companies in position "to increase their dividends over time based on their above-average earnings growth," he said, and is used in the Haverford Quality Growth Stock mutual fund. The other, available to clients though not through a retail fund, pays more attention to companies with higher current yields.

While the second approach outperformed the first in 2011, the dividend-growth portfolio has a lower average P/E ratio — around 10 times 2012 estimated earnings, versus about 11 for the high-yielding portfolio.

By focusing on dividend growth, investors will also be drawn to less-traditional income-producing sectors like technology.

Mr. Cordaro of RegentAtlantic says that one of his favorite dividend-paying stocks these days is Intel, the chip maker now paying out a market-beating 3.3 percent dividend yield. The stock is trading at a modest P/E of 10, and its earnings are expected to grow roughly 10 percent annually.

"You've got the same exact thing going on at Microsoft," he said, referring to the software giant whose shares have a 2.9 percent dividend yield. Like Intel, Microsoft has earnings that are expected to grow around 10 percent annually, yet it is trading at less than 10 times last year's earnings.

"If I told you in 1998 that these companies would turn into dividend leaders," Mr. Cordaro said, "you'd say I was crazy."

Dividend stocks: Buyer Beware

1-31-12

As predicted previously in my blog, people are looking for yield. Aivars Lode

By Allan Sloan, senior editor-at-large FORTUNE

With bonds, CDs, and money markets offering paltry payouts, it's no wonder investors are looking for better returns. They just need to know what they're getting into.

There's one group of people who aren't cheering Ben Bernanke's announcement last week that the Federal Reserve expects to keep interest rates ultra-low through 2014: people of modest means who live off their interest income.

As I've been pointing out since 2007, the Fed has eviscerated the income of prudent savers in its attempt to repair the economic damage caused by imprudent borrowers and lenders. I believe that the Fed, whose job is to protect the financial system and promote employment, is acting in the best interests of the country at large. But what's helping the overall economy is hurting savers.

The people with the biggest problem are those who saved all their lives and are now supplementing their Social Security retirement checks with interest income. With that income cut sharply -- five-year Treasuries yield less than 1%, and yields on certificates of deposit are microscopic -- these people have three options, all of them unpleasant: reducing their standard of living as their income drops; eating into their principal; or taking on more risk in order to generate more income.

Risk has become a popular option, which helps explain why dividend-paying stocks are in vogue. Last year, the dividend-paying stocks in the Standard & Poor's 500 returned 5.3% more than non-dividend payers, according to Aronson Johnson Ortiz, a Philadelphia money management firm. That's a sharp reversal from 2010 and 2009, when non-dividend payers outperformed by 1.6% and 35.6%, respectively.

Part of the reason for last year's outperformance, I'm sure, comes from lots of money, including a chunk of mine, being plowed into dividend-paying stocks because bonds and CDs yield so little, and you need an electron microscope to find the yield on money market mutual funds (my main money fund's current yield: a whopping 0.01%).

Recommending dividend stocks has become the conventional investment wisdom, and understandably so. However, if you're joining the dividend-seeking hordes, you need to realize that you're taking a much bigger risk than owning CDs or bonds.

CDs are guaranteed by the federal government. Bondholders are first in line to get paid, and ultimately get their principal back if the issuer doesn't default. But a dividend-paying stock is a whole other story.

Common shareholders are the last in line to get paid, not the first. As many bank stockholders discovered to their sorrow when the financial crisis struck, dividends can be cut sharply or even eliminated if a company runs into trouble, or needs to conserve capital.

In addition to income risk, stockholders have price risk, too. They have no guarantee of getting back the price they paid for the stock. If a stock's annual dividend is, say, 3% of its market price the day you buy it, a hiccup or two can wipe out several years of interest income.

"While a dividend-paying stock can feel like a bond, at some point market volatility will slap you with a painful reminder that it's not," says Stefani Cranston of Aronson Johnson Ortiz. "And, if 2011 was any indication, one thing you can count on is market volatility."

The bottom line: If you go the dividend route, which is what I've done because I'm 67 and may not be employed full-time forever, make sure you understand what you're getting into. Make sure you can afford the losses if you pick some wrong stocks or wrong mutual funds, which even the most astute investor does occasionally. Yes, a 3% dividend yield is vastly more attractive than a 1% interest yield. But remember that the added income comes with greater risk. It's the one economic rule that never changes: There's no such thing as a free lunch.

Why Apple will pay a dividend

2-7-12

Not a surprise to those reading my blog.   Aivars Lode

By Adam Lashinsky, Senior Editor at Large, FORTUNE

CEO Tim Cook has signaled a willingness to break with the past. Paying out some of its massive cash hoard could be his next big move.

The liquid securities alone on Apple's balance sheet, roughly $98 billion, would make it the 43rd most valuable company in the world. Apple's cash would rank it just behind McDonalds, an astounding and bizarre statement in the annals of modern cash management. No company in its right mind would keep $100 billion lying around. But then, as I've been arguing frequently of late, Apple is no normal company. It does just about everything differently, including how it socks away its money.

Apple's (AAPL) aversion to paying its cash, at least, may finally be coming to an end. A slim report issued last week by the wealth management group at UBS (UBS) contains a snippet that would be utterly unremarkable at any other company but is newsworthy for Apple. "We ... understand that management has been soliciting the opinions of large shareholders on the subject [of paying a dividend]," wrote UBS's Bob Faulkner. He went on to speculate that Apple would declare a dividend at its Feb. 23 annual meeting in Cupertino, Calif.

What's startling about this tidbit from Faulkner, who declined to comment further, is the notion of Apple soliciting *anyone's* opinion on anything, let alone the opinion of its investors. Apple has treated investors with about the same level of disdain it reserves for the press over the years. It is stingy with its time with shareholders and relatively uninterested, at least historically, with what investors think Apple should do with their money. In a way, it's a comically pure and admirable perspective. Apple thinks it knows better than someone on Wall Street how to spend Apple's money. And despite the howling from investors that Apple should give back some cash, it's hard to suggest Apple has been a poor steward of investor wealth.

And yet, what's becoming increasingly clear is that Apple has a success problem on its hands: It has run out of ways to responsibly spend its profits. It has never done what any other big company would view as a major acquisition. Silicon Valley investment bankers desperately would like to see Apple acquire Twitter, for example. But this would be so contrary to the Apple acquisition mindset that it's hard to imagine.

Apple CEO Tim Cook has taken the last half a year to begin to signal a willingness to reverse course on the dividend policy. Steve Jobs was famously paranoid about cash, having survived the experience of Apple nearly running out of money in 1997, when he returned to the company. Cook knows that insolvency isn't possible. So now Apple faces the same conundrum as Microsoft (MSFT) has faced, even as Apple continues to experience torrid growth. (Microsoft has dividended billions of dollars to shareholders in recent years.) Shortly after becoming CEO Cook said he wasn't "religious" about cash management. More recently he said Apple's management was "actively discussing" what to do about the cash.

Apple is famous for *telling* others what it will do. For once, it appears to be listening to what others want. Expect a dividend announcement sooner rather than later.

Another Reason to Root for Dividends: GDP boost

4-5-12

More and more investors are looking for stable returns. Aivars Lode

By Nin-Hai Tseng, Writer FORTUNE

If companies don't want to spend their cash hiring more workers, they ought to consider paying higher dividends. The impact on personal incomes and spending might be more than they realize.

For the past few years, a tepid economic recovery has caused America's biggest companies to hoard a growing stack of cash. It's a thorny issue. Not just to the millions of jobless who wonder why corporate America can't just use its plentiful cash reserves to hire more workers, but also to shareholders asking for higher returns on their investments.

But 2012 could turn out differently. Companies have slowly come around, with shareholders likely to see higher payouts this year. Even if firms only paid out a modest 10% of their liquid assets, it could raise annual disposable income by nearly 2%, according to a new report by Capital Economics. With more money in shareholders' pockets, even if they naturally save a bulk of it, such a payout could still raise annual consumption by 1%.

If you believe the estimates, then it's certainly a reminder that companies should really step up.

Last month, Apple (AAPL) announced it would pay its first dividend in 17 years, leading some to speculate if others in the tech world might think differently about their cash reserves. Though Cisco (CSCO), Oracle (ORCL) and Microsoft (MSFT) pay dividends, the companies are still among the nation's biggest cash hoarders.

Apple, with about $97 billion in cash amassed from huge demands for iPhones and iPads, ranks at the top of the list of U.S. corporations with lofty reserves, according to Capital Economics. Microsoft follows with approximately $52 billion and Cisco with about $47 billion. Google (GOOG) ranks fourth, with $45 billion. And now that Apple is giving its shareholders a payout, that makes Google the only tech company with a market value exceeding $100 billion that doesn't offer a dividend.

Since the latest recession, executives uncertain about the economy have held onto their money. Cash levels at the end of 2011 rose to $672 billion from $42 billion at the end of the recession in mid-2009. If you include short-term investments, liquid assets nearly doubled to $2.2 trillion during the same period.

Indeed, that's a lot of cash to go around. Companies obviously aren't going to pay out all their cash reserves. If they did return that $2.2 trillion to shareholders, personal incomes would rise by nearly 20%.

It's true raising dividends might not work for every company, but it's hard to argue that it would exactly hurt executives. Even with Apple's plans to dole out dividends and provide stock buybacks, the move isn't expected to put a dent in Apple's coffers. The plan is expected to cost the company more than $10 billion a year over the next three years, while the company attracts a sizable sum of cash – about $1 billion a week in the last holiday season alone.

This certainly helps build the case for changing the mentality of Silicon Valley, where leadership has historically been cautious with their cash. And like the late Apple CEO Steve Jobs, who resisted giving dividends, tech companies would rather save cash for possible acquisitions and other investments. In a way, raising dividends might actually signal companies aren't planning enough for future growth.

Such arguments become less convincing during economic environments like today's, since cash reserves keep rising and aren't likely returning much for companies at a time when interest rates are at record lows.

To be fair, companies have started relaxing their purse strings. During the first three months this year, net dividend increased by 27.6% to $24.2 billion over the same period during the previous year, Standard & Poor's reported Tuesday. There were 677 dividend increases during the first quarter, a 32% rise compared with the 510 increases during the same period in 2011.

"Dividends had another great quarter, with actual cash payments increasing over 11% and the forward indicated dividend rate reaching a new all-time high, with or without Apple," said Howard Silverblatt, S&P Indices' senior index analyst in a statement.

To be sure, he adds, payout rates remain historically low. The percentage of net income paid out in dividends, which historically averages 52%, remains near its lows at under 30%.

It remains to be seen where dividends go this year, but thus far they're off to a good start. Perhaps a small boost in consumer spending will come next.

Dividend-paying Stocks Pay Yet Another Dividend: Price Increases

4-12-12

As predicted. Aivars Lode

By Jeff Benjamin, Investment News

With bond yields at historic lows, investors have turned to dividend-paying stocks as a source of investment income.

Now investors are getting an extra boost — call it an added dividend — in the form of rising prices of dividend-paying equities.

The long-term contribution of dividends to an investment's total return is well-documented.

But as dividend investing becomes increasingly popular, the resulting demand is driving up stock prices. This, in turn, could encourage even more companies to declare dividends.

The pressure to introduce and increase dividends could get intense, said Joshua Peters, an equity analyst at Morningstar Inc.

“Chief executives and corporate boards are going to start noticing that investors are rewarding dividend-paying stocks,” he said.

“Some companies might be dragged kicking and screaming [to start paying dividends], but investors are starting to pay attention, and they're starting to ask why some companies aren't paying dividends,” Mr. Peters said. “This is not a fad and it's not solely cyclical; I think we're in the early innings of a reversion to the mean of where we were in the 1950s and 1960s, when dividends were more common.”

It might just be a coincidence that in the midst of this renewed focus on dividends, Apple Inc. (APPL) announced plans to introduce a quarterly dividend of $2.65 a share. At a total of about $10 billion a year, it is the biggest dividend payout ever.

Investors have ex- pressed strong approval, driving the stock price up 7% from where it was the day before Apple's March 19 announcement through last Wednesday. By comparison, the S&P 500 fell 2.6% over the same period.

There is no denying the appetite for dividends among investors.

Last year, registered investment products that focused on paying dividends had $26.6 billion in net inflows, while the full universe of registered equity products experienced $178.2 billion in net outflows, according to EPFR Global, which tracks fund flows.

So far this year, dividend-focused products have had $15.4 billion in net inflows, while the universe of equity products had net inflows of $19.8 billion.

APPEAL OF COMPOUNDING

The initial appeal of dividends for most investors is often as straightforward as the basic math of compounding.

Lowell Miller, portfolio manager and founder of Miller Howard Investments Inc., makes the point by calculating the total return of $1 invested in the S&P 500 from 1936 through 2010.

The value of the initial investment, excluding dividends, would have grown to $93.65 over the 75-year period. But by reinvesting the dividends, the value would have spiked to $1,740.30.

“In our view, that's how investing should work,” Mr. Miller said. “You invest capital, and you get some return now and some in the future.”

To tap into the power of dividends in a growth play, investors should focus on companies that are initiating and/or increasing dividend payments — signs of strong balance sheets and potential capital appreciation.

Although George Fraise, principal at Sustainable Growth Advisers LP, takes the backdoor approach to dividend income by tracking a company's free cash flow, the end result is often the same.

For instance, the focus on free cash flow led Mr. Fraise to invest in Apple long before the dividend was announced.

“The best proxy for high dividend growth is free cash flow over time,” he said.

According to Mr. Fraise's analysis of the S&P 500 over the 10-year period through 2010, those companies with the highest dividend growth generated a combined total return of 177%.

LOOKING FOR GROWTH

This compares with a 56% combined total return for those companies in the index with the highest dividend yields but the lowest growth in dividend increases.

Looking beyond dividend yields and focusing on the direction of those dividends is where a lot of dividend strategies separate from the pack, and where investors should be looking for growth.

Don Taylor, manager of the $9.7 billion Franklin Rising Dividends Fund (FRDPX), places particular emphasis on companies with a history of “consistent and substantial dividend increases.”

“During the tech bubble of the late 1990s, dividends had fallen tremendously out of favor because paying a dividend used to mean a company couldn't grow,” he said. “But over the last several years, dividend stocks have done well in the marketplace, and now corporate management and boards are seeing that the markets are responding positively to more-enlightened dividend policies."

Given the trends, investors should find a diverse collection of dividend-paying companies.

"There's something for everyone," said Mr. Miller, who cited International Business Machines Corp. (IBM) and McDonald's Corp. (MCD) as among the best examples of companies that are increasing both dividends and stock price.
TURNAROUND STORIES

But if you are looking for turnaround stories, he recommends General Electric Co. (GE) and International Paper Co. (IP).

For market dominance, Mr. Miller likes The Boeing Co. (BA), Intel Corp. (INTC), and Taiwan Semiconductor Manufacturing Co. Ltd. (TSM).

Fast growth? Mr. Miller gives the nod to Unitedhealth Group Inc. (UNH).

"More stocks are moving in the direction of dividends than I've seen in a long time," he said. "The idea that dividends are just for big, slow, blue chip companies has been promoted by people who take an aggressive approach to stocks, and it misses the compounding effects of dividends."

IBM Hikes Dividend, Boosts Share Buybacks by $7bn

4-24-12

Yep, see our previous blogs a few years ago where we talked about why companies would start paying dividends. Aivars Lode

By Timothy Prickett Morgan, The Register

At this rate, in about 25 years IBM will be a privately held company.
IBM's board of directors, which is always ready to let Big Blue's upper management go down to the New York Stock Exchange with dump trucks full of cash to buy up shares to retire them, has done it again. The board has authorized another $7bn in share buybacks, adding to the $5.7bn in purchase authorizations that was still on the books. The company's top brass also said in a statement that they would seek even more authorizations at the October 2012 board meeting to keep the share buybacks a-humming.
IBM has spent a whopping $137bn since 2000 buying back its shares and paying dividends, and since that time it has retired about a third of its shares.
Considering that the company wants a rising stock price, since its top executives receive most of their compensation in shares and that means a pay raise for them, IBM has no intention of going private. And it is also a payday for investors when IBM buys the stock back from shareholders. So this share buyback scheme is just too good of a way to get paid to give up. Moreover, IBM grades itself on *operating earnings per share growth* now – not even actual earnings per share, as it used to – and it is thus highly motivated to engineer at least some of its EPS figures through share repurchases.
But at some point, pretty far into the future, IBM will run out of shares. At IBM's current market capitalization, the 1.16 billion outstanding shares of the company add up to just a little over $230bn. IBM's shares were trading at a low of $58.31 in September 2002 and with a few fits and starts have been bouncing around $200 in recent weeks.
If IBM shares keep climbing at the current pattern – which they have been holding for the past decade – the firm should be able to double its share price in the next decade, with some sawtoothing every couple of years as things go wrong – and they will. Big blue could also remove another half billion shares from its public float and still end up with the same market capitalization as it has today

when it is all over.
The question is whether IBM's current or future management will be tempted to do a stock split if the shares stay much higher than $200. With Apple shares trading at $565 and Google at $605 as *El Reg* goes to press, there is a perceived value to a high stock price and IBM may want to let its shares ride up to $300 and then $400 over the next decade to get some sort of halo effect.
Just for a contrast to today, recall that back in May 1968, when IBM did a killer stock split, Big Blue was *the blue chip stock* on the NYSE, with its shares trading at $688 a pop. It had 60 million shares at the time, and the redistribution of 120 million shares was the largest split in history. Back then, IBM *was* enterprise computing, more or less, and it paid out $4.54 a share per year in dividends. Adjust that stock price for inflation, and it is on the order of $4,500 a share before the split – and that dividend spent something like $30 in today's 2012 dollars.
But today, after Big Blue's near-death experience in the early 1990s, where it didn't understand that the mainframe was going to get eaten by swarms of PCs and Unix servers, the company is crowing like a Chanticleer that it is boosting its quarterly dividend by 10 cents, to 85 cents a share. That's a cool $3.40 a share. And while that may sound like a reasonable amount of dough (and it is compared to other stocks), if you adjust that back to 1968 dollars, you are talking about 52 cents a share after deflating it. Good luck trying to live on that, widows and orphans.

Dividends Prove Even More Valuable In Anxious Times

8-1-12

As I have commented a number of times, dividends should provide at least some stability of income vs the pursuit of growth. Aivars Lode

By Malcolm Maiden, Sydney Morning Herald

BLOOMBERG group founder and current New York mayor Michael Bloomberg said last February that ''if somebody offers you a guaranteed 7 per cent on your money for the rest of your life, you take it and just make sure the guy's name isn't Madoff''.

The comment sounded more radical in the US than it did here. Until the global crisis, double-digit capital gains were the Holy Grail for US share market investors. American groups that cycled a fair proportion of earnings back to shareholders in dividends were more often than not considered to be bereft of ideas and growth options.

Here in Australia, dividend yield has always been more important. Its central role was cemented in 1987 when the Hawke-Keating government introduced dividend imputation - a tax credit that recognises that dividends are paid by companies out of income that is already taxed, and one that is more valuable in the hands of investors when dividends are high, and company tax is paid at the top rate.

My colleague Ian Verrender pointed out yesterday that the global hunt for yield is creating a mismatch between the value of the Australian dollar, which is holding up, and commodity prices, which have been falling: the Reserve Bank's index of commodity prices fell by 13.3 per cent between August and June, but at more than $US1.05 yesterday the $A was not far from its July 27, 2011, high of $US1.10, and up more than 8 per cent in two months.

Foreign buying of triple A-rated Australian government bonds that has almost halved yields in 18 months helps explain that unusual state of affairs, and the same search for yield is on in our sharemarket, where the big banks and Telstra are the defensive investor's Fabulous Five.

A ''risk-off'' rally like that one that began at the end of last week on reports that the European Central

Bank was about to take action to shore up Spain and boost Europe's economic growth in theory makes defensive yield plays such as Telstra less attractive.
There was enough interest in the telco yesterday, however, to carry its shares above $4 for the first time since December 2008, and they have risen by 20 per cent so far this year in a market that has risen by 5.4 per cent overall. Westpac is up almost 17 per cent, CBA is up by just under 18 per cent, ANZ is 15 per cent higher and NAB is up 7 per cent.
Morgan Stanley's estimate is that since 1970 the shares in the MSCI global market index have risen an average of 5.1 per cent a year. The same shares have risen by 8.3 per cent on a total return measure that rakes in dividends, so share price gains have been the biggest contributor to the total gain.

Morgan Stanley US strategist Adam Parker and the MS global strategy team say, however, that the result is skewed by unusually large price gains in the 1980s and 1990s ''that are unlikely to be repeated going forward''.

Over the very long term dividends have accounted for about half the global sharemarket's growth, and they have been a crucial driver of shareholder returns since the crisis everywhere, including here. The S&P/ASX 200 benchmark index of top listed companies hit bottom on March 6, 2009, and is now 35 per cent higher. The ASX 200 accumulation index has risen 55 per cent over the same time, with the 20-percentage-point difference accounted for by dividends.

Dividends always boost returns, of course, but they are much more valuable to investors in markets that are under pressure, as they have been now for five years. The ASX 200 index's 146 per cent gain between March 2003 and November 2007 when the local market peaked became a 199 per cent gain after dividends, for example, a 36 per cent improvement. The same index's 31 per cent price loss since the end of July 2007 when the markets were tipping into the crisis is more than halved to 14 per cent when dividends are included, and that dividend-enhanced total shareholder gain of 55 per cent since the market bottomed in March 2009 is 57 per cent better than the share price-only return.

The share gains already made by Telstra and the big banks have trimmed their dividend yields, but they are still magnets. Telstra is still on gross dividend of 10 per cent. NAB is yielding 10.15 per cent, Westpac 9.9 per cent, CBA 8 per cent and ANZ 8.6 per cent.
There are other high-yield niches including investment trusts and infrastructure funds, and in a recent report on high-yield shares that looks at yield but also earnings outlooks and balance sheet strength, Goldman Sachs nominates UGL group, Woolworths, Coca-Cola Amatil and CFS Retail Property Trust alongside ANZ as its top recommendations.

The Fabulous Five should remain popular, however. All shares carry price risk, but you could do worse than borrow Bloomberg's post-crisis playbook and lock in some of the quality yields this market is offering.

Olson Global: CBOE Volatility Index (VIX) Approaching Long-Term Support

8-5-12

As I identified some time ago, dividend stocks will become increasingly more important. Aivars Lode

By Jim Donnelly, Olson Global Markets

With July's employment data posting largely mixed, but better-than-expected results, the S&P 500 Index scored a nearly 26pt gain on Friday to end the week at 1,390.99. That was its higher reading since May 4 having jumped nearly 125pts since the beginning of June. Moreover, the CBOE Volatility

Index (VIX) of the S&P 500 fell further last week and is now apparently taking aim at a retest of long-term trend line support currently sitting at the 13.50 level.

Although day-to-day price swings continues to dominate, the general trend of the S&P 500 Index remains positive. That being said, prolonged uncertainty over the European debt crisis, the outcome of this year's presidential election and the inability of Congress to address the "fiscal cliff" issue until (realistically) after the November elections have passed has hastened a shift away from "risk" assets in preference of cash, cash equivalents or intermediate-term fixed income instruments by a number of investors. That same uncertainty has resulted in a shift toward dividend paying stocks within equity portfolios. As a consequence, retirees, pension funds and yield seekers who are in need of an income stream have been forced so accept lower rates of return on bonds and lower dividend yields on stocks. In turn, that has resulted in higher prices being paid for those assets. A byproduct of this shift has been the continuation of impressive gains registered in bond prices and dividend paying stocks at the expense of a number of growth stocks that have recently suffered unexpected setbacks. In addition, the desire to preserve capital by another set of investors has produced the phenomenon of "negative interest rates" currently being offered on a number of European sovereign debt issues.

Interestingly, this unusual investment setup has created an environment in which a bit of good news can trigger a sizeable daily gain in equity prices, followed by a return to a string of modest day-to-day retreats highlighted by a series of glum macro economic forecasts. Since the VIX is often referred to as the "fear index", and given the inverse relationship it has with the direction of the S&P 500 index, higher equity prices accompanied by a decline in the VIX could play out for the remainder of the summer. But as the November elections approach, or if the European finance ministers find that an intensified crisis of confidence begins to grow before then, a move toward the 13.50 area on the VIX might prove to be a very attractive "buy".

Cisco Raises Dividend as Profits Beat Expectations

8-16-12

As discussed before, corporations are starting to pay increased dividends. Aivars Lode

By BBC News

Technology giant Cisco, the world's largest maker of networking equipment, has increased its dividend after reporting better-than-expected results.

The company said cost cutting helped fourth quarter **net income to rise to $1.9bn (£1.2bn)**from $1.2bn a year ago, on revenue up 4.4% to $11.7bn, despite difficulties in Europe.
Cisco also said it would raise its dividend by 75% to 14 cents a share.
The company's shares rose 5% to $18.23 in after-hours trading on the news.
Chief executive John Chambers forecast revenue growth of between 2-4% in the next quarter, but warned of continuing uncertainty in Europe, a key market, which was creating an environment in which it was difficult to clinch business deals.
"That's probably going to get tougher before it gets better and that might last for a good little while," he said in a conference call.
As a result, "many of our customers continue to anticipate a challenging next 12 months on a global basis and therefore these CEOs will remain conservative both in their IT expenditures but also in their hiring".
Cisco is undergoing a restructuring programme that aims to cut expenses by about $1bn. Last month it announced it would cut 1,300 jobs.
The job cuts represent about 2% of Cisco Systems' 65,000 strong workforce. Last year, the company shed 10,000 posts.

Costco's Odd Fiscal Cliff Dividend Deal

12-3-12

Companies are taking advantage of the fiscal cliff to pay dividends. Aivars Lode

By Steven Gandel, Senior Editor, FORTUNE

The giant retailer is borrowing billions to dole out to shareholders in a special dividend before the fiscal cliff hits.

If you could afford to borrow $10,000 at an 0.8% interest rate to blow in Las Vegas or on a 5-star meal with your friends, would you? Should you?
That's the question facing shareholders of Costco (COST). Last week, the warehouse merchant said that it was paying out a special dividend of roughly $3 billion to shareholders, or $7 per share. Costco's shares recently traded for $104. To pay for the dividend, Costco is going to sell $3.5 billion in debt. It will buy back some shares as well.
And Costco isn't alone. A number of public companies have been rushing to pay dividends, their regular ones or special ones, before the end of the year, when as part of the so-called fiscal cliff taxes on corporate payouts to shareholders could rise to as much as 39.6% from a recent 15%. What's different about Costco's deal is that the company is borrowing money to pay the dividend. But still the company is far from alone. Cruise ship operator Carnival (CCL), and liquor company Brown-Forman (BFB) are among others that appear to be borrowing funds for shareholder payouts.
On Wall Street, deals like these are called dividend recaps. My colleague Dan Primack has had some things to say about them, not all nice. They typically happen in leveraged buyouts, when private equity investors want some of their money and aren't yet ready to sell the company, or can't. Many of the deals add more debt to companies that already have higher than average leverage. Some people claim the deals lead to more bankruptcies, though there's little evidence that's true. But the deals do appear to be getting riskier lately. Moody's downgraded the bonds of 27% of the companies that did dividend recaps in the third quarter, compared with less than 15% overall in the same quarter.
But when it comes to Costco, the question of whether it should be doing a dividend recap is trickier to answer.
The deal will more than triple Costco's long-term debt. But the company clearly can afford to borrow the money. Phil Zahn, an analyst at Fitch, did lower Costco's credit rating to A+, which is one notch lower than it had been, but it's still relatively high. Zahn figures that even if you add in all of Costco's lease obligations, the retailer still only has a leverage ratio, which compares a company's cashflow to it debt, of 1.7 times. That's lower than its competitors. Wal-Mart's leverage ratio, measured the same way, is 2 times. Target's is 2.6.

Wall Street analysts have mostly cheered Costco's dividend deal. The stock is up on the deal. Even Robert Willens, a tax expert who has is typically skeptical of corporate accounting maneuvers, says the Costco deal looks like a good one. "It makes a lot of sense," he says.
Still, even if Costco can, should it? If it's willing and able to borrow money, wouldn't it be better for the company if its executives were to invest that money rather than just passing it out? What's more, the deal will take away some of Costco's flexibility.
Before the deal, Costco was paying about 0.4%, after taxes, to borrow. If the company has to borrow more in the future, either because it wants to do a deal or if it runs into a problem, it will now have to pay at least double for a loan, or likely even more. Costco's extremely low leverage ratio was an advantage that the company had versus its competitors. No more.

Part Two: Risky Investments

Insider Selling Volume at Highest Level Ever Tracked

10-29-10

Buyer beware. Aivars Lode

By John Melloy, CNBC

Beyond the money
The overwhelming volume of sell transactions relative to buy transactions by company insiders over the last six months in key leading sectors of the market is the worst Alan Newman, editor of the Crosscurrents newsletter, has ever seen since he began tracking the data.

The strategist looked at insider trading activity amongst the top ten companies that make up the Nasdaq such as Apple [AAPL 303.4199 -1.8201 (-0.6%)], Google [GOOG 615.00 -3.58 (-0.58%)] and Amazon [AMZN 167.6799 0.8399 (+0.5%)].RETAIL HLDRS TR (RTH)99.23 -0.41 (-0.41%%)AMEX

Then he analyzed the biggest members of the Retail HOLDRs ETF like Gap [GPS 19.02 -0.13 (-0.68%)], Target [TGT 51.68 -0.68 (-1.3%)] and Costco [COST 62.67 -0.13 (-0.21%)], as well as the top insiders in the semiconductor industry at companies such as Altera [ALTR 30.96 0.21 (+0.68%)], Broadcom [BRCM 40.56 -1.07 (-2.57%)] and Sandisk [SNDK 38.01 -0.04 (-0.11%)].

The largest companies in three of the most important leading sectors of the market have seen their executives classified as insiders sell more than 120 million shares of stock over the last six months. Top executives at these very same companies bought just 38,000 shares over that same time period, making for an eye-popping sell to buy ratio of 3,177 to one.

The grand total for the three sectors are "as awful as we have ever seen since we began doing this exercise years ago," said Newman, who was ahead on such trends as the dangers of high-frequency trading and ETFs before the 'Flash Crash'. "Clearly, insiders are seeing great value only in cash. Their actions speak volumes for the veracity for the current rally."

But the overall market doesn't seem to care. The S&P 500 is up 16 percent since its 2010 low hit on July 2nd on the back of strong earnings driven by cost-cutting and the hopes for even more quantitative easing from the Federal Reserve.

The insider data "is good reason for considerable caution once the price action fades," said Simon Baker, CEO of Baker Asset Management. Still "insiders normally buy early and sell early too. Longer term -- 12 months out -- it is more of a red flag."

Newman isn't alone in warning about insider selling. The latest report from Vickers Weekly Insider, a publication that makes investments based upon these transactions, shows that total insider sell transactions relative to purchases on the New York Stock Exchange are running at a ratio of more than four to one over the last eight weeks. The normal reading, because of options selling and other factors, is about 2 sales for every buy, according to Vickers.

To be sure, many investors feel the heavy insider selling is just an anomaly based on other reasons.

"These are folks that have had to dip into their stocks for the first time in years, as their salaries have been cut and their bonuses, outside Wall Street, have been significantly curtailed," said J.J. Kinahan, chief derivatives strategist for TD Ameritrade. " This may speak more to a cash flow problem, then a market belief."

Still Newman, who is also a favorite commentator of Barron's columnist Alan Abelson, sees the insider selling as just the latest reason, along with the mortgage foreclosure mess and fully invested mutual fund managers with no fresh powder to put to work, to be cautious on the market.

Five Could-Be Bubbles Waiting to Burst

10-29-10

HMMM, I wonder where we have heard this before. Once they start writing about it, it generally becomes a reality. Aivars Lode

By FORBES

One of the oldest sayings of Wall Street (and one that happens to be true!) is that "there is always a bull market somewhere." No matter how bad one segment of the market may be performing, there is almost always some unrelated asset that is doing well at the same time. Taking that to its logical extreme, if there is always a bull market somewhere, there are almost always a few potential bubbles emerging. So which markets look like they have heated up to the melting point?

Rare Earth Elements

If there is a bubble in rare earth metals, China is likely to blame. Not only does China have the blessing of favourable geology (ample resources), but the country actively supported its rare earth mining operations at a time when Western miners were closing up shop. Now, though these elements are critical components of many electronics, China overwhelmingly controls the supply, and the government is curtailing exports and driving up prices. That, in turn, has created a boom time for would-be rare earth miners like Lynas Corp. Ltd. and Avalon Rare Metals Inc. (AVL-T4.550.112.48%).

Ironically, rare earth elements are actually not all that rare for the most part - they are just difficult to find in concentrated quantities on their own, and are typically the byproduct of other types of mining. At prevailing prices, miners are scrambling throughout Australia, the United States and Canada to bring old mines back into production and begin mining new resources. Simultaneously, those companies that depend upon rare earth elements are doing what companies always do when a key component gets expensive and/or scarce - they are engineering around the problem.

Although rare earth prices could stay high for a while (mines do not open overnight), new digging and new alternatives are likely to put an expiration date on this bull market.

Cloud Computing

If there is a candidate for a good old-fashioned stock bubble, the cloud computing area is as good as any. Some of the requisite hyperbole is certainly in place - namely, that cloud computing is going to revolutionize how businesses approach IT, and how it is going to permanently disrupt the software industry.

Although many of these stocks have recently retreated from their highs, the valuations are still impressive. Salesforce.com (CRM-N116.071.070.93%) carries a trailing enterprise value-to-revenue multiple of 9.5, while VMWare (VMW-N76.46-0.11-0.14%) trades at a multiple of 12.3, Citrix Systems Inc. (CTXS-)Q at 5.9 and LogMeIn Inc. (LOGM-Q39.731.022.63%) at 8.3. While this entire sector is seeing robust revenue growth and customer demand, that was also once true for a host of networking, semiconductor and e-commerce stocks back in the late 1990s.

Cotton

Amidst all of the hoopla about the performance of grains, base metals, precious metals and even cocoa, the record prices in cotton have gone almost relatively unnoticed. Nevertheless, cotton recently broke an all-time price record and prices have jumped about two-thirds from mid-summer.

Unfortunately for investors, the odds are that this cotton bull market has short legs. There is little that can be done to boost supply in the short-term, but high prices for cotton will do what they always do - stimulate more planting in cotton-growing regions. Although it is always possible that growing conditions (poor weather, etc.) could damage the next crop or crops, it is likewise possible that journalists will be talking about a bumper crop and low prices this time next year.

Gold

The ultimate "is it or is it not" bubble argument has to be over gold (GC-FT1,359.4016.901.26%). September and October have been full of reports talking about record high prices for this precious metal, and the overall trend has been up for roughly eight years now. Despite this momentum, plenty of gold-bugs will step up to remind the market that gold has yet to reach an inflation-adjusted record of about $2,200 (U.S.) per ounce.

Although gold is often hailed as an inflation hedge, the data supporting that is less than fully compelling. What gold really seems to hedge is uncertainty; when people get nervous, they like to hold gold. Relative to the trajectories seen in the tech stock and housing bubbles, gold could still have a ways to go - particularly for those who see chaos in the political and economic conditions of the U.S. and Western Europe.

There is, however, an inconvenient truth - hardly anybody outside of coin dealers has ever made lasting wealth out of trading in gold. As gold skeptics love to point out, gold produces no income, is inconvenient to use as is, and could very well be seized by governments during the very conditions that gold-bugs point to as an argument in the metal's favour. While the ubiquity of fear in the market seems to justify a lot of the enthusiasm for gold, it is hard to see how prices are not overheated - to say nothing of the fact that if economies fail and governments collapse, people will have more to worry about than their retirement savings.

U.S. Bonds

To a lot of people, the current yield on government bonds just makes no sense. These people see the U.S. federal budget deficit, the huge debt burden and the risk of a stagflation-type environment of low growth and high inflation, and cannot understand how investors could be piling into bonds. Moreover, there is a strong sense that these artificially low rates are just a prelude to a withering bout of inflation that will smack fixed income instruments hard.

For better or worse, there are other dynamics at work in the bond market. For starters, banks can make a solid "carry trade" on government bonds - banks take their ultra-low cost deposits and invest them in higher-yielding government securities.

Second, many pension funds were badly wounded in the mortgage-backed bond crunch of 2008 and 2009. Not only have many funds rewritten their mandates to take on less risk, but the supply of bonds has changed. In many cases, pension funds are buying government bonds because they need fixed income instruments and the near-collapse of the mortgage-backed securities market has eliminated that supply.

In other words, this is not so much a bubble (at least not a bubble fueled by unreasonable expectations of gain) as a supply squeeze. That is not to suggest that it could not still end badly, but the actions of many of these bond-buyers are not quite as irrational as some believe.

The Bottom Line

"Bubble" has become an overused term in the last few years, as many investors and commentators now slap that label on any market segment that has enjoyed strong appreciation and high valuations. True bubbles are supposed to involve a certain element of self-delusion and mania. For an overheated market to really be a "bubble", there needs to be a collective notion that "it's different this time" and that the only prudent move for savvy investors is to put nearly all of their money in that asset - that was the prevailing sentiment during past bubbles like the South Sea craze, Tulip Mania, the margin-fueled stock bubble of the 1920s, the Nifty Fifty and the tech bubble of the late 1990s.

Whatever terms one wishes to use, though, there is no question that there are some overheated segments of the market today. While momentum investors may be tempted to play their luck and see if they can squeeze more profits from these runs before the flag, more conservative investors may want to give them a pass altogether.

The Flash Crash, in Miniature

11-9-10

More manipulation of the markets by dark fiber and high frequency trading? Aivars Lode

By Graham Bowley, New York Times

Mark Mulhern, a Progress Energy executive, was told its flash crash was a mistake.

For no apparent reason, Progress's share price had plunged almost 90 percent. In a matter of seconds, a company with 3.1 million customers and 11,000 employees had all but vanished on the nation's stock market, and Progress executives had no idea why.

In the anxious hours that followed, the answers began to come clear: the harrowing plunge in the early afternoon of Sept. 27 had been a mini flash crash — a small-time version of the stock market's wild day last spring.

Since the Dow Jones industrial average fell about 700 points then largely recovered on May 6, setting the financial world on edge, similar flash crashes have occurred with alarming frequency in more than a dozen individual stocks.

Citigroup, Core Molding, the Washington Post Company — all have soared, plunged, and often both, in wild, seemingly inexplicable trading. An exchange-traded fund, a popular investment that is basically an index fund that trades like stocks, has also been given the flash treatment, although that was attributed to a software error.

To some analysts, these mini flash crashes are a sign that another big one is possible, if not probable. Others say these abrupt reversals are simply the way modern, lightning-quick markets work, and that investors had better get used to it.

The crashes continue even as Washington regulators investigate the structure of modern markets and as a report traced the main trigger of May's big crash to a poorly timed trade by a mutual fund in Kansas. Regulators have put in place circuit breakers to halt trading and reset prices in case stocks plunge. But some analysts fear that one day, these mechanisms could be overwhelmed.

And to corporate executives caught in the middle, it is all just plain hair-raising — and still puzzling.

That September afternoon, with fearful investors on the phone from New York, Mark F. Mulhern, Progress Energy's chief financial officer, was told by the exchanges that it was all a mistake. A wayward keystroke by a trader somewhere had unleashed a powerful computer algorithm that had devoured Progress Energy's stock in moments.

Progress Energy stock was trading at about $44.57 a share, and a dealer at an unidentified brokerage firm had entered a mistaken sell order into a computer that instantly drove the price to $4.57. Dozens of trades were declared void, and after a five-minute halt, normal trading resumed.

Mr. Mulhern says he still does not really know what caused the sell-off — and worries what mini flash crashes like this one are doing to investors' confidence in the stock market.

"It is a little disconcerting when a trade like this could cause this kind of havoc," he said. "It has got implications for the confidence in our markets. I don't know what caused it, to tell the truth. The one hesitation all investors have about the market is the drift to so much electronic trading. It is so fast and real time, you have to wonder a little bit how these things happen, and can the regulatory procedures, the stop measures, can they really keep up with the technology?"

Robert F. Drennan Jr., the vice president for investor relations at Progress Energy, said he had reviewed the trading records and had noticed unusual trading activity in the run-up to the plunge. He said Progress Energy was not a heavily traded stock; it may go for several seconds without a trade. But before the price fell, "There was a big ramp-up in the trades, hundreds of trades a second," he said.

Mr. Mulhern said he received calls from worried investors, including hedge funds: "When the hedge funds call up and start to complain, you know you have a problem."

The fall set off circuit breakers the exchanges had put in place after May 6. The circuit breakers are intended to halt trading of a stock for five minutes if its price changes by 10 percent within a five-minute period, and thus to stop panic from spreading.

In the case of Progress Energy, the circuit breaker worked on the New York Exchange, Mr. Mulhern said, but trading happens so fast that before other exchanges could also halt trading, the company's stock price continued to fall on the Nasdaq, all the way down to $4.57.

On Oct. 26, a surge in the shares of Aaron's, the furniture and appliance retailer, also set off the new circuit breaker. Gilbert L. Danielson, chief financial officer, said he did not know what had caused it. "I really have no answer for that, but it would be interesting to know," he said.

Some take heart in the fact that the circuit breakers often work well. "With all the millions of different trades out there, we have only a dozen of these," said Patrick Healy, chief executive of the Issuer Advisory Group. "It's actually pretty good."

But critics worry that the string of mini flash crashes points to deeper problems in the nation's stock market.

"It's like seeing cracks in a dam," said James J. Angel, professor at the McDonough School of Business at Georgetown University. "One day, I don't know when, there will be another earthquake."

Andrew W. Lo, director of the Laboratory for Financial Engineering at M.I.T., said: "I am worried about the potential instability that these technologies create in market dynamics. The U.S. equity markets have become the Wild, Wild West."

In May, the stock market drop of more than 700 points wiped billions off share prices in minutes, before bouncing back just as quickly, leaving everyone grasping for answers. But even though regulators have identified the main source of the drop as a sale of a large block of futures contracts by a mutual fund in Kansas, some worry that today's fractured electronic stock market has become so unstable that another large sale or a simple error could incite a broader crash.

They also worry about the possibility for manipulation by high-speed traders, especially in a market where trading has proliferated over more than a dozen exchanges and where shares change hands in microseconds.

"What we have today is a complete mess," said Thomas Peterffy, chief executive of Interactive Brokers, one of the largest brokerage firms in the country. "Over the last 10 years, technology delivered great benefits, but in the last year or so, it is not so good. There is more room for the various games some people play."

This month, a software update at the New York Stock Exchange's electronic Arca exchange brought a nearly 10 percent plunge in an exchange-traded fund that tracks the Standard & Poor's 500-stock index.

In all the mini flash crashes, trades that took place after the plunge were canceled.

Most of the mini crashes were blamed on computer malfunctions or human error. But in at least one case, markets behaved as they were supposed to.

On Sept. 14, the stock of Nucor, a steel company based in Charlotte, N.C., was at $35.71 when it started falling. A trader had entered a large single order to sell without any price limit on the stock exchange of the Chicago Board Options Exchange. As would have happened on any electronic exchange, after the exchange, then known as the C.B.S.X., exhausted all the buyers on its own exchange, its computers looked to, or "swept" other markets for potential buyers before returning to the exchange's own order books, eventually driving the price all the way down to a penny.

"Before May 6, exchanges frequently had transactions like this that were canceled or adjusted because of an erroneous execution price," said David Harris, the exchange's chief executive. "Compared to the total number of trades executed on U.S. markets, canceling a single transaction like this is statistically insignificant."

Some in the industry think the use of unlimited orders should be controlled.

The authorities are contemplating other ways to make trading safer and are considering refining circuit breakers to stop erroneous trades from taking place.

A Securities and Exchange Commission official said the agency was closely watching the cases where individual stocks had set off circuit breakers, but had found that each case had "its own story." The official added, "We are learning from them, and so far it is hard to extrapolate too much as to the general trends in the market."

On Monday, the S.E.C. banned stub quotes, which were singled out for blame in the May 6 flash crash. These were place-holding price quotes, far from the market price, put up by market makers that are required to post quotes, but do not really want to buy or sell shares.

"While we continue to look at other potential obligations for market participants, this is an important step in our effort to improve the functioning of the U.S. markets and restore investor confidence following the events of May 6," Mary L. Schapiro, the S.E.C. chairwoman, said in a statement.

The S.E.C. has also suggested imposing limits on high-frequency traders. Possibilities include requiring a minimum time for them to keep their orders in the markets, and obligations to offer buy and sell prices even when markets become volatile.

Critics suspect some high-frequency firms of “quote stuffing,” or firing off and immediately canceling thousands of orders each second to deliberately clog an exchange.

The sudden withdrawal from the markets by high-frequency traders during the market panic on May 6 worsened the decline.

Some critics say ordinary investors are becoming wary of the stock market. In a market dominated by lightning-quick traders with immense computing power at their fingertips, the odds are stacked against them, they fear.

Retail investors have pulled billions of dollars from stock market mutual funds this year.

The Investment Company Institute, which represents investment companies like mutual funds, said it was concerned by the “market inefficiencies” revealed by May 6 and wanted regulators to look at what it called abusive practices, like using technology to detect trading of large blocks of shares by investors like mutual funds and trading ahead of them.

Others are far more blunt. “I am very upset by the flash crash,” said George P. Schwartz, who manages the Ave Maria mutual funds. “I am upset by how high-speed traders have taken over the market. They make a mockery out of capitalism.”

Wall Street's New Lie to Main Street

1-26-11

Mark is right on the money, this ties to a lot of what I have been Blogging about from the start. Aivars Lode.

From the Mark Cuban Weblog

The greatest lie ever told used to be Wall Street telling main street to "buy and hold". Of course that’s what they told you every chance they got. It's not what they did. The holding period for stocks dropped from 8 years in 1960s to 2 years in the 1990s and 8 months in the 2000s. Today, stocks are bought and sold in milliseconds. Which is one of the big reasons you don't hear much about buy and hold any more. That and the fact it didn't work. I think individual owners of stocks finally came to understand that old saying **"Fool me once, shame on you. Fool me for 50 years, shame on me**. " But Wall Street needs a marketing slogan doesn't it ? How else are they going to get all the suckers back into the market ? (Great article on the Stock market is for Suckers from Macleans.ca). So what's the new mantra that all those brokers, mutual funds and ETFs want you to buy in to ?
Asset Allocation (Aka diversification) is the best approach to investing. Everyone is talking about asset allocation. It's not a surprise given all the new funds, REITs and ETFs that have popped up in the last couple years. The more diversification sold to individuals, the more money to buy them all. Wall Street has to sell what it has doesn't it ? It's just good business for them. But not for you. No longer does Wall Street even want you to consider buying what you know. Remember Peter Lynch describing how buyers of stocks should pay attention to what they see in the mall and elsewhere and use that as a source of ideas and information ? Or Warren Buffet suggesting that we should actually invest in things we know and look for the value there ? Well you can forget about that kind of investing.
Today, your investment advisors want you invest in things you have absolutely no fricking clue about

and have pretty much absolutely no fricking ability to learn about.
They want you to diversify into Emerging Markets, Commodities, International Bonds, Munis, Real Estate Investment Trusts, ...and.. well, a lot of different "stuff". Here is an excerpt from an article from a Sarasota paper today:
"For context, I will provide the performance of my "moderate investor's asset allocation" for both 2010 and with its predecessors for the period since 2000. For the previous 10 years, its predecessors were up about a cumulative 104 percent.
Last year's version of the allocation was:
Fifteen percent in an S&P 500 index fund (IVV).
Five percent in a small-capitalization value fund (VBR).
Twenty percent in a diversified international stock fund (VEU).
Five percent in an emerging markets international fund (VWO).
Five percent in Real Estate Investment Trusts (VNQ).
Ten percent in large and mid-capitalization stocks with a history of paying competitive and increasing dividends (VIG).
Ten percent in a diversified portfolio of convertible securities (ACHIX).
Five percent in a U.S. Treasury inflation-indexed bonds and notes (VIPSX).
Fifteen percent in an international bond fund with traditional fixed coupon bonds (GIM).
Five percent in an international bond fund for inflation-indexed bonds (WIP).
Five percent in cash equivalents."

That is a suggestion for a "moderate investor" . Let me translate this all for you. **"I want you to invest 5pct in cash and the rest in 10 different funds about which you know absolutely nothing. I want you to make this investment knowing that even if there were 128 hours in a day and you had a year long vacation, you could not possibly begin to understand all of these products. In fact, I don't understand them either, but because I know it sounds good and everyone is making the same kind of recommendations, we all can pretend we are smart and going to make a lot of money. Until we don't**"
Asset allocation is about making you a sucker. Do you seriously want to put a significant percentage of the money you will need for your future in funds that put your money into things you have absolutely no idea about? **Will you have any clue about when to change your asset allocation** ? Will you change it based on changes in the dollar ? Changes in domestic inflation ? Changes in European inflation ? Inflation in China ? Changes in tax laws in Italy and Greece ? Changes in interest rates ? Trade balances ?
It comes down to this. Do you want to invest in something you know, or in something Wall Street wants you to believe ?
Do you really think your broker, his boss and the analysts at their firm really are being completely honest with you about how much they know about these investments they want you to make ? Ask them if they are making the exact same investment with their money. Ask them if they would make the same investment if they were not allowed to look at a quote screen all day long like you aren't able to - which tells you if they trust the investment or want to watch it second by second knowing they may have to pull the trigger and get out on a moment’s notice.
Ask your broker for the names of people they have had to call or get a call from and let them know that their investment has been wiped out. Talk to those people to understand what the ramifications of making in an investment in something you know nothing about might be.
Don't be a sucker. **Remember this. It's better to make less, or next to nothing than to lose everything. Don't get greedy. Don’t get desperate. The stock market can't save your financial future, but it can end it.**

Interest Rate Rise Unlikely Soon, Advisers Believe

7-25-11

I have commented before that I could not understand where inflation would come from, as there is so much excess capacity that I can see in the USA…. ranging from underutilized cheap housing, to empty freeways in Florida, to shuttered paper and aluminum plants, etc. Aivars Lode

By Dan Jamieson, Investment News

Although they aren't ready to give up their bearish long-term stance on bonds just yet, most financial advisers and other market participants seem to be adjusting downward their short-run expectations for higher rates and economic growth.

“We've called for the specter of inflation [for] the last year and a half, and we've been wrong,” said Saverio “Sam” Paglioni, a partner at Integer Wealth Advisors Group LLC, which manages about $230 million.

Despite the end of the second phase of quantitative easing June 30, the eurozone crisis and the potential of a catastrophic U.S. debt default, 10-year Treasury yields still hover at an ultralow 3% and short-term rates can be counted in basis points.

In a January survey of more than 1,300 advisers by Charles Schwab & Co. Inc., 64% of the respondents said that they thought inflation and T-bill rates would increase in the next six months.

It didn't happen. And it may not happen for a while.

Indeed, Bill Gross, manager of Pacific Investment Management Co. LLC's Total Return bond fund, last month reportedly increased the fund's holdings of U.S. government debt. He made headlines when he dumped Treasuries from his portfolio.

“I think people are adjusting their expectations, but I'm not sure they're adjusting their portfolios yet,” said Kathy Jones, a fixed-income strategist at the Schwab Center for Financial Research.

The immediate effect is a flight to quality, which is propping up U.S. Treasury bond prices and keeping yields low, industry observers said.

Despite all the negative headlines, U.S. Treasuries still are seen as a safe haven.

In fact, short-term T-bills briefly traded this month at negative yields — a sure sign of nervousness.

“The reason Treasury yields have stayed so low is that you have these [eurozone] fears,” said Kenneth Naehu, managing director and head of fixed income at Bel Air Investment Advisors LLC, which manages $6.5 billion for clients.

In the latest European development, spooked investors this month drove up the yield on 10-year Italian government bonds by 125 basis points over two weeks — a huge move, he said.

But a more fundamental factor in the continuance of low rates is the lack of a meaningful economic recovery, observers said.

The Federal Reserve's “extraordinary effort” to combat the recession by adding huge amounts of liquidity to the system would normally create inflation pressures, said James Grabovac, managing director and senior portfolio manager at McDonnell Investment Management LLC, a fixed-income manager with $14.7 billion under management.

“But we haven't really seen that to any degree in this recovery, which is now two years old,” Mr. Grabovac said.

EXCESS LABOR

The large overhang of excess labor is being driven in part by the loss of manufacturing jobs, which historically provided a “quicker snapback” from recessions, Mr. Grabovac said. In addition, the housing, construction and mortgage banking sectors won't be recovering anytime soon.

As a result, “a big portion of the economy is not in position to participate in the economic recovery, and the ability for inflation to take hold is not that strong or likely,” he said,

“I think the economic activity will remain depressed, and inflation will remain low for some time,” said Lacy Hunt, chief economist at Hoisington Investment Management Co., which manages $5 billion in long-term Treasury portfolios.

Those who believe high U.S. debt levels lead to inflation are misreading economic history, he said.

“Excess indebtedness is a major millstone” that holds back economic growth, Mr. Hunt said.

Another argument for inflation and higher rates is that the government is expanding the money supply, Ms. Jones said.

But while money growth has been high, the money multiplier is low, she said.

The extra liquidity “is not going anywhere or doing anything. It has not translated into credit growth, which would drive inflation,” Ms. Jones said.

And those who expected rates to rise any day now haven't been listening to the only expert whose view really counts — Fed Chairman Ben Bernanke.

In an appearance before a congressional panel this month, he reiterated his stance that moderate economic recovery, high unemployment and subdued inflation “are likely to warrant exceptionally low levels of the federal funds rate for an extended period.”

Nevertheless, once that “extended period” is past, most advisers seem sure that inflation will return, along with bond market turmoil and higher rates.

“I don't think the rationale [for higher rates] has been wrong,” Mr. Naehu said. U.S. debt pressures eventually will force rates higher, he said.

The short-term impact is unknowable, but in the longer term, inflation will resume “if we do not stop the madness of spending,” Mr. Paglioni said.

“The question is not if rates go up. The question is, "Are you ready for higher rates?'” said Dave Pequet, president of MPI Investment Management Inc., which manages $320 million in short-term-bond strategies.

As long as rates stay low, advisers plan to play defense. Stretching for yield or lowering quality is too risky, they said.

Mr. Pequet dumped all his U.S. Treasury holdings at the beginning of 2009. Since then, his clients have been overweight in mortgage-backed and U.S. agency bonds.

He expects to shorten up the average duration of the bonds he holds, now at three years, in anticipation that the Fed has to tighten at some point.

Mr. Grabovac is concentrated on seven- to 10-year maturities where he can get some yield, thanks to a steep yield curve, and benefit from better pricing as his bonds come closer to maturity.

He's not overly concerned about Fed tightening, because he believes once the Fed does raise short rates, long-term rates might not rise much.

"In the last couple of decades, two of the three [Fed] tightenings resulted in long rates' remaining stable or coming down somewhat," Mr. Grabovac said.

What Business is Wall Street in?

8-8-11

Not a bad take on things. Aivars Lode

From the Mark Cuban Weblog

My last two posts were designed to stimulate discussion. But let's talk the real problem that regulators, public companies, investor/shareholders and traders face. The problem is that Wall Street doesn't know what business it is in. Regulators don't know what the business of Wall Street is. Investor/shareholders don't know what business Wall Street is in.

The only people who know what business Wall Street is in are the traders. They know what business Wall Street is in better than everyone else. To traders, whether day traders or high frequency or somewhere in between, Wall Street has nothing to do with creating capital for businesses, its original goal. Wall Street is a platform. It's a platform to be exploited by every technological and intellectual means possible.

The best analogy for traders ? They are hackers. Just as hackers search for and exploit operating system and application shortcomings, traders do the same thing. A hacker wants to jump in front of your shopping cart and grab your credit card and then sell it. A high frequency trader wants to jump in front of your trade and then sell that stock to you. A hacker will tell you that they are serving a purpose by identifying the weak links in your system. A trader will tell you they deserve the pennies they are making on the trade because they provide liquidity to the market.

I recognize that one is illegal, the other is not. That isn't the important issue.

The important issue is recognizing that Wall Street is no longer what it was designed to be. Wall Street was designed to be a market to which companies provide securities (stocks/bonds), from which they received capital that would help them start/grow/sell businesses. Investors made their money by recognizing value where others did not, or by simply committing to a company and growing with it as a shareholder, receiving dividends or appreciation in their holdings. What percentage of the market is driven by investors these days ?

I started actively trading stocks in 1992. I traded a lot. Over the years I've written quite a bit about the market. I have always thought I had a good handle on the market. Until recently.

Over just the past 3 years, the market has changed. It is getting increasingly difficult to just invest in companies you believe in. Discussion in the market place is not about the performance of specific companies and their returns. Discussion is about macro issues that impact all stocks. And those macro issues impact automated trading decisions, which impact any and every stock that is part of any and every index or ETF. Combine that with the leverage of derivatives tracking companies, indexes and other packages or the leveraged ETFs, and individual stocks become pawns in a much bigger game than I feel increasingly less comfortable playing. It is a game fraught with ever increasing risk.

The Pimco (who I think are the smartest guys on the Street) guys talk about a new normal as it applies to today's state of the world economy. I think just as important is the new normal as it applies to Wall Street. Wall Street is now a huge mathematical game of chess where individual companies are just pawns. This is money in the bank for the big players like Goldman, Morgan, etc. Why ? Because the game of chess is far too complicated for 99pct of the institutions out there investing money. So to keep up, they turn to Goldman, Morgan and the like to invent products for them. "You don't know how to play the housing boom, let us show you". "You think the housing boom is about to crash, let us show you how to play that". "You think that PIIGS are in trouble because they can't print money to pay debt holders, let us create a product to allow you to play that game" The big houses have the best hackers in the business and they put together the games and sell them to the many, many institutions managing Billions and Billions of dollars. They are the ultimate Hackers selling their attacks to the highest bidder, regardless of which side they are on. That is a new normal.

Again, I'm not passing judgment one or the other. I'm just recognizing what is going on in the financial world today.

It's rare for companies to go public these days. Just as rare for secondary offerings. The only thing that keeps me in the market is that most of the stocks (not all) pay dividends or some other sort of cash payout. For the first time in my life, I bought outside the United States. I bought Australia in a big way because it is becoming increasingly hard to find new domestic investments that are not influenced by the "hackers" and the games being played on a macro level. It's hard to believe, but evaluating countries as an investment is now easier than evaluating companies . Even with all the unrest in Europe. Or maybe because of it.

So back to the original question. What business is Wall Street in ?

Its primary business is no longer creating capital for business. Creating capital for business has to be less than 1pct of the volume on Wall Street in any given period. (I would be curious if anyone out there knows what percentage of transactions actually return money to a company for any reason). It wouldn't shock me that even in this environment that more money flows from companies to the market in the form of buybacks (which i think are always a mistake), then flows into companies in the form of equity.

My 2 cents is that it is important for this country to push Wall Street back to the business of creating capital for business. Whether its through a use of taxes on trades, or changing the capital gains tax structure so that there is no capital gains tax on any shares of stock (private or public company) held for 5 years or more, and no tax on dividends paid to shareholders who have held stock in the company for more than 5 years. However we need to do it, we need to get the smart money on Wall Street back to thinking about ways to use their capital to help start and grow companies. That is what will create jobs. That is where we will find the next big thing that will accelerate the world economy. It won't come from traders trying to hack the financial system for a few pennies per trade.

And solutions won't come from bureaucrats trying to prevent the traders from hacking the system. The only certainty when bureaucrats step in is that the law of unintended consequences will smack us all in the head and the trader/hackers will find new ways to exploit the system that makes them big money and even more money for the big institutions that develop products for the other institutions that are desperate to play the game.

Regulators have got to start to recognize that traders are not investors and vice versa and treat them differently. Different regulations. Different tax structure. Different oversight. Individual investors and the funds that just invest in stocks and bonds are not going to crash the market. Big traders who are always leveraging up and maximizing the number of trades/hacks they make will always put the system at risk. We need to recognize that they do not serve much of a purpose other than to add substantial risk to the global economy. That their stated value add of liquidity does not compensate the US and World Economy nearly enough for the risk of collapse they introduce into the system.

Wall Street as a whole needs to be in the business of creating capital for companies and selling shares to investors who believe they are shareholders. The Government needs to create incentives for this business and extract compensation from the traders/hackers for the systemic failure level of risk they introduce.

There will be another crash, because there are too many players looking for the trillion dollar score. They can't all win, yet how many do you think wouldn't risk everything, even what is not theirs, for that remote chance to score big ? Put another way, there is zero moral hazard attached to any trade. So why wouldn't traders take the biggest risk possible ?

One more consideration. If there are traders of any kind that are unregulated or unmonitored, and trade for their own account, how do we know how big they are and how much of a threat they pose to the system, individually and in aggregate ?. For any High Frequency or big leverage derivative folks out there- is it possible there could be firms that have billions at risk with questionable ability to make a margin call or fulfill their side of the trade if things went against them ? Could there be hidden AIGs that few people know about or a bunch of AIG like situations, which in aggregate fail and put the system at risk ? I have no idea. Just asking the question.

2008 All Over Again? Stocks in Free Fall

8-9-11

Back about a year ago, I mused as to when and what would cause the double dip (next stock crash), and here it is. Aivars Lode

By Rita Nazareth, Bloomberg

U.S. stocks tumbled, giving the Standard & Poor's 500 Index its biggest decline since November 2008, amid concern that a downgrade of the nation's credit rating by S&P may worsen an economic slowdown.
The 10 groups in the S&P 500 fell between 2.2 percent and 7.8 percent. Ford Motor Co. and Caterpillar Inc. slumped at least 7.4 percent, pacing losses in stocks most-tied to the economy. Bank of America Corp. tumbled 16 percent to lead financial shares in the S&P 500 down 7.7 percent. Chevron Corp. fell 5.1 percent as oil sank to an eight-month low. Newmont Mining Corp. rallied 3 percent after gold climbed to a record.
The S&P 500 retreated 5.6 percent to 1,132.32 at 2:18 p.m. in New York. The gauge slumped 12 percent in three days, the most since November 2008, and fell to the lowest since September 2010, on a closing basis. The Dow Jones Industrial Average slid more than 500 points. The Russell 2000 Index of small companies slumped 6.5 percent, entering a so- called bear market, down 23 percent from its April 29 high.
“There's no reason to get in front of this train,” Keith Wirtz, Cincinnati-based chief investment officer at Fifth Third Asset Management, which oversees $16.7 billion, said in a telephone interview. “Yes, there's cheapness in the stock market, but right now emotions are high. There's enough uncertainty out there. People are moving towards no risk. That includes Treasuries, which is ironic.”
Bear Market
The downgrade extended a rout that had wiped out $1.94 trillion in market value from the country's stocks amid concern the economic recovery is at risk. Global equities tumbled and European shares entered a so-called bear market. The Stoxx Europe 600 Index has now fallen 21 percent from this year's high on Feb. 17. The S&P 500 has fallen 17 percent since April 29.
S&P lowered the U.S. long-term rating one level to AA+ after markets closed on Aug. 5, while keeping the outlook at “negative” as the company becomes less confident that Congress will end Bush-era tax cuts or tackle entitlements. S&P also said the U.S. rating may be reduced to AA within two years if spending reductions are lower than agreed to, interest rates rise or “new fiscal pressures” result in higher general government debt.
Equities extended losses today as S&P also lowered credit ratings on Fannie Mae, Freddie Mac and other lenders with a “direct reliance on the U.S. government,” spurring concern over the ripple effects of the loss of America's AAA rating.
Treasuries Rally
Treasuries rose today. Two-year yields fell to a record low after Japanese Finance Minister Yoshihiko Noda said U.S. Treasuries were attractive. Group of Seven nations said they will take every action necessary to stabilize financial markets after the U.S. credit rating downgrade.
Bill Gross, who runs the world's biggest bond fund at Pacific Investment Management Co., increased holdings of Treasuries to 10 percent from 8 percent and cut cash holdings to 15 percent from 29 percent.

“If you're an investor and you say -- I'm worried about what's going on in the world, I'm worried about liquidity and safety, you basically have no place to go other than the Treasury market,” Nick Sargen, chief investment officer at Fort Washington Investment Advisors in Cincinnati, said in a telephone interview. His firm oversees more than $38 billion.
Barton Biggs, who last week called U.S. equities a “strong buy,” said he cut risk in his Traxis Partners LP hedge fund. “I've taken some risk off, and I hate to do it, I think it's probably the wrong thing to be doing,” Biggs, who helps manage $1.4 billion as managing partner and co-founder of Traxis, said in a Bloomberg Television interview. “But I'm a fiduciary to a certain extent, and I've got to protect my capital.”
Volatility Soars
The Chicago Board Options Exchange Volatility Index, which measures the cost of using options as insurance against declines in the S&P 500, soared 32 percent to 42.18, the highest since May 2010, on a closing basis.
The Morgan Stanley Cyclical Index of 30 stocks tumbled 6.7 percent. The Dow Jones Transportation Average, which is also a proxy for the economy, retreated 5.3 percent. Ford sank 7.4 percent to $10.04. Caterpillar decreased 7.6 percent to $84.08.
The KBW Bank Index of 24 stocks slumped 8.6 percent. Bank of America dropped 16 percent, the most in the Dow, to $6.85. American International Group Inc., the bailed-out insurer, sued the largest U.S. lender by assets, over $10 billion in losses on mortgage-bond investments.
‘Double Dip'
“The bias that exists, and that is gaining credibility, is that a double dip is ahead of us,” said Charles Peabody, an analyst at Portales Partners LLC in New York. “If that's the case, then something like Bank of America is going to have to raise substantial equity externally.”
Berkshire Hathaway Inc. Class B shares slumped 2.5 percent to $69.44. Warren Buffett's Omaha, Nebraska-based company is among firms that may be downgraded by S&P as the ratings company reviews insurers after stripping the U.S. government of its AAA rating.
“Our view of these companies' fundamental credit characteristics has not changed,” S&P said in a statement today as it cut the outlook to “negative” on Omaha, Nebraska-based Berkshire. “Rather, the rating actions reflect the application of criteria and our view that the link between the ratings on these entities and the sovereign credit ratings on the U.S. could lead to a decline in the insurers' financial strength.”
Buffett lost his AAA rating from S&P last year after agreeing to buy railroad Burlington Northern Santa Fe. He said Aug. 6 that the ratings firm erred in cutting the U.S. grade and that the country should have a “quadruple A” rating. Buffett didn't immediately respond to a request for a comment.
Newmont Mining Rallies
Gold climbed to more than $1,700 an ounce for the first time amid concern that the global economy is slowing. Oil and copper tumbled. Chevron decreased 5.1 percent to $92.61. Newmont Mining rallied 3 percent to $56.02.
Only two other stocks in the S&P 500 advanced. O'Reilly Automotive Inc., an auto-parts retailer, gained 0.4 percent to $58.56. Procter & Gamble Co., the world's largest consumer- products company, rose 0.1 percent to $60.65.
The downgrade may spook investors, causing sentiment to grow more bearish in the short term, but corporate fundamentals, including balance sheets with more cash than debt and earnings growth, will continue to push the S&P 500 higher by the end of the year, strategists at Barclays Plc, Citigroup Inc. and JPMorgan Chase & Co. said. While Goldman Sachs Group Inc. cut its year-end target for the S&P 500 to 1,400, Barclays held its 1,450 estimate.
‘Minimal' Effect
“The medium to long-term effects of the U.S. sovereign downgrade are minimal, even as the short impact could be turbulent,” Thomas Lee, JPMorgan's equity strategist in New York, wrote in an e-mailed note.
The S&P 500 retreated 11 percent from July 22 through Aug 5 amid concern about an economic slowdown. The benchmark gauge for American equities was still up 77 percent from a 12-year low through Aug. 5 following government stimulus measures and higher-than-estimated corporate earnings.
Per-share earnings increased 18 percent among the S&P 500 companies that have released quarterly

results since July 11, according to data compiled by Bloomberg. About three-quarters of the companies have topped the average analyst profit forecast, the data show. Sales rose 13 percent during that period.
"We had a terrific earnings season," Jeffrey Saut, chief investment strategist at Raymond James & Associates in St. Petersburg, Florida, said in a telephone interview. His firm manages $275 billion. "We're not going into a recession. Now is not the time to panic. This is where you start to put cash back to work."

Roll Over Einstein: Law of Physics Challenged

9-22-11

So what? Something faster than light. All significant stock trades are based upon moving data quickly with light through fiber optics. This means there may be something quicker, so when it is confirmed watch the rush to tame this so that someone can get an advantage on trading stocks by moving data with neutrinos. This decade is going to be wild! Aivars Lode

By Frank Jordans and Seth Borenstein - Associated Press

GENEVA (AP) — One of the very pillars of physics and Einstein's theory of relativity — that nothing can go faster than the speed of light — was rocked Thursday by new findings from one of the world's foremost laboratories.
European researchers said they clocked an oddball type of subatomic particle called a neutrino going faster than the 186,282 miles per second that has long been considered the cosmic speed limit.
The claim was met with skepticism, with one outside physicist calling it the equivalent of saying you have a flying carpet. In fact, the researchers themselves are not ready to proclaim a discovery and are asking other physicists to independently try to verify their findings.
"The feeling that most people have is this can't be right, this can't be real," said James Gillies, a spokesman for the European Organization for Nuclear Research, or CERN, which provided the particle accelerator that sent neutrinos on their breakneck 454-mile trip underground from Geneva to Italy.
Going faster than light is something that is just not supposed to happen according to Einstein's 1905 special theory of relativity — the one made famous by the equation E equals mc2. But no one is rushing out to rewrite the science books just yet.
It is "a revolutionary discovery if confirmed," said Indiana University theoretical physicist Alan Kostelecky, who has worked on this concept for a quarter of a century.
Stephen Parke, who is head theoretician at the Fermilab near Batavia, Ill., and was not part of the research, said: "It's a shock. It's going to cause us problems, no doubt about that — if it's true."
Even if these results are confirmed, they won't change at all the way we live or the way the world works. After all, these particles have presumably been speed demons for billions of years. But the finding will fundamentally change our understanding of how the universe operates, physicists said.
Einstein's special relativity theory, which says that energy equals mass times the speed of light squared, underlies "pretty much everything in modern physics," said John Ellis, a theoretical physicist at CERN who was not involved in the experiment. "It has worked perfectly up until now."
France's National Institute for Nuclear and Particle Physics Research collaborated with Italy's Gran Sasso National Laboratory on the experiment at CERN.
CERN reported that a neutrino beam fired from a particle accelerator near Geneva to a lab 454 miles (730 kilometers) away in Italy traveled 60 nanoseconds faster than the speed of light. Scientists calculated the margin of error at just 10 nanoseconds, making the difference statistically significant.
Given the enormous implications of the find, the researchers spent months checking and rechecking their results to make sure there were no flaws in the experiment.
A team at Fermilab had similar faster-than-light results in 2007, but a large margin of error undercut its scientific significance.

If anything is going to throw a cosmic twist into Einstein's theories, it's not surprising that it's the strange particles known as neutrinos. These are odd slivers of an atom that have confounded physicists for about 80 years.
The neutrino has almost no mass, comes in three different "flavors," may have its own antiparticle and has been seen shifting from one flavor to another while shooting out from our sun, said physicist Phillip Schewe, communications director at the Joint Quantum Institute in Maryland.
Columbia University physicist Brian Greene, author of the book "Fabric of the Cosmos," said neutrinos theoretically can travel at different speeds depending on how much energy they have. And some mysterious particles whose existence is still only theorized could be similarly speedy, he said.
Fermilab team spokeswoman Jenny Thomas, a physics professor at the University College of London, said there must be a "more mundane explanation" for the European findings. She said Fermilab's experience showed how hard it is to measure accurately the distance, time and angles required for such a claim.
Nevertheless, the Fermilab team, which shoots neutrinos from Chicago to Minnesota, will go back to work immediately to try to verify or knock down the new findings, Thomas said.
And that's exactly what the team in Geneva wants.
Gillies told The Associated Press that the readings have so astounded researchers that "they are inviting the broader physics community to look at what they've done and really scrutinize it in great detail, and ideally for someone elsewhere in the world to repeat the measurements."
Drew Baden, chairman of the physics department at the University of Maryland, said it is far more likely that there are measurement errors or some kind of fluke. Tracking neutrinos is very difficult, he said.
"This is ridiculous what they're putting out," Baden said, calling it the equivalent of claiming that a flying carpet is invented only to find out later that there was an error in the experiment somewhere. "Until this is verified by another group, it's flying carpets. It's cool, but ..."
So if the neutrinos are pulling this fast one on Einstein, how can it happen?
Parke said there could be a cosmic shortcut through another dimension — physics theory is full of unseen dimensions — that allows the neutrinos to beat the speed of light.
Indiana's Kostelecky theorizes that there are situations when the background is different in the universe, not perfectly symmetrical as Einstein says. Those changes in background may change both the speed of light and the speed of neutrinos.
But that doesn't mean Einstein's theory is ready for the trash heap, he said.
"I don't think you're going to ever kill Einstein's theory. You can't. It works," Kostelecky said. Just there are times when an additional explanation is needed, he said.
If the European findings are correct, "this would change the idea of how the universe is put together," Columbia's Greene said. But he added: "I would bet just about everything I hold dear that this won't hold up to scrutiny."

The Following Should Make Your Hair Curl When You Understand How Public Stocks are Manipulated!

10-28-11

Bud Burrell, is an expert witness to lead counsels in over a hundred cases prosecuted for manipulation of public stocks. Aivars Lode

Senator Bennett used the word the word EIGHT (8) times in the broadcast meeting of the Senate Banking Committee with Paulson, Bernanke, and Cox. He directed most of his comments directly to Honorable Chairman Cox, who reacted with about 40 tells indicating he was being less than completely honest at best, constantly touching his lips, eyes, ears, and mouth. In my basic training in interrogation, such actions were a major RED FLAG. Maybe a little recitation of the case history of Counterfeiting would be helpful here. There is nothing here not contained in my previous writings, but a linear recitation could be of value to others with a single focus.

The modern history of counterfeiting of commercial securities began over 80 years ago. It started with the wholesale traditional counterfeiting of stock certificates to support the short selling activities of more than 500 pools comprised of the assets of the wealthiest individuals in this country at the time, over a 3 year period leading to the October, 1929 Raid-related Crash.
The refinement of the earliest photo lithography made it possible to produce reasonably high quality counterfeit stock certificates duplicating the real ones. These certificates could then be loaned to short sellers to create a required "borrow" to secure the margined short, especially useful when stocks were tightly held. The manual back offices of the brokerage firms never knew the difference, and they never saw what hit their companies until it was too late.
These unregistered counterfeit securities sold above were never registered by the true underlying company. They were never entered into the stock record book of the corporation, nor were any proceeds ever given to the underlying Company, nor were they ever accounted for in any audit process or financial reports of the Company. The frauds/criminals here knew they would force de-registration or bankruptcy of the targets, and subsequent loss of the books and records of the companies they broke. There was no Federal Record Keeping requirement back then.
In most cases, if not all, the people doing the counterfeiting were directly linked to the very same Pools (we call their modern analog Hedge Funds) referred to above, most of whom coordinated their efforts to act in concert at the direction of what might today be called in Chinese organized crime a "Snakehead". The largest short of the Crash was to become the first head of the SEC, Joe Kennedy Sr. He would accumulate a personal cash net worth of over $500 Million in 1933.
This counterfeiting practice was so widespread; it was one of the earliest to acquire a name for its practitioners, PAPER HANGERS. The counterfeit securities also were named: They were called "WATERED STOCK."
President Roosevelt chose Joe Sr. as the head of the SEC, only to face a firestorm of criticism. This was a tough period for FDR, as it was well known and believed that Kennedy and his key associates (Bernard Baruch was rumored to be the other key) had actually manipulated the 1929 Crash and subsequent bank failure in 1933 to their own profit.
FDR responded to the criticisms of his selection of Joe Sr. with the statement "I needed one of their own kind, who understood their criminal methods, to have any hope of controlling them." Controlling them was a pipe dream. They ran the same identical scam again in 1937, another Raid, with similar results.
Joe Sr. created an SEC that was little more than an enforcement and extortion racket he used to protect his friends, to attack his enemies and economic targets, and to further fill his pockets. The legendary investment banker and trader Charlie Allen would later say that Joe Sr. started the SEC to make sure no one else could ever have real money again.
Basic organizational theory dictates that the original culture of an institution can never be completely stamped out, and it further predicts that that culture will always re-surface, even if it is decades later. Remember this.
Laws were created to control the sale of unregistered securities, to prohibit the counterfeiting of commercial securities, and to federally criminalize as conspiracy any act done in concert to manipulate financial assets of the United States. I refer you all to Sections 5 and 6 of the Securities Act of 1933, to USC Title 18, Sections 513 and 514, and finally, to CJS Sections 22, 22A and 46, the latter being the supporting law behind the Sherman Anti-Trust Act, the Holding Company Act, the Investment Company Act of 1940, and more recently, the RICO statutes.
Sections 5 and 6 made such causes the basis for civil and limited criminal complaints for enforcement penalties, while Title 18 was used to attack the counterfeiting of commercial securities by making it a Class B Federal Felony, and finally, the CJS sections caused such conspiracy conduct between two or more parties to be judged as Insurrection and Sedition, a form of Treason.
During the 16 years I was on the street, I never worked in a firm that would begin to allow any form of unregistered security to be sold. Only two firms allowed the creation of synthetic securities from registered securities assemblages, specifically for Down and Outs, a form of synthetic put made up of a short of the stock, and the short of the call, a variant of the old Reverse Conversion arbitrage from options.
One firm would do it for client hedge funds, while the other firm told its clients it didn't do them, so

their clients would not compete with their house trading accounts' activities in this space. In 1979, I was offered job working on this very account at the second firm, an A list bulge bracket underwriter. I passed.

There were many professional short sellers throughout my time on the street, who tried to manipulate their target companies just as today. They operated at first without many of the tools and opportunities created by the ERISA Act of 1974, and the letter ruling of 1993 which dropped the word "Borrow" from the short seller's lexicon, and substituted word "Locate". This same letter ruling created exemptions from even this rule for three kinds of traders: Market Makers, Arbitrageurs, and Hedged Accounts (read funds).

During the Oil and Gas boom of the late 1970's and 1980's, one short seller in Texas in particular cut such a swath through the Oil Patch it was rumored someone finally put a high caliber bullet through the window of his Rolls Royce. This same dirt sandwich would call up a friend of mine who was a NASD Senior Supervisor and scream at him, saying "You got to stop this insider buying!!!" This bozo was INSANE, a stone sociopath. This is but one small example of the mentality of this type.

As the market makers realized what they had been given, they levied an economic assault matching the coordinated attacks the equal of any in the history of modern warfare. They determined how to drag the clearing business in by giving them a piece of the action on their shorting, and invented numerous ways to use offshore brokers and jurisdictions to leverage their power.

This was done so dramatically, that for a 7 to10year period, it would be said that 80% of NASD member firm profits came from shorting, particularly the development stage small public companies of the OTC Bulletin Board, nearly annihilated in six years. By the end of that period, they were attacking any company with an alpha, or "excess return". This included stocks on the NASDAQ NMS, the AMEX (leading to its ultimate acquisition), and even the NYSE. Acting on concert in large syndicates (remember the word "Conspiracy" above?!), NO company could stand up to them in any attempt to maintain orderly markets.

In 2002, one of the largest of these syndicates' (650 members including many large hedge funds) operator, one Amir "Anthony" Elgindy, was arrested in connection with investigation into his activities surrounding terrorism, subornation of FBI agents, and money laundering issues. He was later convicted of securities fraud and more, and was sentenced to 11 Years in Federal Prison, from where he continues to run his web site.

It is believed his syndicate killed well over 2000 target companies. His conduct was the direct link of shorting as a tactical approach to the strategic objective of money laundering for organized crime and other nasty global entities.

Experts at first talked much about naked short selling, not focusing on its real character, which was from the imputed contra account effect. Every time a share was naked shorted, a counterfeit long was created never registered by, known to, or accounted for by the underlying company. This should start to sound familiar. Some interesting twists in FASB also entered into their tactical equation.

If the short sellers could bankrupt a target company, they could avoid a revenue recognition event under GAAP. No revenue recognition event, no taxable event. Ergo, they pursued their targets with "unbridled aggression", always hoping for either an involuntary deregistration of the Company, or its actual bankruptcy.

In another twist of the SEC rules, if a company did either, the shorts never had to cover, not ever. Again, they had laundered money without tax consequence. I have explained this to every one I have worked with and talked to, and universally, it leaves them stunned.

The SEC came under so much pressure to clean up this disgrace, that finally, they issued a piece of window dressing rule making called Regulation SHO. After doing it, they realized the market could not clean up its past without wiping the operators out, so they initiated a "Grandfathering" proviso, saying that shorts existing prior to SHO would be exempted from immediate settlement, the latter which was highly cushioned.

Then came another wave of indignation from investors, and the SEC had to switch its position from there being no such thing, to it not having any effect on markets, to now, that it is really negative for the market, and adversely affects capital formation. They have said so many things about so many positions, that they have now said everything and taken every position so well that they can refer back to being right, and having acted prudently, no matter what happens.

In the late 1990's and early 2000's, market makers at broker-dealers had a 10 day fail rule, which mandated a charge to their net capital for any fail over 10 days. They would roll their positions within the system by kiting trades known by several names, including whip calls, and rolls. Reg SHO changed that effectively to 13 days. Re-enter rolls/whip calls, but now, not put through the clearing system, but rather done directly broker to broker in what is called Ex-Clearing. Shorts and their related counterfeit longs would sit in Ex-clearing, invisible and unreported anywhere. Taking things a step further, the short players would take to intentionally miss-marking tickets to reflect short sales as actually "Long Sales" when they weren't, and no one was the wiser. Well, not exactly no one.

Everyone needs to realize that calling naked shorting anything other than counterfeiting, albeit by virtual electronic journal entries rather than a printing process, is simply WRONG. It is the intent of the perpetrators to delude the longs into thinking that they have bought real shares from a real seller, when in fact, the longs only know this when they themselves are dirty, such as when a manipulator wants the counterfeit proxies attached to the counterfeit longs to manipulate actions at a target company.

One well known company would call for a Proxy vote at their annual board meeting. They had a legally outstanding number of shares according to their stock record book of 60 Million shares. How many proxies showed up? 80 MILLION. I am shocked, SHOCKED, that such a thing could happen in America. Counterfeit proxies are the most serious corporate governance issue coming out of this scandal, a concern to every major corporate counsel in this country and overseas.

This is the longest piece I have ever posted. It re-covers many points in my previous writings. The SEC recently declared that the naked shorting selling of securities was NOT the sale of an unregistered security, in a completely illogical and self serving regulatory statement designed to feed key vested interests with their hands in the guts of the SEC.

Illegal naked short selling is MOST CERTAINLY not only the sale of an unregistered security; it is by intent and practical impact the COUNTERFEITING OF COMMERCIAL SECURITIES BY SYNDICATES. What the SEC says as a bureaucracy is meaningless to true honesty. It is very interesting that in making this declaration, the SEC specifically did NOT exempt such players from insider trading rules, particularly where they had previous knowledge of a pending PIPE deal.

After a scathing set of Euromoney articles in April and June, 2005, the UK and EU went to a mandatory three (3) day settlement on all their exchanges, effectively stopping their shorting scandals mirroring those here. They gave no grace period. It was hard, but their markets are now much cleaner than here. It is no accident that London has now trumped New York as the leading IPO environment.

I could hang unending detail on this scurrilous story, but this enough for now. This needed to be said in one piece in one place, and here is an attempt at it.

Was The "Collapse" Of MF Global Premeditated? A Conspiracy Theory

12-14-11

The fundamental piece of this story is that derivatives are like gambling, for every winner there is a loser. If you ignore the political comments and focus on the rest of the content, you will understand that the money that people lose does not disappear! Someone else has it, and the right question is "Who?" Aivars Lode

By Tyler Durden, published on Zero Hedge

Derivatives, unlike stocks where the equation has always been murky, are for the most part zero-sum products: one's gain is someone else's loss (net of commissions) unless of course the entire system collapses in a daisylinked chain reaction (think AIG). And MF Global's bankruptcy, by dint of being a derivatives broker, and the resulting massive losses to both shareholders and clients, means that some entity, on the other side of all these failed bets, made off like a bandit.

Which bring us to a rather disturbing theory proposed by Walter Burien of CAFR1.com who has floated the rather the chilling idea, and what some may call an outright conspiracy theory, that by scuttling MF, Corzine effectively helped some shell company (or companies) which were controlled by a "cabal" of his closest confidants (we will let readers come up with their own theories who the former CEO of Goldman Sachs may have been close with) to make the offsetting profit that resulted from the accelerated and massive losses borne by MF's stakeholders in the vicious liquidation. As Burien says: "A government and media cover up would just focus on MFG's loss. A true and open investigation would be focused on "who" took the other side of the coin; the profit." And now that we know that Corzine allegedly lied to the Senate, just how much deeper does his transgression go, and did his really hand over the company on a silver platter to some anonymous "Hold Co" by taking on massive risks he knew were going to blow up in his face, albeit knowing the "other" side of the trade would compensate him for it? After all, Corzine's legacy may have been forever tarnished, but if there was one thing the man knew after all those *mostly successful* years at Goldman, it was risk. So did he really blow up MF on a idiotic risk miscalculation bet within two years of joining, purely by mistake, or is there something more?

Corzine is a thief. He lost by trading activity the house's (MF GLOBAL) money to the tune of a billion dollars and then dipped into the client's money for 700 million dollars (almost a 2-billion dollar loss). **It is the #1 criminal infraction** that can be committed in the commodity futures market by using client's funds for a house position and with something of this magnitude the CFTC would have gotten an arrest and seizure order against Corzine from day-one when discovered if it was for other than the politically connected Corzine.

Here is the BIG point that needs to be immediately passed on to the public. In a situation like this the "loss" to MFG is just one side of the coin. The other side of the coin is who made the profit that counter balances with the loss.

If Corzine had this set up as an intentional sting operation, in advance a shell trading company is established and for example purposes we will call it Hong Kong Trading Partners LTD. (HKTP) held in Singapore. The sting goes like this:

As Corzine through MFG takes a derivative futures market position HKTP takes the exact corresponding opposite position tit for tat to what MFG is entering into. The market goes against MFG creating a loss but now the equal profit is growing in HKTP.

MFG increases their position and HKTP likewise does the same and the market again goes "against" MFG and "for" HKTP.

Now for the play-out of the sting. It is announced MFG has taken this large position with their own funds and also did the primary no-no of using client's funds to back it.

Well, procedure is clear in this type of situation: "Forced liquidation of all positions held by MFG"

What this does is give HKTP the liquidity to get out of their position from MFG's forced liquidation without causing an adverse movement to HKTP's position when being liquidated. MFG's forced liquidation is HKTP's volume needed to get out of their position and lock in their profit. Wealth transfer complete; MFG and a few of their clients decimated, and none outside of the sting are the wiser if no one carefully looks at who was playing the other side of the position against MFG.

If Corzine and a few of his buddies set up a sting as noted above, as far as they are concerned, they did not lose 1. something billion dollars for MFG and MFG's clients, what they did was they transferred 1. something billion dollars to themselves through a shell global trading company(s).

In most cases when a sting like this plays out it is not just one shell company used to play the other side of the coin, usually it is spread out between ten or more shell trading companies.

A government and media cover up would just focus on MFG's loss. A true and open investigation would be focused on "who" took the other side of the coin; the profit.

Trustee to Seize and Liquidate Even the Stored Customer Gold and Silver Bullion from MF Global

12-19-11

Buyer beware. Aivars Lode

By Barrons

The bottom line is that apparently some warehouses and bullion dealers are not a safe place to store your gold and silver, even if you hold a specific warehouse receipt. In an oligarchy, private ownership is merely a concept, subject to interpretation and confiscation.

Although the details and the individual perpetrators are yet to be disclosed, what is now painfully clear is that the CFTC and CME regulated futures system is defaulting on its obligations. This did not even happen in the big failures like Lehman and Bear Sterns in which the customer accounts were kept whole and transferred before the liquidation process.

Obviously holding unallocated gold and silver in a fractional reserve scheme is subject to much more counterparty risk than many might have previously admitted. If a major bullion bank were to declare bankruptcy or a major exchange a default, how would it affect you? Do you think your property claims would be protected based on what you have seen this year?

You always have counter-party risk if you hold gold and silver through another party, even if they are *a Primary Dealer* of the Federal Reserve. As Ben said, the Fed offers *no seal of approval.*

If a Bankruptcy Trustee can pool your bullion into the rest of the paper assets and then liquidate it at prices that are being front run by the Street, you will have to accept whatever paper settlement that they give you.

The customer money and bullion assets are not *lost,* or *rehypothecated* or anything else. This is a pseudo-legal fig leaf, a convenient rationalization.

The customer assets were *stolen*, and given to at least one major financial institution by MF Global to satisfy an 11th hour margin call in the week of their bankruptcy, even as MF Global was paying bonuses to its London employees.

And in an absolutely classic Wall Street move, they are still charging the customers storage fees on the bullion which they have misappropriated from them. Lol

And so in the great Wall Street tradition they are trying to force the customers and the public to take the loss. The regulators and the exchange are aghast, and are trying to imagine how to resolve and spin this to preserve investor confidence and prevent a run on the system.

'Let them eat warehouse receipts.'

For many this would have been unthinkable only a few months ago. They had been cautioned and warned repeatedly, but chose to trust the financial system. And now they are suffering loss and anxiety, frozen assets, and the misappropriation of their wealth.

How more plainly can it be said? The US financial system as it now stands cannot be trusted to observe even the most basic property rights as it continues to unravel from a long standing culture of fraud.

Get your money as far away from Wall Street as is possible. And if you want to own gold and silver, take delivery and store it in a secure private facility outside the fractional reserve system.

It's one thing for $1.2 billion to vanish into thin air through a series of complex trades, the well-publicized phenomenon at bankrupt MF Global. It's something else for a bar of silver stashed in a vault to instantly shrink in size by more than 25%.

That, in essence, is what's happening to investors whose bars of silver and gold were held through accounts with MF Global.

The trustee overseeing the liquidation of the failed brokerage has proposed dumping all remaining customer assets—gold, silver, cash, options, futures and commodities—into a single pool that would pay customers only 72% of the value of their holdings. In other words, while traders already may have paid the full price for delivery of specific bars of gold or silver—and hold "warehouse receipts" to prove it—they'll have to forfeit 28% of the value.

That has investors fuming. "Warehouse receipts, like gold bars, are our property, 100%," contends John Roe, a partner in BTR Trading, a Chicago futures-trading firm. He personally lost several hundred thousand dollars in investments via MF Global; his clients lost even more. "We are a unique class, and instead, the trustee is doing a radical redistribution of property," he says.

Roe and others point out that, unlike other MF Global customers, who held paper assets, those with warehouse receipts have claims on assets that still exist and can be readily identified.

The tussle has been obscured by former CEO Jon Corzine's appearances on Capitol Hill. But it's a burning issue for the Commodity Customer Coalition, a group that says it represents some 8,000 investors—many of them hedge funds—with exposure to MF Global. "I've issued a declaration of war," says James Koutoulas, lead attorney for the group, and CEO of Typhon Capital Management.

At stake is an unspecified, but apparently large, volume of gold and silver bars slated for delivery to traders through accounts at MF Global, which filed for bankruptcy on Oct. 31. Adding insult to the injury: Of the 28% haircut, attorney and liquidation trustee James Giddens has frozen all asset classes, meaning that traders have sat helplessly as silver prices have dropped 31% since late August, and gold has fallen 16%. **To boot, the traders are still being assessed fees for storage of the commodities...**

Hedge Fund Exit Requests Running at Seasonal Norms

12-21-11

Why crazy bets? Aivars Lode

By Yeganeh Torbati, Reuters

More clients asked for their money back from hedge funds in December than in the rest of 2011, in line with the traditional year-end evaluation of funds' performance after a year marked by high volatility and erratic returns, data shows. The GlobeOp Forward Redemption Indicator, a monthly snapshot of clients giving notice to withdraw their cash as a percentage of GlobeOp's assets under administration, measured 4.58 percent this month, up from 3.44 percent in November. "The month-on-month increase is within the normal range of a seasonal pattern, as investors prepare to rebalance their portfolios at year end," said Hans Hufschmid, chief executive officer of GlobeOp Financial Services, in a statement. Hedge funds are closing a year in which they have largely failed to deliver impressive returns, with volatile markets making it difficult to time their bets or hold onto gains. The average hedge fund is down 4.45 percent in the year to Dec. 15, according to Hedge Fund Research. Investors gave notice to withdraw 4.59 percent of assets under administration in December 2010, almost the same as this year. The previous high for redemptions in 2011 was in June, at 4.01 percent. Forward redemptions as a percentage of GlobeOp assets under administration have dropped significantly since hitting a high of over 19 percent in November 2008, shortly after the collapse of U.S. investment bank Lehman Brothers. While the volume of redemption notices have risen, a separate indicator by GlobeOp released earlier this month showed hedge funds were still seen as crucial ingredients of a rounded, diversified portfolio. The sector recorded higher cumulative net subscriptions in December than at any time since Lehman's collapse, as investors turn to alternative strategies to ride out volatile markets.

Hedge Funds Had One of Worst Years Ever in 2011

1-10-12

This should not be a surprise as a lot of what they do is take a bet in a zero sum game - winner or loser are the two alternatives. Also, the pension funds have over allocated to this class of investment so the hedge funds are betting against each other. Very difficult to pick a winner… may as well go with the casino. Aivars Lode

By Katya Wachtel, New York, Reuters

The final result for 2011 is in: hedge funds posted one of their worst annual performances ever, according to data released on Monday [Jan. 9]. The average hedge fund sank 4.8 percent in 2011, data compiled by Hedge Fund Research showed. The Standard & Poor's 500 stock index, by comparison, ended the year roughly flat. In 2010, the average hedge fund rose by more than 10 percent. 2011 marks only the third calendar year since HFR began measuring industry-wide performance in 1990 that hedge funds have finished in the red. It is also the industry's second decline in four years. Even though the fourth quarter of 2011 saw hedge funds gain 1.3 percent, that small boost barely helped firms whipsawed by record volatility in the third quarter as the European sovereign debt crisis sent markets into freefall, and the U.S. economy stagnated. Hedge funds lost almost 7 percent from the beginning of July through Sept. 30. "Volatile and unpredictable market dynamics throughout the year created a challenging environment for hedge funds in 2011, with aggregate losses across currency, commodity, Emerging Markets and equity strategies related to the European currency and sovereign debt crisis," said Kenneth J. Heinz, president of HFR. The final month of 2011 brought little relief for bruised investors. In December, the HFRI Fund Weighted Composite index lost 0.18 percent. Industry watchers were surprised by some of the big-name stock pickers who stumbled in the latter half of last year, and December offered no respite for traditional long/short funds, which make bets on some stocks rising and others falling. The HFRI Equity Hedge (Total) Index, which measures performance of those managers who specialize in going long and short stocks, lost 0.66 percent in December, sending losses for the strategy to about 8 percent for the year.

Short-selling

2-13-12

Naked short selling - if you run a public company or invest in them, understand the risks. Aivars Lode

From The Economist

SHORT-SELLERS perform a valuable function in financial markets, exposing managerial incompetence, corporate fraud or plain overvaluation. Their reward, all too often, is calumny. Witness regulators' rush to ban shorting in 2008 in response to sustained political attacks on the practice.

Like any form of trading, however, shorting is open to abuse. Some firms claim to have been victims of illegal "naked" shorting, where the seller does not arrange to borrow the shares in time to deliver them to the buyer within the standard settlement period. This, they say, has long been a favoured tool of unprincipled traders looking to launch bear raids—usually on small stocks but also, in times of turmoil, on bigger fish like Lehman Brothers. Hedge funds and the prime brokers that serve them have tended to counter that such accusations are smokescreens put up by bosses to mask their own failings.

After years of sitting on their hands, regulators are starting to side with the companies. The Securities and Exchange Commission (SEC) has brought several cases over the past year. The latest alleges that two brothers, Jeffrey and Robert Wolfson, and a firm they traded through made at least $17m naked-shorting numerous shares, including, cheekily, the New York Stock Exchange's parent firm. (A lawyer for one of the Wolfsons says he intends to fight the charges.) The filing shows how the dark art may have been practised.

The SEC rules require traders to locate shares they wish to borrow before selling them short; they must then deliver the borrowed securities to the buyer by a specified date. If delivery has not occurred four days after the trade, it has to be settled, if necessary using securities of like quality. The Wolfsons' alleged scheme involved a thicket of complex transactions, according to the SEC. One type of trade, a "reverse conversion", involved taking out options that appeared to offset the short position, making naked shorting look like bona fide marketmaking. Another stock-and-option combination, the "reset", created the illusion that trades had been settled by having an entity buy the same type and quantity of shares that had been sold short. But the shares were always sold back within days, often in trades between the brothers, which the SEC claims were "sham". The reset trades meant they could roll over naked-short positions indefinitely.

The SEC says its investigations will continue. Naked shorting is precisely the kind of gaming of the rules by sophisticated insiders that, it fears, could sap the average punter's confidence in stockmarkets. The role of prime brokers in particular is under scrutiny. According to the SEC complaint, unnamed large prime brokers engaged with the brothers in conversion trades that allowed the brokers to build entitlements to hard-to-borrow shares, even if these shares had not actually been located or delivered. The brokers could then lend this apparent inventory of stock to short-selling hedge funds for fees that were several times higher than those from lending freely available shares.

Whether prime brokers knowingly benefited from naked shorting could become clearer as the SEC looks more closely at the links in the chain of the lucrative securities-lending world. Private lawsuits could help to lift the lid further, if they make it to trial. Last year, a host of Wall Street firms, including Goldman Sachs, UBS and Morgan Stanley, settled a naked-shorting case with shareholders of Taser International for an undisclosed sum.

A case brought by Overstock against Goldman and Merrill Lynch, for conspiring with clients to allow naked shorting of its shares, was dismissed in January on jurisdictional grounds. The online retailer, determined to see four years' worth of discovery and depositions receive an airing in court, is appealing. The banks have vigorously denied that they actively took part in an illegal scheme. But it seems clear that abusive shorting is not just the figment of a few executives' imaginations.

The Terrible Cost the U.S. Pays for Derivatives

4-16-12

Succinct article; I realized this nearly two decades ago, as I watched two executives creating derivative's and betting on two flies crawling up a wall at the same time. Aivars Lode

By Eleanor Bloxham, CEO of The Value Alliance and Corporate Governance Alliance, published in FORTUNE

Whether they understand them or not, all taxpayers have been sucked into the derivatives virtual reality game, and at great cost.

FORTUNE -- It's tax time -- and if you are like many people, you may spend a moment contemplating all the benefits your tax dollars bring. But amid all of those benefits, your money is also propping up the proliferation of derivatives in our economic system. Now isn't that something to be proud of?

"Derivatives are financial weapons of mass destruction, carrying dangers that, while now latent, are potentially lethal," Warren Buffett wrote in 2002. Boy was he right, in more ways than one.

In practice, they're destructive in three killer ways. Strike one: Unbridled manufacture of and investment in them continues to lead to bubbles, an erosion of trust in the capital markets, and they fueled our most recent financial crisis. Strike two: Used in compensation, they encourage risky behavior and economic instability. Strike three: Rather than going to other, useful causes, tax dollars are instead subsidizing both the corporations that dole out derivatives as compensation and the profits of the financial institutions that create them.

Derivatives aren't real in any natural sense, like iron or coal or water. They are a manufactured investment product that is supposed to have a relationship to something that is more real, like a stock, a bond, a mortgage, or a commodity -- but that relationship is sometimes tenuous at best. Whether they understand them or not, all taxpayers have been sucked into this virtual reality game, and at great cost.

Still crazy, after all these years

Many of us are aware that the securitization of loans and the manufacture of CDOs (collateralized debt obligations) contributed to the recent financial crisis. In Economic Value Management, a book I published decade ago, I explained how securitizations enrich investment banks, which garner fees for arranging them, and usually destroy value for the commercial banks that use them to offload subprime mortgage and credit card loans. Nevertheless, securitizations continued to proliferate, and along with derivatives, encouraged fraudulent loan transactions, the housing and securities bubbles, and the biggest financial crisis since the Great Depression.

But we haven't changed our stripes yet. Unbridled creation of these little monsters continues to be great sport for the investment banks -- and there still isn't effective regulatory control over the sale of these products, or the companies that manufacture them.

Consider the recent case of Credit Suisse's (CS) velocity exchange traded notes. The bank apparently controlled the market for this investment product and, according to Bloomberg, stopped issuing the notes in February and didn't resume until late March, drying up supply and driving up the price by 90%. The bubble burst and the notes' price fell by 50% in just two days, according to Barron's. (Other exchange traded notes have not fared well either. Barron's calls Barclay's S&P 500 futures exchange traded note "treacherous" for long-term investors, "down more than 90% over its lifetime.")

Consider also recent reports on derivative investment practices at J.P. Morgan (JPM). The Financial Times recently reported that "JPMorgan had amassed a big position in an index of credit default swaps, sufficient in size to move the market" and Bloomberg reported last week that J.P. Morgan trader "Bruno Iksil's outsized bets in credit derivatives are ... fueling a debate over whether banks are taking excessive risks with federally insured and subsidized money."

Clearly, we not only need the Volcker rule to curb proprietary trading, we need to make sure investment manager fiduciaries stay away from these instruments so our pension funds, 401k plans, and mutual funds don't continue to bleed like they did during the financial crisis.

An executive pay infection

But this isn't just an investment and capital markets problem. CEOs who receive stock options and restricted stock pay grants, which "are nothing more than long term options" to the executives who receive them, benefit from volatility and are prone to take risky actions that result in "economic instability," a December New York Fed staff report concluded.

Based on a review of large company filings this proxy season, derivatives in the form of stock options and restricted stock grants constitute the bulk of most executives' pay, from 75% to 99% for the CEOs of companies like Bank of America (BAC) and Apple (AAPL). (Buffett is a noticeable exception and receives no derivative-based pay.)

Uncle Sam helps to subsidize the proliferation of derivatives by providing low-rate funding to the banks that manufacture and control markets in these ticking time bombs. Meanwhile, your check to the government subsidizes the corporations that use stock options and restricted stock to take huge tax write-offs for pay. When stock options are in play, the amounts these companies deduct in taxes far exceed what is recorded on their books. These tax deductions are partly based on the false notion that this pay is for performance and is therefore not subject to the $1 million cap on salary deductions.

But this theory on performance-based pay doesn't match reality. For starters, options and stock grants are often explicitly not based on performance. This is no secret. Last month, over lunch, a board director at a well-known insurance company animatedly sketched what happens on a napkin. To match previous dollar values, boards often hand out the largest awards when stock prices are low (to achieve a certain dollar value) even if the price has gone down on the executive's watch. By using derivatives in this way, stock price volatility, rather than stock price, becomes the real driver of pay.

Even if some shares and options are awarded at higher prices, momentary blips in stock price can be great times to cash out. Most top executives, unlike middle managers, time their stock sales carefully. They often hold out for long periods, waiting for just the right moment to cash in, according to Ted Allen, governance counsel at proxy advisory firm Institutional Shareholder Services.

Reform in the wings?

In February, Senator Carl Levin proposed the Cut Unjustifed Tax Loopholes Act. The bill, as currently written, would change tax deduction rules for stock options and would bring them in under the million-dollar pay cap (although, in its current form, the bill does not address restricted stock or other forms of pay). Based on current law, Facebook will have "a tax break of up to $3 billion" and may not have to pay a single cent in federal income taxes for years, Levin said. Putting it into perspective, Levin said that "in 2009, the most recent year for which IRS data is available, taxpayers from 11 states in our union sent less than $3 billion in individual income tax revenue to the treasury."

Facebook isn't alone. In total, options tax breaks cost the government tens of billions of dollars every year, according to several estimates. A report released last week by Citizens for Tax Justice outlines the extent to which taxpayers are subsidizing these behaviors. While tax subsidies that produce jobs and strengthen the economy may be worthwhile, it does not make sense to encourage pay that leads to economic weakness.

A decade ago, we received strong warnings about the effects of derivatives on our capital and labor markets -- and we chose to ignore them. The subsequent effects on the federal deficit were real. While the advice may be old, how many more tax seasons are we willing to let this go? And how many more crises are we willing to suffer through?

FDIC Watchdog Asked to Take Over Troubled SEC Office

4-23-12

This makes it hard to invest in public stocks. Aivars Lode

By Joshua Gallu, Bloomberg

Federal Deposit Insurance Corp. inspector general Jon Rymer is in final discussions to temporarily take over the Securities and Exchange Commission's internal watchdog office as it grapples with allegations of possible misconduct by its own employees, according to people with knowledge of the talks.

Rymer would take over the post on an interim basis as the SEC looks to fill the inspector general job that was left vacant when H. David Kotz stepped down in January, said the people, who declined to be identified because the decision hasn't been made public. The move isn't yet final, the people said.

The office has been in turmoil since David Weber, an employee of the internal watchdog unit, complained to the SEC that possible conflicts of interest related to Kotz's past conduct could have tainted the integrity of his reports on the agency's failure to catch the Bernard Madoff and R. Allen Stanford frauds. The agency said it is hiring an independent investigator to review the claims.

Weber was later placed on administrative leave after some of his co-workers said they were bothered by his suggestions that he and others should be able to carry guns on the job, people with direct knowledge of the situation said.

Last week, SEC Chairman Mary Schapiro scrapped a plan to have Donald Hoerl, head of the SEC's Denver office, temporarily run the office after some Capitol Hill staff members expressed concern that Hoerl wouldn't be independent enough from the commission, the people said. Noelle Maloney, the deputy inspector general, has been the acting head of the unit since Kotz's departure.
Audit Committee
Rymer, a certified internal auditor who previously worked at accounting firm KPMG LLP, has been inspector general of the FDIC since July 2006. He also serves as chair of the audit committee of the Council of the Inspectors General on Integrity and Efficiency, according to the FDIC's website. Rymer holds degrees from the University of Tennessee and the University of Arkansas and also graduated from the U.S. Army's Inspector General School. He has served for 29 years in the Army, including active and reserve duty.

Fred Gibson, the FDIC's deputy inspector general, said Rymer wasn't immediately available for comment. SEC spokesman John Nester declined to comment.

There are Two Types of Value: Intrinsic Value and Speculative Value.

5-28-12

Thoughtful and provoking when thinking about investing. Aivars Lode

Value. The best definition of intrinsic value is cash flow. Pretty simple. Easy to calculate and mostly what "fixed income" (e.g. debt, bond) markets are all about. The other type of value is speculative value sometimes called equity. The most obvious manifestation of speculative value is the stock market, where "equities" are issued, then bought and sold, over and over. Speculative value (equity) is basically the concept of buying and selling a title to some "asset". (The term asset is used loosely in the context of equities.) The buyer of the title to the asset believes that in the future there will be some event or change of perception that will allow them sell it for more money than what they paid when they bought it. The thing backing up the equity could be completely vacuous like an eyeball looking at a webpage (worth speculatively millions), or a physical thing like a building, which may have a replacement cost of say $10 million but could be worth zero or even have negative "equity" (you have to pay to demolish it.) In theory, over the long term, the events that create equity value are an increase in dividends (more on dividends in a minute) or an improvement in the balance sheet (retained earnings, accumulation of sellable assets, issuance of notes payable, etc.). But in the real world equities are valued on pure perception (speculation). Actually, the second or third derivative of perception (i.e. "I perceive now is the time to buy equities, because I perceive that others who do not perceive now is a good time to buy equities will down the road perceive that others will perceive that they should buy equities in larger numbers... "ad infinitum) In other words the equity value of an equity is derived from the belief that someone in the future will believe that down the road further, someone will else will pay more. It is really that simple. The real trick to equity pricing is to try to figure out what people believe and what is likely to change their minds - 100% psychology and like ALL FORMS of psychology, no science whatsoever – just feelings. I am not saying people do not love to toss around numbers in equity markets. Is there growth in earnings? Is there growth in revenue? Is this "expected" or not (e.g. beat the official estimates and/or "whisper numbers")? Does this company's "equity" have the same price to earnings, or price to revenue, ratio as a competitor of the same size, balance sheet, same growth, same margin, etc. If not, can these discrepancies be accounted for? Does the company pay a dividend? Is it increasing? etc. etc. But these are just mental masturbations. The only thing that matters is playing the perception game. This is why stocks frequently go down after a stunningly good quarter Equity markets move from a numeric analysis to a perception analysis in the blink of an eye, That is not to say the numbers do not matter to some extent, but numbers only matter to the degree they change perception. So-called good numbers do not always lead to a good change in perception (again, not the first derivative). There is a ton of evidence in equity markets that demonstrates these phenomenon, but my favorite is looking at the stock price movements when a company "misses the quarter" could go up -could go down - could stay the same - depending on what the expectations are and how they changed. Hence the source of, "I buy on dips." One other note before moving on to intrinsic value is an analysis of dividends. For equities that pay dividends, a partial intrinsic value can be found in the ratio of dividend amount to speculative price. But be careful, paying a dividend actually reduces the theoretical equity value of a company (reduces cash). Dividend values of equities (unless the dividend is abnormally high compared to a corporate bond) is typically a minor kicker to the stock. Increasing dividends has a de minimis impact on equity value as compared to speculative values (i.e. the attempt to buy low and sell high). Sometimes an increase in dividends will move a stock, but not because of the intrinsic value, but because it is perceived to be a signal that will be perceived by non-believers that the company has more "good news" which will further change perceptions in the future. I am quite serious. Bottom line: equities are valued on speculation. Intrinisic value is a whole 'nother kettle of fish. Intrinsic value is almost all mathematics. Intrinsic value is simply the cash flow generated by an "asset". The formula can be quite complex taking into account the net present value of the cash flow and the risk the that cash flow is not secure and steady (predictable). But no cash flow – no intrinsic value. Period. For investors to balance a portfolio the future will be products that have a relatively high cash flow (yield) with relatively low risk. Funds that do not take equity, but accumulate "bonds" by concentrating on securing intrinsic value claims (cash flow) via secured structures will provide stability in an investment portfolio. Investments are technically more like Convertible bonds than straight debt, because of covenants that give ultimate control of operations without a traditional default event. Funds like this are the future unique, modern, differentiated, not a PE, not a VC, not a traditional bank, not a hedge-fund, etc. There is some confusion around intrinsic value "assets" like corporate and government bonds because, in addition to yield, they also have a "price" - i.e. some bonds do indeed trade. Bond trading is the result of a pseudo perceived speculative value around relative yield and relative risk. The factor that causes speculative changes in the price of bonds is the global shifts in interest rate expectations (speculation) for the same level of risk. If you own a ten year U.S. Treasury eight years away from maturity with an intrinsic value (yield) of 2% and the market begins to speculate that the government will next issue ten-years for 2.2%, then the "price" of your bond will go down. Notice that the price of the bond does not change when the new higher rate bonds are sold if the speculation on future rates is confirmed and does not create new speculation. But this assumes you would sell it before maturity (now). If you own a ten-year bond with one year left to maturity the speculative impact of a change in global interest rates is tiny. If your intent is to hold to maturity the "price" of your bond beyond intrinsic value is irrelevant. Consequently, intrinsic value assets that do not trade do not have speculative value. Intrinsic value assets that do not have a maturity are probably impossible to speculatively price objectively, anyway. The only objective value is the current cash flow.

Too Chicken For Stock

9-23-12

As discussed previously, the news is going to continue to be bleak for some time. Therefore, transparent investments that deliver yield only gain in importance. Aivars Lode

By Jason Kephart, Investment News

Spooked by the challenging economic picture and with memories of the financial crash still fresh, U.S. investors appear almost oblivious to the fact that the stock market is on a tear.

Even though the S&P 500 is up more than 115% since it bottomed out in March 2009 — and its Friday closing price of 1,460.15 is well within striking distance of its all-time high of 1,565.15 — investors continue to run from U.S. stock mutual funds.
Altogether, investors yanked $300 billion more from actively managed U.S. equity stock funds than they put in over the three-year period through July 31, according to Morningstar Inc. While the net $140 billion that investors dumped into passively managed funds and ETFs over that period offset those withdrawals, it still leaves a net $160 billion on the sidelines.
To be sure, that is a drop in the bucket when compared with the $3 trillion-plus that is invested in equity mutual funds and ETFs. But with the prospects for returns across all assets looking dim at best, investors can't afford to continue ignoring U.S. stocks forever.
For baby boomers facing longer retirements than ever before, there is a very real chance that they could run out of money, thanks to a combination of inflation and painfully low interest rates.
“We've long hoped people would stop chasing returns, but in some ways, this actually seems worse,” said Russel Kinnel, director of mutual fund research at Morningstar Inc.
“Five years ago, we thought investors were overweight equities and we were talking about fixed income. Now there is such a hangover from the 2008 market that investors are too conservative,” said David McSpadden, Franklin Templeton Investments' senior vice president of global advisory services.

NEW APPROACHES
“We're not saying people should go barreling into equities, just that they should be having

meaningful conversations with financial advisers," he said. "The degree of the 2008 correction certainly caught everyone by surprise, but given the stock market rally, we would have anticipated more of a balanced flow back into equities."

Advisers know that clients want their help, but they realize the need for new approaches.

"People have been generationally beat up to the point where investors are now like the children of the Depression, who became consummate savers," said Sam Jones, president of All Season Financial Advisors Inc., which has $110 million under management. "I think it will take an entire generation for investors to become wildly bullish again."

The disconnect reflects investors' unwillingness to dip their toes back into equities — even though staying out of the market or investing too heavily in bonds could prove more damaging to their portfolios.

"At some point, people are going to have to accept the fact that the economy has moved forward," said Lee Munson, principal at Portfolio LLC.

Maybe so. Although many economic indicators are improving, they aren't improving as fast as most people would like.

The unemployment rate, for example, has fallen to 8.3%, from a high of 10.1% in October 2009; new housing starts have risen to 754,000, from a low of 478,000 in April 2009; and new homes sold totaled 372,000 in July, up from a low of 273,000 in February 2011.

There are a number of theories to explain why investors haven't come back yet. Some say that the scars of 2008-09 are still too fresh.

"The upside isn't high enough to take on the risk of losing half your money," said Janet Briaud, chief investment officer of Briaud Financial Advisors Inc., who is keeping her clients' exposure to stocks low because she doesn't feel that the risk is worth the reward.

Others blame the 24-hour news cycle for keeping the crises front and center, and still others think that investors have simply come to the conclusion that the stock market is rigged and want no part of it.

Liz Ann Sonders, chief investment officer of Charles Schwab & Co. Inc., said that investors are intent on avoiding the stock market altogether.

"More than one client has brought up that the Fed is just manipulating the market for the benefit of the few rather than the many," she said.

After all, the Federal Reserve has intervened three times, four if you count "Operation Twist," to try to steer investors toward riskier assets, Ms. Sonders said.

So far, investors haven't bitten.

But to paraphrase Bruce Springsteen, stocks aren't a beauty, but they're all right, at least when compared with bonds.

The Fed's latest intervention is to purchase $40 billion of mortgage-backed securities a month until the unemployment picture gets better. It also said that it will keep rates at near zero until at least the middle of 2015, which spells big problems for bonds, the biggest beneficiary of the aversion to stocks.

Bond funds took in a startling $734 billion over the three-year period through July. The total amount of assets in the intermediate-term-bond fund category at Morningstar has doubled to more than $2.1 trillion since the financial crisis.

The average allocation to bonds is up to 25%, from its 20-year median of 16.9%, according to The Vanguard Group Inc.

Meanwhile, the Fed's near-zero rate puts bonds in a precarious position when it comes to protecting purchasing power. At current yields, the 10-year Treasury is hovering around 1.8% and it won't even take historically average inflation to chip away at the value of a bond investment today.

"A lot of investors are locking in negative real returns and they're OK with that," Ms. Sonders said. "The problem is when rates go up enough that they actually start to look at losses, period."

NO CUSHION

The Barclays Aggregate Bond Index, the most widely used proxy for U.S. investment-grade bonds, has an average duration of between four and five years. A rate rise of just 1% would cause it to lose 5% of its principal.

In ordinary times, that wouldn't be so bad, but with the index yielding just under 3%, there is no cushion to soften the fall.

That threat of loss could be what it takes to get investors to flip-flop on U.S. equities, assuming that the market doesn't fall off the fiscal cliff, Ms. Sonders said.
“It's going to take a combination of a push out of bonds and a pull into equities,” she said.
Some advisers are moving to protect their clients' nest eggs by persuading them to buy stocks, even if it requires more than a little nudge.
“Clients are getting squeezed on every side,” said Margaret McDowell, founder of Arbor Wealth Management LLC. “Their heels are dragging in the dirt as they're going, but they know stocks are the only way to have something to come home to.”

Chapter 5

Government Intervention and Currency Manipulation

Introduction

Since my first book, the reign of the USD has not waned following the crisis in Europe and Russia invading Ukraine. More EB5 visas, which allow foreigners to get a green card by investing in the USA, have been issued to Chinese than any other nationality.

I began my career in the early 80's, after earning an accounting degree, as a global commodity trader selling and buying beef for a Japanese trading company that at the time was one of the largest corporations in the world. I would match a buyer and a seller of beef and then consummate the deal by agreeing on the pricing, locking in the exchange rate, arranging the shipping insurance, documentation, letter of credit, etc. I had the entire risk of the transaction with only one percent to be made on the trade. I learned very quickly that one does not want to take any risks as profit can be very quickly eroded, thus leaving the trader broke. Currency risk was not something on which to speculate, and every day I would go forward on the Aussie dollar to the Yen, the USD or another currency.

I lived through the floating of the Aussie dollar and the Japanese yen and was thankful that I did not have exposure to the variations in rates, as my profits would have been wiped out many of hundreds of times over. During that time I made friends with many of the Forex traders, including one who was the market maker in the Aussie dollar and the Canadian Dollar. He and his firm possessed keen knowledge of the market and all of the trades that took place so they would manipulate trades in order to make a large profit. My father taught me that there was a golden rule: "He who has the gold, makes the rules." The equivalent in this case would be the market maker. Since he had the gold, he would make the rules.

I read news reports with great interest some years ago stating that Europe was more efficient and had less debt, which explained why the Euro was worth so much more than the USD. As I sat in a restaurant in St. Tropez three years ago, I questioned why the cup of coffee I was drinking was $8.00 versus the $2.00 I paid in the United States, especially since I knew that the cost on inputs was largely the same. If Europe was so efficient and much more productive, then my coffee should be cheaper. Well, having done business in most of the countries in Europe I know that the efficiency thing is a fallacy. Likewise, when you sit with one of the heads of the Ferragamo clothing empire in Italy and ask him how we should think about Italy, a country with 60 million people, and he says "Communist," where is the efficiency? If you also knew that Greece had serially defaulted on debt between 1800 and the end of World War II, then you would know that not repaying debts was serially ingrained in the country's culture. In addition, you would realize that the market maker wanted you to believe the story that Europe was more efficient and had no debt. As they manipulated the currencies, they could make a huge profit.

Early this century, England gave up its rights to global currency to the United States, which was England's cheap labor outsourcer at that point in time. As U.S. internal demand took off and overtook that of the UK, just due to sheer volume of consumers, the USD became the global currency. Well, if you look at who started the industrial revolution, it was the UK, with 60 million people. The U.S. with 300 million population leads the consumer count. This is roughly the same ratio as the United States to China, which was the United States' cheap outsourcer. It is not hard to extrapolate that ultimately as internal demand in China takes over, there will be a tug for China's currency to be the global currency. When this will occur is anyone's guess as a lot of Chinese remember Mao Tse Tung and Tiananmen Square. Really, if you want to have your money anywhere in the world where would you put it for the time being? Most likely, your decision would be to put your money in the United States. Likewise, if you were a Russian oligarch, would you leave your money in Russia where you may lose favor and be executed by one of your old KGB mates, or in a country in which at least you can visit your money and have a good time without risking it being confiscated by the government or your old mates?

Fed President Cranks Up Deflation Fight

10-16-10

I wrote about a year ago how I could not understand where inflation would come from, as all I saw was excess capacity in everything from factories, to houses to roads that are empty to commercial real estate that is empty. So now the fed is worried about deflation, hmmm! Aivars Lode

By Michael S. Derby

BOSTON—Policymakers must act vigorously to counteract the risk of deflation, a Federal Reserve official said Saturday at a conference conducted by the Federal Reserve Bank of Boston.

"A policy of gradually adjusting monetary and fiscal policy, as conducted in Japan after deflation first occurred, may not be as effective as an active policy response taken before deflation has become embedded in the economy," Eric Rosengren, president of the Fed bank, said.

"Should deflation occur, it can be quite difficult to overcome," he said in a speech to be delivered at the conference. "Insuring against the risk of deflation may be much cheaper than waiting until it has occurred and then trying to address it," Mr. Rosengren said. "Financially fragile economies may be particularly vulnerable to negative impacts from premature austerity measures."

The conference, attended by people from academia, Wall Street and the Federal Reserve, was designed to impart an understanding of how to conduct policy in a low-inflation environment.

The Fed is confronting a weak economy beset by ebbing levels of core inflation and persistent high levels of joblessness. Most believe that the Fed will address this through a resumption of its buying of long-dated assets, as part of a bid to drive down borrowing costs and fuel more economic activity. There are other strategies the Fed may employ, but it is the asset-buying that is that the center of Wall Street's attention right now.

Mr. Rosengren expressed confidence that asset purchases can still be effective. He said research supports the view that such action "can influence the market rate of the asset being purchased."

"The scale of the program should be sensitive to the prevailing conditions, and the size of the program would need to vary to accomplish a particular interest-rate outcome," he said.

While most expect the Fed to buy Treasurys, the central banker said that focus may be misplaced. "The precise focus of the program's asset buy may be less critical than the broader fact that the central bank is purchasing long-duration securities, and that rates on all long-duration securities will be impacted by the program."

For Europe's Future, Spain Is All That Matters

11-29-10

Once again, more drama in Europe. When the Euro was really strong, the reason for its strength was that Europe did not have the debt issues that the US did! So how long before the Euro weakens against the USD? Aivars Lode

By Gonzalo Lira

Last Spring it was Greece that was in crisis mode—then last week, it was Ireland—and coming up next is Portugal—but all those pale in comparison to Spain.

That's gotta hurt.
If I had to bet on which country will bring about the end of the Euro—and perhaps even the end of the European Union—I'd have to say it's Spain.

Right now, no one is talking about Spain—Spanish spreads are as quiet as a guilty man in a police line-up—everyone's too concerned over Ireland, and the upcoming Portuguese Situation.

But Spain is the key—Spain is what you should be paying attention to, if you want to find out what will happen to the European Monetary Union (EMU), and the European Union (EU) itself.

Ireland got into trouble with the Euro bond markets after German Chancellor Angela Merkel made some not-very-clever remarks about Irish bond-holders needing to take some haircuts. The bond markets started to panic—yields on Irish debt started to widen—and then once again, it's Sovereign Debt PanicTime™ (patent pending).

The EU in conjunction with the European Central Bank (ECB) and the International Monetary Fund (IMF) put together a rescue package—but the Irish refused to take it, as they realized they would have to give up some of their hard-won sovereignty in exchange for this lifeline. To accede to this package, they'd likely have to slash government expenditures, take on "austerity measures", and likely raise their precious 12.5% corporate income tax rate, which has been the carrot the Irish have used to get so much foreign investment over the last decade.

But the Irish deterioration in the bond markets began to pick up speed—finally on Sunday night, after a week of dithering, Irish Prime Minister Brian Cowen officially asked the European Union for a bail out.

(A quick explanation for the layman, as to why the bond markets are so important: Because Ireland is running a deficit, it needs to sell bonds—that is, borrow money—in order to finance its fiscal shortfall. If the bond markets do not have much faith that Ireland will pay back the bonds it emits, then the price of Irish bonds will go lower, which means the yields will go higher. In other words, Ireland will be forced to pay more for the money it is borrowing. The more it has to pay to borrow money, the greater the deficit, until finally, you get to the point where you cannot borrow enough to cover your deficit: In other words, you go broke. This was what was happening to Ireland, in simplified terms.)

Just like they did with Greece, the European officials colossally fucked up the bail-out package for Ireland. It turns out that—far from having put together a detailed package that could be swiftly implemented, and thereby restore confidence—the EU/ECB/IMF troika have only a flimsy framework for the Irish bailout. The vaunted European Financial Stability Facility? It's not even fully funded yet!

So on Monday, the markets were jubilant—"Ireland is saved! Crisis averted!"—but then today Tuesday, they're down in the dumps, as it is becoming increasingly clear how unprepared the European officials are. Their "rescue package" is vague on the details—to put it mildly.

Coupled to that, the bail-out announcement sparked a political fire-storm in Ireland—Cowen's coalition partners, the Green Party, exited the government, and elections are now scheduled for January. There are even calls from Cowen's own party for his immediate resignation.

This is bad enough—so what does the IMF go and do? Why, with exquisite political tone-deafness, it sends the clear message that Ireland is going to have to crawl if it wants the bail out: John Lipsky, a muckety-muck in the IMF, says to Reuters that "our work there [in Ireland] is technical, not political.

Decisions have to be made by [the Irish] government." In other words, the IMF isn't going to negotiate with Ireland—it's going to dictate.

Or in other words, the IMF is saying, Beg for the money, you Irish bitches!

So any effective clean-up of the Irish situation is going to take a while—assuming it actually happens. And just like the Greek bail-out last spring, it will be messy messy messy: Half-measures, dithering, "adjusted" figures, until finally the European officials wind up throwing twice as much money at the problem as originally expected. We might as well call the movie now playing in Dublin, Doin' It Greek, Part II: Ireland!

To add insult to injury, all this politico-economic theater didn't staunch what most worried the EU and the ECB: Contagion.

All the smaller, weaker European economies in the EMU are in the same boat as Ireland: They are all insolvent. Not just the PIIGS—Portugal, Ireland, Italy, Greece, and Spain—but also Belgium, and maybe even France, if we steel ourselves and look at the numbers.

Right now, though, contagion has reached Portugal—the next-weakest link in the European Chain:

Portuguese debt yields are widening by about 50 basis point this morning, to 4.328% over the German bunds (10-year)—even after the Portuguese government implemented a second austerity package this past October, following their May spending cuts which did not convince the bond markets.

That's because the Portuguese have a huge fiscal deficit: 9.4% of GDP. They are cutting spending, and they are raising taxes too—but still, their bond yields are rising: The market doesn't think that Portugal will make it through this crisis intact. Just like Greece, just like Ireland, the Portuguese will need to be bailed out.

And so that clears the way for the bond market's anxieties to focus on the real elephant in the drawing room:

Spain.

According to IMF numbers for 2009, the gross domestic product of Greece was $331 billion, Ireland was $221 billion, and Portugal was $233 billion—

—but Spain's GDP in 2009 was $1.468 trillion. Roughly twice Greece, Ireland and Portugal combined. In other words, close to half of Germany's GDP.

And what is Spain's fiscal deficit? Last year, it was officially 7.9% of GDP—twice the EU limit. Not Irish or Portuguese or much less Greek numbers, but still up there—officially.

Why do I say "officially"? And now put "officially" in scare quotes? Because of a very disturbing anonymous paper, released last September 30.

Written by a local economist, it basically said that the Spanish GDP numbers for 2009 were cooked—and then went ahead and showed the whys and hows of this analysis. FT Alphaville originally ran the piece—and it was picked up by everybody, freaking everyone out. But then Alphaville up and retracted the paper under political pressure, excusing their cowardice by saying "life is too short".

(BTW, something similar happened to me with Henry Blodget's Business Insider, when I pointed out Paul Krugman was essentially advocating war as a fiscal stimulus solution: They put out my piece, then retracted it like a pussy-whipped house-husband. A lot of blog sites claim they "fearlessly tell the truth"—but when push comes to shove, a lot of the people running these blogs have no balls.)

The anonymous Spanish paper gave a credible analysis, which I for one believe. And considering the shit going on in Greece, regarding faked GDP data—and knowing the Spanish—I wouldn't be a bit surprised that Spanish GDP figures have been faked in Madrid, in order to keep everything copacetic.

But even if they haven't been, it's not as if the official numbers are painting a rosy picture: Spain has nearly 20% unemployment, near 10% yearly fiscal deficit to GDP, and no clear way how to get out of this hole that it is in. So much of Spanish growth over the last decade was fueled by real estate development and over-levaraging, that there's no clear way forward for the Spanish.

Now, if there is a Greek/Irish-style crisis with Spain—in other words, if there is a run on Spanish debt—how much will the EU/ECB/IMF have to pony up, to bail out Spain?

Let's look at Greece and Ireland:

Originally it was thought that €45 billion would be enough to bail out Greece—but the final tally for that shindig looks to be something like €90 billion (about $122 billion). At this time, bailing out Ireland is going to come to something similar over the next 3 years—€90 billion—assuming, of course, there aren't any hidden nightmares in the Irish banking sector, which is the reason Ireland is going under.

In both these cases, essentially three times the yearly deficit was the ballpark figure for the European bailouts.

Therefore, to bail out Spain, and plug up its fiscal balance sheet hole over the next three years would cost €450 billion—minimum. That's about $600 billion.

Look at that number again—look at it closely, and take your time:

€450 billion.

That's twice the size of Ireland's total GDP for 2009.

In order to figure out how much each party would have to shoulder of this €450 billion price tag, Bruce Krasting, in some private e-mail exchanges, thought that the percentages that the EU, the ECB and the IMF were shouldering for the Greek and Irish bailouts could serve as a template.

Fair enough: If we go by Greek and Irish percentages, then roughly a third of that €450 billion price tag to bail out Spain would be shouldered by the IMF—and as everyone knows, the U.S. puts up 20% of IMF money.

So the U.S. would be on the line for €30 billion—$40 billion—to save Spain.

Then Bruce delivered his verdict: "The U.S. is going to say 'Yes' to that and 'No' to California? No way. Not going to happen with this new Congress."

BK is one smart customer—I completely agree with his analysis: No way will the U.S. shell out $40 billion to save Spain.

Therefore, the IMF's participation in a Spanish bail-out will be severely reduced, if not marginal. Therefore, bailing out Spain will be a strictly European affair.

Does Europe have €450 billion to bail out Spain? That is, does Germany have €450 billion to bail out Spain?

No it does not. It does not have the money for such a bailout—and even if it did, it does not have the political will to push through such a bailout.

Period.

But even if—by some monumental financial miracle coupled to an equally monumental political miracle—Europe somehow managed to find the money to bail out Spain without depreciating the Euro?

What then?

The Spanish economy won't be improving any time soon—and neither will the economies of the other smaller countries like Greece, Ireland, Portugal, Belgium. Not when they're locked into the Euro, and are therefore unable to depreciate in order to spur growth and investment.

See, even if there is the money and the political will to save Spain—which I don't believe—the only way to bail out Spain in such a way that it has an economic future is to cut it loose from the Euro. If it is kept locked in the EMU, the Euro will become a weight around its neck, dragging its economy down until in a few years, there will be the need for yet another bail out of Spain. That goes doubly so for the smaller countries, like Greece, Ireland, Portugal, Belgium.

Therefore, I believe that if and when there is a run on Spanish sovereign debt, and Spain slips into the position of having to be bailed out like Greece and Ireland, that will be Crunchtime Europe: That will force an inevitable realignment of the European economy, and the European continent.

Best case?

Though they remain in the European Union, the weaker economies exit the EMU and go back to local currencies, which they quickly depreciate, while their Euro-denominated sovereign debts are restructured and paid off over time. The Euro becomes the currency of France, Germany, Holland, Finland and Austria.

Worst case?

I can imagine a number of worst cases, all of them different, except for one thing in common: They'll all be bad.

High Rollers at the Fed

11-4-10

I have asked for some time now… where are the assets on the US balance sheet that the government took over? Well, it appears that some of them are on the treasury's balance sheet and apparently making good earnings. Aivars Lode

Wall Street Journal

The Federal Reserve's Open Market Committee seems poised today to make a historic decision to expand its balance sheet by as much as $1 trillion or more to boost inflation and reduce unemployment. We've said before that we think this is a monetary mistake, but the public and Congress should also be aware that it increasingly carries fiscal risks.

In conducting monetary policy, the Fed has historically stuck to the purchase of short-term Treasury securities and other highly safe assets. That changed amid the financial panic, as the Fed grew its balance sheet to $2.1 trillion in 2009 from $900 million in 2007. That expansion was controversial but it was defensible on grounds that the central bank was fulfilling its duty as lender of last resort during a liquidity squeeze. Roughly $1 trillion of the new assets were in short-term credit facilities, including foreign central bank swaps.

In 2008, the Fed began its dive into riskier assets by adding securities from Bear Stearns and AIG totaling about $70 billion, Fannie Mae and Freddie Mac debt of $45 billion and over $200 billion in Fan and Fred-guaranteed mortgage-backed securities. But those purchases remained a small part of the Fed's portfolio and were widely viewed as emergency measures amid a crisis. As it turned out, the Fed was only warming up.

Today the Fed's balance sheet of more than $2.3 trillion has no term auction facilities, commercial paper funding facilities or liquidity swaps. In their place mortgage-backed securities have ballooned to $1.1 trillion, U.S. Treasurys to $821 billion and Fannie Mae and Freddie Mac debt to $154 billion.

In the short-term, these investments have proven to be a revenue windfall for the U.S. government. In the first six months of 2010, the Fed says this portfolio produced net earnings of some $36.9 billion. Most of those earnings came from Treasurys, Fannie-Freddie debt and mortgage-backed securities (MBS). This compares to $16 billion in the first six months of 2009.

The Congressional Budget Office reports that in fiscal 2010, which ended September 30, the Fed earned $76 billion, a 121% increase from a year earlier. To put that in perspective, $76 billion is more than a third of the $192 billion that the corporate income tax raised in fiscal 2010. The Fed has become one of the Treasury's biggest cash cows, helping to mask the real size of the budget deficit.

As you may have read, however, there is no free lunch, and this revenue stream is the result of taking new risks. Before 2008, short-term government debt was the Fed's traditional instrument of monetary policy. Today the Fed's mortgage-backed portfolio has a maturity of more than 10 years, and nearly half of its portfolio of Treasurys is now greater than five years.

This means greater interest rate risk, as outlined in a new paper in the American Institute of Economic Research, "The World's Most Profitable Corporation," by former Atlanta Fed President William Ford and Walker Todd, a former New York Fed lawyer specializing in monetary affairs. The authors estimate that if interest rates on 30-year fixed-rate MBS were to rise to 5% from 4%, "the Fed's current portfolio of such bonds ($1.079 trillion) would decline in value by about $162 billion—nearly three times the $57 billion of capital on the Fed Banks' consolidated balance sheet in mid-October 2010."

The Fed's new risk profile also shows up in its capital to asset ratio. Messrs. Ford and Todd point out that the Fed's short-term portfolio has allowed it to carry only a 4% ratio of capital to assets compared to an 8% ratio at commercial banks. But since 2008, while the portfolio has become more risky, the capital ratio has dropped. The authors says that today the New York Fed's capital ratio is a measly 1.45%, which means a leverage ratio of 69 to 1 and the entire Fed system has a ratio of 2.46% or 47 to 1.

More leverage together with extended maturities means that if there is a sharp rise in the yield of long-term bonds, perhaps due to rising inflation expectations, the Fed's balance sheet could look very ugly, very fast. Fed officials will rightly argue that they are able to hold these long-term assets to maturity without having to realize losses. But what if the Fed has to sell assets to drain liquidity from the economy faster than it might prefer, and thus take losses on its portfolio? The revenue gain for the government would become losses. Imagine how delighted that would make Congress, not to mention complicating the political task of Fed tightening.

Everybody loves the Fed when it is easing money, as all but a few of us did during the credit boom and housing bubble of the mid-2000s. The trouble comes when the bill comes due. One task of the next Congress should be to better inform the public about the risks the U.S. central bank is taking, ostensibly on our behalf.

QE2. Is It a Ship?

11-20-10

We know from my previous book that the commodity market is manipulated. So relative to QE2, the question I pose is; Is this article designed to create fear in the markets to manipulate the USD or the stock market? Aivars Lode

By Nin-Hai Tseng

Will it or won't it work? Here are some ways to find out.

Fed QE2Many economists and market commentators are convinced that the Fed's move to pump $600 billion into the economy by buying up long-term bonds will do more harm than good for America's economic recovery.

Quantitative easing, as it's technically called, is rarely used by central bankers to boost the economy. So while the Fed's last-ditch policy prescription might be well intended, the outcome is still very much uncertain.

If it's successful, a few things would happen: Businesses drawn to lower interest rates would borrow, leading them to invest and hire more. Asset prices including stocks would surge and boost consumer confidence. Consumers, particularly homebuyers attracted to record low mortgage rates, would borrow and spend more.

But then again, things could go terribly wrong, and it appears the criticisms are mounting. With so much newly printed money in the financial system, critics charge that quantitative easing could destroy the value of the US dollar. Meanwhile, world leaders worry the new money could hurt their economies, creating market bubbles that would destabilize their financial systems. What's more, export-rich countries including Brazil and Germany worry the Fed's asset-purchase plan could hurt sales of goods and services abroad as the strengthening of their currencies would make exports less competitive.

Some even argue the first round of quantitative easing turned out to be a flop when officials purchased about $1 trillion in Treasuries during the height of the financial crisis in March 2009. So why would another flush of cash work?

Regardless, the point is it's much too early to tell if the Fed's plan will help. As officials buy up Treasuries over the next eight months or so, Fortune lists three indicators to watch for signs that it's working:

Rising business investments

It's one of the cheapest times for companies to borrow and invest these days. And yet, while some of the biggest corporations including Microsoft (MSFT) and Wal-Mart (WMT) have taken advantage of the low rates, it appears that the new money isn't translating into new jobs.

It's true business investment has fared better than consumer spending following the Great Recession that started December 2007 and ended June 2009. In particular, since mid-2009, there's been an upswing in companies replacing aging software and equipment. But business investment is still far from the levels seen prior to the latest recession.

Meanwhile, companies aren't exactly borrowing much more, even while interest rates have dropped to record lows, and many of the companies that have locked in low rates are just refinancing existing debt – not exactly borrowing new funds and investing them. The latest to do that was Coca-Cola (KO), which recently sold $4.5 billion of bonds in its biggest offering ever, a portion of which went for a coupon of just 0.77%.

Part of the goal of quantitative easing is to spur investment through lower interest rates. Purchases of new equipment and software, which typically makes up two-thirds of business investment, had been steadily picking up since around mid-2009. It rose to 24.8% during the three months ending in June 2010, but has cooled during the latest quarter to 12% growth amid signs that the economic recovery is slowing.

What's more, it remains to be seen how much of the newly printed money falls in the hands of small business owners. Though lending conditions have eased some and owners seem more concerned about consumer demand than borrowing more funds, new capital is nevertheless an important component for expansion and more hiring.

More home purchases and refinancing

Even before the Fed unleashed a second round of freshly printed money into the economy, U.S. mortgage rates dropped to record lows. Rates are expected to stay relatively low following the Fed's policy action.

It's one of the cheapest times to borrow but it's not as if consumers are flocking to cash in on low interest rates. A frenzy of new home loans and refinancing would surely help reduce the excess stock of residential units on the market, raising prices and helping homeowners recoup some of the equity lost on their properties. And while more refinancing might not immediately provoke the debt-weary consumer to start spending much more, it would certainly help them de-leverage and recover from the old days of too much spending.

In its latest report for the week ending November 11, Freddie Mac (FMCC) reported rates hit its lowest since at least 1971. The rate for a 30-year fixed loan fell to 4.17% from 4.24% the prior week. On average, the 15-year rate declined to 3.57% from 3.63%. Despite record low borrowing costs, the plethora of underwater mortgages, tighter lending standards and general disinterest seem to have kept borrowers from refinancing. At least half of mortgage holders still pay 5% or higher in interest, regardless of whether a fixed or floating rate. What's more, low interest rates have yet to spark a buying spree of homes.

The "wealth effect"

A fall in interest rates generally causes asset prices including stocks to rise. This is good for shareholders. But as Barry Ritholtz points out, the vast majority of Americans' wealth isn't exactly tied to the stock market. Quantitative easing might make the stock market rally but the equity market is overwhelmingly concentrated to the top 1% of Americans who own about 38% of stocks (by value) in the US, Ritholtz writes. He adds that most Americans have less than a 10% stake in the stock market and that the majority of their investments are still tied to their homes.

So will the rise of stock prices ignite a flurry of consumer spending? Ritholtz thinks it's highly unlikely. In the coming months, it remains to be seen if stock prices will influence the consumer psyche, which is still preoccupied by debts, home values and job prospects.

The Fed's Dodgiest Deals

12-2-10

HMMM, in reading this and thinking back to all the fuss that the fed was printing money and how it could not be sustained, it would appear that the government made quite a profit. If they are also playing the currency game, then there are more windfalls on the way! Aivars Lode

By Colin Barr

After Lehman Brothers failed, the Fed pulled out the stops – and took in some junk.

Documents released Wednesday by the Federal Reserve detail how the central bank extended trillions of dollars in credit to global banks during the crisis of 2008-2009 to keep the system afloat.

Knows risky business

Initially the loans were secured by investment-grade bonds and other high-grade collateral. But after the failure of Lehman threatened the global financial system, the Fed changed the rules to accept junk-rated debt as well.

There's no sleight of hand going on here. The Fed publicly announced the changes in September of 2008, saying it made them to create a substitute for the triparty repo financing system that collapsed during the crisis.

But by taking lower-rated bonds, the Fed exposed itself to a greater risk of losses. Those losses didn't ensue, but a default by a borrower using low-rated collateral could have hit the central bank's reputation, which by now has been under attack more or less continuously for three years.

"We took an enormous amount of risk with the people's money," Dallas Fed President Dick Fisher (right) said Wednesday. But "we didn't lose a dime and in fact we made money on every one of them."

Among the main channels the Fed used to support the system was the Primary Dealer Credit Facility, which the central bank created in the spring of 2008 following the implosion of Bear Stearns. The PDCF gave nonbank broker-dealers access to emergency Fed funding in parallel with the discount window used by Fed-supervised commercial banks.

Loans made under the PDCF were secured by collateral and discounted to protect the Fed from risk of loss should it have had to sell collateral in the event of a default. Initially the Fed accepted only investment-grade collateral, but that rule went out the window with the failure of Lehman on Sept. 15, 2008, and the Fed then expanded the eligibility rules to qualify so-called junk-rated bonds.

A look at the data published Wednesday by the Fed shows that the 10 PDCF loans secured by the lowest-rated bonds – those ranked triple-C or lower by S&P – included $21 billion of such low-grade collateral.

While the rating agencies have not exactly distinguished themselves during this crisis, even critics acknowledge that taking bonds with low ratings carries some not inconsiderable risk.

"I don't pay much attention to the rating agencies," said Ken Hackel, an investor and author of a cash flow analysis book. "But the correlation between ratings and defaults is strong."

There were $111 billion of loans in the group, made to three borrowers: Citigroup (C) (five times), Bank of America (BAC) (four times) and Morgan Stanley (MS) (once). The loans were secured by

$119 billion of collateral – meaning the triple-C-rated bonds comprised 18% of the assets backing the loans.

The banks applauded the Fed for standing behind them.

"The programs offered were meant to provide liquidity backstops as well as instill confidence in the market," Citi said. "They achieved these goals. Citi's usage of these programs was appropriate at the time."

"As we have previously disclosed, Morgan Stanley utilized some of the Federal Reserve's emergency lending facilities during a time of immense financial turmoil throughout the banking sector and the broader market," Morgan Stanley said. "Its actions were timely and critical, and we commend the Fed for providing liquidity and stabilizing the financial system during that period.''

And Bank of America? It couldn't say enough for the Fed.

The funding and guarantee programs were an example of a successful government initiative at no taxpayer expense. The programs enabled the U.S. financial system to continue to operate, preventing a recession from becoming much more severe. Bank of America and its peers participated in these programs to various degrees and paid the government for the borrowings and guarantees. The programs helped our customers such as borrowers, auto dealers, depositors and money market fund investors continue to do business as usual despite virtually unprecedented disruptions in the financial markets. We have repaid, with interest, all of the our debt securities issued with the government guaranty as they have matured with the exception of those debt securities whose terms have not matured. All such debt securities mature no later than June 2012, and we fully expect to pay those debt securities as they become due.

Who says the bankers aren't grateful for their taxpayer support?

Update: Treasury Gets $12 Billion Citi Windfall

12-8-10

As you know, I have continually asked "where is America's balance sheet?" and "where does the US government hold the assets they acquired during the crisis?" As the Swiss government made money on the lending to UBS so did the US government on Citi. Yes I know the skeptics will say they are not reporting the losses, and quite possibly. However real assets do not lose all of their value overnight, there is definitely a timing difference in what they are worth based upon what people perceive they are worth at a point in time, and if you can hold until the crisis is finished then some portion of the value is restored! Aivars Lode.

Colin Barr

Taxpayers scored a $12 billion bonus as the government washed its hands of one of its biggest bailouts, Citigroup.

The Treasury Department said Monday afternoon it planned to sell 2.4 billion Citi (C) shares in an underwritten offering. Treasury said later in the evening that the offering was priced at $4.35 a share -- giving the government a $12 billion profit on its $45 billion Citi bailout.

Closing time

The government paid the equivalent of $3.25 a share for its stake in the No. 3 U.S. bank by assets. Counting stock sale proceeds, dividend payments and interest on bailout loans, the government got

$57 billion in compensation for the Citi bailout, Treasury said.

"Selling off the remaining stake ensures that taxpayers will book a healthy profit on their Citigroup investment," said Linus Wilson, an assistant finance professor at the University of Louisiana at Lafayette and a longtime bailout tracker.

The announcement comes at a good time for the government, with policymakers taking their latest bailout beating courtesy of newly released details of the Federal Reserve's crisis lending. Though the bank bailouts have proved far less costly than early estimates suggested, they remain deeply unpopular due to a failure to hold major crisis players -- from bankers to government -- accountable for their missteps.

It also comes just under a year after Citi and the government reached an agreement that cleared the way for Citigroup to repay the massive bailout package the government provided during the darkest days of late 2008 and early 2009. That deal also gave the feds a deadline next week to complete their share sales.

The government gave Citi $45 billion in Troubled Asset Relief Program loans during the crisis. Last December's deal, together with one reached earlier in 2009 to convert much of the government's TARP preferred stock to common shares, left the feds with a staggering 7.7 billion shares of Citi, representing a 27% stake.

This past spring, Treasury started dribbling the shares into the market. The government managed to reduce its stake by about two-thirds without affecting the stock price, Wilson's research showed.

The slower-than-expected pace of those sales leave the feds holding a sizable chunk of Citi shares as the one-year anniversary of last year's deal looms. But Citi shares have actually risen over the past month, in spite of declines in the bank stock index amid concerns about Europe's solvency and the banking industry's legal exposure to what is being called foreclosuregate.

Wilson said the government averaged nearly $4 a share on Citi stock sales through October, and since then the feds have managed to sell an added 900 million shares at a time when the market price has generally been rising.

The government will still hold warrants for Citigroup's common stock that were issued as part of Citigroup's participation in Treasury programs, Treasury said, and the government could get up to $800 million in trust preferred securities unless the Federal Deposit Insurance Corp. loses money backing Citigroup debt under the Temporary Liquidity Guarantee Program.

But broadly speaking, Citi and the feds will be free of one another for the first time since the crisis, which is an arrangement everyone can be happy with.

"I am glad that the U.S. Treasury has taken steps today to keep its promises to Citigroup's investors and managers sell taxpayers' stake by December 14, 2010," Wilson said.

How the Fed Prints Money Without Any Ink

2-24-11

Great explanation, and in support of what I have been commenting on for a while, the fed did not go out and print money. Aivars Lode

By James Hamilton

If the Federal Reserve's quantitative easing program is printing money, why is the growth of new currency in circulation below average?

I wanted to offer some clarification on stories about all the money that the Federal Reserve is supposedly printing. It depends, I guess, on your definition of "money." And your definition of "printing."

When people talk about "printing money," your first thought might be that they're referring to green pieces of paper with pictures of dead presidents on them. The graph below plots the growth rate for currency in circulation over the last decade. I've calculated the growth rate over 2-year rather than 1-year intervals to smooth a little the impact of the abrupt downturn in money growth in 2008. Another reason to use 2-year rates is that when we're thinking about money growth rates as a potential inflation indicator, both economic theory and the empirical evidence suggest that it's better to average growth rates over longer intervals.

Currency in circulation has increased by 5.2% per year over the last two years, a bit below the average for the last decade. If you took a very simple-minded monetarist view of inflation (inflation = money growth minus real output growth), and expected (as many observers do) better than 3% real GDP growth for the next two years, you'd conclude that recent money growth rates are consistent with extremely low rates of inflation.
Currency

Two year growth rate (quoted at annual percentage rate) of currency in circulation. Data source: FRED.

But if the Fed didn't print any money as part of QE2 and earlier asset purchases, how did it pay for the stuff it bought? The answer is that the Fed simply credited the accounts that banks that are members of the Federal Reserve System hold with the Fed. These electronic credits, or reserve balances, are what has exploded since 2008. The blue area in the graph below is the total currency in circulation, whose growth we have just seen has been pretty modest. The maroon area represents reserves.
reserves

Currency in circulation (blue) and reserve balances with Federal Reserve Banks (maroon), in billions of dollars.

Are reserves the same thing as money? An individual bank is entitled to convert those accounts into currency whenever it likes. Reserves are also used to effect transfers between banks. For example, if a check written by a customer of Bank A is deposited in the account of a customer in Bank B, the check is often cleared by debiting Bank A's account with the Fed and crediting Bank B's account. During the day, ownership of the reserves is passing back and forth between banks as a result of a number of different kinds of interbank transactions.

To understand how the receipt of new reserves influences a bank's behavior, the place to start is to ask whether the bank is willing to hold the reserves overnight. Prior to 2008, a bank could earn no interest on reserves, and could get some extra revenue by investing any excess reserves, for example, by lending the reserves overnight to another bank on the federal funds market. In that system, most banks would be actively monitoring reserve inflows and outflows in order to maximize profits. The overall level of excess reserves at the end of each day was pretty small (a tiny sliver in the above diagram), since nobody wanted to be stuck with idle reserves at the end of the day. When the Fed created new reserves in that system, the result was a series of new interbank transactions that eventually ended in the reserves being withdrawn as currency.

All that changed dramatically in the fall of 2008, because (1) the Fed started paying interest on excess reserves, and (2) banks earned practically no interest on safe overnight loans. In the current system, new reserves that the Fed creates just sit there on banks' accounts with the Fed. None of these banks have the slightest desire to make cash withdrawals from these accounts, and the Fed has no intention whatever of trying to print the dollar bills associated with these huge balances in deposits with the Fed.

Of course, the situation is not going to stay this way indefinitely. As business conditions pick up, the Fed is going to have to do two things. First, the Fed will have to sell off some of the assets it has acquired with those reserves. The purchaser of the asset will pay the Fed by sending instructions to debit its account with the Fed, causing the reserves to disappear with the same kind of keystroke that brought them into existence in the first place. Second, the Fed will have to raise the interest rate it pays on reserves to give banks an incentive to hold funds on account with the Fed overnight.

Doing this obviously involves some potentially tricky details. The Fed will have to begin this contraction at a time when the unemployment rate is still very high. And the volumes involved and lack of experience with this situation suggest great caution is called for in timing and operational details. Sober observers can and do worry about how well the Fed will be able to pull this off.

But that worry is very different from the popular impression by some that hyperinflation is just around the corner as a necessary consequence of all the money that the Fed has supposedly printed.

James D. Hamilton is Professor of Economics at the University of California, San Diego.

The Aussie Dollar is Running Out of Rocket Fuel.

6-7-11

Before every crash, the press points out that it has hit a high and then there's a thud when the price falls. Aivars Lode

By Alex Frangos

The Aussie dollar is running out of rocket fuel.
The remarkable rise of the Australian currency in the past year, pushing it up 32% against the U.S. dollar, had solid fundamentals. Australia's aggressive central bank kept interest rates on the upswing, attracting yield-starved investors from around the world. The commodity-hungry economies of China and India have been gobbling up Australian coal, iron ore and natural gas, sparking a capital expenditure boom and lots of jobs for Australians. Add a generally feeble greenback and rising commodity prices, and an Aussie dollar piercing all-time highs made sense.
Yet those factors are falling away, leaving the Aussie dollar like cartoon character Wile E. Coyote, legs still churning, as it hangs temporarily suspended over a nasty drop. Growth in both China and India is moderating, and could be forced to slow seriously if inflation can't be tamed. Commodity prices seem to have peaked for now. Oil is down nearly 13% since its early May high, and coal and iron ore are off their tops. But the Australian dollar is only 3% lower than its post 1983-float high, achieved April 29. The Reserve Bank held pat on rates Tuesday and signaled it is less concerned about medium-term inflation risks. With interest rates already biting into home prices and consumer credit, some think the Reserve Bank is done with its tightening.
There are counterarguments. Bulls say demand from central banks diversifying reserves puts a floor under the Australian dollar. But central banks move slowly, and diversification into the Australian dollar likely hasn't happened quickly enough over the past 12 months to make a serious difference. It was exactly a year ago, during Act I of the Greek debt drama, that the Australian dollar fell more than 10% in 10 days, hitting $0.81 on June 7, 2010.
The other pro-Aussie story is that if China really begins to slow, Communist Party leaders will turn on the infrastructure taps once again. That might be true, but it will be tough to repeat anything like

the scale of stimulus enacted during the financial crisis. In the interim, currencies linked to Chinese demand, especially the Aussie, are at risk of a correction. Other currencies to watch out for include the Malaysian ringgit, Indonesian rupiah and Korean won, all at elevated levels themselves.
Credit Suisse says the Aussie is 7% overvalued against the greenback, according to its currency models, which take into account two factors that often drive the Australian dollar's level, commodity prices and interest rates. But if the China support cracks, it is likely to fall a lot further than that.

As Greece Goes, So Goes Italy?

6-29-11

A few years ago in this blog I claimed that I didn't understand why the Euro was stronger than the USD. This was in response to an article that suggested that Europe was more efficient and did not have the debts that the USA did. At the time, I said that this did not make sense based upon my experiences and now articles like the one below support that view. Aivars Lode

By Cyrus Sanati

A panic of sorts is sweeping through European trading desks concerning all things Italian. A sovereign default in the world's third-largest public debt market would be catastrophic.

FORTUNE -- With the Greek crisis coming to a head this week, traders in Europe have started to worry about the fiscal health of other eurozone members. Now the worry has moved up the scale to one of the core eurozone members: Italy.

A sovereign default in the world's third-largest public debt market would be catastrophic. While such a default doesn't appear imminent, there is growing fear on European trading desks that a default may occur sometime down the road -- set off primarily by troubles in the nation's banking sector. Traders are scrambling to hedge their exposure to the country and its banks just in case the unthinkable happens sooner rather than later. This panic could spread to other core eurozone members if the Italians fail to make a serious effort to rein in spending.

There's a panic of sorts sweeping through European trading desks concerning all things Italian. Moody's has said that it may downgrade the country's debt due to macroeconomic structural weaknesses and the economic turmoil in neighboring countries. And last Thursday the ratings agency said that it might downgrade 13 Italian banks if the nation's sovereign rating was cut.

The market initially ignored the Moody's report, but by midday on Friday traders started to "de-risk" their portfolios en masse. There was a mad dash to buy up protection against Italian debt using credit default swaps. Other traders then started to dump their Italian bank stocks and head for the hills. UniCredit and Intesa SanPaulo, the two largest banks in Italy, saw their stocks fall 10% in the panic, setting off circuit breakers, suspending trading. They later settled the day down 5.5% and 4.3%, respectively, once trading resumed. Meanwhile, the spread between Italian and German 10-year bonds widened to 212 basis points, its highest level since the creation of the euro.

The Italian banks have troubles, but they seem to be acting as a proxy for the general health of Italy's sovereign debt. After all, they hold more than 150 billion euros of the stuff. On Monday, calm seemed to have set in with some of the Italian banks up slightly from Friday's close. But Friday's panic has clearly shaken the market's confidence in Italy.

"Most Dutch and European banks are worried and are not accepting Italian [debt] as collateral and reducing overall exposure in anything southern European," a trader at a major Dutch financial firm tells Fortune. "Even the Dutch pension funds are avoiding it."

Italy was forced to pay a much higher interest rate to investors when it came to the market to sell new debt on Monday. The Italian treasury sold 8 billion euros in six-month bonds at a yield of 1.988%, which is up sharply from the 1.657% paid during the last sale of government debt. Yields on bonds maturing in 2013 were issued at 3.219%, up from 2.851%.

Roots of the crisis

Italy's main economic problem doesn't stem from a large fiscal deficit, as is the case with the other troubled eurozone members. What worries economists and traders is the nation's very high debt-to-GDP ratio emanating from structural inefficiencies in its economy. This has led to decades of declining productivity and poor growth.

Italy's current debt load is around 1.8 trillion euros, making it the fourth-highest public debtor in the world. Having debt is not a bad thing; it just becomes a problem when the amount of debt on the books exceeds productivity. The nation's debt to GDP ratio stands at an alarming 120%, the second-highest in Europe after Greece at 140%. To put that into perspective, Italy's ratio is double that of Spain.

Overspending is of course a problem, but the ratio has popped up recently due to anemic economic growth in the country. Italy's real GDP shrank by 1.3% in 2008 and a whopping 5.2% in 2009. To make matters worse, the unemployment rate has increased by more than two percentage points since the beginning of the financial crisis and stands at around 8.3%, with youth unemployment at around 29%.

Italy has a number of problems it needs to deal with to get its house in order. It needs to cut waste, grow its economy and due a much better job of collecting taxes (the Italian government estimates that tax evasion will cost the nation 120 billion euros in 2011). A strong euro is hurting the country's exports, which accounts for around 30% of Italy's GDP, a very large number.

The Italians are moving to cut spending. The government is targeting a budget deficit of 3.9% this year, down from the 4.6% last year. This week, Prime Minister Silvio Berlusconi plans on holding a vote on austerity measures meant to wipe out the budget deficit by 2014. The 43 billion euros in cuts that have been proposed are deep, with most of the pain pushed down the road. It is widely believed that Berlusconi will be successful in getting the austerity measures through the Italian Parliament, but there has been some grumbling from members in his coalition government who believe that the proposed cuts go too far.

Cutting spending, though, is just one part of the equation. Italy needs to revamp its economy to put it on a strong growth path. This is where it gets tricky. The Italian economy isn't really cutting edge – how many Italian tech firms can you name? It moves manufacturing and tourism, both hurt by the strong euro, and has an aging population who demand higher wages.

To get its house in order, the analysts at Barclays (BCS) believe that the government should increase the retirement age, simplify the tax system and adopt clear budgeting ceilings. They also believe the government should take further measures to enhance labor market participation and should reduce public ownership of some the nation's largest corporations. The analysts believe that this should encourage foreign direct investment inflows in to the country to help dig it out of its debt hole.

But such structural reforms will be hard to accomplish as it becomes increasingly more expensive to service new debt. Every percentage point increase in borrowing costs makes it that much harder to get the nation's fiscal house in order. For now, the interest rate demanded on Italian government debt is manageable. But if Berlusconi doesn't move fast to address the structural problems in Italy's economy, the rate could skyrocket up, handicapping Italy's chances in avoiding a devastating default.

Europe Didn't Dodge Judgment Day

7-2-11

As commented on a couple of years ago on this blog, there was no good reason for why the Euro was higher! Aivars Lode

By Katie Benner

Why Greece's bailout may not prevent a Continental credit crisis and another global economic slowdown.

The Greek Parliament approved a tough austerity plan so that the country could get money from the European Union and the International Monetary Fund, including the rest of the bailout hammered out last year and a second aid package. Europe's officials have now spent nearly $270 billion to keep Greece going, signaling that they will spend whatever it takes to keep an insolvent country from declaring the equivalent of bankruptcy. German and French banks, Greece's largest lenders, are also pitching in with complex plans that push off the day when debts come due.

The hope is that these strong messages of support will calm markets, stave off a fiscal collapse that could destroy the European Union, and let the Continent's highly levered countries refinance their problems away when market pricing is more forgiving.

Unfortunately, that's not how the marketplace works. As a hedge fund manager who has been studying sovereign debt told me, 1) you don't need an actual maturity default for yields to run so high that they force a restructuring; and 2) the market always forces a restructuring. Brian Whitmer, an analyst with Elliott Wave, agrees. "There is a light bulb moment when everyone wakes up and says that a crisis is just too big to manage," says Whitmer. First officials first say it can't happen. Then they say it will be contained. And then a loss of confidence comes out of nowhere and politicians say that no one could have predicted it would occur overnight or with such severity. Looking past Greece's most recent Band-Aid, some economists and investors think it's time to accept that in the next few years we'll witness Europe's sovereign credit collapse and be thrown into another global recession.

Just think back to 2008, when our officials failed to stave off a come-to-Jesus-moment on Wall Street. First, the Federal Reserve put up about $30 billion to keep Bear Stearns from outright failure and pushed it into the arms of JPMorgan. The move was supposed to prevent a "chaotic unwinding" of Wall Street, Federal Reserve chairman Ben Bernanke told Congress that spring. Once the Bear situation was in hand, the thinking went, pressure would ease on other over-levered financial players that could face similar liquidity problems if markets stopped providing them short-term money. "I hope this is a rare event, I hope this is something we never have to do again," Bernanke testified.

But bondholders next fled Fannie Mae and Freddie Mac, forcing then-Treasury Secretary Hank Paulson to declare that the government would back the mortgage companies. Sheriff Paulson called the guarantee his bazooka, and thought that investors would calm down once they knew he was packing so much heat. But Fannie and Freddie stocks and bonds continued to fall throughout the summer, and the government was forced to take over the companies and provide $200 billion in immediate financial support.

Shortly thereafter, financial institutions hit the skids in rapid succession. No one wanted to lend to the likes of GE Capital, Lehman Brothers, AIG [NYSE: AIG], or Merrill Lynch; and the government needed to throw money at these companies, broker rescues, and in the case of Lehman, deal with the fallout from a very messy bankruptcy.

Bazookas and the risk of a systemwide castastrophe didn't really matter to the players who were able to keep the liquidity spigots open. Lenders stopped lending almost all at once when they decided that the risks were too high. After all, no one wants to be the last guy giving out money after everyone else has fled.

So now let's look at Europe. The market knows that Greece, Ireland, Italy, and Portugal have more debt than they can pay. Last year's Greek bailout didn't solve the problem and now it's back with a vengeance. Debt spreads in Portugal and Ireland are near all-time highs, and Michael Darda, chief economist at MKM Partners, thinks these countries will need a second bailout, too.

"The market is saying, get together and impair the stock and bondholders and come up with a restructuring that makes sense," says Bill Laggner, a co-founder of the hedge fund Bearing Asset Management. "But the pain would be so extreme, mainly for the bankers, that they don't want to do it and the political class doesn't want to make them do it."

Protesters in Greece are showing us that austerity plans work better on paper that in real life. Citizens aren't embracing the idea of cutting their personal income and net worth so that it can be funneled directly to financial players who loaned to Greece.

And when those bondholders -- European banks, American money market funds, and credit default swap counterparties around the world -- are finally forced by the market to admit that they've lost money on their investments, what happens next? If politics cloud decision making, financial institutions try to hide losses, and no one is sure how financially dented their counterparties are, "it could create a panic, contagion, total systemic fear, and things start to unravel," says Laggner. That's a formula for another global credit freeze.

"Then do we take the pain, or do we go with the nuclear option of increasing the balance sheets of the ECB and the Fed," Laggner asks. Whether the world's banks, insurance companies, and investors come clean with big losses, or central bankers try to print enough money to try to fill the hole, you get slow growth (Great Recession part II anyone?) and possibly flirt with the possibility of global hyper inflation. "You go into a very dark place," says Laggner.

Whitmer has been predicting a double dip recession, with the next phase of the bear market "to be stronger than the last." This is how he sees Europe playing out. Government officials will continue to transfer liabilities onto tax payers from those investors who took the risk willingly. There will be more civil unrest. Sovereign debt problems will spread into the core of Europe -- France, Germany, and Britian -- and then to the US. He expects an actual slowdown to come to pass between 2014 and 2016.

It's hard to not sound like Harold Camping when predicting a meltdown, but it's harder still to see how Europe does not hit the wall.

Those Safe Havens You've Been Flocking to Aren't So Safe

8-28-11

When you see significant appreciation in alternatives it is not necessarily because there is a shortage but because there is artificial excess demand. Aivars Lode

Canadian Dollar Forecast

It's time for a flight from safety.
The recent market maelstrom has sent investors fleeing to traditional safe havens such as Treasury bonds, recession-resistant stocks, Swiss francs and gold.
But that has only made these assets riskier, exposing investors to the possibility of a tumble. Gold, for

example, shed a quick $200 an ounce this past week before rebounding.
For investors whose "safety" now poses danger, here are some unloved assets to consider instead.
In the fixed-income world, corporate bonds look better than Treasurys. Five-year Treasurys yield less than 1%. With inflation running at 3.6%, yields aren't keeping up with consumer prices. By contrast, the Barclays Capital U.S. Aggregate Bond Index, a benchmark for investment-grade bonds, yields about 3.7%—enough to keep up with inflation and a much better deal than Treasurys.
Switzerland, where the economy depends heavily on exports, has a big problem: The rising franc is making it more difficult for Swiss firms to compete abroad, which could weaken its economy over time.
Even "junk" bonds, which have been pounded lately, could be attractive. The Merrill Lynch High Yield Index has a yield of 8.6%, which suggests investors anticipate a 7% default rate, says James Swanson, chief investment strategist for MFS Investment Management.
That isn't unthinkable. Defaults topped 9% in 2009. But the rate was barely 2% in June. And publicly traded nonfinancial companies have 12% of their assets in cash, the most since 1954, says Mr. Swanson.
Investors who wish to add corporate bond exposure can use exchange-traded funds like the iShares Barclays Aggregate Bond Fund. For experienced bond buyers who don't mind risk, the sweet spot of the market might be debt rated double-B. Spreads between double-B bonds and high-grade corporates are 2.5 times normal levels, Mr. Swanson says.
In stocks, consumer staples seem expensive. The Standard & Poor's 500 Food Products Index is up 3% this year, while the broader S&P 500-stock index is down 7%. Kraft and General Mills sell for 15 and 14 times forecast earnings, respectively, at a time when more than 100 of the 500 companies in the index have price/earnings ratios in the single digits.
Military stocks, in particular, have suffered. Raytheon, General Dynamics and Northrop Grumman trade at eight times earnings with an average dividend yield of 3.8%, better than the S&P 500 yield of 2.3%.
Such stocks are cheap largely because investors fear defense cuts. But cuts are unlikely to be sudden, says Jefferies & Co. analyst Howard Rubel, and share prices reflect a worst-case outcome. All three companies are expected to boost earnings in coming quarters and keep making their dividend payments.
The Swiss franc is another potential trouble spot. It has gained around 20% against the dollar this year, thanks to Switzerland's budget surplus and lack of membership in the troubled European Union.
But Switzerland, where the economy depends heavily on exports, has a big problem: The rising franc is making it more difficult for Swiss firms to compete abroad, which could weaken its economy over time.
"Purchasing power parity" is a measure that uses local costs for a set basket of goods to show which currencies are expensive or cheap relative to others. It suggests the Swiss franc is among the world's priciest currencies. The Swiss government is worried enough that it has tried to weaken the currency in international markets. It has had little success so far, but that could change.
Expensive assets like the Swiss franc might not be as safe as investors hope. Instead of pulling money out of U.S. dollar savings to buy francs, they might be better off sticking with dollars. Not only is the dollar cheaper than the Swiss franc on a PPP basis—it is also cheaper than the euro, yen, British pound and Australian and Canadian dollars.
What about gold? It is up more than sevenfold in a decade. But while many investors believe gold is a classic inflation hedge, its track record suggests otherwise. Gold's three-decade correlation with the U.S. inflation rate is just 0.08, according to a 2010 study by researcher Ibbotson Associates. (A correlation of 1.0 means two assets move in lockstep.)
Some investors buy gold to own a tangible asset. Another route: rental properties, which can pull in yearly income that rivals junk bonds. Mortgage lending is tight, but interest rates are at historic lows. Another potential boost: the White House is considering a program to bundle distressed properties and sell them to income investors.
Many investors are buying gold simply because it seems safe in a crazy world. But when America last snapped out of a long, frightening economic funk three decades ago, the metal lost half its value in two years.

Investors Staged a Global Flight From Risk

9-22-11

And did you notice where the money went? USD. What happened to the Chinese RMB or the Russian Ruble as a safe haven? As some of you will know from previous posts, I have commented on where the safe haven is and why. Aivars Lode

By Brendan Conway

NEW YORK—Investors staged a global flight from risk Thursday that sent U.S. stocks plummeting and 10-year Treasury yields to 1940s levels, after a gloomy outlook by the Federal Reserve renewed fears of a global economic slowdown.

Investors staged a global flight from risk Thursday that sent stocks plummeting and 10-year Treasury yields to 1940s levels renewed fears of a global economic slowdown. Paul Vigna, Dave Callaway and Bob O'Brien discuss on The News Hub.
The Dow Jones Industrial Average closed down 391.01 points, or 3.5%, to 10733.83, as investors barreled out of stocks and into "safe" assets like the U.S. dollar, which surged. The blue-chip measure fell more than 500 points in afternoon action, averting its lowest close in a year with a late-session lift. The action built on the stock market's Wednesday selloff, when the Fed acknowledged "significant" downside risks to the economy and noted "strains" in global financial markets, a reference to debt-strapped Europe.
A weak reading on manufacturing in China contributed to the slowdown fears. Adding to the grim mood was a lack of appreciable progress in containing Europe's debt crisis, which has weighed on markets for months.

The Standard & Poor's 500-stock index shed 37.20 points, or 3.2%, to 1129.56, after touching its lowest intraday level since early August. The technology-oriented Nasdaq Composite slumped 82.52 points, or 3.2%, to 2455.67.

Markets Drop Around the World

A trader reacted in front of her screen at a bank in Paris, Thursday.
An investor reacts in front of an electronic board showing stock information at a brokerage house in Huaibei, Anhui province Sept. 22.
Among NYSE-listed issues, decliners outnumbered gainers by just over 7 to 1, while the Nasdaq losers outpaced rising issues by about 6 to 1.
All blue-chip stocks finished in the red, as did all S&P 500 sectors. Materials and energy stocks were hit hardest, falling as investors acted on their economic slowdown worries and in reaction to the fast rise of the U.S. dollar.
"They're selling literally everything," said Alan Valdes, director of floor trading at DME Securities at the New York Stock Exchange. "It's the realization that things aren't getting better that has traders concerned. They're selling gold, they're selling copper, they're selling everything."
European stocks closed sharply lower. The Stoxx Europe 600 shed 4.6% to hit the lowest level in more than two years in intraday trading. Asian bourses also dropped sharply, with China's Shanghai Composite losing 2.8% on news that manufacturing activity in China contracted in September. Hong Kong's Hang Seng index slid 4.9%.
"A lot of people who had very significant investment positions based on a scenario of dollar weakness changed those position pretty violently," said Douglas Cliggott, chief U.S. equity strategist at Credit Suisse. "I think the bottom line of the Fed's decision was, 'No, we're not going to be growing our balance sheet for the foreseeable future.' It leaves the U.S. as the odd man out in this effort to, in

effect, grow central bank balance sheets and weaken currencies."
The first improvement in U.S. jobless claims data in three weeks did little to change the negative tone of trading. New claims for unemployment benefits last week dropped by 9,000 to a seasonally adjusted 423,000, according to the Labor Department. The level remains too high to suggest much improvement in the stubbornly weak U.S. jobs market. In addition, the previous week's figure was revised to reflect more jobless claims.
Investors also shrugged off other modestly positive economic data Thursday morning. The Conference Board's index of leading economic indicators increased for the fourth consecutive month in August and government data showed that U.S. home prices increased in July for the fourth straight month.
In the backdrop was a flareup in U.S. debt worries, the result of the surprise failure of a bill to fund the U.S. government through mid-November. Conservative Republicans and most Democrats teamed up for the largest defeat inflicted on the Republican House majority this year. The episode was a reminder of market gyrations this summer, when Washington was caught in an impasse of raising the limit on federal borrowing.
In corporate news, shares of Goodrich gained 10% after the aircraft-components maker agreed to be acquired by blue-chip conglomerate United Technologies for $16.4 billion in cash. United Technologies fell 8.8%.
FedEx slipped 8.2% after the package-delivery service reported fiscal first-quarter results that were higher than expected, but said it slightly reduced its earnings outlook as it looked to adjust its cost structure to match lower demand.
Traders at the New York Stock Exchange.
Red Hat gained 3%. The software company reported better-than-expected fiscal second-quarter results.
CarMax lost 11%. The used-car dealership chain's results missed estimates for the first time in about two and a half years amid a decline in customer traffic and same-store sales, which it attributed to the recent economic slowdown and weakness in consumer confidence.

Russians in London: Super-rich in Court

10-9-11

Entertaining reading for sure; however as I have commented previously, what currency in the world would you want to hold? Certainly not Russian rubles! Aivars Lode

By Neil Buckley

Courtroom battle risks heightening investor concern about Russia

Boris Berezovsky a maths professor turned car dealer turned oil baron, leaves court in London. He is seeking damages from his former business partner, Roman Abramovich
It is a tale of wealth and alleged betrayal, of protection money and political intrigues, of attempted assassinations and Chechen gangsters. It features fabulously rich oligarchs, former Russian presidents Boris Yeltsin and Vladimir Putin, and members of their innermost courts. The action shifts from Caribbean cruises to Siberian oilfields, from the Kremlin to London hotel suites to Côte d'Azur mansions.
This is the $6.5bn case of Boris Abramovich Berezovsky v Roman Arkadievich Abramovich, which began this week – and London's High Court has seen nothing quite like it. As Dame Elizabeth Gloster, the judge, surveyed the crush of big-name barristers, bodyguards in boxy suits and earpieces, and reporters standing three rows deep, she declared there was "not a courtroom in the land that could accommodate you all".

Mr Berezovsky is a one-time kingpin of the oligarchs, the entrepreneurs who amassed wealth and political dominance in 1990s Russia. In 1996, he boasted to the Financial Times that he and six other businessmen controlled half his country's economy. Today he lives in political exile in the UK, an avowed enemy of the Kremlin.

Mr Abramovich also spends time in London, as owner of Chelsea Football Club, but is still one of Russia's richest men, valued by Forbes at $13.4bn. The former business partners are both said to have been instrumental in helping Mr Putin become president in 2000. One refused to submit to Mr Putin's subsequent edict that the Kremlin, not the oligarchs, would now rule the roost; the other complied.

The nub of the case is whether or not Mr Abramovich then intimidated Mr Berezovsky – with apparent Kremlin backing – into selling a stake in Sibneft, an oil giant, at a knock-down price. Mr Berezovsky seeks in excess of $5bn damages for the stake, plus $565m for the alleged sale without his permission of shares in aluminium company Rusal that he claims Mr Abramovich held on his behalf.

Yet the trial also shines a spotlight on the murky workings of Russia's "wild east" capitalism in the 1990s. It is not just a tussle between tycoons. The hearings are, in essence, on Russia's whole post-Communist system, and the shady intertwining of politics and business in the absence of law.

"It isn't easy for an English lawyer on either side of the court to assess the behaviour of people who have to live in such a world," Jonathan Sumption QC, Mr Abramovich's lawyer, told the court. "In our own national experience we have to go back to the 15th century to find anything remotely comparable." To comprehend it, he advised, "read Shakespeare".

While it deals with a particular period in Russia's history, moreover, the case risks reinforcing negative views of today's business climate – just as Mr Putin is stepping up efforts to reassure investors ahead of a return to the presidency next year. Mr Berezovsky claimed this week that the country is far more corrupt than 15 years ago.

The case illustrates, too, how Russia's super-rich, and their feuds, have become woven into London life. And how, with the country still failing to impose the rule of law for itself, English courts are filling the vacuum. Berezovsky v Abramovich is the tip of an iceberg. By some estimates, more than half of cases in the High Court's commercial division are related to Russia or other former Soviet republics.

"There probably isn't a single major law firm in London with a disputes practice that isn't involved with Russian cases right now," says Artem Doudko of White & Case.

The trial – among the first heard in the new commercial court headquarters in the City of London, all blonde wood, flatscreen computers and diffused lighting – opens a window on to Russia's 1995 "loans for shares" scheme. Under the programme, businesspeople lent the government money in return for the right to buy state assets at knock-down prices. These less than transparent auctions enabled a handful of early millionaires to become billionaires. They then used their wealth and media possessions to ensure Yeltsin, lagging in the polls, was re-elected in 1996 – providing a dangerous lesson in how elections could be swung.

Mr Berezovsky, now 65, played a leading role. He was a maths professor who had created Russia's biggest car dealership. After surviving a 1994 car bomb that decapitated his driver, he did some thinking. "I decided that if I personally ... will not participate in politics, it would be very complicated to build any business at all in Russia," he told the court in guttural English this week. The country needed political stability, he said, which meant Yeltsin had to defeat communist candidate Gennady Zyuganov.

A gifted networker who had befriended Yeltsin's daughter and future son-in-law, Mr Berezovsky said he persuaded the president to let him and his partners buy 49 per cent of state broadcaster ORT, planning to use it to provide political support. But ORT was making big losses and needed new funding. Around that time, on a Caribbean yacht, Mr Berezovsky met a businessman 21 years his junior with an intriguing proposal.

Mr Abramovich was an orphan raised in an oil town in Russia's far north. In 1988 he had started a business making plastic ducks, then turned to oil trading. Using his industry knowledge, he outlined a plan to Mr Berezovsky to carve out two prime assets from Rosneft, the state oil holding, in order to create a potentially profitable business – Sibneft. Mr Berezovsky spotted an opportunity to use Sibneft money to fund ORT.

He used his contacts to ensure Sibneft was included in the loans-for-shares auctions, and worked with Mr Abramovich to take control.

On this much the two men agree. Then accounts diverge. Mr Berezovsky says he and a Georgian business partner, Badri Patarkatsishvili, bought the Sibneft stake 50-50 with Mr Abramovich. But in 2000, he fell foul of Mr Putin after his television channel criticised the president, and fled Russia. Laurence Rabinowitz QC, Mr Berezovsky's lawyer, said Mr Abramovich faced a choice: remain loyal to his "friend and mentor" or "betray Mr Berezovsky and seek to profit from his difficulties". He told the court: "Mr Abramovich at that point demonstrated that he was a man to whom wealth and influence mattered more than friendship and loyalty."

Mr Berezovsky's camp alleges that Mr Abramovich at a 2001 meeting bullied him into selling his 21.5 per cent Sibneft stake for $1.3bn, far below its true value, warning that the Kremlin would otherwise expropriate it. Four years on, Mr Abramovich sold 73 per cent of Sibneft to Gazprom for $13bn.

Mr Abramovich, studiously following proceedings in translation with headphones, denies any such intimidation. According to him, Mr Berezovsky never even held a Sibneft stake. He says payments totalling $2bn that he made to Mr Berezovsky in 1995-2002 were not shares of Sibneft's profits but fees for his partner's services in pulling strings and introducing him to Kremlin courtiers. These enabled Mr Abramovich, alone, to take control of Sibneft; Mr Berezovsky contributed "not a cent".

"Nobody could acquire or build up a substantial business in Russia in the 1990s without access to political power," said Mr Sumption. "If you did not have political power yourself, then you needed access to a godfather who did." These payments, the lawyer added, were what Russians called a *krysha*, or "roof" – a term used in the 1990s to refer to "protection".

Mr Berezovsky says he and Patarkatsishvili were entitled to their Sibneft stake through a verbal agreement with Mr Abramovich. This would not have been unusual. Oligarchs did not like to disclose direct ownership for fear assets could be taken from them. Mikhail Khodorkovsky, the Yukos oil company founder, was the first to disclose all his assets – a couple of years before he, too, fell out with Mr Putin, and was jailed on fraud charges.

One complication of the case is that much depends on conflicting accounts of meetings and alleged oral contracts, up to 16 years ago, of which no record exists. Some crucial witnesses, more-over, are no longer around. Patarkatsishvili died in 2008 of a heart attack at his English mansion. Stephen Curtis, a British lawyer who worked for tycoons including Mr Berezovsky and Mr Khodorkovsky on setting up the complex trusts through which they held assets abroad, died in a helicopter crash shortly after the Yukos chief's arrest.

Yet much hinges on the outcome. Mr Berezovsky would doubtless see a ruling in his favour, even with a fraction of the damages he seeks, as revenge against Mr Putin. It could give him a powerful war chest to fund his political opposition.

Mr Abramovich, for his part, stands to lose almost half his estimated worth if the judgment goes against him. Either way, revelations in London could complicate oligarchs' efforts to draw a line under discussion of how acquired their assets and to reinvent themselves as businessmen-philanthropists.

One place the trial is not big news, however, is on Russia's four main television channels, kept on a tight leash by the Kremlin. "We are not allowed to cover it," said an employee of one, present in the courtroom for "personal interest".

"They don't like all the money and the yachts," he said. "And Berezovsky is the last person we can show."

Greek Referendum Plan Stuns Europe

11-1-11

Ok, why is everyone stunned? Detailed in 'This Time its Different, Eight Centuries of Financial Folly' by Reinhart and Rogoff, the Greeks were serially in default of their sovereign debt from the beginning of the 1800's to the mid 1900's. I also detailed in my book This Time It is Different NOT, 2 years ago that it was difficult to justify the Euro being stronger than the USD, as the Europeans were not more efficient and that we did not know if they had more or less debt that the States. Aivars Lode

By William Boston, Neomie Bisserbe and Costas Paris

LONDON -- Greek Prime Minister George Papandreou's decision to call a referendum on a freshly minted bailout package has shock waves across European governments and markets, sparking warnings that the move could push the country into a disorderly default and destabilize the entire euro zone.

The move also opened a rift within the ruling Socialist party, with one lawmaker resigning from the party in disagreement with the referendum and another one calling for early elections.

Mr. Papandreou announced late Monday a surprise referendum on Greece's bailout program, a move that could shore up support for his policies but risks undermining efforts to rescue the debt-laden country and stabilize the region.

Mr. Papandreou's decision was announced just days after European leaders in Brussels agreed on a set of measures to reduce Greece's debt burden and beef-up the firepower of the European Financial Stability Facility, a rescue fund, to make sure the continent can prop up other troubled nations in the currency area. If the Greek government survives a confidence vote expected Friday, the referendum on the aid deal is expected to take place in January.

Fears that the euro-zone plan could unravel if the bailout program is rejected at a Greek referendum rattled financial markets with stocks and the euro plunging, and 10-year Italian bond yields rising perilously close to their highest levels since the euro's inception.

Meanwhile, Greece's euro-zone partners were slow to respond, appearing unprepared and stunned by the developments.

French President Nicolas Sarkozy called an unscheduled meeting with key government ministers and the central bank governor for late Tuesday to discuss the potential fallout. Mr. Sarkozy has convened Prime Minister François Fillon, Bank of France Governor Christian Noyer, Finance Minister François Baroin, Budget Minister Valérie Pecresse and Foreign Minister Alain Juppé, a spokesman for Mr. Sarkozy said.

Mr. Sarkozy is set to discuss the situation by telephone with German Chancellor Angela Merkel, a spokesman said earlier.

Germany was groping for a credible a response as the government didn't appear to have been given much, if any, advance warning of Greece's plans. Rainer Brüderle, a senior member of the junior partner Free Democrats in Ms. Merkel's center-right coalition, called the Greek move "a little strange".

The finance ministry sought to play down the latest act in the Greek drama, calling it a local issue in the world of Greek politics, but Berlin seemed to have little insight into what was happening in Athens.

"The announcement of a possible referendum in Greece is a domestic development in Greece over which the German government until now has no official information and for that reason will not issue any comment," the German finance ministry said in a statement.

It said European leaders formulated clear expectations of Greece and other euro-zone members at last week's summit in Brussels.

"Based on this, the second aid package for Greece should be completed by the end of the year," the ministry said. "We are all working on this with great intensity."

European Commission president José Manuel Barroso and European Council president Herman Van Rompuy said they "took note" of the Greek prime minister's intention to hold a referendum. Messrs. Barroso and Van Rompuy said in a statement they had spoken to Mr. Papandreou on the telephone.

The decision by Mr. Papandreou fanned concerns among some investors that Greece could leave the euro zone.

Fitch Ratings Tuesday said a public referendum in Greece could push the highly-indebted country into a disorderly default or even an exit from the euro, putting the financial stability of the whole euro zone at risk.

A rejection of the EU and International Monetary Fund program "negotiated by the Greek government would increase the risk of a forced and disorderly sovereign default and—whilst not Fitch's central rating case—potentially a Greek exit from the euro," Fitch said.

Both scenarios would have severe financial implications for the financial stability and viability of the euro zone, it added.

Italian Prime Minister Silvio Berlusconi said he had "no doubt" that Greece's surprise decision was disturbing capital markets.
The Greek decision "was unexpected and triggers uncertainty after the recent European Council meeting and on the eve of the G-20 summit in Cannes," Mr. Berlusconi said in a statement. The Group of 20 industrial and developing nations meets in Cannes this Thursday and Friday.
Italy remained firmly in the market's firing line as concerns it could suffer a Greek-style debt meltdown have intensified in recent weeks.
Yields on Italian bonds rose sharply with the 10-year Italian bond yield increasing by 0.13 percentage points to 6.21%, while the yield on the five-year bond hit a euro-era high of 6.07%, 0.19 percentage points higher on the day despite continued buying of bonds by the European Central Bank.
Mr. Papandreou, in his announcement Monday, also called for a confidence vote on his government, which is expected on Friday. If the government survives the vote, the referendum on the aid deal is expected to take place in January.
But his survival appeared to be at stake Tuesday after Milena Apostolaki resigned as a member of his socialist Pasok party, leaving the government with just a two-seat majority in the 300-seat parliament.
Ms. Apostolaki, who became an independent deputy with her defection, said she strongly disagrees with Mr. Papandreou's decision to call a referendum on whether Greece should go along with austerity measures in return for European loans.
The move also prompted Vasso Papandreou, a leading Greek socialist lawmaker not related to the prime minister, to call for the creation of a unity government followed by early elections to safeguard the bailout deal.
"The party is in major turmoil," a senior socialist party official said. "I can't exclude more desertions today, which will lead to early elections."

Where's the Euro Zone's White Knight? Not in China.

11-11-11

When the press was justifying the strength of the Euro and that the Europeans did not have the same debts as America a couple of years ago, I blogged that was doubtful, so here's more proof that it was baloney! Aivars Lode

By Nin-Hai Tseng

China is one of the few countries with strong growth, it holds massive amounts of cash, and its largest export market is Europe. So why isn't it stepping up to help bail it out?

FORTUNE-- It was around this time last year when Europe's ongoing debt crisis unexpectedly drew the investment savvy of China. Officials from the world's second-largest economy swooped in, promising to back debt-troubled Spain by signing $7.3 billion in deals that spanned investments in everything from banking to energy. This followed China's pledge to back Greece, where officials signed off on what Greeks at the time called the biggest single investment by China in Europe.
All this implied that China was willing to come to Europe's rescue if things took a turn for the worse. Needless to say, things are moving in that direction, as the region's debt troubles spread beyond Greece and into much bigger economies – namely, Italy. On Wednesday, yields on Italian bonds surpassed 7%, approaching levels that previously sent other euro zone nations scrambling for bailouts. Prime Minister Silvio Berlusconi's insistence on elections instead of an interim government threatened to prolong the instability and fanned fears of a split in the euro zone.
The developments, analysts have suggested, signal a dangerous new phase in the euro zone crisis. But it seems as though Europe's white knight is far from sight. And as the debt crisis continue to roil markets, sending stocks on Wall Street tumbling to their worst finish Wednesday in nearly three

months, it looks less likely that China will step in in any big way.
Last month, European officials traveled to Beijing to persuade China's leaders to beef up investments in the European Financial Stability Facility, established last year to sell bonds to finance loans for distressed euro nations. The fund's powers were recently expanded, but many still think it needs to be much bigger to rescue larger economies like Italy, which could very well need a bailout any day now.
For now at least, China has left Europe dealing with its own debt woes – a marked reversal of the bold backings of Greece and Spain months earlier. Admittedly, China can't single-handedly save the euro zone, as the region's underlying debt problems are also deeply structural. But the East Asian giant is one of the few nations well positioned to play a major role --China holds the world's largest foreign exchange reserves at $3.2 trillion.
There are several reasons why China remains cautious, but much of it seems shortsighted.
For one, as highlighted in The Christian Science Monitor recently, China would probably want more influence on economic policy over euro zone nations – certainly a scary thought, given how structurally flawed many of the peripheral economies are. Even if China somehow works out a very unlikely deal to have more say over policy in exchange for rescue funds, this would likely turn out to be a nightmare. After all, having too many voices and not enough strong leadership is one of the chief reasons why officials in Europe haven't been able to act quicker.
China's pullback could also be a result of a decision that investing in Europe might be too risky and uncertain, as the *Monitor* has also pointed out. That's something obviously irking most other investors, but especially China as its sovereign wealth fund has come under scrutiny. During the global financial crisis, overseas investments suffered large losses and so Beijing is under pressure to make wiser investments. It could also be that China is waiting for European officials to grant it political concessions, which Eurogroup chairman Jean-Claude Juncker has said is unlikely to happen.
Whatever its hold-ups, China has more to gain than lose by playing a bigger role in the euro zone's rescue.
The area is China's largest export market, so its own economic health is at stake as the ongoing debt crisis continues to erode growth in the euro zone. What's more, as China expert Barry Naughton from the University of California in San Diego pointed out earlier this year, helping Europe could boost China's global image. The country has long been criticized for artificially undervaluing its currency and holding vast foreign currency reserves. Giving up some of those reserves to help Europe, and by extension, the world at large, could potentially lift pressures on China.
And while Chinese aid could easily incite European opposition (as was the case last month when French President Nicolas Sarkozy called on China to help), the euro zone may be able to avoid something far more disastrous if only it were more open to its eastern neighbors. After all, the European Central Bank has repeatedly said it has no mandate to act as the lender of last resort and has refused to print money. The EU bailout fund is clearly inadequate,while the region's finance ministers have presented no clear plans on how to make it bigger.
If China doesn't step up, it's hard to think who could.

European Union Leaders Agree to Forge New Fiscal Pact

12-10-11

In numerous conversations with my European colleagues, we said the Euro would not fall apart, and here is the proof. Aivars Lode

By Anthony Faiola

BRUSSELS — A landmark summit of the 27-nation European Union ended here Friday with both a pledge and a wedge: A pledge among nations to work toward a new treaty binding them more closely in a pact to save the euro, and a wedge between the continent and Britain, which opted to sit it out.
In a summit portrayed by leaders as a make-or-break moment in the decades-long march toward European unity after World War II, the outcome signaled the growing clout of Germany and a

potentially wayward path for Britain.

After marathon talks, nations unveiled a deal to quell a debt crisis that is threatening the global economy. The summit organizers announced early Friday that they had agreed to try to forge a new pact centering on strict caps on government spending and borrowing to shore up the euro's foundations.

But the veto by British Prime Minister David Cameron, a Conservative euro-skeptic who cherishes the pound and looks askance at a heavy European hand in British affairs, underscored his nation's long unease with relinquishing national powers to the E.U. and left London isolated in a region now moving toward deeper integration without it. His move left Britain's Guardian newspaper asking, "Will it be splendid isolation or miserable?"

At the same time, Cameron made life harder for a region desperately trying to unite behind a plan to subdue a debt crisis that is threatening the global economy. Without Britain on board, the 26 other E.U. nations face potentially complicated legal obstacles to meet one of the prime objectives of a new treaty: giving fresh powers to E.U. institutions to slap automatic penalties on governments that recklessly spend and borrow.

Leaders have tried, and repeatedly failed, to come up with grand plans to fix the region's two-year-old debt crisis, allowing troubles that began in Greece to spread to much bigger economies such as Italy and Spain. Although the pact that was struck Friday, after an all-night round of negotiations, may be the most ambitious yet, it is also the most complicated, and it runs the risk of following the other attempted fixes in unraveling.

Countries must now attempt to squeeze the forging of a major European treaty — a process that in the past has taken many years — into the next three months. After that, the treaty will still need to be ratified by each nation, potentially requiring national referendums in countries such as Ireland where the outcome is far from clear.

Only Britain bluntly said no to a treaty. But Hungary, the Czech Republic and Sweden agreed to Friday's deal at the last minute. Along with Denmark, Latvia, Poland, Lithuania, Romania and Bulgaria, they committed only to the possibility of taking part in a treaty after consulting with their national parliaments.

Perhaps the most candid assessment came from Polish Prime Minister Donald Tusk. When asked if the new pact would save the euro, he replied, "I'm not sure."

Merkel rebuts British

Yet, the leaders of Germany and France, the anchors of the 17 nations that share the euro and the two largest economies in the European Union, hailed the accord as a "breakthrough" that would restore confidence in the euro. German Chancellor Angela Merkel declared herself indifferent to whether Britain signed or not.

A stoic Merkel said she had no intention of giving in to a British demand that many observers had expected she would ultimately accept to bring Cameron on board — a written promise that Britain would be free from potentially cumbersome European rules and regulations that could hamper London's vast financial district. Instead, her message to the British was clear: If you want to be part of Europe, you must submit to its rules.

"I have achieved what I wanted to achieve," Merkel said.

French President Nicolas Sarkozy was less delicate, suggesting that the rest of Europe was growing weary of Britain's independent streak.

"You can't on the one hand ask not to be in the euro and at the same time wish to be part of all the decisions affecting a currency you don't want and often criticize," he said.

Cameron, who is one of Europe's leading advocates of austerity and has enacted historic cuts at home, is actually seen as more moderate on Europe than many fiercely anti-E.U. members of his Conservative Party.

But he came to Brussels boxed into a corner. In recent days, he had incurred the wrath of his party by suggesting that his primary consideration now should be helping his neighbors save the euro and

that repatriating powers from Brussels, the region's administrative capital, would be a non-starter. Members of his party threatened to push for a national referendum on a new treaty if Cameron signed on, a vote that could have turned into a proxy on Britain's continued membership in the E.U. But Cameron risked marginalizing Britain in Europe, potentially diminishing its voice on a range of issues from economics to foreign affairs.
Rodney Barker, professor emeritus of government at the London School of Economics, said Cameron was in a "precarious position." While trying to placate his party's right wing, which wants less involvement in Europe, Cameron also risked making Britain irrelevant with its neighbors.
"You can't leave a club then complain you're not involved in its meetings," Barker said.
Faced with both praise and criticism at home, Cameron on Friday appeared unbowed.
"It was the right thing for Britain," he said. "It was the tough decision, but the right one."

Pressing concerns

Despite all the focus on the summit, Friday's agreement was aimed at fixing the root causes of the crisis and contained only modest steps to address the immediate problems facing Europe: spiraling borrowing costs for countries that could otherwise slowly get their ledger sheets in order.
The 26 nations did agree to the "aim" of increasing the amount of financial aid available to troubled nations in the region, pledging an additional $268 billion to the International Monetary Fund. They also agreed to move up the establishment of a $670 billion European bailout fund by one year, while keeping in place a $590 billion temporary fund, effectively increasing the total amount.
Addressing the problem of high borrowing rates in countries such as Italy, though, may require greater intervention from the European Central Bank, which could print money to lend to countries at affordable rates, or from Germany, which could allow countries to borrow money with guarantees from the full euro zone.
Merkel has previously hinted that she might accept euro bonds — regionwide instruments like U.S. Treasurys that could require German taxpayers to back up the debts of Greeks and Italians — but only as long as other countries bind themselves to deep fiscal overhauls.
Despite the pact struck Friday, Merkel's reluctance forced summit leaders to remove a reference to euro bonds from a draft communique of an agreement.
Her declaration that she found the pact acceptable cracked the door for Germany to do more to combat the crisis. But it remained unclear on what time frame that would happen, if it happens at all.

China's Epic Hangover Begins

12-16-11

Everyone has to go through the same restructuring and China has to have its turn as well. Looks like with the excess capacity in numerous industries, as I have talked about in previous blogs, we will have cheaper goods. Where will inflation come into play? I think Aussie and Canada will be in for a revaluation of their currencies in the not too distant future. Aivars Lode

The Telegraph UK

China's credit bubble has finally popped. The property market is swinging wildly from boom to bust, the cautionary exhibit of a BRIC's dream that is at last coming down to earth with a thud.

It is hard to obtain good data in China, but something is wrong when the country's Homelink property website can report that new home prices in Beijing fell 35pc in November from the month before. If this is remotely true, the calibrated soft-landing intended by Chinese authorities has gone badly wrong and risks spinning out of control.
The growth of the M2 money supply slumped to 12.7pc in November, the lowest in 10 years. New lending fell 5pc on a month-to-month basis. The central bank has begun to reverse its tightening

policy as inflation subsides, cutting the reserve requirement for lenders for the first time since 2008 to ease liquidity strains.
The question is whether the People's Bank can do any better than the US Federal Reserve or Bank of Japan at deflating a credit bubble.
Chinese stocks are flashing warning signs. The Shanghai index has fallen 30pc since May. It is off 60pc from its peak in 2008, almost as much in real terms as Wall Street from 1929 to 1933.
"Investors are massively underestimating the risk of a hard-landing in China, and indeed other BRICS (Brazil, Russia, India, China)... a 'Bloody Ridiculous Investment Concept' in my view," said Albert Edwards at Societe Generale.
"The BRICs are falling like bricks and the crises are home-blown, caused by their own boom-bust credit cycles. Industrial production is already falling in India, and Brazil will soon follow."
"There is so much spare capacity that they will start dumping goods, risking a deflation shock for the rest of the world. It no surpise that China has just imposed tariffs on imports of GM cars. I think it is highly likely that China will devalue the yuan next year, risking a trade war," he said.
China's $3.2 trillion foreign reserves have been falling for three months despite the trade surplus. Hot money is flowing out of the country. "One-way capital inflow or one-way bets on a yuan rise have become history. Our foreign reserves are basically falling every day," said Li Yang, a former central bank rate-setter.
The reserve loss acts as a form of monetary tightening, exactly the opposite of the effect during the boom. The reserves cannot be tapped to prop up China's internal banking system. To do so would mean repatriating the money – now in US Treasuries and European bonds – pushing up the yuan at the worst moment.
The economy is badly out of kilter. Consumption has fallen from 48pc to 36pc of GDP since the late 1990s. Investment has risen to 50pc of GDP. This is off the charts, even by the standards of Japan, Korea or Tawian during their catch-up spurts. Nothing like it has been seen before in modern times.
Fitch Ratings said China is hooked on credit, but deriving ever less punch from each dose. An extra dollar in loans increased GDP by $0.77 in 2007. It is $0.44 in 2011. "The reality is that China's economy today requires significantly more financing to achieve the same level of growth as in the past," said China analyst Charlene Chu.
Ms Chu warned that there had been a "massive build-up in leverage" and fears a "fundamental, structural erosion" in the banking system that differs from past downturns. "For the first time, a large number of Chinese banks are beginning to face cash pressures. The forthcoming wave of asset quality issues has the potential to become uglier than in previous episodes".
Investors had thought China was immune to a property crash because mortgage finance is just 19pc of GDP. Wealthy Chinese often buy two, three or more flats with cash to park money because they cannot invest overseas and bank deposit rates have been minus 3pc in real terms this year.
But with price to income levels reaching nosebleed levels of 18 in East coast cities, it is clear that appartments – often left empty – have themselves become a momentum trade.
Professor Patrick Chovanec from Beijing's Tsinghua School of Economics said China's property downturn began in earnest in August when construction firms reported that unsold inventories had reached $50bn. It has now turned into "a spiral of downward expectations".
A fire-sale is under way in coastal cities, with Shanghai developers slashing prices 25pc in November – much to the fury of earlier buyers, who expect refunds. This is spreading. Property sales have fallen 70pc in the inland city of Changsa. Prices have reportedly dropped 70pc in the "ghost city" of Ordos in Inner Mongolia. China Real Estate Index reports that prices dropped by just 0.3pc in the top 100 cities last month, but this looks like a lagging indicator. Meanwhile, the slowdown is creeping into core industries. Steel output has buckled.
Beijing was able to counter the global crunch in 2008-2009 by unleashing credit, acting as a shock absorber for the whole world. It is doubtful that Beijing can pull off this trick a second time.
"If investors go for growth at all costs again they are likely to find that it works even less than before and inflation returns quickly with a vengeance," said Diana Choyleva from Lombard Street Research.
The International Monetary Fund's Zhu Min says loans have doubled to almost 200pc of GDP over the last five years, including off-books lending.
This is roughly twice the intensity of credit growth in the five years preceeding Japan's Nikkei bubble in the late 1980s or the US housing bubble from 2002 to 2007. Each of these booms saw loan growth

of near 50 percentage points of GDP.
The IMF said in November that lenders face a "steady build-up of financial sector vulnerabilities", warning if hit with multiple shocks, "the banking system could be severely impacted".
Mark Williams from Capital Economics said the great hope was that China would use its credit spree after 2008 to buy time, switching from chronic over-investment to consumer-led growth. "It hasn't work out as planned. The next few weeks are likely to reveal how little progress has been made. China may ride out the storm over the next few months, but the dangers of over-capacity and bad debt will only intensify".
In truth, China faces an epic-deleveraging hangover, like the rest of us.

A 2003-4 Forecast That has Turned Out to Be Uncannily Accurate.

1-19-12

This is a very interesting read as to how the financial system works. From my earliest years working as a commodity trader, I had wondered why every currency was crossed with the USD before it was converted into a third currency. Now I know! My father just read "Empire" which looks at why the English empire lost dominance and we were discussing what the USA got for winning World War 2, now we have an idea. Aivars Lode

By William Engdahl

Despite the apparent swift U.S. military success in Iraq, the U.S. dollar has yet to benefit as safe haven currency. This is an unexpected development, as many currency traders had expected the dollar to strengthen on the news of a U.S. win. Capital is flowing out of the dollar, largely into the Euro. Many are beginning to ask whether the objective situation of the U.S. economy is far worse than the stock market would suggest. The future of the dollar is far from a minor issue of interest only to banks or currency traders. It stands at the heart of Pax Americana, or as it is called, The American Century, the system of arrangements on which America's role in the world rests.
Yet, even as the dollar is steadily dropping against the Euro after the end of fighting in Iraq, Washington appears to be deliberately worsening the dollar fall in public comments. What is taking place is a power game of the highest geopolitical significance, the most fateful perhaps, since the emergence of the United States in 1945 as the world's leading economic power.
The coalition of interests which converged on war against Iraq as a strategic necessity for the United States, included not only the vocal and highly visible neo-conservative hawks around Defense Secretary Rumsfeld and his deputy, Paul Wolfowitz. It also included powerful permanent interests, on whose global role American economic influence depends, such as the influential energy sector around Halliburton, Exxon Mobil, Chevron Texaco and other giant multinationals. It also included the huge American defense industry interests around Boeing, Lockheed-Martin, Raytheon, Northrup-Grumman and others. The issue for these giant defense and energy conglomerates is not a few fat contracts from the Pentagon to rebuild Iraqi oil facilities and line the pockets of Dick Cheney or others. It is a game for the very continuance of American power in the coming decades of the new century. That is not to say that profits are [not] made in the process, but it is purely a byproduct of the global strategic issue.
In this power game, least understood is the role of preserving the dollar as the world reserve currency, as a major driving factor contributing to Washington's power calculus over Iraq in the past months. American domination in the world ultimately rests on two pillars -- its overwhelming military superiority, especially on the seas; and its control of world economic flows through the role of the dollar as the world's reserve currency. More and more it is clear that the Iraq war was more about preserving the second pillar -- the dollar role -- than the first, the military. In the dollar role, oil is a strategic factor.

American Century: the three phases
If we look back over the period since the end of World War II, we can identify several distinct phases

of evolution of the American role in the world. The first phase, which began in the immediate postwar period 1945-1948 and the onset of Cold War, could be called the Bretton Woods Gold Exchange system.
Under the Bretton Woods system in the immediate aftermath of the World War, the order was relatively tranquil. The United States had emerged from the War clearly as the one sole superpower, with a strong industrial base and the largest gold reserves of any nation. The initial task was to rebuild Western Europe and to create a NATO Atlantic alliance against the Soviet Union. The role of the dollar was directly tied to that of gold. So long as America enjoyed the largest gold reserves, and the U.S. economy was far the most productive and efficient producer, the entire Bretton Woods currency structure from French Franc to British Pound Sterling and German Mark was stable. Dollar credits were extended along with Marshall Plan assistance and credits to finance the rebuilding of war-torn Europe. American companies, among them oil multinationals, gained nicely from dominating the trade at the onset of the 1950's. Washington even encouraged creation of the Treaty of Rome in 1958 in order to boost European economic stbility and create larger U.S. export markets in the bargain. For the most part, this initial phase of what Time magazine publisher Henry Luce called 'The American Century', in terms of economic gains, was relatively 'benign' for both the U.S. and Europe. The United States still had the economic flexibility to move.
This was the era of American liberal foreign policy. The United States was the hegemonic power in the Western community of nations. As it commanded overwhelming gold and economic resources compared with Western Europe or Japan and South Korea, the United States could well afford to be open in its trade relations to European and Japanese exports. The tradeoff was European and Japanese support for the role of the United Sates during the Cold War. American leadership was based during the 1950's and early 1960's less on direct coercion and more on arriving at consensus, whether in GATT trade rounds or other issues. Organizations of elites, such as the Bilderberg meetings, were organized to share the evolving consensus between Europe and the United States. This first, more benign phase of the American Century came to an end by the early 1970's.
The Bretton Woods Gold Exchange began to break down, as Europe got on its feet economically and began to become a strong exporter by the mid-1960's. This growing economic strength in Western Europe coincided with soaring U.S. public deficits as Johnson escalated the tragic war in Vietnam. All during the 1960's, France's de Gaulle began to take its dollar export earnings and demand gold from the U.S. Federal Reserve, legal under Bretton Woods at that time. By November 1967 the drain of gold from U.S. and Bank of England vaults had become critical. The weak link in the Bretton Woods Gold Exchange arrangement was Britain, the 'sick man of Europe'. The link broke as Sterling was devalued in 1967. That merely accelerated the pressure on the U.S. dollar, as French and other central banks increased their call for U.S. gold in exchange for their dollar reserves. They calculated with the soaring war deficits from Vietnam, it was only a matter of months before the United States itself would be forced to devalue againstgold, so better to get their gold out at a high price.
By May 1971 the drain of U.S. Federal Reserve gold had become alarming, and even the Bank of England joined the French in demanding U.S. gold for their dollars. That was the point where rather than risk a collapse of the gold reserves of the United States, the Nixon Administration opted to abandon gold entirely, going to a system of floating currencies in August 1971. The break with gold opened the door to an entirely new phase of the American Century. In this new phase, control over monetary policy was, in effect, privatized, with large international banks such as Citibank, Chase Manhattan or Barclays Bank assuming the role that central banks had in a gold system, but entirely without gold. 'Market forces' now could determine the dollar. And they did with a vengeance.
The free floating of the dollar, combined with the 1973 rise in OPEC oil prices by 400% after the Yom Kippur War, created the basis for a second phase of the American Century, the Petrodollar phase.

Recycling petrodollars

Beginning the mid-1970's the American Century system of global economic dominance underwent a dramatic change. An Anglo-American oil shock suddenly created enormous demand for the floating dollar. Oil importing countries from Germany to Argentina to Japan, all were faced with how to export in dollars to pay their expensive new oil import bills. OPEC oil countries were flooded with new oil dollars. A major share of these oil dollars came to London and New York banks where a new process was instituted. Henry Kissinger termed it, 'recycling petrodollars'. The recycling strategy was

discussed already in May 1971 at the Bilderberger meeting in Saltsjoebaden, Sweden. It was presented by American members of Bilderberg, as detailed in the book Mit der Ölwaffe zur Weltmacht.[1]
OPEC suddenly was choking on dollars it could not use. U.S. and UK banks took the OPEC dollars and relent them as Eurodollar bonds or loans, to countries of the Third World desperate to borrow dollars to finance oil imports. The buildup of these petrodollar debts by the late 1970's laid the basis for the Third World debt crisis in the 1980's. Hundreds of billions of dollars were recycled between OPEC, the London and New York banks and back to Third World borrowing countries.
By August 1982 the chain finally broke and Mexico announced it would likely default on repaying Eurodollar loans. The Third World debt crisis began when Paul Volcker and the U.S. Federal Reserve had unilaterally hiked U.S. interest rates in late 1979 to try to save the failing dollar. After three years of record high U.S. interest rates, the dollar was 'saved', but the entire developing sector was choking economically under usurious U.S. interest rates on their petrodollar loans. To enforce debt repayment to the London and New York banks, the banks brought the IMF in to act as 'debt policeman'. Public spending for health, education, welfare was slashed on IMF orders to ensure the banks got timely debt service on their petrodollars.
The Petrodollar hegemony phase was an attempt by the United States establishment to slow down its geopolitical decline as the hegemonic center of the postwar system. The IMF 'Washington Consensus' was developed to enforce draconian debt collection on Third World countries, to force them to repay dollar debts, prevent any economic independence from the nations of the South, and keep the U.S. banks and the dollar afloat. The Trilateral Commission was created by David Rockefeller and others in 1973 in order to take account of the recent emergence of Japan as an industrial giant and try to bring Japan into the system. Japan, as a major industrial nation, was a major importer of oil. Japanese trade surpluses from export of cars and other goods was used to buy oil in dollars. The remaining surplus was invested in U.S. Treasury bonds to earn interest. The G-7 was founded to keep Japan and Western Europe inside the U.S. dollar system. From time to time into the 1980's various voices in Japan would call for three currncies -- dollar, German mark and yen -- to share the world reserve role. It never happened. The dollar remained dominant.
From a narrow standpoint, the Petrodollar phase of hegemony seemed to work. Underneath, it was based on ever-worsening economic decline in living standards across the world, as IMF policies destroyed national economic growth and broke open markets for globalizing multinationals seeking cheap production outsourcing in the 1980's and especially into the 1990's.
Yet, even in the Petrodollar phase, American foreign economic policy and military policy was dominated by the voices of the traditional liberal consensus. American power depended on negotiating periodic new arrangements in trade or other issues with its allies in Europe, Japan and East Asia.

A Petro-euro rival?

The end of the Cold War and the emergence of a new Single Europe and the European Monetary Union in the early 1990's, began to present an entirely new challenge to the American Century. It took some years, more than a decade after the 1991 Gulf War, for this new challenge to emerge full-blown. The present Iraq war is only intelligible as a major battle in the new, third phase of securing American dominance. This phase has already been called, 'democratic imperialism', a favorite term of Max Boot and other neo-conservatives. As Iraq events suggest, it is not likely to be very democratic, but definitely likely to be imperialist.
Unlike the earlier periods after 1945, in the new era, the U.S. freedom to grant concessions to other members of the G-7 is gone. Now raw power is the only vehicle to maintain American long-term dominance. The best expression of this argument comes from the neo-conservative hawks around Paul Wolfowitz, Richard Perle, William Kristol and others.
The point to stress, however, is that the neo-conservatives enjoy such influence since September 11 because a majority in the U.S. power establishment finds their views useful to advance a new aggressive U.S. role in the world.
Rather than work out areas of agreement with European partners, Washington increasingly sees Euroland as the major strategic threat to American hegemony, especially 'Old Europe' of Germany and France. Just as Britain in decline after 1870 resorted to increasingly desperate imperial wars in

South Africa and elsewhere, so the United States is using its military might to try to advance what it no longer can by economic means. Here the dollar is the Achilles heel.
With creation of the Euro over the past five years, an entirely new element has been added to the global system, one which defines what we can call a third phase of the American Century. This phase, in which the latest Iraq war plays a major role, threatens to bring a new, malignant or imperial phase to replace the earlier phases of American hegemony. The neo-conservatives are open about their imperial agenda, while more traditional U.S. policy voices try to deny it. The economic reality faced by the dollar at the start of the new Century, defines this new phase in an ominous way.
There is a qualitative difference emerging between the two initial phases of the American Century -- that of 1945-1973, and of 1973-1999 -- and the new emerging phase of continued domination in the wake of the 9.11 attacks and the Iraq War. Post-1945 American power before now was predominately that of a hegemon. While a hegemon is the dominant power, in an unequal distribution of power, its power is not generated by coercion alone, but also by consent among its allied powers. This is because the hegemon is compelled to perform certain services to the allies such as military security or regulating world markets for the benefit of the larger group, itself included. An imperial power has no such obligations to allies, and not the freedom for such, only the raw dictates of how to hold on to its declining power -- what some call 'imperial overstretch'. This is the world which neo-conservative hawks around Rumsfeld and Cheney are suggesting America has to dominate, with a policy of pre-emptive war.
A hidden war between the dollar and the new Euro currency for global hegemony is at the heart of this new phase.
To understand the importance of this unspoken battle for currency hegemony, we first must understand that since the emergence of the United States as the dominant global superpower after 1945, U.S. hegemony has rested on two unchallengeable pillars. First, the overwhelming U.S. military superiority over all other rivals. The United States today spends on defense more than three times the total for the entire European Union, some $ 396 billion versus $118 billion last year, and more than the next 15 largest nations combined. Washington plans an added $ 2.1 trillion over the coming five years on defense. No nation or group of nations can come close in defense spending. China is at least 30 years away from becoming a serious military threat. No one is serious about taking on U.S. military might.
The second pillar of American dominance in the world is the dominant role of the U.S. dollar as reserve currency. Until the advent of the Euro in late 1999, there was no potential challenge to this dollar hegemony in world trade. The Petrodollar has been at the heart of the dollar hegemony since the 1970's. The dollar hegemony is strategic to the future of American global predominance, in many respects as important if not more so, than the overwhelming military power.

Dollar fiat money

The crucial shift took place when Nixon took the dollar off a fixed gold reserve to float against other currencies. This removed the restraints on printing new dollars. The limit was only how many dollars the rest of the world would take.
By their firm agreement with Saudi Arabia, as the largest OPEC oil producer, Washington guaranteed that the world's largest commodity, oil, the essential for every nation's economy, the basis of all transport and much of the industrial economy, could only be purchased in world markets in dollars. The deal had been fixed in June 1974 by Secretary of State Henry Kissinger, establishing the U.S.-Saudi Arabian Joint Commission on Economic Cooperation. The U.S. Treasury and the New York Federal Reserve would 'allow' the Saudi central bank, SAMA, to buy U.S. Treasury bonds with Saudi petrodollars. In 1975 OPEC officially agreed to sell its oil only for dollars. A secret U.S. military agreement to arm Saudi Arabia was the quid pro quo.
Until November 2000, no OPEC country dared violate the dollar price rule. So long as the dollar was the strongest currency, there was little reason to as well. But November was when French and other Euroland members finally convinced Saddam Hussein to defy the United States by selling Iraq's oil-for-food not in dollars, 'the enemy currency' as Iraq named it, but only in euros. The euros were on deposit in a special UN account of the leading French bank, BNP Paribas. Radio Liberty of the U.S. State Department ran a short wire on the news and the story was quickly hushed.[2]
This little-noted Iraq move to defy the dollar in favor of the euro, in itself, was insignificant. Yet, if it

were to spread, especially at a point the dollar was already weakening, it could create a panic selloff of dollars by foreign central banks and OPEC oil producers. In the months before the latest Iraq war, hints in this direction were heard from Russia, Iran, Indonesia and even Venezuela. An Iranian OPEC official, Javad Yarjani, delivered a detailed analysis of how OPEC at some future point might sell its oil to the EU for euros not dollars. He spoke in April, 2002 in Oviedo Spain at the invitation of the EU. All indications are that the Iraq war was seized on as the easiest way to deliver a deadly pre-emptive warning to OPEC and others, not to flirt with abandoning the Petro-dollar system in favor of one based on the euro.

Informed banking circles in the City of London and elsewhere in Europe privately confirm the significance of that little-noted Iraq move from petro-dollar to petro-euro. 'The Iraq move was a declaration of war against the dollar', one senior London banker told me recently. 'As soon as it was clear that Britain and the U.S. had taken Iraq, a great sigh of relief was heard in London City banks. They said privately, "now we don't have to worry about that damn euro threat"'.

Why would something so small be such a strategic threat to London and New York, or to the United States that an American President would apparently risk fifty years of alliance relations globally, and more to make a military attack whose justification could not even be proved to the world?

The answer is the unique role of the petro-dollar to underpin American economic hegemony.

How does it work? So long as almost 70% of world trade is done in dollars, the dollar is the currency which central banks accumulate as reserves. But central banks, whether China or Japan or Brazil or Russia, do not simply stack dollars in their vaults. Currencies have one advantage over gold. A central bank can use it to buy the state bonds of the issuer, the United States. Most countries around the world are forced to control trade deficits or face currency collapse. Not the United States. This is because of the dollar reserve currency role. And the underpinning of the reserve role is the petrodollar. Every nation needs to get dollars to import oil, some more than others. This means their trade targets dollar countries, above all the U.S.

Because oil is an essential commodity for every nation, the petrodollar system, which exists to the present, demands the buildup of huge trade surpluses in order to accumulate dollar surpluses. This is the case for every country but one -- the United States which controls the dollar and prints it at will or fiat. Because today the majority of all international trade is done in dollars, countries must go abroad to get the means of payment they cannot themselves issue. The entire global trade structure today works around this dynamic, from Russia to China, from Brazil to South Korea and Japan. Everyone aims to maximize dollar surpluses from their export trade.

To keep this process going, the United States has agreed to be 'importer of last resort' because its entire monetary hegemony depends on this dollar recycling.

The central banks of Japan, China, South Korea, Russia and the rest all buy U.S. Treasury securities with their dollars. That in turn allows the United States to have a stable dollar, far lower interest rates, and run a $ 500 billion annual balance of payments deficit with the rest of the world. The Federal Reserve controls the dollar printing presses, and the world needs its dollars. It is as simple as that.

The U.S. foreign debt threat

But, not so simple perhaps. This is a highly unstable system, as U.S. trade deficits and net debt or liabilities to foreign accounts are now well over 22% of GDP as of 2000, and climbing rapidly. The net foreign indebtedness of the United States -- public as well as private -- is beginning to explode ominously. In the past three years since the U.S. stock collapse and the re-emergence of budget deficits in Washington, the net debt position, according to a recent study by the Pestel Institute in Hanover, has almost doubled. In 1999, the peak of the dot.com bubble fury, U.S. net debt to foreigners was some $ 1.4 trillions. By the end of this year, it will exceed an estimated $ 3.7 trillion! Before 1989, the United States had been a net creditor, gaining more from its foreign investments than it paid to them in interest on Treasury bonds or other U.S. assets. Since the end of the Cold War, the United States has become a net foreign debtor nation to the tune of $3.7 trillion! This is not what Hilmar Kopper could all 'peanuts'.

It does not require much foresight to see the strategic threat of these deficits to the role of the United States. With an annual current account (mainly trade) deficit of some $500 billion, some 5% of GDP, the United States must import or attract at least $1.4 billion every day, to avoid a dollar collapse and keep its interest rates low enough to support the debt-burdened corporate economy. That net debt is getting worse at a dramatic pace. Were France, Germany, Russia and a number of OPEC oil countries to now shift even a small portion of their dollar reserves into euro to buy bonds of Germany or France or the like, the United States would face a strategic crisis beyond any of the postwar period. To pre-empt this threat, was one of the most strategic hidden reasons for the decision to go for 'regime change' as it is known, in Iraq. It is as simple and as cold as this. The future of America's sole superpower status depended on pre-empting the threat emerging from Eurasia and Euroland especially. Iraq was andis a chess piece in a far larger strategic game, one for the highest stakes.

The euro threatens the hegemony of the US

When the euro was launched at the end of the last decade, leading EU government figures, bankers from Deutsche Bank's Norbert Walter, and French President Chirac went to major holders of dollar reserves -- China, Japan, Russia -- and tried to convince them to shift out of dollars at least a part of their reserves, and into euros. However, that clashed with the need to devalue the too-high euro, so German exports could stabilize Euroland growth. A falling euro was the case until 2002.

Then, with the debacle of the U.S. dot.com bubble bursting, the Enron and Worldcom finance scandals, and the recession in the U.S., the dollar began to lose its attraction for foreign investors. The euro gained steadily until the end of 2002. Then, as France and Germany prepared their secret diplomatic strategy to block war in the UN Security Council, rumors surfaced that the central banks of Russia and China had quietly began to dump dollars and buy euros. The result was a dollar free-fall on the eve of war. The stage was set should Washington lose the Iraq war, or it turn into a long, bloody debacle.

But Washington, leading New York banks and the higher echelons of the U.S. establishment clearly knew what was at stake. Iraq was not about ordinary chemical or even nuclear weapons of mass destruction. The 'weapon of mass destruction' was the threat that others would follow Iraq and shift to euros out of dollars, creating mass destruction of the United States' hegemonic economic role in the world. As one economist termed it, an end to the dollar reserve role would be a 'catastrophe' for the United States. Interest rates of the Federal Reserve would have to be pushed higher than in 1979 when Paul Volcker raised rates above 17% to try to stop the collapse of the dollar then. Few realize that 1979 dollar crisis was also a direct result of moves by Germany, and France, under Schmidt and Giscard, to defend Europe together with Saudi Arabia and others who began selling U.S. Treasury bonds to protest Carter Administration policy. It is also worth recalling that after the Volcker dollar rescue, the Reagan Administration, backed by many of today's neo-conservative hawks, began a huge U.S. military defense spending to challenge the Soviet Union.

Eurasia versus the Anglo-American Island Power

This fight over petro-dollars versus petro-euros, which started in Iraq, is by no means over, despite the apparent victory of the United States in Iraq. The euro was created by French geopolitical strategists for establishing a multipolar world after the collapse of the Soviet Union. The aim was to balance the overwhelming dominance of the U.S. in world affairs. Significantly, French strategists rely on a British geopolitical strategist to develop their rival power alternative to the U.S., namely Sir Halford Mackinder.

This past February, a French intelligence-connected newsletter, Intelligence Online, wrote a piece, 'The Strategy Behind Paris-Berlin-Moscow Tie'. Referring to the UN Security Council bloc of France-Germany-Russia to try to prevent the U.S.-British war moves in Iraq, the Paris report notes the recent efforts of European and other powers to create a counterpower to that of the United States. Referring to the new ties of France with Germany and more recently with Putin, they note, 'a new logic, and even dynamic seems to have emerged. An alliance between Paris, Moscow and Berlin running from the Atlantic to Asia could foreshadow a limit to U.S. power. For the first time since the beginning of the 20th Century, the notion of a world heartland -- the nightmare of British strategists -- has crept back into international relations.'[3]

Mackinder, father of British geopolitics, wrote in his remarkable paper, 'The Geographical Pivot of History' that the control of the Eurasian heartland, from Normandy France to Vladivostock, was the only possible threat to oppose the naval supremacy of Britain. British diplomacy until 1914 was based on preventing any such Eurasian threat, that time around the expansion policy of the German

Kaiser eastwards with the Baghdad Railway and the Tirpitz German Navy buildup. World War I was the result. Referring to the ongoing efforts of the British and later Americans to prevent a Eurasian combination as rival, the Paris intelligence report stressed, 'That strategic approach (i.e. to create Eurasian heartland unity) lies at the origin of all clashes between Continental powers and maritime powers (UK, U.S. and Japan) ... It is Washington's supremacy over the seas that, even now, dictates London's unshakeable support for the U.S. and the alliance between Tony Blair and Bush.'
Another well-connected French journal, Reseau Voltaire.net, wrote on the eve of the Iraq war that the dollar was 'The Achilles heel of the USA'.[4] That is an understatement to put it mildly.

Iraq was planned long before
This emerging threat from a French-led Euro policy with Iraq and other countries, led some leading circles in the U.S. policy establishment to begin thinking of pre-empting threats to the Petro-dollar system well before Bush was even President. While Perle, Wolfowitz and other leading neo-conservatives played a leading role in developing a strategy to preserve the faltering system, a new consensus was shaping which included major elements of traditional Cold War establishment around figures like Rumsfeld and Cheney.
In September 2000, during the campaign, a small Washington think-tank, the Project for a New American Century, released a major policy study: 'Rebuilding America's Defenses: Strategies, Forces and Resources for a New Century'. The report is useful in many areas to better understand present Administration policy. On Iraq, it states, 'The United States has sought for decades to play a more permanent role in Gulf regional security. While the unresolved conflict with Iraq provides the immediate justification, the need for a substantial American force presence in the Gulf transcends the issue of the regime of Saddam Hussein.'
This PNAC paper is the essential basis for the September 2002 Presidential White Paper, 'The National Security Strategy of the United States of America'. The PNAC's paper supports a 'blueprint for maintaining global U.S. pre-eminence, precluding the rise of a great power rival, and shaping the international security order in line with American principles and interests. The American Grand Strategy must be pursued as far into the future as possible.' Further, the U.S. must, 'discourage advanced industrial nations from challenging our leadership or even aspiring to a larger regional or global role.'
The PNAC membership in 2000 reads like a roster of the Bush Administration today. It included Cheney, his wife Lynne Cheney, neo-conservative Cheney aide, Lewis Libby; Donald Rumsfeld; Rumsfeld Deputy Secretary Paul Wolfowitz. It also included NSC Middle East head, Elliott Abrams; John Bolton of the State Department; Richard Perle, and William Kristol. As well, former Lockheed-Martin vice president, Bruce Jackson, and ex-CIA head James Woolsey were on board, along with Norman Podhoretz, another founding neo-con. Woolsey and Podhoretz speak openly of being in 'World War IV'.
It is becoming increasingly clear to many that the war in Iraq is about preserving a bankrupt American Century model of global dominance. It is also clear that Iraq is not the end. What is not yet clear and must be openly debated around the world, is how to replace the failed Petro-dollar order with a just new system for global economic prosperity and security.
Now, as Iraq threatens to explode in internal chaos, it is important to rethink the entire postwar monetary order anew. The present French-German-Russian alliance to create a counterweight to the United States requires not merely a French-led version of the Petro-dollar system, some Petro-euro system, that continues the bankrupt American Century, only with a French accent, and euros replacing dollars. That would only continue to destroy living standards across the world, adding to human waste and soaring unemployment in industrial as well as developing nations. We must entirely rethink what began briefly with some economists during the 1998 Asia crisis, the basis of a new monetary system which supports human development, and does not destroy it.

Greece May Need More Help: Austrian Chancellor

3-4-12

For those that think the Euro will fail, I don't think so. There are numerous states in the USA that have instigated legal action to get out of the US currency, this is more likely. (Not Really) Aivars Lode

By Victoria Bryan

(Reuters) **-** Greece's second bailout may prove insufficient and a topping up of the euro zone's permanent bailout fund cannot be ruled out, the Austrian Chancellor was quoted as saying in a newspaper on Sunday.

"I would not trust anyone who says that (the help) for Greece is enough," Werner Faymann said in an interview with Austrian paper Oesterreich. "For Greece it depends on whether they can stick to these measures over several elections."
He also did not rule out extending the European Stability Mechanism (ESM), saying it "may be necessary."
The euro zone will decide whether to increase its debt crisis firewall before the end of March, probably at an informal gathering in Copenhagen set for March 30/31.
The aim will be to combine the 250 billion euros ($330 billion) left in the temporary EFSF bailout fund with 500 billion euros in the permanent ESM facility, to create a "super-fund" better able to cope with potential problems in Spain or Italy, although Germany remains opposed to the idea for now.
Germany's Welt am Sonntag reported that Berlin may drop its opposition to boosting the permanent bailout fund, citing government sources.
While the government would ideally want to maintain the European Stability Mechanism in its currently proposed form, it would be difficult for Berlin to withstand pressure to increase it from European partners, the International Monetary Fund and the United States, the paper wrote.
The world's major economies, notably the United States and China, are pressing Europe to put up more money for its own defenses as a condition for raising the IMF's resources to combat fallout from the euro zone crisis.
The Austrian chancellor also said the European Union must continue to support not only Greece, but also Portugal, Italy and Spain.
"Let's not forget that our economy is strongly linked to that of Italy," he told the paper, although he added that Italy was in a better position than Greece.
($1 = 0.7573 euros)

World Edges Closer to Deflationary Slump as Money Contracts in China

5-15-12

The USA had the contagion first, then Europe. It was only a matter of time before the Bricks have their shot. Aivars Lode

By Ambrose Evans-Pritchard

All key indicators of China's money supply are flashing warning signs. The broader measures have slumped to stagnation levels not seen since the late 1990s.

If China were a normal country, it would be hurtling into a brick wall. A "hard-landing" later this year would already be baked into the pie.

Narrow M1 data for April is the weakest since modern records began. Real M1 deposits – a leading indicator of economic growth six months or so ahead – have contracted since November.

They are shrinking faster that at any time during the 2008-2009 crisis, and faster than in Spain right now, according to Simon Ward at Henderson Global Investors.

If China were a normal country, it would be hurtling into a brick wall. A "hard-landing" later this year would already be baked into the pie.

Whether this hybrid system of market Leninism – with banks run by Party bosses – conforms to Western monetary theory is a hotly contested point. The issue will be settled one way or the other soon.
What seems clear is that China's economy did not bottom out as expected in the first quarter. It is flirting with real trouble. Yao Wei from Societe Generale says a blizzard of awful data "screams out for easing".

China's electricity output – watched religiously by bears – slumped in April. It is up just 0.7pc over the last year. State investment in railways has fallen 44pc, with an accelerating downward lurch over recent months. Highway construction has dropped 2.7pc. "The data shows extreme weakness in the Chinese economy," said Alistair Thornton from IHS Global Insight in Beijing.

The Yangtze shipyards tell the tale. Caixin magazine said eight of the 10 largest builders in the country have not received a single new order this year. "A wave of closures in the shipbuilding industry has yet to begin. A hurricane is approaching," said one official.

Housing sales slumped 25pc in the first quarter, testimony to the zeal of regulators. This has since fed into a drastic fall in new building. Mr Thornton said floor place under construction fell 28.3pc in April.

This is hardly a sideshow. The sector employs 10pc of the Chinese work-force, and a further 20pc indirectly. Land sales provide 70pc of tax revenue to local authorities and 30pc to the central government. It is the "fair weather" financing illusion, as
we saw in Ireland. China's scope for fiscal stimulus may be constrained if property goes into a long slump.

The property correction is deemed benign because it is planned. Premier Wen Jiabao wishes to forces down prices as a social welfare policy. Yet did the Fed not slam on the brakes in 1928 to choke an asset boom? Did the Bank of Japan not do likewise in 1990, only to find that boom-bust deflation has its own fiendish momentum? Once you let credit rise by 100pc of GDP in five years – as China has, more than in those US or Japanese episodes – you are at the mercy of powerful forces.

Something odd is now happening. The People's Bank said new loans fell from $160bn (£99.5bn) in March to $108bn in April. Non-conventional lending seized up altogether. Trust lending fell by 96pc, bankers' acceptance bills by 90pc. This is astonishing data.

It may not be as easy for Beijing to turn the tap back on again. Loan demand has been falling for months. Banks are offering credit. Companies are refusing to take it. This is the old Japanese story of pushing on a string, or the European story today.

"China is in deflation," says Charles Dumas from Lombard Street Research. Yes, consumer price inflation is 3.4pc – though falling – but consumption is a third of GDP. Fixed investment is 46pc, and here prices have dropped 3.5pc in six months. Export prices have dropped 6.6pc.

The authorities have belatedly responded, cutting the reserve ratio by 50 points to 20pc over the weekend. It is thin gruel. Are we to conclude that the People's Bank is bent on breaking excess capacity in a cathartic Schumpeterian purge, or that leadership battles have paralysed the Party? Hard to tell.

All the BRICs need watching. India's industrial output fell 3.5pc in March. The country seems caught in a 1970s stagflation vice. Brazil has softened too, with car sales down 15pc and industrial production contracting in March. The bad loans of the banks have reached 10.3pc, higher than post-Lehman.

The bubble has probably popped already, but hoteliers in Rio are hanging on. The European Parliament has pulled out of the UN's Rio forum on sustainable development in June because the rooms are exorbitant. "We are short the vastly over-vaunted and over-owned BRICs," says hedge fund contrarian Hugh Hendry.

My fear has always been that the credit cycle in the Rising World would blow itself out before the Old World has safely recovered, or reached "escape velocity" to use the term in vogue.

Europe will slide further into 1930s self-destruction until it equips itself with a lender of last resort and takes all risk of EMU sovereign default off the table, though that may come too late. The US has functioning institutions at least but growth is barely above stall speed. Ben Bernanke's "massive fiscal cliff" looms this autumn. The Economic Cycle Research Institute (ECRI) has not yet withdrawn its US recession call.

The BRICS helped save us in 2008-2009. If we now face a global crisis on all fronts – and such an outcome can still be avoided – it will test the mettle of world leaders. Interest rates in the G10 are mostly zero already, and budgets are frighteningly stretched.

Sensing what is coming, Citigroup's chief economist Willem Buiter says global central banks have not yet exhausted their arsenal. They can "and should" crank up quantitative easing (QE), buy everything under the sun, and do "helicopter money drops".

I would go even further. sovereign central banks have the means to defeat any depression thrown at them by launching mass purchases of assets outside the banking system, working through the classic Hawtrey-Cassel quantity of money mechanism until nominal GDP is restored to its trend line.

The problem is not scientific. A world slump is preventable if leaders act with enough panache. The hindrance is that the Euro Tower still haunted by Hayekians, and most G10 citizens – and Telegraph readers from my painful experience – view such notions as Weimar debauchery, or plain Devil worship. Economists cannot command a democratic consent for monetary stimulus any more easily today than in 1932.

One can only pray that helicopter drops do not become necessary in the chilly winter of 2012-2013.

Banks Shrink From Counterparty Risk as Euro Crisis Rolls On

5-29-12

This happened in the USA back in 2010, I wonder if and when this will next happen and if it will be in the bricks? Aivars Lode

By Luke Jeffs

LONDON (Reuters)—Alarmed by Europe's latest debt crisis and its unpredictable outcome, banks are getting increasingly picky about who they do business with for fear of taking on risky exposures to rivals who could be about to be whipsawed by bad debts.

Greece's slow-motion crash towards default, coupled with the poor health of banks in Spain, have left banks wondering if any of their fellow institutions will end up holding catastrophic losses and will be unable to meet their obligations.

All banks then are becoming increasingly cautious about their dealings with counterparties perceived to be in the firing line — making it harder for those firms to do their everyday business, throwing grit into the cogs of the financial system and ultimately crimping prospects for economic recovery.

"Banks are particularly wary of counterparties at the moment and no compliance officer is going to take on exposure to a counterparty just because historically they have a strong track record," said Christopher Wheeler, an analyst at Mediobanca.

In the fast-moving banking sector, failures can happen quickly. Just ask anyone involved with MF Global, which collapsed overnight in October last year after clients and trading partners pulled back amid rumors of a trading loss in the European sovereign debt crisis. Three years previously, Lehman Brothers became the largest bankruptcy in U.S. history, after it was brought to its knees by a combination of losses, nervous clients and credit rating downgrades.

Failures like those can leave massive losses splattered across the financial system — reason enough for compliance officers to rein in risky exposures to their peers.

For any bank, loss of trust is potentially fatal and can catch it in a pincer movement where it rapidly finds it harder to borrow money, while being asked to put up more costly security in its daily trading.

There are signs in the market this is already happening.

"Banks are being very cautious over who they do business with. They are avoiding counterparties they perceive to be risky ... and this attitude will become more extreme if market conditions deteriorate further," Mr. Wheeler said.

Virtually Invisible

An added problem is that many of the markets in which investment banks participate are virtually invisible to regulators. The $400 trillion market for interest rate swaps, for instance, is largely traded over the phone.

Banks trading these instruments — which offer protection against changes in interest rates — have a direct exposure to their counterparties, which needs to be managed by their in-house risk management teams.

This is not a new challenge, but the function takes on added importance in times of financial stress when firms ask for extra security to be put up on trades, aiming to ensure they are not left on the hook by a counterparty default.

Banks then are raising the so-called margin calls — cash or securities held for the period a trade is live — which they demand from firms they perceive to be risky, piling more pressure on such firms. If these positions are traded on an exchange, margin contributions are set by the exchange itself, by calculating the industry's exposure to any one trading house. This makes it a reasonably straightforward process.

But in the unlisted over-the-counter markets where the most complex and risky derivative instruments trade, margin calls are determined by individual firms based on their perceived exposure to trading partners — a more arbitrary process.

Given the skittish nature of the markets, trading houses are demanding more and more collateral from counterparties upfront, which piles the pressure on those firms seen as risky.

"Firms are really having to do their homework at the moment and put in place the relevant security against counterparties," Mr. Wheeler said.

At the same time as margin calls are on the rise, the European debt crisis has led unsecured lending between banks to all but dry up, forcing banks in turn to put up expensive collateral to get access to money.

Wave of Downgrades

Banks' plight could be about to get even worse, with analysts expecting a wave of credit ratings downgrades of major global lenders, making a return to unsecured markets unlikely in the short to medium term. Moody's for instance has said it will conclude a review of financial institutions by the end of June.

All this means a very real pressure to put up more collateral, both to secure funding and to continue trading with counterparties in financial markets. And the pressure on bank funding will only increase as new regulation forces banks to find and allocate extra collateral against various banks practices.

"A knock-on effect of the credit crisis is that regulators want the financial market to be more resilient and, to that end, they want all credit exposures to be collateralized," said Olivier de Schaetzen at settlement house Euroclear.

Policymakers in the United States and Europe are keen to pass reforms that will force complex debt instruments to trade more like shares and futures by using exchanges.

From next year, swaps and other derivative instruments — often worth hundreds of millions of dollars — will have to be channeled through exchange-backed clearing houses, which guarantee pay-outs in case any counterparty goes under.

Clearing houses in turn will require trading firms, including banks, to put up extra collateral so as not to expose themselves to heavy losses.

The U.S. national bank regulator has said the regulatory changes could increase the value of collateral by $2 trillion, an increase of 50 percent from current levels.

Said Mark Higgins, managing director of clearing and collateral management at BNY Mellon: "By most estimates firms are going to need many more billions or even trillions of extra collateral to meet their additional requirements."

Hardheaded Socialism Makes Canada Richer Than U.S.

7-15-12

Wow, Aussie and Canada are getting quite cocky as it appears that they are on a safe wicket. When the boom from the mining build out stops, just wait for the sucking sounds as they both move to recession. Aivars Lode

By Stephen Marche

On July 1, Canada Day, Canadians awoke to a startling, if pleasant, piece of news: For the first time in recent history, the average Canadian is richer than the average American. According to data from Environics Analytics WealthScapes published in the Globe and Mail, the net worth of the average Canadian household in 2011 was $363,202, while the average American household's net worth was $319,970. A few days later, Canada and the U.S. both released the latest job figures. Canada's unemployment rate fell, again, to 7.2 percent, and America's was a stagnant 8.2 percent. Canada continues to thrive while the U.S. struggles to find its way out of an intractable economic crisis and a political sine curve of hope and despair. The difference grows starker by the month: The Canadian system is working; the American system is not. And it's not just Canadians who are noticing. As Iceland considers switching to a currency other than the krona, its leaders' primary focus of interest is the loonie -- the Canadian dollar. As a study recently published in the New York University Law Review pointed out, national constitutions based on the American model are quickly disappearing. Justice Ruth Bader Ginsburg, in an interview on Egyptian television, admitted, "I would not look to the United States Constitution if I were drafting a constitution in the year 2012." The natural replacement? The Canadian Charter of Rights and Freedoms, achieving the status of legal superstar as it reaches its 30th birthday.

Canadian Luck

Good politics do not account entirely for recent economic triumphs. Luck has played a major part. The Alberta tar sands -- an environmental catastrophe in waiting -- are the third-largest oil reserves in the world, and if America is too squeamish to buy our filthy energy, there's alwaysChina. We also have softwood lumber, potash and other natural resources in abundance. Policy has played a significant part as well, though. Both liberals and conservatives in the U.S. have tried to use the Canadian example to promote their arguments: The left says Canada shows the rewards of financial regulation and socialism, while the right likes to vaunt the brutal cuts made to Canadian social programs in the 1990s, which set the stage for economic recovery. The truth is that both sides are right. Since the 1990s, Canada has pursued a hardheaded (even ruthless), fiscally conservative form of socialism. Its originator was Paul Martin, who was finance minister for most of the '90s, and served a stint as prime minister from 2003 to 2006. Alone among finance ministers in the Group of Eight nations, he "resisted the siren call of deregulation," in his words, and insisted that the banks tighten their loan-loss and reserve requirements. He also made a courageous decision not to allow Canadian banks to merge, even though their chief executives claimed they would never be globally competitive unless they did. The stability of Canadian banks and the concomitant stability in the housing market provide the clearest explanation for why Canadians are richer than Americans today. Martin also slashed funding to social programs. He foresaw that crippling deficits imperiled Canada's education and health- care systems, which even his Conservative predecessor, Brian Mulroney, described as a "sacred trust." He cut corporate taxes, too. Growth is required to pay for social programs, and social programs that increase opportunity and social integration are the best way to ensure growth over the long term. Social programs and robust capitalism are not, as so many would have you believe, inherently opposed propositions. Both are required for meaningful national prosperity.

Orderly Fairness

Martin's balanced policies emerged organically out of Canadian culture, which is fair-minded and rule-following to a fault. The Canadian obsession with order can make for strange politics, at least in an American context. For example, of all the world's societies, Canada's is one of the most open to immigrants, as anyone who has been to Toronto or Vancouver will have seen. Yet Canada also imposes a mandatory one-year prison sentence on illegal immigrants, and the majority of Canadians favor deportation. Canadians insist that their compassion be orderly, too. This immigration policy is neither "liberal" nor "conservative" in the American political sense. It just works. You could say exactly the same thing about Canada's economic policies. Canada has been, and always will be, overshadowed by its neighbor, by America's vastness and its incredible versatility and capacity for reinvention. But occasionally, at key moments, the northern wasteland can surprise. Two hundred years ago last month, the War of 1812 began. Thomas Jefferson declared, "The acquisition of Canada, this year, as far as the neighborhood of Quebec, will be a mere matter of marching." The U.S. was comparatively enormous -- with almost 8 million people, compared with Canada's 300,000. The Canadians nonetheless turned back the assault. Through good luck, excellent policy and even some heroism, Canada survived the war. But it has taken 200 years for Canada to become winners.

Aussie Banks Worth More Than Europe's Combined

8-17-12

Many of the Aussie banks have large operations overseas providing them with strong earnings. Aivars Lode

news.com.au

FOR the first time in history the value of Australian banks are now worth more than the Eurozone. The Commonwealth Bank made a net profit of almost $7.1 billion, the biggest ever reported by an Australian bank. That boils down to a daily profit of almost $19.5 million or more than $13,000 a minute. While ANZ has posted a $4.4 billion profit for the nine months to June, an increase of 10 per cent. CBA chief executive Ian Narev told the Adelaide Advertiser that he is "proud and not embarrassed" by the massive profit surge. He said the results boil down to strong Australian economy and the confidence of their shareholders.
"The people who own this group. . . 60 per cent of them are Australian households directly, that's 800,000 Australian families,
"Another 20 per cent of our shareholders are Australians who own them directly through their pension funds. "So the shareholders who we are doing well for are millions and millions of Australian households," said Mr Narev. ANZ's Australian, New Zealand and Asian operations, chief executive Mike Smith told news.com.au the group attributes their success to effective management of ongoing funding and competitive pressures. He also said ANZ had picked up market share in deposits, mortgages and business lending. Other financial analysts have said the massive profits can be explained by the fact that unlike European and American banks, Australia have not loaded up on subprime debt, bad real estate loans.

Dollar Bubble Faces the Needle

8-20-12

As I have discussed previously, Australia is in for a rocky ride as infrastructure projects come to a halt as Chinese cancel contracts for resources. Aivars Lode

By David Llewellyn-Smith

While global markets and the Australian media continue to celebrate a high Australian dollar, the truth is that the currency is facing weakening fundamentals. The prime culprit is iron ore, which is dragging down the terms of trade much faster than anyone in authority has predicted. In fact, our number one commodity export, which many grey beards of Australian economics have nominated as the primary cause of the high dollar, has fallen 20% in the last month and is down almost 40% on last year's highs. Iron ore by itself represents more than 20% of Australia's terms of trade so the recent falls constitute a 5% hit to the terms of trade. More worrying, however, is that there appears no immediate relief in site for the commodity. A technical analysis of iron ore shows a head and shoulders topping patterns on both the spot price and the 12 month swap price:

The downside targets implied by these charts are below $US100. Technical analysis is a tool not a forecast but the fundamentals look weak enough to take this seriously. An excellent report in the AFR this morning shows just how weak, with a series of bearish quotes from analysts: The managing partner of research firm J Capital in Beijing, Tim Murray, said that while official data indicated steel production was flat, he estimated it fell by as much as 10 per cent over the first 15 days of August. "This is the first indication of significant cuts," he said. "There are some seasonal factors at play, but the volume coming off is unusual." …But many analysts are doubtful existing stimulus measures will be enough to underpin demand. "The present malaise [in the iron ore market] is likely to continue for the rest of the year," CLSA commodities analyst Ian Roper said. …"The property and ship-building sectors are sluggish," said Qiu Yuecheng, a senior analyst at Xiben New Line, a steel trader. "Purchases of steel in Shanghai fell 15 per cent in July from the previous month." Since last year, there has been some offset to declining prices in rising volumes but there is little hope of that continuing in this environment. Chinese steel prices remain weak:

As are other marginal indicators, such as Chinese bulk shipping prices. Iron ore's twin is coking coal which is also used in the Chinese steel boom (between them they represent almost half of Australia's terms of trade). Coking coal also sold off again last week, down another 3% to $US177 in sympathy with iron ore. It is also 20% down since June. Still, according to ANZ, contract negotiations for the September quarter have gone better, yielding $US220 per tonne: Wesfarmer's 2011-12 financial year results showed coal production increased 23% to 12.4 million tonnes, driven by the successful expansion of coking coal output from Curragh. The company also announced it had mostly concluded September contract negotiations for coking coal, securing a 4% average increase in prices to USD220/t, which is about 27% higher than the current spot FOB prices (although other major producers struck at USD225/t). This suggests that coking coal prices are expected to improve in the coming quarter. Recently, the RBA claimed that, after the last few years of shifts to shorter term contract pricing, roughly half of iron ore volumes are now sold in the spot market. Similar changes in contract pricing have occurred in coal markets. Putting all of this together, we can say that the bulk commodities alone have dealt a blow to the terms of trade (ToT) in the upper single digits in the couple of months with further damage done to real export revenues by the recent bubble in the dollar. This is coming on top of a similar fall in the second half of last year and is a much faster retracement than the 6% fall in the terms of trade forecast in the Budget for all of the 2012/13 year. Unless imports also reverse (which is very unlikely) Australia's trade and current account deficits will blow out throughout the second half. Gross national income has fallen for consecutive quarters and will retrench further. Cancellations of iron ore and coal capex projects will accelerate and by the time we get to the MYEFO in November the government will be looking for a big new round of spending cuts if it wants to deliver its projected surplus. Unemployment is going to slowly rise. Calls made last week that we've seen the bottom of this rate cycle are premature, to say the least. The dollar is a bubble.

Deutsche Bank Warns of Australian Recession Risk

8-21-12

As I have discussed previously, Deutsche bank predicts of Australian Recession. Aivars Lode

Wall Street Journal

SYDNEY—One of Europe's biggest banks on Tuesday warned against the growing risk of recession in Australia in 2013, as prices for commodities such as iron ore and coal spiral lower.
The warning by Deutsche Bank DBK.XE +5.09% comes amid rising concern that Australia's mining investment boom, which has insulated the commodity-rich economy from a global slowdown, is waning, leading to mine expansions being scaled back and mounting job losses.

Deal Journal
Policy makers are "dangerously complacent" about the risk now arrayed against the 1.4 trillion Australian dollar (US$1.5 trillion) economy, which relies heavily on prices paid for its biggest exports—iron ore, coal and gas—for its prosperity.

Australia's terms or trade, or the difference between what the country is paid for exports and what it pays for imports, may collapse by as much as 15% in 2012, said Adam Boyton, Deutsche Bank chief economist in Australia.

"Over the past 50 years such declines in the terms of trade have been seen only five times. In three out of those five instances the economy entered recession," he said, adding that there was "overconfidence that the investment pipeline is locked in."

An investment pipeline valued at close to A$500 billion is expected support economic growth over coming years, but cracks are increasingly showing in the country's mining industry.

Prices for exports of coal and iron ore have slipped to multiyear lows as growth has cooled in China, the country's biggest trading partner.

Problems for Australia's exporters are being deepened by a soaring Australian dollar, which is near 30-year highs as the world's central banks seek a haven for currency reserves in the country's triple-A-rated bonds. Calls have gone out for the Reserve Bank of Australia to weaken the currency either through interest-rate cuts or direct market intervention.

Mr. Boyton said a sharp drop in the terms of trade would have immediate consequences for the mining investment pipeline.

"History would counsel some caution on the investment outlook. Indeed, an average response to a circa 15% decline in the terms of trade would see business investment falling in year over year terms by early 2013," Mr. Boyton added.

The assessment stands in contrast to the upbeat one by the RBA, which earlier this month raised its forecast for economic growth in 2012 to 3.5% from 3.0%.

With confidence flagging, RBA Gov. Glenn Stevens has called on business and consumers to start to seeing Australia's economic position as a "glass half full."

The RBA said Tuesday it expected the mining investment boom to peak during 2013-14, but added the timing of the peak was uncertain.

Also Tuesday, corporate insolvencies hit a record in the year to June 30, according to the Australian Securities and Investment Commission. Mining states are among the worst hit, it said.

"We see one of the mining boom states, Queensland, showing one of the most dramatic increases in corporate failures," ASIC said. "Western Australia's financial year company failure figure is also the highest on record for that state."

Chapter 6

Technology's Effect on the Economy

Introduction

The majority of technology that runs the world tends to have been created in the USA and then copied by the rest of the world. It is interesting that Fujitsu would test the US market by deploying it's new hardware and software in Australia before releasing it to the rest of the world. When I worked at Dun and Bradstreet Software I sold the first two new Client Server sites before there were any anywhere else in the world. When I ran Oracle's ERP software group I had 250 of the latest enterprise software sites before there were any adopted in production anywhere else in the world. I can cite many examples of this phenomenon. Why would New Zealand and Australia adopt these technologies first? The Aussies were looking for efficiencies and competitive advantages initially because Australia is a huge land mass with a small population, and secondly because of the recession that occurred in the 90's. As Australia has a small population, there is not the scale to support the development of specific software as you would find in the USA. However New Zealanders and Aussies are voracious consumers of software. In addition, because of the size of the population, decisions and implementation are quicker; therefore in many cases New Zealand and Australia are more than a decade ahead of the deployment of software developed in the USA. So, if you want to see what the future looks like for governments and enterprises following full deployment of systems to run these large enterprises you only have to look at New Zealand and Australia to have an idea of what is in store for the next decade.

New Mountain Capital Acquires Red Prairie

02-23-10

I wonder if there is similarity to what happened in the housing market not so long ago, when one private equity firm buys a business from another private equity firm? Individuals bought houses to flip and when the market crashed they were stuck with an asset that was not worth what they paid. Aivars Lode

By PE Hub

RedPrairie Holding, Inc., a logistics consultancy company based in Milwaukee, has agreed to be acquired by **New Mountain Capital, L.L.C.**, a New York-based private equity firm, for an undisclosed amount. The company, owned by Francisco Partners, filed for a $172.5 million IPO in November 2009. The company had approximately **$194 million** in revenue for the first nine months of 2009, and net income of **$12.45 million**. Francisco Partners acquired RedPrairie in 2005, and currently holds an 89.7% equity position.
Press release:
RedPrairie Holding, Inc., a productivity solutions provider, announced today that it has entered into a definitive agreement to be acquired by a fund affiliated with New Mountain Capital, L.L.C., a leading private equity firm. This acquisition will enable RedPrairie to accelerate its already rapid growth rate while enhancing its commitment to customer success.

"RedPrairie has a strong vision, proven set of solutions and talented management team. I believe RedPrairie and New Mountain Capital will be a great combination. I wish them continued success."
"Our objective is to be the leading provider of productivity solutions for manufacturers, distributors and retailers," says **Mike Mayoras**, RedPrairie CEO. "Our relationship with New Mountain Capital will allow us to reach our strategic goals quickly, efficiently and with certainty. We believe there are significant opportunities to provide more value to our customer base by expanding our product portfolio and entering new markets."
Alok Singh, Managing Director of New Mountain Capital, states, "We are delighted at the prospect of being able to add RedPrairie to our family of companies. They have consistently, over their long history, been committed to the success of their customers. We aim to work closely with RedPrairie's management team and help them accelerate their growth and strategic development, making them an even more valued partner to their customer base."
Says **David R. Golob**, Chairman of the RedPrairie Board of Directors and Partner at Francisco Partners, "RedPrairie has a strong vision, proven set of solutions and talented management team. I believe RedPrairie and New Mountain Capital will be a great combination. I wish them continued success."

About New Mountain Capital
New Mountain Capital is a New York-based private equity firm investing for long-term capital appreciation through direct investment in growth equity transactions, leveraged acquisitions, and management buyouts. The Firm currently manages private and public equity funds with approximately $8.5 billion in aggregate capital commitments. New Mountain seeks out the highest-quality growth leaders in carefully selected industry sectors and then works intensively with management to build the value of these companies.

ABOUT REDPRAIRIE
RedPrairie delivers productivity solutions to help companies around the world in three categories - workforce, inventory and transportation. RedPrairie provides these solutions to manufacturers, distributors and retailers looking to support business strategies that increase revenue, reduce costs and create competitive advantage.
With over 20 global offices and solutions that are installed at more than 34,000 customer sites in

over 40 countries, companies trust RedPrairie workforce, inventory and transportation solutions to deliver an increase in productivity - with the flexibility to adapt as business needs change.
At RedPrairie, we understand today's operational demands and we're committed to delivering solutions that work. We're committed to delivering solutions for the real world.

The USA Government is Reviewing an Australian Program

10-19-10

Interesting that this is being acknowledged in the press. Another instance where there is something to learn from those that have seen it before. Aivars Lode

By Associated Press

The government is reviewing an Australian program that will allow Internet service providers to alert customers if their computers are taken over by hackers and could limit online access if people don't fix the problem.

Obama administration officials have met with industry leaders and experts to find ways to increase online safety while trying to balance securing the Internet and guarding people's privacy and civil liberties.

Experts and U.S. officials are interested in portions of the plan, set to go into effect in Australia in December. But any move toward Internet regulation or monitoring by the U.S. government or industry could trigger fierce opposition from the public.

The discussions come as private, corporate and government computers across the U.S. are increasingly being taken over and exploited by hackers and other computer criminals.

White House cyber coordinator Howard Schmidt told The Associated Press that the United States is looking at a number of voluntary ways to help the public and small businesses better protect themselves online.

Possibilities include provisions in the Australia plan that enable customers to get warnings from their Internet providers if their computer gets taken over by hackers through a botnet.

A botnet is a network of infected computers that can number in the thousands, and that network is usually controlled by hackers through a small number of scattered PCs. Computer owners are often unaware that their machine is linked to a botnet and is being used to shut down targeted Web sites, distribute malicious code or spread spam.

If a company is willing to give its customers better online security, the American public will go along with that, Schmidt said.

"Without security you have no privacy. And many of us that care deeply about our privacy look to make sure our systems are secure," Schmidt said in an interview. Internet service providers, he added, can help "make sure our systems are cleaned up if they're infected and keep them clean." But officials are stopping short of advocating an option in the Australian plan that allows Internet providers to wall off or limit online usage by customers who fail to clean their infected computers, saying this would be technically difficult and likely run into opposition.

"In my view, the United States is probably going to be well behind other nations in stepping into a lot of these new areas," said Prescott Winter, former chief technology officer for the National Security Agency, who is now at the California-based cybersecurity firm, ArcSight.

In the United States, he said, the Internet is viewed as a technological Wild West that should remain unfenced and unfettered. But he said this open range isn't secure, so "we need to take steps to make it safe, reliable and resilient."

"I think that, quite frankly, there will be other governments who will finally say, at least for their parts of the Internet, as the Australians have apparently done, 'we think we can do better.'"

Cybersecurity expert James Lewis, a senior fellow at the Center for Strategic and International Studies, said that Internet providers are nervous about any increase in regulations, and they worry about consumer reaction to monitoring or other security controls.

Online customers, he said, may not want their service provider to cut off their Internet access if their computer is infected. And they may balk at being forced to keep their computers free of botnets or infections.

But they may be amenable to having their Internet provider warn them of cyberattacks and help them clear the malicious software off their computers by providing instructions, patches or anti-virus programs.

They may even be willing to pay a small price each month for the service - in much the same way that telephone customers used to pay a minimal monthly charge to cover repairs.

Lewis, who has been studying the issue for CSIS, said it is inevitable that one day carriers will play a role in defending online customers from computer attack.

Comcast Corp. is expanding a Denver pilot program that alerts customers whose computers are controlled through a botnet. The carrier provides free anti-virus software and other assistance to clean the malware off the machine, said Cathy Avgiris, senior vice president at Comcast.

The program does not require customers to fix their computers or limit the online usage of people who refuse to do the repairs. Avgiris said that the program will roll out across the country over the next three months.

"We don't want to panic customers. We want to make sure they are comfortable. Beyond that, I hope that we pave the way for others to take these steps."

Voluntary programs will not be enough, said Dale Meyerrose, vice president and general manager of Cyber Integrated Solutions at Harris Corporation.

"There are people starting to make the point that we've gone about as far as we can with voluntary kinds of things, we need to have things that have more teeth in them, like standards," said Meyerrose.

For example, he said, coffee shops or airports might limit their wireless services to laptops equipped with certain protective technology. Internet providers might qualify for specific tax benefits if they put programs in place, he said.

Unfortunately, he said, it may take a serious attack before the government or industry impose such standards and programs.

In Australia, Internet providers will be able to take a range of actions to limit the damage from infected computers, from issuing warnings to restricting outbound e-mail. They could also temporarily quarantine compromised machines while providing customers with links to help fix the problem.

Hacking At Citi Is Latest Data Scare

6-9-11

This article talks about how to prevent the hacking. If you have a look at Australia and the different techniques they are using to thwart hacking, would the banks find the answers to the questions this article poses? Aivars Lode

By Victoria McGrane and Randall Smith, Wall Street Journal

Citigroup Inc. plans to send replacement credit cards to about 100,000 North American customers after its systems were breached by a hacking attack affecting about 200,000 accounts.

Citi said on Thursday that the hacked accounts amounted to about 1% of its 21 million North American card customers and that it has referred the incident to law enforcement. The bank said it is contacting affected customers and has implemented procedures to prevent a recurrence.

The cyber intruders were able to access information including holders' names, account numbers and email addresses, Citi said. But the breach, which was discovered in early May and is the latest in a series of hacking attacks against companies, didn't compromise additional personal information such as Social Security numbers, dates of birth, or card security codes or expiration dates. The bank didn't rule out that fraudulent activity might have taken place following the attack but said Citi's debit cards weren't affected. Citi didn't say when the attacks occurred.

Experts estimate the cost of replacing credit cards is as high as $20 apiece.

Citigroup's action in reporting the problem within weeks and replacing most of the cards appears to be an aggressive response. In an episode earlier this year at Michaels Stores Inc., thieves tampered with card- processing equipment as early as February, but more than a hundred customers didn't find out until three months later that their accounts were being looted. Once Michaels learned of the situation in May, the crafts store says it made a prompt public disclosure and replaced the equipment.

The Citi breach comes on the heels of other similar attacks, raising concerns among financial regulators and security experts that banks and other companies aren't doing enough to protect themselves and their customers.

Other recent incidents have hit range of companies, including Sony Corp. and Lockheed Martin Corp., but security experts say financial institutions remain a top target for cybercriminals. "The most sophisticated hackers in the world target banks, and they target government agencies," said Tom Kellermann, a former World Bank cybersecurity official and current chief technology officer at AirPatrol Corp., a Maryland-based wireless-security firm.

Security experts—whose business it is to advise and provide security to corporations and the government—say banks also need to strengthen the authentication procedures they use to identify consumers and employees who access accounts or a firm's network. Criminals increasingly are targeting such authentication credentials. The rise of mobile-banking technologies makes this vulnerability more acute, say security experts.

Regulators agree. A group that includes the Federal Reserve, the Federal Deposit Insurance Corp. and the Office of the Comptroller of the Currency, months ago started work updating 2005 guidance on how banks can best authenticate the identity of customers accessing Internet-based financial accounts.

The attacks have lawmakers worried, too. Senate Banking Committee Chairman Tim Johnson (D., S.D.) is planning a hearing to examine data security in the financial-services industry, according to a Senate aide.

Citibank's peers defended the strength of their security.

"We are aware of the attack at Citi," Wells Fargo & Co. said in a written statement. "Security is core to our mission, and safeguarding our customers' information is at the foundation of all we do."

A J.P. Morgan Chase & Co. representative said, "Chase is unaffected by the incident involving our competitor," declining to comment further.

"We constantly evaluate the security of our systems, including all potential threats, and take appropriate steps to keep information secure," Bank of America Corp. said in a written statement.

A recent breach involving RSA Security, the company that provides security tokens used by millions of workers to access their company's computer systems, set off alarms for banking regulators, said people familiar with the situation. Not only do scores of banks use the tokens for their employees, but some banks also offer them to customers as a way to secure Internet banking activities.

The RSA event was discussed among banking regulators, the Treasury Department and the Department of Homeland Security, according to people familiar with the matter, and the Federal Reserve and the FDIC raised the issue with the banks they oversee.

The Citi incident and the RSA breach speak "to how sophisticated the bad guys have gotten," said David Robertson, of the Nilson Report, a newsletter about credit cards in Carpinteria, Calif. He added that RSA "is like Fort Knox. If RSA can get hacked, anybody can get hacked."

RSA said it is working with its customers to assess their risks. It has offered to provide customers with monitoring services or to replace tokens.

Banks including Citi are pushing for greater use of new wireless technologies. But the more consumers use devices such as iPhones, iPads, and Android-enabled phones for financial services, the more enticing mobile devices become for cybercriminals.

Officials at Citi in particular have talked up the future of online banking access. Citi has about one-sixth as many branches as its chief rivals J.P. Morgan and Bank of America Corp. At a recent panel, Tomasz Smilowicz, global head of mobile solutions at Citi's transaction-services unit, said processing payments through a mobile device compares favorably for merchants with the cost of handling cash, which can include using armored cars and guards to transport money.

Security officials say an infected application downloaded on a phone can be designed to take over a smartphone. When the user then logs on to his bank account with the phone, the hacker could steal the user's bank credentials. Many mobile-banking apps don't account for a phone being compromised, said Jason Rouse, a wireless security expert with Cigital, a software consulting firm.

"We're very comfortable that the way we're managing mobile makes this actually a very safe and secure channel," said Jack Stephenson, J.P. Morgan Chase's managing director for mobile e-commerce and payments. The number of registered users of the bank's various mobile-banking offerings has more than tripled since January 2010, from three million to 10.5 million last month, with about five million users active every month, he said. Mr. Stephenson said it is true that mobile banking introduces new threats, and that attacks will keep coming, but that "the ways you can prevent those threats are a lot deeper and richer on mobile devices."

Spirit Way Expects Continuing Growth, While Keeping Costs Low

7-11-11

As discussed in this blog many times, cost cutting will become a greater focus in more and more industries as growth is elusive and there is a focus on stable dividends. Aivars Lode

By Hannah Sampson, Miami Herald

Spirit Airlines, now a public company, expects to keep growing and making money by trading high fees for low fares and keeping costs to a minimum.
Taking stock
Spirit Airlines went public on May 26, selling 15.6 million shares at $12 each. Here's how the stock is faring now:
• Price per share at the close of trading Friday: $13.71.
• Market capitalization on Friday: $984.71M.

Spirit by the numbers
• 35 planes now
• 33 planes on order
• 46 destinations: 20 in the U.S., 13 in the Caribbean; 13 in Latin America
• 2,385 employees
• 58 consumer complaints to the Department of Transportation in May
• $243.3 million generated in non-ticket revenues in 2010
• $77 average base fare in 2010

Selling Spirit
Spirit sells advertising pretty much everywhere. According to the company pitch to potential advertisers, buying space for three months costs as follows:
• 1 exterior plane wrap (for a year): $400,000
1,234 overhead bins: $196,000
• 4,698 tray tables: $119,000
• 700 aprons: $19,000
• 50,000 air sick bags: $18,500
• 150,000 styrofoam cups: $16,000
Source: Spirit Airlines

What fees passengers can expect to pay on Spirit
Standard passengers can count on the following fees; discounts are available for members of the $9 Fare Club:
• Boarding pass: $5 if printed by an agent starting Nov. 1; free from home
• Seat assignments: $10, $14, $18 depending on the location or $25 for exit rows
• Carry-on bags: $30-$45
• First checked bag: $28-$38 for domestic flights
• Overweight bags: $25 more for 1-10 extra pounds; $50 more for 11-30 extra pounds
• Bigger front seat: $25-$75
• Animal crackers: $2
• Water, juice or soda: $3
• Travel insurance: $14

Standing before a luggage scale at Fort Lauderdale-Hollywood International Airport, Rita Coskey was not happy with Spirit Airlines. As she struggled to lighten her overweight suitcase — and avoid total baggage fees of $63 — the 25-year-old New Yorker renewed her vow to avoid the low-fare, fee-

intensive airline for future travel. "I remember saying the same thing, I'll never fly them again," Coskey said. "When I saw it was cheap, I forgot all that."
It's not that CEO Ben Baldanza doesn't care about such complaints. But, he wonders, what do customers like Coskey expect? "No one gets surprised when you go into McDonald's and don't see filet mignon on the menu," he said.
Spirit Airlines is unapologetically not filet mignon. The company prides itself on keeping costs low, offering the cheapest fares around and charging high fees for extras as basic as carry-on luggage and agent-printed boarding passes.
That low-cost ethos trickles all the way up to the company's humble headquarters in Miramar, where there is no receptionist, employees take out their own trash and the overhead lights operate on a minimum number of light bulbs when they're even used.
"We try to not spend money on things that our customers don't really care about," Baldanza said. "Our customers don't care how nice my office is or how palatial our headquarters are."
While alienating some fliers, the no-amenity strategy has kept the company profitable since 2007. Spirit saw a net income of $7.9 million for the three months that ended March 31 — a stretch when the country's five biggest airlines reported a loss of more than $1 billion combined.
Despite a weaker-than-expected initial offering of public stock in late May, the company that uses SAVE as its stock symbol is earning admiration from Wall Street.
"SAVE is the newest business model in town with absolutely no frills, small enough to grow capacity by 17 percent per year through 2015, and even lower unit costs than [JetBlue] and [Southwest], which should enable SAVE to profitably stimulate demand in new/existing markets through discounting tickets 1/3 below competitors," wrote Citigroup analyst Will Randow in a July 5 investment advice note.

CHANGING DIRECTIONS

Spirit's business model may be relatively new, but the firm itself dates back nearly five decades, when it was founded as Clippert Trucking Company. Over the years, it became a charter tour operator, air charter and eventually a scheduled passenger airline called Spirit.
Spirit chose Fort Lauderdale-Hollywood International Airport as its base in 2004 because of its low costs and proximity to Caribbean and Latin American destinations. Today, the airline is Fort Lauderdale's largest carrier, with 19 percent of total passenger traffic for the first five months of 2011.
The move to a low-cost approach came after investment management corporation Oaktree Capital Management gained control of the company following investments in 2004 and 2005. Indigo Partners, a private equity fund with stakes in five other discount airlines around the world including Tiger Airways, Volaris and Avianova, acquired a majority stake in 2006.
Spirit started shifting to a model the company calls "ultra low cost" after Indigo took majority ownership, using as an example Ireland's much-criticized but historically successful budget carrier Ryanair. On Ryanair, base tickets may cost only a few dollars, but nearly everything else costs extra – including checked baggage, reserved seats and paying by means other than the company's approved debit card.
For Spirit, a similar strategy has been the flight path to profits.
Since 2006, non-ticket revenue per passenger flight segment has mushroomed 600 percent. That revenue includes Spirit's credit card, annual subscription to a club that allows access to the lowest rates and sales of advertising aboard planes.
And yes, fees, where Spirit is the industry leader. It was one of the first U.S. carriers to charge for checked bags in 2007 — a practice that even many legacy carriers have since adopted. And in 2010, Spirit pioneered charges for carry-on bags too big to fit under the seat.
The airline ranked first last year among 20 carriers in fees as a percent of total operating revenue. According to government statistics, Spirit charged more than $104 million in bag and reservation change fees in 2010, accounting for 13.4 percent of its total operating revenue of nearly $780 million. All told, U.S. airlines last year collected almost $5.7 billion from those two categories of fees.
Recently, Spirit announced that boarding passes printed at the airport by an agent would cost $5 starting Nov. 1. But the airline emphasized that printing at home and at kiosks for the next year would be free, and base fares would be reduced by $5.

The fee-heavy strategy and other service practices related to Spirit's tight cost structure have prompted rants on social media and user review sites such as Yelp. Complaints about long airport waits, delayed flights, poor service, cramped seats and fees for items as basic as water on a plane are common.

Countered Baldanza: "You're going to think I'm a jerk when I say the next thing, but if you have some sort of medical condition that requires you take a certain pill at 2 in the afternoon and you're going to be on the plane at 2 in the afternoon, I think it's going to be OK to expect that people are going to be responsible enough to make sure that they can take that pill." In other words, pay the $3 for a bottle of water on board, or bring your own — though you'll need to purchase that after you pass through security.

Not all of its practices have passed government inspection, however. Spirit was ordered by the Department of Transportation to pay a $375,000 fine in 2009 for its procedures for bumping passengers from oversold flights and its handling of lost or damaged baggage, though the company only had to pay $215,000. The airline is now challenging some new DOT consumer protection rules.

MAKING TRADEOFFS

"They don't want to be loved," said George Hobica, founder of travel site Airfarewatchdog.com. But, he said: "Nobody beats them pricewise — even with the fees."

Still, when it comes to more extreme ideas floated by Ryanair CEO Michael O'Leary — such as charging for bathroom use and having passengers carry their own checked bags to the plane — Baldanza, who made $607,360 last year, says no.

"In terms of what we're willing to charge for, it's really when we can make something an option," he said. "We're not going to charge for bathrooms because we don't think bathrooms are optional."

Baldanza said he only considers adding fees that customers can avoid if they change behavior.

"If you behave in a way that saves Spirit money, we'll let you save that money," he said. "If you behave in a way that costs us money,

Over the past five years, he said, Spirit's average base fare has dropped from $104 to $77 while fees have gone up from $5 to $35. The overall increase, he said, amounts to $3.

Robert Mann, president of airline industry analysis firm R.W. Mann & Company, gives Spirit credit for that tradeoff. He said most airlines add costs without giving customers anything in return.

"When they talk about cutting the cost of something, a lot of that actually gets delivered to customers in the form of lower base fares," he said.

Spirit uses the "ultra low cost" moniker to distinguish itself from low-cost airlines such as Southwest and JetBlue. Those airlines win customers with prices that are often — but not always — cheaper than larger legacy carriers and passenger-friendly perks such as free checked bags, TVs and comfy seats.

"On JetBlue you're going to have more leg room and you're going to be able to watch a TV, which are both very nice things," Baldanza said. "But on Spirit, our fares are going to be lower."

Spirit crams in the most seats allowed by the government, so they're more fuel efficient and cost-effective. But seat pitch is less than the industry average for economy class, and comfort is a secondary concern. Aircraft are utilized nearly 13 hours a day on average.

The bottom line, according to Citigroup's Randow, is that Spirit's cost per available seat mile is over 30 percent lower than the industry average, six percent below Southwest's and 24 percent lower than JetBlue's. That math includes adjustments for stage length, or the length of an airline's average flight.

Spirits now flies 35 planes — all Airbus A319, A320 or A321 models — to 46 U.S., Caribbean and Latin American destinations, and has another 33 aircraft on order for delivery by 2015. The average fleet age is four years, which keeps maintenance costs low for now. The company's past model has been to lease its planes; Baldanza said Spirit hasn't yet committed to how it will finance upcoming deliveries.

Future routes haven't yet been announced, but Baldanza said the ideal destinations will already be served by airlines that charge high fares and operate at higher costs.

"When those are the case, we generally find that we can go in and lower the fares, stimulate the market, create more people flying," he said. "We're trying to grow the market with lower fares."

The company is looking for balanced growth both in the U.S. and internationally; in June, the airline announced new routes from Las Vegas and Chicago as well as flights to Toluca, Mexico and San Salvador in El Salvador from Fort Lauderdale.

Company filings with the U.S. Securities and Exchange Commission indicate that the Caribbean and Latin America are principal target growth markets for both leisure travelers and price-sensitive customers who want to visit friends and family back home.

That segment is key to an airline's survival in rocky economic times, said Ray Neidl, aerospace specialist at investment bank brokerage Maxim Group.

"It's the bottom economic strata; a lot of ethnic traffic that goes home that is very price conscious," Neidl said. "People want to go home and they will pay, good times or bad."

Corporate travelers whose companies might pay for travel or who just want a more comfortable flying experience are not Spirit's key market.

Guys like Bruce Lamberto, on the other hand, fit their profile perfectly. He watches for sales, uses the Spirit credit card to earn mileage, and belongs to the $9 Fare Club so he can access the cheapest routes.

To avoid baggage fees, the City of Miami Beach employee carries a bag small enough to fit under the seat in front of him, which is free. And he keeps his expectations low — not a bad idea when the airline you fly had a 73.1 percent on-time performance in 2010, compared to an average of 79.8 percent for 18 U.S. carriers.

"It's a tradeoff," Lamberto said. "You want to fly for cheap, that's what you get for cheap."

Lamberto uses Spirit for regular trips to Panama, a route that used to cost $400 or $500 and now costs about $250. He flew with his son and girlfriend to Niagara Falls recently for $152, total.

"I'm not like a big fan of them, but where can you go for those kinds of fares?" asked Lamberto, 49. "I'm glad they exist."

His only major complaint about Spirit came last summer, when a pilot strike grounded flights for five days.

Thousands of passengers were affected, and the strike was a blow to the company's coffers as well. Operating income dropped from $111 million in 2009 to nearly $69 million in 2010 due to the strike and cost of fuel. Net income fell from $83.7 million in 2009 to $72.5 million in 2010, though that would have been much lower without a one-time $52 million tax benefit unrelated to the strike.

Spirit's low labor costs help them stay profitable, said Robert Herbst, founder of AirlineFinancials.com. The carrier pays 20 percent of its total revenue for wages and benefits, among the lowest in the industry.

With a new contract in place through 2015 that includes pay raises, pilots are happier employees, said Capt. Sean Creed, head of the Spirit unit of the Air Line Pilots Association.

"We're happy that a lot of the provisions we negotiated, we've seen those come to fruition and made our lives a lot better," he said.

Flight attendants

But the situation with flight attendants remains tenuous. Negotiations have been ongoing for almost four years, with a couple of pauses. Flight attendants are looking for raises and changes to benefits and work rules.

Todd St. Pierre, president of the Spirit Airlines chapter of the Association of Flight Attendants, said the relationship between management and flight attendants is "getting strained." He said he and colleagues are looking forward to settling a contract and moving forward.

"We have tremendous growth plans — more planes coming, more destinations," St. Pierre said. "And the flight attendants are really looking forward to being part of the growth."

To help fund that growth and pay down debt, the company went public in late May. Initially hoping to sell 20 million shares for $14-$16 a piece, they scaled back expectations in light of high fuel costs and a tough market for initial public offerings. Spirit ended up selling 15.6 million shares for $12, raising $187.2 million.

Oaktree now owns 40 percent of the company, Indigo 31.5 percent and the public nearly 22 percent.

Baldanza said the stock offering, which allowed the company to pay off debt and take $150 million to its balance sheet, was the right move. The company's first earnings release is scheduled for July 28.

"All in all, the deal got done in a time when a lot of people maybe thought you couldn't get an airline sold with the high fuel-price environment," he said.

Neidl, the Maxim Group analyst, said the offering wasn't sold well and came at a bad time — but he

thinks the future shows promise as long as Spirit can hold the line on costs other than fuel.
"They've got a model that seems to work in good times and bad times," he said. "As long as they can keep working that model, they probably have discovered a nice little niche that they can grow in and maintain profitability."
In addition to staying disciplined with costs, Spirit needs to communicate its message effectively, Mann said.
"You have to have the ability to capitalize on your low fares by being active out there in the market – and for a variety of creative reasons, Spirit has some pretty good awareness," he said.
The airline spent less than one percent of its total revenues on advertising last year, relying instead on a "low-cost, viral marketing strategy incorporating provocative, edgy content," according to the company's SEC filings.
Spirit gets free press by sending out provocative sale emails to a distribution list that numbers more than 5 million. The company has gained notoriety by poking fun at the indiscretions and criminal misdeeds of politicians, actors and sports figures, most recently former U.S. Rep. Anthony Weiner and former Illinois Gov. Rod Blagojevich.
"There seems to never be a shortage of celebrities screwing up," said chief marketing officer Barry Biffle.
The most important part of the company's marketing strategy, said Baldanza, is to drive customers to the website with the promise of cheap fares. Once customers are hooked, the company knows it has to prepare them for the experience.
"We don't want people to be surprised at all when they fly Spirit," Baldanza said.
Ralph Shields and his wife, son and daughter were a little taken aback when they had to pay $200 in baggage fees during a trip from Washington, D.C. to St. Thomas that took them through Fort Lauderdale.
But Shields, of Maryland, said he had been fairly warned.
"As much as I'd like to say they nickel-and-dime you to death, I knew what was there," he said. "Their website said exactly what it was."
Despite the fees — which he acknowledged would have been levied in some form on most other airlines — Shields said the final cost for the vacation still probably worked out cheaper than any other option.
Sounding much like the airline he was flying, Shields said: "We're very frugal."

Software and IT: Incremental European Weakness Begins; US Unlikely to Pick up Slack

8-11-11

This will represent opportunities for us.... Aivars Lode

By JP Morgan North America Equity Research

We believe Software and IT spending will weaken further in the European region over the next several periods due to the outsized contribution from struggling governments there. We do not expect the US to pick up the global slack, as the US government also deals with economic and political issues, and data suggests waning improvement in the private sector.
• European and US Governments Represent a Significant 20-25% of Worldwide IT spending. This includes 10-15% from European governments and 8-10% from the US public sector.
• Europe's Only Just Begun. Per our prior reports, it is logical that we would see incremental weakness in Europe starting mid year due to the outsized contribution to IT spending from governments there and timing around fiscal years. We expect further weakness from indirect government spending to be layered on over the next several periods.
• US Unlikely to Offset Europe. As US fiscal programs expire without spurring a meaningful private sector recovery, we anticipate reduced domestic government spending around new State and Federal

fiscal years (Jul and Oct, respectively). However, incremental Federal Government intervention could further delay this impact.
• Though All Tech is Vulnerable, Software is Better Positioned. We continue to believe that investors will be better positioned in Software relative to other parts of IT primarily because of its highly recurring and highly profitable maintenance revenue stream. In addition, we prefer some Small-Mid cap names (LOGM, SWI, TLEO) given their lower exposure to Europe and/or value names (QSFT, CA, SYMC, ORCL) for safety.
• High Valuations and/or European Exposure = High Risk. Alternatively, we believe CTXS, CRM, PRO, RHT, and VMW could be at risk given their valuations and/or European exposure. While QLIK and TIBX have relatively high valuation multiples and disproportionately high European exposure (which will likely weigh on the shares), we believe company-specific factors might help to offset this in reported numbers. While MSFT and BMC may appear inexpensive, neither company has much prospect for growth, and there is a valid negative secular story for MSFT.
• Within This Context, We Prefer the Following Stocks in Other Tech Sectors: Software Technology Analyst Sterling Auty is positive on AZPN and SNPS, and cautious on ADSK and ANSS. European Software and IT Services Analyst Stacy Pollard is positive on SAP, AMS, and MSY, and cautious on LOG, IDR, CAP, and SOW. IT Hardware Analyst Mark Moskowitz is positive on AAPL, EMC, IBM, and NTAP, and cautious on DELL and XRX. Computer Services and IT Consulting Analyst Tien-Tsin Huang is positive on ACN and CTSH, and cautious on CSC. Communications Equipment & Data Networking Analyst Rod Hall is positive on QCOM, and cautious on CSCO.

Why Software Is Eating The World

8-21-11

I have nothing to add except what a great dissertation. Aivars Lode

By Marc Andreessen, Published in Wall Street Journal

This week, Hewlett-Packard (where I am on the board) announced that it is exploring jettisoning its struggling PC business in favor of investing more heavily in software, where it sees better potential for growth. Meanwhile, Google plans to buy up the cellphone handset maker Motorola Mobility. Both moves surprised the tech world. But both moves are also in line with a trend I've observed, one that makes me optimistic about the future growth of the American and world economies, despite the recent turmoil in the stock market.
In an interview with WSJ's Kevin Delaney, Groupon and LinkedIn investor Marc Andreessen insists that the recent popularity of tech companies does not constitute a bubble. He also stressed that both Apple and Google are undervalued and that "the market doesn't like tech."
In short, software is eating the world.
More than 10 years after the peak of the 1990s dot-com bubble, a dozen or so new Internet companies like Facebook and Twitter are sparking controversy in Silicon Valley, due to their rapidly growing private market valuations, and even the occasional successful IPO. With scars from the heyday of Webvan and Pets.com still fresh in the investor psyche, people are asking, "Isn't this just a dangerous new bubble?"
I, along with others, have been arguing the other side of the case. (I am co-founder and general partner of venture capital firm Andreessen-Horowitz, which has invested in Facebook, Groupon, Skype, Twitter, Zynga, and Foursquare, among others. I am also personally an investor in LinkedIn.) We believe that many of the prominent new Internet companies are building real, high-growth, high-margin, highly defensible businesses.
Today's stock market actually hates technology, as shown by all-time low price/earnings ratios for major public technology companies. Apple, for example, has a P/E ratio of around 15.2—about the same as the broader stock market, despite Apple's immense profitability and dominant market position (Apple in the last couple weeks became the biggest company in America, judged by market capitalization, surpassing Exxon Mobil). And, perhaps most telling, you can't have a bubble when

people are constantly screaming "Bubble!"
But too much of the debate is still around financial valuation, as opposed to the underlying intrinsic value of the best of Silicon Valley's new companies. My own theory is that we are in the middle of a dramatic and broad technological and economic shift in which software companies are poised to take over large swathes of the economy.
More and more major businesses and industries are being run on software and delivered as online services—from movies to agriculture to national defense. Many of the winners are Silicon Valley-style entrepreneurial technology companies that are invading and overturning established industry structures. Over the next 10 years, I expect many more industries to be disrupted by software, with new world-beating Silicon Valley companies doing the disruption in more cases than not.
Why is this happening now?
Six decades into the computer revolution, four decades since the invention of the microprocessor, and two decades into the rise of the modern Internet, all of the technology required to transform industries through software finally works and can be widely delivered at global scale.
Over two billion people now use the broadband Internet, up from perhaps 50 million a decade ago, when I was at Netscape, the company I co-founded. In the next 10 years, I expect at least five billion people worldwide to own smartphones, giving every individual with such a phone instant access to the full power of the Internet, every moment of every day.
On the back end, software programming tools and Internet-based services make it easy to launch new global software-powered start-ups in many industries—without the need to invest in new infrastructure and train new employees. In 2000, when my partner Ben Horowitz was CEO of the first cloud computing company, Loudcloud, the cost of a customer running a basic Internet application was approximately $150,000 a month. Running that same application today in Amazon's cloud costs about $1,500 a month.
With lower start-up costs and a vastly expanded market for online services, the result is a global economy that for the first time will be fully digitally wired—the dream of every cyber-visionary of the early 1990s, finally delivered, a full generation later.
Perhaps the single most dramatic example of this phenomenon of software eating a traditional business is the suicide of Borders and corresponding rise of Amazon. In 2001, Borders agreed to hand over its online business to Amazon under the theory that online book sales were non-strategic and unimportant.
Oops.
Today, the world's largest bookseller, Amazon, is a software company—its core capability is its amazing software engine for selling virtually everything online, no retail stores necessary. On top of that, while Borders was thrashing in the throes of impending bankruptcy, Amazon rearranged its web site to promote its Kindle digital books over physical books for the first time. Now even the books themselves are software.
Today's largest video service by number of subscribers is a software company: Netflix. How Netflix eviscerated Blockbuster is an old story, but now other traditional entertainment providers are facing the same threat. Comcast, Time Warner and others are responding by transforming themselves into software companies with efforts such as TV Everywhere, which liberates content from the physical cable and connects it to smartphones and tablets.
Today's dominant music companies are software companies, too: Apple's iTunes, Spotify and Pandora. Traditional record labels increasingly exist only to provide those software companies with content. Industry revenue from digital channels totaled $4.6 billion in 2010, growing to 29% of total revenue from 2% in 2004.
Today's fastest growing entertainment companies are videogame makers—again, software—with the industry growing to $60 billion from $30 billion five years ago. And the fastest growing major videogame company is Zynga (maker of games including FarmVille), which delivers its games entirely online. Zynga's first-quarter revenues grew to $235 million this year, more than double revenues from a year earlier. Rovio, maker of Angry Birds, is expected to clear $100 million in revenue this year (the company was nearly bankrupt when it debuted the popular game on the iPhone in late 2009). Meanwhile, traditional videogame powerhouses like Electronic Arts and Nintendo have seen revenues stagnate and fall.
The best new movie production company in many decades, Pixar, was a software company. Disney—

Disney!—had to buy Pixar, a software company, to remain relevant in animated movies.
Photography, of course, was eaten by software long ago. It's virtually impossible to buy a mobile phone that doesn't include a software-powered camera, and photos are uploaded automatically to the Internet for permanent archiving and global sharing. Companies like Shutterfly, Snapfish and Flickr have stepped into Kodak's place.
Today's largest direct marketing platform is a software company—Google. Now it's been joined by Groupon, Living Social, Foursquare and others, which are using software to eat the retail marketing industry. Groupon generated over $700 million in revenue in 2010, after being in business for only two years.
Today's fastest growing telecom company is Skype, a software company that was just bought by Microsoft for $8.5 billion. CenturyLink, the third largest telecom company in the U.S., with a $20 billion market cap, had 15 million access lines at the end of June 30—declining at an annual rate of about 7%. Excluding the revenue from its Qwest acquisition, CenturyLink's revenue from these legacy services declined by more than 11%. Meanwhile, the two biggest telecom companies, AT&T and Verizon, have survived by transforming themselves into software companies, partnering with Apple and other smartphone makers.
LinkedIn is today's fastest growing recruiting company. For the first time ever, on LinkedIn, employees can maintain their own resumes for recruiters to search in real time—giving LinkedIn the opportunity to eat the lucrative $400 billion recruiting industry.
Software is also eating much of the value chain of industries that are widely viewed as primarily existing in the physical world. In today's cars, software runs the engines, controls safety features, entertains passengers, guides drivers to destinations and connects each car to mobile, satellite and GPS networks. The days when a car aficionado could repair his or her own car are long past, due primarily to the high software content. The trend toward hybrid and electric vehicles will only accelerate the software shift—electric cars are completely computer controlled. And the creation of software-powered driverless cars is already under way at Google and the major car companies.
Today's leading real-world retailer, Wal-Mart, uses software to power its logistics and distribution capabilities, which it has used to crush its competition. Likewise for FedEx, which is best thought of as a software network that happens to have trucks, planes and distribution hubs attached. And the success or failure of airlines today and in the future hinges on their ability to price tickets and optimize routes and yields correctly—with software.
Oil and gas companies were early innovators in supercomputing and data visualization and analysis, which are crucial to today's oil and gas exploration efforts. Agriculture is increasingly powered by software as well, including satellite analysis of soils linked to per-acre seed selection software algorithms.
The financial services industry has been visibly transformed by software over the last 30 years. Practically every financial transaction, from someone buying a cup of coffee to someone trading a trillion dollars of credit default derivatives, is done in software. And many of the leading innovators in financial services are software companies, such as Square, which allows anyone to accept credit card payments with a mobile phone, and PayPal, which generated more than $1 billion in revenue in the second quarter of this year, up 31% over the previous year.
Health care and education, in my view, are next up for fundamental software-based transformation. My venture capital firm is backing aggressive start-ups in both of these gigantic and critical industries. We believe both of these industries, which historically have been highly resistant to entrepreneurial change, are primed for tipping by great new software-centric entrepreneurs.
Even national defense is increasingly software-based. The modern combat soldier is embedded in a web of software that provides intelligence, communications, logistics and weapons guidance. Software-powered drones launch airstrikes without putting human pilots at risk. Intelligence agencies do large-scale data mining with software to uncover and track potential terrorist plots.
Companies in every industry need to assume that a software revolution is coming. This includes even industries that are software-based today. Great incumbent software companies like Oracle and Microsoft are increasingly threatened with irrelevance by new software offerings like Salesforce.com and Android (especially in a world where Google owns a major handset maker).
In some industries, particularly those with a heavy real-world component such as oil and gas, the software revolution is primarily an opportunity for incumbents. But in many industries, new

software ideas will result in the rise of new Silicon Valley-style start-ups that invade existing industries with impunity. Over the next 10 years, the battles between incumbents and software-powered insurgents will be epic. Joseph Schumpeter, the economist who coined the term "creative destruction," would be proud.

And while people watching the values of their 401(k)s bounce up and down the last few weeks might doubt it, this is a profoundly positive story for the American economy, in particular. It's not an accident that many of the biggest recent technology companies—including Google, Amazon, eBay and more—are American companies. Our combination of great research universities, a pro-risk business culture, deep pools of innovation-seeking equity capital and reliable business and contract law is unprecedented and unparalleled in the world.

Still, we face several challenges.

First of all, every new company today is being built in the face of massive economic headwinds, making the challenge far greater than it was in the relatively benign '90s. The good news about building a company during times like this is that the companies that do succeed are going to be extremely strong and resilient. And when the economy finally stabilizes, look out—the best of the new companies will grow even faster.

Secondly, many people in the U.S. and around the world lack the education and skills required to participate in the great new companies coming out of the software revolution. This is a tragedy since every company I work with is absolutely starved for talent. Qualified software engineers, managers, marketers and salespeople in Silicon Valley can rack up dozens of high-paying, high-upside job offers any time they want, while national unemployment and underemployment is sky high. This problem is even worse than it looks because many workers in existing industries will be stranded on the wrong side of software-based disruption and may never be able to work in their fields again. There's no way through this problem other than education, and we have a long way to go.

Finally, the new companies need to prove their worth. They need to build strong cultures, delight their customers, establish their own competitive advantages and, yes, justify their rising valuations. No one should expect building a new high-growth, software-powered company in an established industry to be easy. It's brutally difficult.

I'm privileged to work with some of the best of the new breed of software companies, and I can tell you they're really good at what they do. If they perform to my and others' expectations, they are going to be highly valuable cornerstone companies in the global economy, eating markets far larger than the technology industry has historically been able to pursue.

Instead of constantly questioning their valuations, let's seek to understand how the new generation of technology companies are doing what they do, what the broader consequences are for businesses and the economy and what we can collectively do to expand the number of innovative new software companies created in the U.S. and around the world.

That's the big opportunity. I know where I'm putting my money.

Mr. Andreessen is co-founder and general partner of the venture capital firm Andreessen-Horowitz, which has invested in Facebook, Groupon, Skype, Twitter, Zynga, and Foursquare among others. He also co-founded Netscape, one of the first browser companies.

Online Retail Boosts Australia Post Profit

10-11-11

The irony in comparison to the fate of the US Post Office. Losing money and about to reduce services vs expanding and leveraging their facilities. Aivars Lode

By Kim Christian, AAP

Australia Post has increased annual pre-tax profit by 31 per cent, thanks to continued growth in online shopping.

But traditional mail volumes have declined for the fourth year in a row.

The government-owned corporation recorded a pre-tax profit of $332.3 million, up 31 per cent from

$253 million in fiscal 2010.
Advertisement: Story continues below
Revenue rose 2.8 per cent to $5.01 billion, up from $4.87 billion.
It is the first time in four years that Australia Post's revenuegrowth has outstripped cost growth.
Australia Post chief executive Ahmed Fahour said online shopping would drive the business into the future as 70 per cent of the $1.36 billion in parcels revenue was generated by e-commerce.
"It is the powerhouse of our business," Mr Fahour said.
He said parcel portfolio volume growth of 10.9 per cent drove parcels revenue up 5.3 per cent and resulted in a 36 per cent growth in profit over the past 12 months.
"This is only going to continue as online retailing in Australia continues to grow at a rapid rate," he said.
Mr Fahour said Australia Post had shifted its focus towards online shopping since April last year.
But it was now a "two-speed business" which recorded losses in its mail business and competed in the parcels and retail businesses.
"We lose a lot of money in the traditional mail business but we have a really fast-growing and competitive business in parcels, e-commerce and retail," he said.
Letter volumes continued to decline, with 89 million fewer articles passing through the network.
Research conducted for PricewaterhouseCoopers predicts Australian online spending will grow by 12.5 per cent per year over the next five years.
It says the trend towards buying from overseas websites is expected to increase to 50 per cent of online purchases by 2015.
Mr Fahour says that while 70 per cent of parcels ordered online were currently mailed domestically, that figure was likely to move to 60 per cent as more Australians shopped on overseas websites.
"We think the amount of online spending will approximately double in the next five years," Mr Fahour said.
He says parcel revenue could increase to more than $2.5 billion by 2015.
"We're not going into forecasts, but what we are saying is one part of our two-speed business has an enormous upside.
"There are an enormous set of competitive opportunities out there."
The result comes amid a global decline in mail as consumers correspond online and by text messages.
Australia Post continues to record losses on its international parcel business due to international pricing constraints but is trying to negotiate higher prices for international parcels.
On Monday, Australia Post announced it had extended the operating hours of parcel pick-up points and would trial 24-seven accessible parcel lockers.
Customers would receive email and SMS notifications when their parcel arrived.
The organisation says it will focus on providing lockers capable of handling packages weighing up to 32 kilograms, covering 90 per cent of purchases online.
Larger items such as fridges and televisions could still be delivered using the Messenger Post service.

Rolls-Royce Powers Ahead in High-Wage Countries

10-20-11

Everything has a cycle. Aivars Lode

By Daniel Michaels, Wall Street Journal

ALESUND, Norway—While many American and European manufacturers transplanted production to low-wage countries in Asia and Latin America in recent years, British industrial giant Rolls-Royce PLC has taken a contrarian course. It gravitates to high-wage hot spots.
The turbine producer has factories in England, the U.S. and Germany, where it recently bought into an engine maker for more than $2 billion. In Asia, Rolls focuses on Singapore, where salaries dwarf those around the region. But few places can rival the operating costs around Alesund, a coastal town

nestled amid fjords and fisheries.
Here, a can of soda costs about $4, an ordinary pair of jeans sells for $150 and hourly wages are roughly 75% higher than the European Union average. Yet Rolls runs a profitable marine operation, relying on a mix of science, local savvy and an expensive staff who can harness both. Thanks to similarly strong results across its jet-engine and energy divisions, Rolls is cranking production up higher than it ever has. Over the past five years, Rolls's revenue has jumped 55%. In the first half of this year, it posted a net profit of £842 million ($1.3 billion), compared with a £331 million loss a year earlier because of currency fluctuations.

A technician tests an engine at a new Rolls-Royce facility in Germany.
Its ability to defend its turf in the brutally competitive international shipbuilding sector offers lessons in how manufacturers from developed "post-industrial" economies can counter the rise of new economic powers such as China. While Rolls has thrived by targeting niche markets, maintaining elite manufacturing jobs in high-cost countries has broader implications for battered Western economies.
Rolls is betting that its brains can match the brawn of lower-cost competitors. But the engine maker's aggressive expansion faces a growing threat. It is struggling to secure enough highly skilled employees. Even paying lavishly, Rolls battles for talent against employers ranging from banks to software companies, many of which pay even better. And in many developed countries, it also faces a shrinking pool of science, engineering and math students pursuing technical careers. In Alesund, Rolls has been forced to offer perks like free sailing lessons to retain workers plus relocate staffers from other countries to fill technical positions.
Those forces could undermine Rolls's ability to keep jobs close to home. Of more than 6,000 recent applicants at its nuclear-power division in the U.S. and Britain, for example, less than 10% had appropriate backgrounds to merit even an interview, officials say. "The skills we need to build our business just aren't there in the breadth and depth we need," said Ken Fulton, human resource director for Rolls's nuclear unit.

In response, Rolls is training hundreds of apprentices annually and has partnered with 28 universities world-wide. It is also opening far-flung facilities, such as a new factory in Singapore, where Rolls for years has maintained jet engines.
Executives say the Singapore assembly plant will meet booming Asian demand, link into a new network of local suppliers and tap a highly educated work force. But the billion-dollar investment, slated to open soon, is also a big leap. It marks the first time Rolls will produce outside the U.K. one of its most prized technologies: titanium jet-engine fan blades. The components must be manufactured to tolerances smaller than a human hair, using advanced processes not yet found in the former British colony. To support Rolls, Singapore's government is helping train 500 new hires.
Developing skills while containing cost "is walking a tightrope," said Chief Executive John Rishton in a recent interview. "We wrestle with those issues all the time."
The talent shortage is hitting Rolls just as its peers are expanding aggressively into low-wage countries. French aerospace group Safran SA runs subsidiaries in Morocco and Latin America. European Aeronautics Defence & Space Co. is building Airbus jetliners in China.
General Electric Co., Rolls's biggest competitor, will soon open a major research center in Brazil to complement labs in China and India. GE's aerospace division in 2009 established an electronics joint venture with a Chinese state-owned aviation enterprise, AVIC, and GE secured a major role in China's first large jetliner program. "We want to be a participant in China, not just sell products there," says GE Aviation spokesman Rick Kennedy.

Rolls, in contrast, has shifted little high-value work to emerging markets. Instead, it is among a handful of companies, including Whirlpool Corp. and Caterpillar Inc., that are bringing home or keeping valuable jobs in Western countries. Most of these producers emphasize know-how and manufacturing efficiency over labor cost. That goes even for mass-market products such as plastic coolers, which Coleman Co. now makes in Kansas rather than in China, says Harold Sirkin, a partner at Boston Consulting Group. He recently published a report predicting an American manufacturing resurgence over coming years thanks to such companies, and sees similar potential in Britain.

Manufacturing at home avoids a growing problem for major corporations in China and other developing markets: protection of intellectual property. Top executives from companies including GE, Microsoft Corp., Kawasaki Heavy Industries Ltd. of Japan and BASF SE and Siemens AG of Germany have criticized China for failing to safeguard foreign companies' proprietary information, costing them billions of dollars. The American Chamber of Commerce in China recently found that 85% of its members rate China's enforcement of intellectual property rights ineffective.
Rolls-Royce officials decline to publicly discuss their views on China's protection of intellectual property, saying only that they focus on countries that foster investment. "If you want to do complicated, high-value engineering, you've got to have a good supply of skilled people and support from governments," said Mr. Rishton.

That support is vital because China and India are educating armies of engineers to help home-grown industrial firms boost the value of their products. Christian Murck, president of the American Chamber of Commerce in China, predicts Chinese engineers "will come up the curve faster than people anticipate."
As these future competitors advance, Rolls faces huge downside if its productivity or workmanship slip. That risk hit home last Nov. 4, when a Rolls-Royce engine on an Airbus A380 jetliner blew apart departing Singapore. The Qantas Airways superjumbo, with 466 people on board, landed safely. Investigators later blamed a minute manufacturing defect. A Rolls-Royce spokesman said "lessons have been learned" and noted that such an incident last occurred on one of its engines in 1994. Rolls said the incident cost it £56 million.
To sharpen its competitive edge, Rolls is boosting both the efficiency of its factories and the value of its products. In Norway, for example, Rolls's marine division is targeting big-money opportunities in the global offshore petroleum industry, which needs increasingly advanced equipment to help find and extract oil trapped far undersea.
Last year, Rolls completed the $350 million acquisition of ODIM ASA, a Norwegian firm that makes complex gear for subsea surveys and other grueling deep-ocean work. One of its systems, dragged by a specially designed ship, is a 400-ton grid of seismic probes that can spread to the size of 800 football fields. ODIM's rigs complement Rolls's engines, allowing the company to offer a range of pricey equipment that it fits into ship hulls bought from other producers.
Even propellers are getting re-engineered to boost power and cut drag. At a Rolls factory on the remote Norwegian island of Hareidlandet, workers program computer-controlled machine tools to sculpt blades for thruster pods that can hold a massive ship stationary in churning waters. The systems let supply vessels pull much closer to oil rigs in rougher seas than previously possible. Ship owners pay a premium for the Norwegian gear because it reduces collisions and allows faster loading, which cuts costs.
"We aren't very good on cost per man hour, so we have to be better on technology," said Per Egil Vedlog, a design manager at Rolls's merchant ship division.
Yet demand for specialized staff who can harness such technology outstrips supply in Norway, a world shipbuilding nexus. Rolls's design unit handling offshore vessels, based in Alesund, has 20 vacancies among 150 positions, says general manager Yrjar Garshol. Mr. Vedlog in the merchant ship unit opened a new office 150 miles from Alesund just to tap a wider labor market for his 50-person team.

Norway is a world leader in advanced shipbuilding largely because operating in brutal North Sea and Arctic conditions has made its ship owners particularly demanding. But the country also levies heavy taxes that increase the cost to Rolls of each employee, while an elaborate social security system complicates hiring and firing. Norway's strong currency eats into profit margins.
Rolls responded by automating some factory work and outsourcing low-value manufacturing. It buys ship hulls, which can account for only about 40% of the value of a completed vessel, from yards in countries including China and Malaysia. Rolls also opened design offices in Croatia and China, which now draft most of its routine blueprints, while experts in Norway do custom engineering.
Demand for designers back in Alesund is so strong that Mr. Garshol in the offshore division relocated 10 Croatian staffers and their families from the sunny Adriatic coast to wintry Norway. Several Dutch transplants have struggled to adjust to rural Scandinavia. Positions remain unfilled.

"Very often now, people are saying they can't handle the pressure" from extra work, said Mr. Garshol. To address the problem, he rotates project managers into less intense positions and offers perks including free weekend cottages for staffers and their families.
Rolls's situation is similar in the U.K. Roughly 25% of companies seeking experienced engineers or technical staff in Britain struggle to fill vacancies, according to a survey by the Institution of Engineering and Technology, a professional society. Many potential hires are going into finance. Starting salaries for investment bankers and fund managers last year were roughly 50% higher than at engineering and industrial companies, according to Britain's Association of Graduate Recruiters.
Preserving even a limited amount of high-end manufacturing in advanced economies can help stem a vicious cycle of industrial exodus that plagues parts of the U.S. and U.K. Each specialized marine or aerospace manufacturing job creates around three more jobs nearby at suppliers, maintenance operations and in services such as design or finance, according to studies.
Until the recent economic crisis, many advanced economies had looked to service industries, such as finance and information technology, as substitutes for vanishing manufacturing employment. But the spillover job creation from such services is "effectively trivial," says John Bryson, a professor of enterprise and economic geography at the University of Birmingham in England.
Rolls's aero-engine business, for example, has kept a network of suppliers in the English industrial city of Derby, where Charles Rolls and Henry Royce's original Silver Ghost motor car began production in 1908.
Within a few years, Rolls-Royce was also making engines for airplanes and boats. Even as the company's Bentley and Rolls-Royce luxury car brands grew, it remained at heart an engine—and engineering—company.
Auto production was later spun off and Rolls-Royce now licenses its brands to car makers. Rolls itself focused on using the basic turbo-jet design, in which a gas-fueled inferno spins a turbine, and developed similar systems for generating electricity and powering ships.
In 1999, Rolls significantly expanded its marine division with the acquisition of British industrial group Vickers PLC, which had big operations across Scandinavia. The deal also brought Rolls's marine division to Singapore, where its jet-engine business was growing quickly. A decade later, Rolls moved its global marine headquarters to the city-state to better tap booming maritime demand across Asia. But the division's industrial base remained in Norway.
Today, Mr. Garshol in Rolls's offshore unit says staffing shortages have forced him to decline contracts worth tens of millions of dollars and occasionally tell customers a project is weeks late. "It's very hard to explain to customers in parts of the world with unemployment," he says.

Manufacturing Productivity Increased so Where is Inflation?

10-23-11

Published in The Economist

In 2010 manufacturing productivity increased in all the 19 countries surveyed by America's Bureau of Labour Statistics; the previous year 12 of the countries experienced falls. Taiwan achieved an impressive increase of 15.2% and was one of six countries with gains above 10%. In 2008-09 productivity in Japan, Italy and Britain fell by more than 3%, but they recovered all the lost ground in 2009-10. Germany was not so lucky: in 2008-09 its productivity fell by 9.2% and rebounded by only 6.9% the next year. Unit labour costs, a contributor to manufacturing productivity, also fell across the board. However, in dollar terms costs rose (and thus international competitiveness fell) in Canada, Korea, Norway and Australia.

Amazon Starts Row With Retailers in US

12-10-11

Lots of changes to come, this is just the start. We are in the process of creating exchanges that will drive significant efficiencies. Aivars Lode

By Emma Barnett, Telegraph UK

Amazon has annoyed retailers in the US with a new price check app that allows shoppers to get a discount on items via the online store if they find them to be more expensive elsewhere.

The row has broken out only days after **James Daunt, the managing director of Waterstone's, criticised Amazon – calling it a "ruthless, money-making devil"**.

The new Amazon Price Check app and promotion, which is starting from this Saturday, will allow people to perform a price check on an item in a shop, by scanning in the bar code using the app on their iPhone or Android device. The online retail giant will then offer a $5 discount to shoppers who carry out this market research for it for free, on any item across the site, including the same item they wanted to buy in the first place.

The American Retail Industry Leaders' Association issued the following statement about Amazon's attempt to poach shoppers at the point of sale: "Retailers compete on price 365 days a year, and at no time is that competition hotter than during the make-or-break holiday shopping season. However, by continuing to evade collecting state sales taxes, Amazon's exploitation of a pre-Internet tax loophole is resulting in a 6-10 percent perceived price advantage over their competitors on Main Street.

"Amazon's aggressive promotion of its Price Check app shows the lengths they are willing to go to exploit this tax loophole, and is a stark reminder of why Congress needs to act to protect retailers on Main Street. A failure to act is an implicit endorsement of a subsidy of Amazon."

It is expected that the same app and promotion will be rolled out around the world and affect UK retailers.

Amazon was unavailable for comment.

Daunt, who only joined Waterstone's in June and was hired to turn around a pattern of falling sales as online competition grows, said of Amazon earlier this week: "They never struck me as being a sort of business in the consumer's interest. They're a ruthless, money-making devil.

"The computer screen is a terrible environment in which to select books. All that 'If you read this, you'll like that' – it's a dismal way to recommend books. A physical bookshop in which you browse, see, hold, touch and feel books is the environment you want."

Daunt also said Waterstones was working on its own e-reader.

"You'll walk into a Waterstone's and there'll be a bit of the shop where you can look at e-readers, play with them. We're inventing one of our own – perhaps we'll call it the Windle – and we're working on the Barnes & Noble approach. They've embedded their own e-book, called the Nook, within their bookshops and have succeeded in taking market share from the Kindle," he said.

Amazon has recently launched a new version of its Kindle reader in the UK - and several new Kindles in the US, including a tablet device, the Kindle Fire.

Jeff Bezos, Amazon's chief and founder, recently told the US magazine Wired: "There are two ways to build a successful company. One is to work very, very hard to convince customers to pay high margins. The other is to work very very hard to be able to afford to offer customers low margins. They both work. We're firmly in the second camp."

He added: "We'd rather have a very large customer base and low margins than a smaller customer base and higher margins."

In a comment that highlights the difference between Amazon's approach and Mr Daunt's plans for Waterstones, Mr Bezos said: "Our vision of a perfect customer experience is one in which our customer doesn't want to talk to us."

Oracle Missing its Earnings Guidance

12-27-11

A couple of thoughts from Rob, who is right on the money. Aivars Lode

"Why is it the company's fault when analysts fail to forecast correctly? When I was forecasting and got the numbers wrong I took responsibility and tried to improve my models and research. That is why I blew away the earnings accuracy stats the times I tried. Then I learnt to game the system. But it was MY FAULT when my numbers were off. This is the perfect example of no-such-thing as Wall Street "research".

Second, there is still growth (maybe less of it), which means IT spending is still growing. Reporters (and analysts) are mathematically challenged. They say growth when they mean the rate of growth, and as long as they are spending something they are hardly "putting on the brakes".

I LOVE it when analysts cut ratings AFTER a company misses a QUARTER. I got to be a great stock picker by doing the opposite as frequently as possible.

It cracks me up the way the BofA guy talks, learning from Oracle that deals were taking longer to close, if this is indeed the case he would have plenty of data points from CUSTOMER conversations. He would have lowered estimates on the quarter before reporting or called out Catz for not being completely "transparent."

HERE IS THE REAL STORY --

ORACLE MIS-TIMED ITS NEXT MAJOR ACQUISITION.

And there are plenty of deals to do. CERN, OTEX, MDRX, a carve out from HPQ, tons of stuff in PE-land.

Also I would not put it past ORCL to whine on the call about the IT environment knowing it would drive down valuations and present some bargains. Deceptive but not illegal. "

Thanks Rob, the following is the analysts report from Bank of America.

FORTUNE - Oracle missing its earnings guidance is like Mariano Rivera blowing a save opportunity, or Bob Dylan putting out a disappointing record. It happens, but not very often. And when it does, the only real question is: Why?

The answer matters beyond the world of Oracle (ORCL) shareholders. Oracle has long been seen as a kind of proxy for corporate spending on information technology. If Oracle's earnings disappointed because of internal problems, that's not such a big deal outside Oracle. If Oracle didn't do much wrong, however, it points to a possible slowdown in IT spending for next year.

So what happened? The enterprise software giant weighed in earlier this week with revenue of $8.8 billion in the three months ended Nov. 30, up 2% from the same period a year earlier but short of the $9.2 billion analysts were expecting. Similarly, non-GAAP earnings per share came in at 54 cents, below the 57 cents the Street had been looking for.

Oracle hasn't fallen short of estimates for at least three years -- a feat all the more significant given the weak economy. As of Tuesday's close, before the company posted its earnings, Oracle had gained 64% over the past three years, against a 40% rise in the S&P 500.

On Wednesday, the stock tumbled 12%. In the past six weeks, the stock has lost nearly a quarter of its value, equal to roughly $40 billion. The S&P 500 is down only 2% in the period. And other software stocks are being dragged down in Oracle's wake: Salesforce.com (CRM) fell 5% Wednesday, SAP (SAP) dropped 6% and VMWare (VMW) slid 10%.

Even as the financial turmoil in Europe and overheated economies in Asia have raised concerns about another global recession in 2012, the tech world has seemed somewhat immune. Most of the discussion focused on the consumer side of the industry -- the ongoing rivalry between Apple (AAPL) and Google (GOOG), the rise of Amazon's (AMZN) tablet, the fate of Zynga's (ZNGA) IPO. The enterprise side is much less visible and -- frankly -- a little unglamorous, but just as important as the consumer side.

And if companies are putting the brakes on IT spending, it could hurt tech stocks across the board. The relative resilience of Oracle's stock and its ability to consistently trump the Street's estimates gave the company an aura of safety. Here was a tech giant that could weather hard times. And if Oracle is feeling a chill in IT spending, what are other software vendors feeling?

The conventional wisdom is that enterprise software can help companies reduce some long-term operating costs in departments such as human resources and customer relations. Cloud computing, an area that Oracle has been pushing into, can also reduce IT costs by handing over storage and maintenance functions to companies that can run vast networks that benefit from economies of scale.

So if companies are growing stingier about their enterprise software budgets, it could signal they are starting to cut closer to the bone. Oracle CFO Safra Catz said that it's taking some of its clients longer to approve projects. "All of a sudden the CEO had to approve it or something like that, where before it was all set," Catz said. Though, she stressed that she hadn't been told yet that any companies were reducing their IT budgets. "Clearly, this quarter was not as we thought it would be, and we've been taking a look at the deals that really should have closed and that would have closed but for some sort of irregular environment."

On the one hand, it's unrealistic to expect a company like Oracle to offer investors an economic forecast. On the other, it's hard to read a phrase like "some sort of irregular environment" and not wonder what exactly it means. Is it a one-time quirk in Oracle's accounting - an aberration that will be corrected next quarter? Or is it something more serious?

The notion that Oracle's irregular environment was limited to last quarter was undermined when the company offered guidance. The company said the current quarter's revenue would grow between 1% and 5% on year, or to between $8.9 billion and $9.3 billion -- below the analysts' consensus of $9.5 billion -- while earnings per share would be between 56 cents and 59 cents, against the Street's 59 cents.

That left some analysts worried enough that three of them -- Societe Generale, Canaccord Genuity and CLSA Asia-Pacific Markets -- cut their ratings on the stock Wednesday. But Canaccord felt that Oracle's challenges were unique to the company. "Oracle missed because some buyers waited for a new hardware upgrade, and on the software front the firm is behind the curve in cloud applications," wrote analyst Richard Davis. "We expect Oracle to catch up, but it will be through some R&D and a lot of M&A."

But other analysts suggested Oracle may be the canary in an unhealthy coal mine. Bank of America's Kash Rangan wondered if the tighter approval process Catz mentioned "could be a broader trend for software." Deutsche Bank's Tom Ernst said he "saw uncharacteristic weakness across all segments and geographies, which we find a bit puzzling... Outside of the severely contracting macro environment of the last recession, it is rare to see such low growth rates for all geographic regions."

So which is it? Has Oracle hit a speed bump as it transitions to new hardware and cloud computing offerings? Or is it the first warning sign of an unexpected contraction in corporate IT spending in the face of global economic uncertainty?

Other companies will offer more clues. On Wednesday, Tibco (TIBX), a cloud computing company, said it earned 42 cents a share last quarter, above the Street's 35-cent estimate. But the real test will come in mid-January when companies like SAP and IBM (IBM), another strong performer in tech over the past three years, are due report earnings.

If it turns out Oracle was the exception, this week's drop in software shares could prove to be a buying opportunity for bulls. But if Oracle is the first sign of a slowdown, the tech world could be in for a rough start in 2012.

How Much Longer Can America Keep Increasing Productivity?

1-3-12

Watch as we create exchanges where there have been none previously. We have achieved savings of 13% on revenue in some industries through network optimization, and we are currently implementing in 25 industries. Stay tuned to why you will be able to have goods delivered same day cost efficiently! Aivars Lode

Published in The Economist

EVERYONE complains that corporate America is reluctant to hire additional workers. Far less attention has been paid to the flip side of the jobless recovery: the remarkable improvement in American productivity. How long can this continue? "I see no limit," says William Hickey, the boss of Sealed Air, a packaging-maker. Is he right to be so optimistic?

American firms were slow to react to the downturn at the beginning of the century, and paid the price. They learned their lesson. When the economy slumped in 2008, they were much quicker to adjust. There was little of the fall in labour productivity that normally accompanies a recession, and this was not just a one-off "batting average" effect (in which average productivity rises because the worst performers are fired). Rather, it was a productivity boost that has continued in defiance of expert predictions that workers can only be squeezed so hard for a short while.

After falling in the first half of the year, American labour productivity (output per hour) was 2.3% higher in the third quarter of 2011 than in the same period a year earlier. This was the fastest quarterly rise in 18 months. Manufacturing productivity in that quarter rose by 2.9% compared with a year earlier. America's productivity growth has been more robust than most other rich countries'—a feat many ascribe to its flexible labour market and a culture of enterprise.

Yet some analysts expect productivity growth to stall soon. Hard-pressed workers are feeling grouchy: workforce surveys report record levels of job dissatisfaction. Many firms have been "starving the organisation to see how it can do with a lower cost structure," says Carsten Stendevad of Citigroup, a bank. Unless the economy picks up, he predicts that productivity growth will slow in 2012. (He admits, however, that he wrongly predicted the same thing would happen in 2011.)

Two things could keep productivity rising. First, workers are terrified of losing their jobs. This makes it easier to persuade them to put in extra hours or shoulder new tasks. Even in unionised firms, there have been reports of greater flexibility. Workers have been staying on the job longer rather than "featherbedding" their hours by, for example, queuing up early to clock off as soon as the shift ends.

Second, tough times are forcing firms to strain every brain cell to become more efficient. Sealed Air, for example, has made numerous incremental tweaks, such as upgrading a machine that makes absorbent pads for supermarket meat trays so that its output increased from 400 units per hour three years ago to 550—with the same number of workers.

The willingness of firms to invest in such enhancements has varied enormously. Some would rather hoard cash or buy back their own shares than spend it on more efficient machinery or information technology. Yet there are signs that leading industrial firms are starting to increase their capital spending, says Jeff Sprague of Vertical Research Partners, a research outfit. In particular, he has

noticed firms investing in “debottlenecking” which, as its name suggests, means removing hold-ups in production processes, sometimes with an additional production line.
There are hefty gains to be made from using more automation, says Mr Hickey, adding that although he worries about diminishing returns, “we haven’t hit the wall yet.” Service businesses, too, are wringing efficiency improvements from new technology. Hertz allows customers to rent cars at automated kiosks, just as airlines have for some time allowed passengers to check in without talking to anyone. Fast-food firms, such as McDonald’s and Starbucks, are continuously innovating with their products and service.
In short, the recession has forced American firms to become more muscular. This should help them thrive when the good times return. It should also give them an edge over foreign rivals. But all such advantages are temporary. As Mr Hickey points out, a factory that Sealed Air opened in Mexico was expected to be far less productive than one in America, but within four years had caught up.

Telescope to be Built in Depths of Mediterranean Sea

1-23-12

What is not said in the following article is that the race is on to discover something faster than light. Why? All financial transactions occur at the speed of light due to optic fiber transportation of messages around the planet, including all stock buys and sells. Imagine trying to buy stocks using the old ticker tape. If there is something faster than light, then he who has mastered that controls all financial markets. Aivars Lode

By Richard Gray, Telegraph UK

A giant 'telescope' more than half a mile in length is to be built two miles beneath the surface of the Mediterranean Sea in a bid to reveal new secrets about the universe.
The £210 million deep sea observatory will detect elusive particles known as neutrinos as they bombard the Earth from outer space.
Usually these high-energy particles pass straight through our planet unnoticed, but scientists hope that the new telescope will allow them to pick up traces the particles leave and use them to view the universe in an entirely new way.
The EU funded project, which has just been selected as a key priority in a review of European astrophysics infrastructure, promises to reveal new details about some of the most powerful events in our universe, including supernova and even the Big Bang.
The telescope, known as the Multi-Cubic Kilometre Neutrino Telescope or KM3NeT, is also expected to reveal entirely new phenomena that still remain undiscovered as they are undetectable using conventional methods for viewing the sky.
“It is really going to open a new window on our universe,” said Dr Lee Thompson, a reader in neutrino physics at the University of Sheffield who is working on the KM3NeT project.
“Much of what we know about the universe to date has been gleaned from looking at different frequencies within the electromagnetic spectrum such as visible light and X-rays.
“Using neutrinos to probe the universe is a completely new and fresh idea, so it is going to give us an entirely new perspective.
“There are objects out there that we know are emitting neutrinos but there could be things out there that cannot be seen with the telescopes we currently use.”
A small prototype of the KM3NeT telescope is already operational off the south coast of France and it is hoped work on a larger prototype will begin within the next three years.
For the full telescope, more than 12,000 beachball-sized sensors are to be deployed underwater over a cubic mile.
Strings of detectors half a mile long will be anchored to the sea floor up to two miles down and will be suspended in the water by floating buoys above.
Neutrinos are basic subatomic particles that are thought to emanate from the remnants of exploding

stars known as supernovas, or from supermassive black holes.
As neutrinos interact so little with other matter, it is hoped that they will provide information about parts of the universe where light currently does not reach the Earth from – so it may be possible to learn more about what lies within black holes and supernovae.
It is also hoped neutrinos may even help scientists find dark matter for the first time – a mysterious material that does not emit any light but is thought to make up more than 83 per cent of the universe.
Most of the time neutrinos, which travel close to the speed of light, pass harmlessly through the Earth without hitting anything, but occasionally they do collide with atoms.
By building the telescope under water, which is far denser than air, the scientists will increase the chance of a neutrino colliding with atoms in the seawater.
A collision releases other particles called muons and shock wave that produces a brief flash of blue light, which can be detected by the sensors.
By tracing back the direction of this light using data recorded from the surrounding sensors, physicists say they will be able to determine the source of the neutrinos and build up a picture of the sky.
“One of the strangest quirks about this telescope is that rather than looking up, we will be looking down,” said Dr Thompson.
“As high energy cosmic neutrinos pass through the Earth so readily, we can use the Earth as a kind of shield to filter out other particles and noise.
“It means we will actually be looking at the sky on the opposite side of the Earth from the Mediterranean.
"At first glance it seems a strange thing to do – build a telescope under water that looks down rather than up, but it is going to change our view of the universe.”
The project was recently given the go-ahead by as part of a European road map drawn up by the Astroparticle European Research Area (ASPERA) network of European national funding agencies, including the UK’s STFC.
Dr Christian Spiering, chairman of ASPERA, said: “Neutrinos allow us to look deeper into compact sources than gamma rays do. They are like X-rays for the medicine.
“To see them we need detectors of the size of one or even many cubic kilometres. The next two years will teach us more about the necessary size.”

Two Books Argue That the Future is Brighter Than We Think

3-3-12

We know that is true just with the tremendous number of opportunities we have. We are in the middle of creating 51 new Market Places where there have been none before. Aivars Lode

Published in The Economist

THE lab-on-a-chip (LOC) is a small device with a huge potential. It can run dozens of diagnostic tests on human DNA in a few minutes. Give the device a gob of spit or a drop of blood and it will tell you whether or not you are sick without any need to send your DNA to a laboratory. In poor countries LOCs could offer diagnostics to millions who lack access to expensive laboratories. In the rich world they may curb rising medical costs.
The world has been so dogged by bad news of late that it is almost possible to forget about tiny miracles like the LOC. But two timely new books remind us that boffins continue to make the world a better place even as politicians strive to do the opposite. Peter Diamandis and Steven Kotler make a breezy case for optimism in “Abundance: The Future is Better Than You Think”. Eric Topol provides a more considered look at why medicine is about to be “Schumpeterised” (his word) by digital technology. These books are a godsend for those who suffer from Armageddon fatigue. They also remind us that technology keeps improving despite economic gloom.

Messrs Diamandis and Kotler argue that the world is on the cusp of a succession of abundance-producing breakthroughs. The technological revolution has gone furthest in the world of smart machines. The smartphone contains a collection of tools—from voice recorders to video cameras to GPS devices—that would have cost tens of thousands of dollars a decade ago. But it is rolling on in lots of other areas too. Carmakers are working on driverless vehicles (see article). Robotics firms are working on friendly bots. Manufacturers are experimenting with 3D printers that can produce everything from musical instruments to blood vessels. Firms of every type are building an "internet of things" that will tell us when our machines are in danger of breaking down or our pipes are leaking water.

They argue that four big forces are speeding these innovations from the drawing board to the supermarket. The first is the rise of a generation of philanthropists who believe that technology can rid the world of ancient evils. Pierre Omidyar, the founder of eBay, is one of them. He sponsors "self-improvement" through schemes for social entrepreneurship and microfinance.

The second is the discovery of the "Fortune at the Bottom of the Pyramid" (as C.K. Prahalad, a management guru, called it). Firms have realised that poor people collectively constitute a huge market. The key is to make things cheaper. DataWind, a British company, has produced a $35 tablet computer in partnership with the Indian government. Technology allows poor people to join the global market. For example, KAZI 560, a Kenyan job-placement service, connects job-seekers with potential employers via mobile phones.

The third is the proliferation of do-it-yourself innovators. DIY-ers helped to power the automobile and aviation revolutions. Now they are at work on every technological frontier: Chris Anderson, the editor of *Wired* (and a former *Economist* hack) and a group of fellow enthusiasts have produced a civilian drone for $300—about 1% of the cost of a military equivalent—that might be used to ferry supplies to places that lack good roads.

The fourth is the clever use of prizes. A combination of cash and glory goads the brainy to compete, and can focus a vast amount of brain power on a specific problem. People for the Ethical Treatment of Animals offers a $1m prize for progress in producing meat from cells. Mo Ibrahim, a Sudanese-born telecoms tycoon, offers a $5m prize for African leaders who leave office with clean hands. Qualcomm, an American wireless firm, is offering $10m for a mobile app that can diagnose patients better than a group of doctors. Here Mr Diamandis knows whereof he speaks: he is the chairman of the X Prize Foundation, which rewards breakthrough innovations, and the co-founder of Singularity University, which tries to bring innovations to the boil.

Watch and learn

The advances that these authors celebrate are already beginning to affect two areas that have proved almost immune to productivity-improving technology—education and health care. Messrs Diamandis and Kotler rightly celebrate the Kahn Academy. Salman Kahn has put 2,200 video tutorials on YouTube, covering everything from molecular biology to American history, which receive more than 2m visitors a month.

Eric Topol, one of America's leading heart surgeons, argues that digital technology is giving people much more power over their health care. People can keep a constant watch on their vital organs thanks to sensors that can be worn on the wrist or injected into the blood stream. A flashing light on your smartphone will tell you when you need to see your doctor, just as a light on your dashboard tells you when your car needs a service. People can also get highly personalised treatment, thanks to rapidly advancing knowledge of their genomes. And they can find ready-made support systems thanks to the proliferation of health-related websites (more than 20% of American adults have posted on an online forum related to health care).

This sort of yes-we-can optimism poses obvious problems. Surely the power of technology can be used for evil as well as good? DIY bio-terrorists can unleash viruses. Cyber-attackers can bring down the computer systems that keep the world going round. And surely abundance sometimes brings trouble? The internet is a source of time-wasting distraction and mind-fogging misinformation as well as instructional videos. The prospect of spending one's old age rigged up to sensors that document one's ebbing life force is not edifying. But our authors are certainly right about one thing. Knowledge is cumulative. And that is a good reason for supposing that things will get better.

GSA Cancels Oracle IT Contract

4-20-12

Oracle's predatory business practices are legendary. Given the current business environment, there will be a backlash against those practices. This is the start. Aivars Lode

By Matthew Weigelt, Washington Technology

A senior General Services Administration official said April 20 that it was not in the government's best interest to continue to offer Oracle Corp.'s IT services.
After reviewing the company's GSA Schedule 70 contract, "it was determined that it was not in the best interest of the government to continue the contract," Mary Davie, assistant commissioner of the Federal Acquisition Service's Office of Integrated Technology Services, said in a statement.
GSA officials would not provide more any details. However, a spokeswoman said April 19 the contract that has been canceled due to the company not meeting the terms of the contract.

The cancellation takes effect May 17.

An expert says Oracle has many other contracts through which to offer IT services to agencies.
Mark Amtower, partner of Amtower and Company, said the GSA Schedule contract accounts for less than 7 percent of total government purchases. Oracle offers services through other avenues, such as NASA's Solutions for Enterprisewide Procurements (SEWP) and other Defense Department indefinite-delivery, indefinite-quantity (IDIQ) contracts.
"Oracle losing its GSA contract is news, but don't overlook these facts," he wrote in a comment on Washington Technology's initial story about the cancellation.

As a result of GSA's cancellation, all blanket purchase agreements (BPAs) awarded against the contract will end. Existing task orders may continue through their set period of performance but agencies will be unable to exercise options to these task orders or place new orders.
Agencies can still buy Oracle's software and software maintenance products through resellers with active IT schedule 70 contracts, Davie said.
GSA has notified agency customers through Federal Business Opportunities website and is contacting agencies with known BPAs directly.

Oracle executives declined to comment on the cancellation.

Swire Plans to Begin Brickell CitiCentre Construction Next Month

5-9-12

As previously mentioned, downtown Miami will be the next Hong Kong without the crowds. Aivars Lode

By Elaine Walker, Miami Herald

Swire Properties said Wednesday that it expects to begin construction on Brickell CitiCentre in late June.

"We are eager to keep the project on schedule as the public partner agreements are now the only sources of potential delay," Christopher Gandolfo , senior vice president, development with Swire Properties said in a statement.

Details of those agreements were not explained.

Swire said Wednesday it had narrowed its list to four contractors to bid on construction of the foundation and underground parking garage below Brickell CitiCentre. The four finalists for the more than $100 million contract: Balfour Beatty; Bouygues Bâtiment International though its local subsidiary Americaribe Inc. with John Moriarty & Associates of Florida; Turner Construction Company in partnership with Dragados USA; and Odebrecht with Facchina.

The foundation and underground parking project will be built 24 feet below ground, spanning seven acres. Construction is expected to take about 18 months.

Brickell CitiCentre is a $1.05 billion mixed-use development that is to include 2.9 million square feet of retail, office, residential, hotel and entertainment space. The project will be built on nine acres along South Miami Ave. between Eighth Street and Sixth Street. It will create 1,700 construction jobs and 3,700 jobs after completion.

In Defense of Amazon.com – Not That They Need Defending. Shrinking the NOW-Gap

7-27-12

An interesting summary of Amazon as they continue to redefine the retail experience. Aivars Lode

By Kid Dynamite, Kid Dynamite's World

I don't know how I can go about "defending" a stock that I don't even own – I have no position in $AMZN, and never have – sadly. Like so many of you, I've spent the better part of a DECADE now saying "it's too expensive – I don't want to own that stock," as it climbs and climbs and climbs. Here's the 5 year chart:

Today, I read a number of miffed comments on the Stocktwits stream about $AMZN's stock rally on earnings that seemed mediocre. I figured I'd put some thoughts to keyboard while the topic is fresh.

People seem confused/annoyed/angered by AMZN's continued stock price ascent on mediocre net earnings per share numbers. The story is about so much more than that though. There have been a number of companies who have tried the "don't worry about our profitability, we're building a customer base and we'll make up for it later in VOLUME" model. I don't think that disaster-in-the-making paradigm applies to AMZN at all: the beauty of AMZN is that they've managed to grow into the most dominant force in the history of retailing WITHOUT accruing huge losses. Have they "sacrificed" profitability to some extent? Of course – their margins are small and not growing, but they don't accelerate revenues via price sales or temporary mispricing of goods that lure customers in based on prices that will rise later (and send customers running for the exits at the same time) – the secret to Amazon's success is that they've built a logistical empire that can get you what you want (and what you don't even yet know you want) at speeds that continue to blur the line between brick and mortar and online fulfillment times.

What I mean by that statement is this: if you need something NOW, you still can't order it onAmazon.com and get it in time. They are continually working on shrinking that NOW-gap, though, and it's gotten to the point where on Monday if I need something for Thursday, I have no qualms about ordering it from Amazon. Their goal, I think, is to turn "Thursday" in my mind into Tuesday. They're not quite there yet, but they're awfully close. I've written numerous times about ordering something at 6pm and having it show up at 8:30 the next morning. How? I, quite literally, have absolutely no f*cking idea. I live in rural New Hampshire, and I cannot fathom Amazon's logistical genius, but I don't care if they have a band of magical elves delivering the product to me from their Kentucky warehouse – as long as I get it, I'll continue to be happy and amazed.

New York City residents might remember the internet bubble darling Kozmo.com which allowed you to order something as small as a pint of ice cream and a pack of gum, and they'd bring it to you in a few hours. Not surprisingly, that business model failed. But Amazon is attempting to further blur that "I can't order it online because I need it NOW" line by reducing shipping times to seemingly impossibly short intervals. Will they get to same day? I don't know – but they might not need to. Two day shipping is great, and next day shipping is almost NOW.

AMZN is a logistics company. That's something people tend to overlook. Does AMZN need to spend billions building warehouses across the country to get me my stuff in even less time? Maybe, maybe not – but the reason the stock doesn't go down is because they are managing to do this cap-ex and STILL not put up big negative numbers. They don't try to convince you to say "don't worry about these huge losses, we'll make up for it in volume later" – instead, they make you say "holy crap – AMZN is already a logistical masterpiece – just imagine if they can make it even better, and NOT kill themselves financially in the process! Then, once they stop growing, they just reap the windfall." At least that's what they make me say.

So anyway, Amazon has built this logistical ninja model to get you what you want in a hurry, and the key is that they've managed to do while being profitable (or barely profitable, or barely unprofitable – but they're not putting up huge losses). Critics point to ridiculously high P/E multiples and miss the point: when Amazon stops expanding their logistical empire, their customers won't just click over toBuy.Com or some other website – the system still works, and once the cap-ex slows, the profits increase. Once the infrastructure is in place, Amazon can continue to add more low-margin items. They'll happily sell you another $1000 worth of goods that they can only make $15 on – why not? They want you to buy EVERYTHING from them. I agree with the statement that CEO Jeff Bezos made in the earnings release yesterday:

"Amazon Prime is now the best bargain in the history of shopping – that is not hyperbole… We successfully launched Prime seven years ago with free unlimited two-day shipping on one million items. The price of annual membership was $79. Since then, Prime selection has grown to 15 million items. We've also added 18,000 movies and TV episodes available for unlimited streaming. And we've added the Kindle Owners' Lending Library – borrow 170,000 books for free with no due dates – it even includes all seven Harry Potter books. What hasn't changed since we launched Prime? The price. It's still $79. We're very grateful to our Prime members, and thank them whole-heartedly for the business and for the word-of-mouth that has made this program grow"

But the retail mastery – and make no mistake: Amazon has changed the retail landscape permanently – isn't even the whole story. Cloud computing, warehouse hosting, continued delivery advances (did you know that Amazon has delivery lockers in New York City, Seattle and D.C. for those people who don't have doormen and have trouble receiving packages?) – it's just getting better and easier. They're making it harder and harder for you to say "f*ck it, I really need this today – I'm gonna get in my car and drive to the store to get it."

On Twitter today, the astute @Microfundy asked a crowd-sourced question to $AMZN bulls: "What would make you sell?"

I replied:

"no position, but I'd short $AMZN when someone shows they can offer any competition. right now, $AMZN is eating all of retail"

What I found even more interesting was a reply to my response, from @SteveZ1, who wrote that

Amazon is:

"a cancer for other retailers. Can one up them if manufactures sold direct from one central fulfillment center. That's next"

He didn't realize that he's making the Amazon bull case: that IS next: and that one central fulfillment center, as I noted in a reply, is called Amazon.com. Manufacturers pay Amazon to hold their goods in Amazon's warehouse and to have Amazon handle the logistics of e-commerce (that's what is happening when you see "sold by xxxx, fulfilled by Amazon.com" in the description). Amazon IS the central fulfillment center: they are not about to get slaughtered by one! @Trendrida replied with a story from this week about American Apparel making use of Amazon's e-commerce platform.

Regular readers know that I'm a huge fan of Amazon as a consumer. My wife and I place upwards of 100 orders a year on Amazon.com. Just this week, in the wake of our microburst, I used up the last of my 2-stroke engine oil that runs my chainsaw, weedwhacker, and leaf blower. I had one last gallon of fuel that I'd mixed. I knew I could order the oil I wanted on Amazon – I'd done it before – but I figured I'd stop into Lowes and pick some up while I was in town. Guess what – Lowes didn't have what I wanted, so I went home and ordered it on Amazon anyway – wondering to myself why I'd even bothered to waste my time at Lowes: I didn't need the stuff today, after all. It came less than 48 hours later, Amazon Prime, hand delivered to my doorstep. Today I ordered a fertilizer spreader. Where else would I buy one from? No brainer.

Now I've written all of the above, but I still don't own the stock. Why? I wish I had a good answer. I don't. The best answer I have is that even after all of my "rationalization," AMZN isn't "cheap." My point is that Amazon as a company is here to stay – that's one of the first things I think about when I think about shorting a stock: could this company disappear? With Amazon, I think that the answer is "no*," and I think that they will eventually be able to reap the benefits of the logistical infrastructure empire that they have invested heavily in over the last decade. Perhaps that means that they just "grow into" their current valuation – I have no idea: time will tell.

This also seems like the perfect time to emphasize that I am not suggesting that anyone buy $AMZN stock. You'll notice that I don't really make stock recommendations on this blog. What I've tried to do in this post is explain what I think is the bull case for Amazon. If you're sitting at home, reading the earnings report and shouting at your monitor "THEY ONLY MADE A PENNY A SHARE! HOW THE F*CK CAN THE STOCK BE UP MORE THAN 7%?" well, I've attempted to offer one variety of explanation.

The Unspoken Truth About Apple

7-30-12

Apples products: are they high end, the best of the best, or clever marketing? Regardless, as I have said all along, reality is all about perception. Aivars Lode

Despite its unparalleled cool factor -- and profits -- the Cupertino company's products aren't always the highest of the high-end.

By Don Reisinger, FORTUNE -- Apple has created a brand identity that, seemingly, no other company in the technology industry can match. And although the company's reputation is partly derived from its former charismatic leader, Steve Jobs, and a loyal fan base has always propped the iPhone maker up, Apple's products have become synonymous with high-quality, high-end devices that ooze high-tech "cool."

It's easy to see why. In the computing space, the company's aluminum-based Macs are the industry's beauty queens to Dell (DELL) and HP's (HPQ) black-box uglies. And in the smartphone and tablet markets, all other companies have tried desperately to mimic Apple's design philosophy with products that look awfully similar to their Cupertino-crafted counterparts. Apple's (AAPL) designs have proven so impressive that the company's design chief, Jonathan Ive, has won numerous design awards. He has even been knighted in the U.K. for his contributions to the industry.

Such sleek designs often convey a sense that Apple's products are of higher quality than their competitors. In fact, BrandIndex, an organization that measures consumer attitudes towards companies, found late last year that Apple's perception is exceedingly high, earning a score of 76 out of a possible 100. The company's iPod scored a 73, its iPad nabbed a 69, and the iPhone came in with a 65. The Mac followed with a 61.

But is that really warranted? Is Apple really the company that delivers the highest of the high-end? Not a chance.

Of course, such a claim is nothing new to tech experts that have been following the industry for years. Corporate IT decision-makers have consistently said that they can get more bang for the buck out of a Windows-based PC. But an increasing number of so-called "mainstream" consumers are now moving to Macs, iPhones, and iPads. Their perception, apparently, is that Apple is delivering the very best in terms of quality and value.

Although quality and value are subjective measures, seeing what consumers are actually getting for their hard-earned cash isn't so difficult to quantify. Let's take the iMac, a popular, all-in-one computer Apple sells at a price starting at $1,199. For that sum, consumers are getting Mac OS X, which is a plus, as well as a 21.5-inch screen. A 2.5GHz quad-core processor and 500GB hard drive help round out the offering.

There's just one issue: Dell has it beat -- by a mile. For just $850, consumers can buy an all-in-one PC with a 23-inch screen and the same 2.5GHz quad-core processor. Add that to the 1TB hard drive and 1080p display, and it's clear customers are getting a better value from Dell.

It's a similar story on the notebook side, where Apple is selling a 15-inch MacBook Pro for as little as $1,799. At that price, customers are getting a 2.3GHz quad-core Intel Core i7 processor, 4GB of memory, and a 500GB hard drive. Not bad, right?

Well, HP is offering customers a way to save $500 with a notebook boasting a 15.6-inch full HD screen that comes with a 2.2.GHz Intel Core i7 processor, 8GB of memory, and a 750GB hard drive. And its design isn't so dissimilar to the MacBook Pro's.

Even Apple's mobile products shouldn't be considered high-end.The iPhone 4S is nice, but it doesn't have the quad-core processor found in the HTC One X nor the 4G LTE service available in Samsung's new Galaxy S III. Apple's new iPad has a smaller screen (9.7 inches) than many of its chief competitors, like the Samsung Galaxy Tab 2, and its quad-core graphics are held back a bit by its dual-core processor. (Of course, the number of available apps is another matter...)

In terms of specs, therefore, it's hard to call Apple the highest of the high-end. The company has higher-end features, including the Retina display in its new MacBook Pro and mobile products. The truth is, however, that there are several companies delivering products with better components.

But quality components and value are two very different things.

Informed consumers know that they can buy cheaper products from Apple's competitors and get more powerful components, but the intangibles keep them coming back for iPhones and Macs. Apple's products look nicer, the company's store experience is more streamlined, and it's just "cooler" to be an Apple customer. One of the reasons many in the tech and design industries revere

Jobs, of course, was his ability to know what to leave out of a product -- as much as what to put in, be it the most high-end or not.

So, maybe Apple doesn't need to be "high-end." Clearly, just being Apple is working out.

Why Groupon Is Poised For Collapse

8-20-12

A retrospective view, which was accurate, based upon where the share price has ended. I have friends in the restaurant business who confirmed how Groupon operated before this article came out. Aivars Lode

By Rocky Agrawal, Tech Crunch

Imagine you're a small business owner. You have to choose between two propositions: 1. You can pay $62,500 for marketing. You'll get a whole lot of customers coming through your door. No guarantees if they will ever come back, but they'll come once. 2. I'll pay you $21,000. You get $7,000 in about 5 days, another $7,000 in 30 days and the remainder in 60 days. In exchange, you'll give my customers cheap products for the next year. I've been working on local for a long time and I know it's hard to get small businesses to spend money on advertising. Really hard. Even getting $200 a month ($2,400 a year) is a high hurdle to meet. There's no way a business will sign up for #1. Most merchants would laugh you out of the store if you asked for $60,000. Except they are. In droves. Although they sound completely different, #1 and #2 are really the same-it's the Groupon business model. Businesses are being sold incredibly expensive advertising campaigns that disguised as "no risk" ways to acquire new customers. In reality, there's a lot of risk. With a newspaper ad, the maximum you can lose is the amount you paid for the ad. With Groupon, your potential losses can increase with every Groupon customer who walks through the door and put the existence of your business at risk. Groupon is not an Internet marketing business so much as it is the equivalent of a loan sharking business. The $21,000 that the business in this example gets for running a Groupon is essentially a very, very expensive loan. They get the cash up front, but pay for it with deep discounts over time. (This post applies to Groupon operations in the United States and Canada; it's different in other parts of the world.) In many cases, running a Groupon can be a terrible financial decision for merchants. Groupon's financials also raise questions about its ongoing viability. Buying Groupon stock could be as bad a deal for investors as running a Groupon offer is for merchants. This is my opinion, but I have some facts to back it up. Traffic is not necessarily profitable traffic Groupon can clearly deliver customers. But in order to know if it makes financial sense as a customer acquisition tool, merchants need to know two key numbers: 1. The proportion of Groupon customers who are already their customers 2. How often new customers come back. The higher the first number, the worse their deal will perform. The higher the second number, the better their deal does. But for most businesses, these critical numbers are impossible to know. Groupons haven't been out long enough to generate this data. And Groupon's tracking methods aren't collecting this data. (My intuition is that Groupon doesn't want to know.) Groupon touts a win-win proposition. But the reality is that Groupon usually wins and merchants usually lose. The merchant agreement is one of the most lopsided I've seen. It's rare that Groupon loses . . . until merchants figure out how to cheat. The hidden auction underlying Groupon's success is an auction. It's not explicit, like Google's AdWords bidding platform, but the economic effects are similar. The fact that Groupon runs daily deals creates artificial scarcity and drives up pricing to absurd levels. Even with four deals a day in a given market, you're talking about fewer than 1,500 deals a year. The "bid" in this auction is the total revenue that goes to Groupon. That's a function of the value of the voucher, the negotiated revenue share and the number of deals that will be sold. The number of deals that will be sold is a function of, among other factors, how deep a discount and how commonly needed the product is. The larger the discount, the greater the volume. All of this creates an incentive to drive up Groupon's revenues. It also provides an incentive for salespeople to sell bigger and bigger deals, some of which might not be suitable for a small business. Because of all the hype around Groupon, salespeople are able to use the "Who's Who" model-sell what an honor it is to be specially selected to be featured on Groupon. Groupon's process for selecting which deals it runs has little transparency. It's not always the highest bids that win; sometimes, lower value bids win just to keep subscribers opening their emails. (In this case, think of merchants bidding with discounts, so the deeper the discount, the higher the bid). I've also heard from merchants who say Groupon has changed their deals at the last minute to make them more profitable for Groupon. Cash is king. Many small businesses are struggling for cash and the Groupon sales pitch resonates. Marketing with no upfront payment. You get cash within days. A steady stream of customers. This is not a new idea. Rewards Network has been offering restaurants cash upfront in exchange for discounted meals over time . (But on more generous terms than Groupon.) Groupon S-1 calls tough economic times a risk; but the recession was really their opportunity. As other forms of credit dried up, struggling businesses jumped at the chance to get cash now in exchange for discounting their product later. The real risk for Groupon is that the economy improves to the point that businesses don't have to resort to deep discounting. Some of the analysis of Groupon's long term prospects has pointed to repeat Groupon offers from merchants as evidence of a viable long-term model. How can a repeat customer be bad, right? For a Groupon merchant, a repeat customer is a great thing. But for Groupon itself, a repeat customer can be a sign of trouble ahead. I had been struggling to understand why some businesses ran repeat Groupons or cycled among the various daily deal vendors, given that the economics clearly suck if you can't drive repeat traffic. Some let the same customer buy 3 or more of the same deal. That's a clear no-no for a loss-leader designed to acquire new customers. A conversation with Forkfly(a Groupon Now competitor) CEO Paul Wagner was enlightening. He suggested that they were doing what struggling families do when they max out a credit card-they get another one. That makes perfect sense. Revenue from subsequent daily deals help pay for the obligations created by the first one. Receipts look like the one at right. Lots of product going out, staff to pay and little cash coming in. Taking out another Groupon loan is a quick fix. (If I were a sales rep, I'd have that date marked on my calendar for follow up. "I know we did 50/50 last time, but I'm thinking Groupon gets 70% this time.") Hacking Groupon How would you exploit an overpriced loan? Don't pay it back. Assume that you're a business that is unscrupulous and you're looking to make a quick buck. You could create a wildly generous deal that would sell like crazy. In about 30 days, you'll have 2/3 of your share of the deal. Then you shut down operations. It also works for businesses that are just having a tough time. As critical as I am of Groupon, the slam dunk case is to sign up with Groupon if you're going bankrupt. I strongly encourage every business that is about to go under to call Groupon. (Don't tell them Rocky sent you.) It makes total financial sense-as a Hail Mary play. If you're lucky, the upfront cash will be enough to help you stay afloat. If not, well, you were already going out of business. It may be your best option. In the short term, you're actually helping Groupon because they're being valued on revenue and no one is taking into account risk. Groupon is essentially holding a portfolio of loans backed by the receivables of small businesses. If a business goes under, consumers will come back to Groupon for their money back. Unless Groupon is actually doing credit assessments on businesses that it chooses to feature, this is a big risk for Groupon. The onerous terms for participating in Groupon also create an adverse selection problem. The most successful businesses don't need Groupon for customer acquisition or financing. The assumption is that nothing will go wrong and all of these "loans" will be paid back. (At least the subprime mortgage lenders were able to sell that risk off to Wall Street and AIG.) Like the mortgage lenders, Groupon doesn't know exactly how much risk it has piled up. Because some merchants track redemptions on paper, Groupon has no way of knowing how many unredeemed Groupons are outstanding. If a business goes under and the records are unavailable, every buyer of that Groupon could try to make a claim against it. (The risk is mitigated by the fact that a lot of redemption occurs within the first 60 days, but we don't know how much.) Google, with more than $36 billion in cash on hand, is uncomfortable enough with that risk that it dumps it onto Google Offers buyers. Groupon could mitigate this risk by changing its terms and conditions so that the consumer is responsible in case a merchant goes bankrupt. Relying on float where does Groupon get all the money to give to these merchants? Credit cards-yours. Groupon gets paid within a couple of days by its banks. It then takes that money and gives it to the merchant in three chunks. From Groupon. Our merchant payment terms and revenue growth have provided us with operating cash flow to fund our working capital needs. Our merchant arrangements are generally structured such that we collect cash up front when our customers purchase Groupons and make payments to our merchants at a subsequent date. In North America, we typically pay our merchants in installments within sixty days after the Groupon is sold. We use the operating cash flow provided by our merchant payment terms and revenue growth to fund our working capital needs. If we offer our merchants more favorable or accelerated payment terms or our revenue does not continue to grow in the future, our operating cash flow and results of operations could be adversely impacted and we may have to seek alternative financing to fund our working capital needs. Translation: They're using money from new deals to pay for previous deals. They need to keep growing revenue. As of March 31, they owed merchants $290.7 million. In the agreement I've seen, the first installment is 33% in 5 days. If they have to pay merchants faster, that could lead to problems. And Google might force that to happen. According to Google Offers payment terms, merchants receive 80% of their share in 4 days-more than twice as much, 1 day earlier. There's no way that was an accident. If Groupon matches these payment terms, they'll need cash faster and need to grow faster. (Google Offers accelerates the rate at which Groupon's scheme has to draw in new suckers.) If Groupon doesn't match, it gives Google a key differentiator to win deals. If those businesses go with Google's more generous terms, that too will starve Groupon of the cash it needs to pay earlier merchants. Now here's the crazy part. Not only is Groupon effectively giving loans to merchants, but it also works the other way around. The merchant is on the hook for the entire value of those deals until Groupon pays the merchant back its portion. Unlike other loan providers, the merchant is making a short-term loan to Groupon. (Not technically, but effectively.) They buy inventory in advance of the Groupon run. They also serve the initial rush of customers. The business is in a hole before they get their 30- and 60-day Groupon payouts. While the chances might be small, Groupon merchants should know that they're taking on the risk of Groupon's collapse. If Groupon collapses, a lot of small merchants could be left holding the bag.

High-End High Times

9-4-12

I commented some three years ago that Biscayne Blvd and downtown Miami would be the Hong Kong of the Americas, and the empty condos would not stay empty for long as the natural beauty of the area would draw people in along with the fact that it was in the USA. That was at a time when a lot of people said that the US was done and I argued "where else would you keep your money if you were a Russian or Chinese billionaire?" Certainly not in their native currencies. Aivars Lode

By Rochelle Broder-Singer, Florida Trend

Is Miami-Dade County already experiencing another condo boom -- this time strictly in the luxury market?

During the first half of the year, some 400 condos worth at least $1 million each sold in just the resale market alone, according to CondoVultures.com.

That's up 7.8% from the same time last year. Even more remarkably, the median per-square-foot price hit $699. Prices in the luxury market haven't been near that number since 2007.

Eye-catching individual deals have accented the luxury boom, including the recent $25-million sale of a condo on South Beach and three sales of more than $10 million at the St. Regis Bal Harbour Residences.

Many buyers are foreign — from Latin America, Russia and Europe. For most, the units are investment properties or second homes.

"If I'm an investor, I can buy a new unit that was built during the boom … for a cheaper price than new construction," says Peter Zalewski, principal of CondoVultures.com. He notes that there are 10 condo towers already under construction east of I-95 from Miami to northern Palm Beach County. Developers have proposed another 35, including one in South Beach with prices at about $1,500 per

square foot.
Cash is king, too. Although Zalewski doesn't have updated statistics, he says that a year ago, a CondoVultures study found some 80% of the condo transactions in the county were all cash. Plus, he notes, "there's typically about a 15% to 20% premium that someone is likely to pay if their offer is based on financing."

Samsung's Galaxy S3 Beats Apple's iPhone in Q3 Sales

11-8-12

Will Samsung drive past Apple as it takes advantage of its loyal customers? Aivars Lode

By BBC News
South Korean electronics firm Samsung's Galaxy S3 has outsold Apple's iPhone 4S for the first time, becoming the world's best-selling smartphone, says research firm Strategy Analytics.
Samsung sold 18 million models, compared with Apple's 16.2 million sales, in the third quarter of 2012.
The Galaxy S3 "has proven wildly popular with consumers and operators," said Strategy Analytics' Neil Mawston.
However, Apple's new iPhone 5 is widely expected to reclaim the top sales spot.
Strong Galaxy smartphone sales helped Samsung report record profits in the three months to September. Net profit was 6.5tn won ($5.9bn; £3.7bn), up 91% from a year earlier.
But analysts say that one reason Samsung's phone was able to wrest the top sales spot from Apple's iPhone 4 was because many customers were waiting for the iPhone 5, which was launched during the third quarter.
The Apple iPhone 5 has already got off to a solid start and "we expect the new iPhone 5 to out-ship Samsung's Galaxy S3 in the coming fourth quarter", said Neil Mawston.
"Apple should soon reclaim the title of the world's most popular smartphone model," he added.
Legal struggle
Samsung and its rival Apple have been locked in a series of ongoing legal battles over patent infringement claims in various countries.
In October, sales bans in the US on Samsung's Galaxy Nexus phone and its Galaxy 10.1 tablet computer were lifted, in a blow to Apple.
Meanwhile, earlier this year, a US court awarded Apple $1.05bn (£652m) in damages, after ruling several of its software and design technologies had been infringed by Samsung.
Samsung has challenged that verdict and called for a retrial.
Analysts say that given the tremendous growth potential of the sector, the two firms' legal battle is likely to continue.

J.C. Penney Digs Deeper Sales Hole

11-10-12

Amazon's revenue continues to grow and JC Penney and Sears revenue continue to decline. Bank credit to retail suppliers of goods and services will be difficult to secure as previous credit models are no longer valid. Aivars Lode

By Dana Mattioli and Karen Talley, Wall Street Journal

The department-store chain, in the middle of a long and painful turnaround under former AppleInc retail executive Ron Johnson, said its sales fell 27% in the three months ended Oct. 27, a sign the company continues to stumble as the key holiday-selling season approaches.

The drop was worse than Wall Street analysts had feared, and shares in the Plano, Texas-based company fell as much as 10% on Friday before rebounding to finish down nearly 5% at $20.62 on the day.
Penney's sales over the first nine months of its fiscal year have fallen by $2.7 billion, nearly equivalent to the annual revenue of store chain Saks Inc.
Penney reported a third-quarter loss of $123 million, or 56 cents a share—narrower than the $143 million a year earlier as the company cut costs and spent less on restructuring.
Mr. Johnson, who joined Penney as CEO a year ago from Apple's vaunted retail operations, said the company wouldn't diverge from the strategy he laid out last January of sharply limiting discounts in favor of broadly lower everyday prices.
But the strategy has hurt customer visits and sales, while new products and in-store boutiques have failed to draw enough shoppers to offset the decline. Same-store sales slid 26% in the quarter, while Internet sales fell 37% to $214 million.
Some of the company's tweaks to that strategy have hurt as well. In August, Mr. Johnson eliminated discounts that Penney had called "monthlong values," or long-running sales on popular seasonal items. It turns out the promotions were popular with Penney's customers, who spent more than $1 billion on such items during the first half of the year. Eliminating monthlong values cost Penney $20 million a week in the third quarter, Chief Financial Officer Ken Hannah said.
Analysts at Deutsche Bank recently called Penney's no-promotion pricing strategy confusing to customers, noting that the company advertised 30% off clearance items in an email last month. Deutsche Bank also pointed to a recent in-store $10 coupon, free haircuts for kids and an offer for free family photos this month, saying Penney is "backtracking on its no promotion strategy, confusing customers, and we, therefore, remain skeptical of near-term improvement in business trends."
J.C. Penney said its sales fell 27% in the three months ended Oct. 27.
Mr. Johnson told analysts on Friday that the $10 "gift" wasn't a coupon and said the company would likely send out similar offers in the future. He also said Penney would take part in the biggest sales day of the year: Black Friday.
"We'll run a sale, and it will be a doozy," he said. Penney has cut prices 40% on average since Mr. Johnson joined.
In more evidence that Penney's transformation and subsequent tweaks have proven confusing to shoppers, some regular customers say they haven't noticed that coupons disappeared.
"I still receive coupons in the mail," said Carmen Torres while shopping at Penney's Manhattan store on Friday. Ms. Torres pulled a $10 "reward card" from her purse, and says she has received similar offers in the mail in recent months.
Another shopper, 32-year-old Theolia Henry, was browsing a clearance rack of blouses. "It reminds me of Macy's but it is cheaper," she said.
Mr. Johnson has been emphasizing brand names in boutiques within Penney's stores. The retailer's game plan involves 100 shops-within-a-store at J.C. Penney, where everything from Martha Stewart merchandise to Levi's jeans are available in separate boutiques. In September, Penney unveiled plans to open more than 500 boutiques this fall with Walt Disney Co. DIS -5.96% products exclusive to the retailer.

Black Friday Hours Pushed into Thanksgiving By Major Retailers

11-13-12

As internet changes continue to rock their world in a negative way, they have to come up with more gimmicks. Aivars Lode

By Susan Thurston, Tampa Bay Times

Forget about getting up early or staying up late for Black Friday this year.
Three of the major retailers — Target, Walmart and Toys "R" Us — are starting their Black Friday specials well before the turkey dinner digests.

Target announced Monday it will open at 9 p.m. Thanksgiving — a full three hours earlier than last year's 12:01 a.m. Black Friday start. Then at 4 a.m., Target will roll out a second wave of specials, from a 50-inch Samsung TV for $699 to a Fisher-Price Doodle Pro Classic for $10.
Early birds will get the worm in the form of a $10 Target gift card for spending $50 or more on apparel, accessories or home products before noon Friday.
Walmart will kick off its in-store specials at 8 p.m. Thanksgiving — two hours before last year. The deals will phase in with an electronics sale from 10 to 11 p.m. and weekend deals starting at 5 a.m. Friday.
For the first time, Walmart is guaranteeing the availability of popular sale items, which in the past have sold out quickly, leaving a lot of people out of luck. Anyone inside the store and in line between 10 and 11 p.m. Thanksgiving can buy an LG Blu-ray player for $38, an Emerson 32-inch LCD TV for $148 or an Apple iPad 2 16GB with Wi-Fi and a $75 Walmart gift card for $399.
If any of the items sell out before 11 p.m., Walmart will offer a Guarantee Card that must be bought at the store by midnight and registered online. The product will then be shipped to the store where you purchased it for pickup before Christmas.
Santa's helpers might head to Toys "R" Us. The chain is opening at 8 p.m. Thanksgiving — an hour earlier than last year — with bundles of toys 50 percent off.
This seems pretty good for the shoppers who like to map out their Black Friday deals in advance and don't want to get up in the middle of the night. In theory, having some of the big guys open on Thanksgiving means a larger window for hitting more specialized stores with traditional Black Friday hours.
It might not be so great for the employees, who already endure long hours during Thanksgiving weekend. Earlier hours means less time for family dinners and post-turkey naps on the couch. Imagine having to rush through dinner to work through the night? By the end of your shift, you'll be most thankful for a bed.
Several people have created petitions on the website Change.org urging chains to keep their doors shut on Thanksgiving. As of Monday, one petition from a Target employee who wanted to save the holiday from "Thanksgiving creep" had more than 154,000 supporters.
The same petitions emerged last year when many stores pushed up their openings to midnight. Obviously, strong sales trumped the petitions.
In other Black Friday news, *USA Today* reported Monday that JCPenney will distribute more than 80 million holiday-themed buttons to customers between Black Friday and Christmas Eve. Each has a code that shoppers enter on Penney's website to find out if they've won prizes such as a trip to Disneyland, tickets to *The Ellen De*Generes Show or store merchandise and gift cards.
The buttons aim to attract customers who have been confused and/or unimpressed by Penney's year-old pricing strategy that replaced coupons and sales with everyday low prices. Last week, the department store chain reported a nearly 27 percent drop in third-quarter revenue — the third quarter in a row of big losses.
I hope it works. I shopped at Penney's all the time until it eliminated the $10-off coupons and doorbuster sales. I liked the feeling of getting a deal and, without the frequent reminders about discounts, I kind of forgot about the place.
The buttons sound nice, but I'm not thrilled about having to go online and check for something I probably won't win. I would much prefer a coupon in the paper or the mail.

Three Examples of New Process Strategy

12-6-12

The world is changing with the internet finally taking hold.

By Brad Power, Harvard Business Review

There are three fundamental ways that companies can improve their processes in the coming decade: (1) expand the scope of work managed by a company to include customers, suppliers, and

partners; (2) target the increasing amount of knowledge work; and (3) reduce cycle times to durations previously considered impossible (as I discussed in my last post).
So how do you do this? As science fiction writer William Gibson said, "The future is already here — it's just not very evenly distributed." This is to say that you don't have to wait until the end of the decade for some breakthrough technology to emerge; it's already here, albeit in bits and pieces.
I'm collectively referring to these process improvement approaches as "Process Strategy 2.0". They stand on the shoulders of the methods of "Process Strategy 1.0": Lean, Six Sigma, andBusiness Reengineering. Let's explore what Process Strategy 2.0 is all about:

1. To streamline customer experiences in end-to-end processes, Process Strategy 2.0 will require aligned goals and supporting systems to manage work between partners.
The first major trend I see is the shift to global, virtual, cross-organizational teams of specialized entities that are knitted together to serve customers.
In a previous post I described how Forbes changed its article-writing process to include a huge stable of outside authors publishing autonomously and improved the reader experience by allowing them to leave comments.
To keep such a multiparty system from degenerating into chaos, virtual process teams must have aligned goals and support systems. Both Forbes and its external contributors (freelance journalists, authors, academics, and topic experts) want to maximize readership, so Forbes publishes the page view statistics for each piece and created an incentive payment program based on the audience contributors attract. Forbes had to provide tools to enable external contributors to easily publish text, photos, and video — and interact with readers and "call out" comments they want to highlight.

2. To manage the rising tide of knowledge work performed by a younger generation of employees, Process Strategy 2.0 will depend heavily on social collaboration tools.
A second major trend in the world of work is that low-skilled jobs are going away due to automation, while all jobs are becoming more analytical as "big data" provides workers with more information to make decisions.
To help manage the increased complexity of knowledge work, $20 billion financial services provider Nationwide Insurance has been pioneering the use of social collaboration tools. Chris Plescia, Marketing, Collaboration and Corporate Internet Solutions BSA Leader, told me that they are moving from an information "push" environment — sending out lots of messages on things workers need to know — to a "pull" environment, where workers search for information they need, get answers to questions, or access services. One success story occurred when a front-line associate in a call center posted online she didn't like a new process. The senior leader saw the comment on their social platform and asked "why not?" People weighed in, and then they changed the process. Engagement has been very high — over 50% take some kind of action each month.
Getting a new social platform up and running in your organization isn't easy. Participation rates are much lower at most other companies than at Nationwide. Companies who just try to let it evolve, don't go after it with a plan and with dedicated resources, and don't seek to create a culture around collaboration will fail. At Nationwide the key success factors have been (1) having senior leadership lead by example; (2) setting governance and policies to ensure security of sensitive comments; and (3) using tools that make collaboration easy and fun. Their collaborative space is designed to look like an "app store", mimicking the environment that people have come to know on their mobile phones and iPads.

3. To speed operations and improvement, Process Strategy 2.0 will make greater use of quick experiments and more agile management processes.
The third major trend I see is the increasing need for speed in operations and improvement. Accelerating changes in technology, competition, regulation, and globalization demand that decisions get made faster at all levels.
Google's engineering culture is a good example of a management system geared for speed. They like to run lots of experiments with new product or feature ideas and let the market decide which ones deserve further investment. It may look like chaos from the outside, but they aren't afraid to fail fast and learn, or scale up quickly if an idea shows merit. One technique that helps early in new product

or process development is to create a quick mock-up of how it would work and show it around. And innovation is built into jobs through "20% time" projects — engineers are expected to spend 20% of their time on projects that are creating and testing new ideas. The effect is powerful — this open technocracy means that workers at every level feel they can have a significant impact.

Many organizations will have trouble adopting Google's fast approaches. They rest on a cultural foundation of openness, analytical rigor, and respect for workers. Workers are expected to not only do their work, but improve their work. And it takes an ability and willingness to invest with a long time horizon.

A revolutionary force over the last 30 years, information technology will change the way organizations operate even more radically over the rest of the decade. Process Strategy 2.0 will help organizations take a fresh look at ways of including customers and suppliers to redesign work, introduce social collaboration tools to support knowledge workers, and reengineer management processes for speed.

Chapter 7

Lifestyle Changes due to Economic Changes

Introduction

I have watched amused over the last few years as another futile economic stimulus package was unveiled. Talk of a job led recovery that did not eventuate. Why? Because the USA has offshored it's manufacturing to cheap countries like China and India for menial jobs. In addition the deployment of systems to run the internals of companies displaced white collar jobs. My amusement comes from the fact that most of the business leaders expected growth in the old business model to come back. Companies like Sears, Macys, and Circuit City have significantly lost their revenues whilst Amazon has grown to over 100 billion dollars in sales and Alibaba now has the largest IPO in history. The effect is that they delayed restructuring their businesses. What does this have to do with economic changes having an influence on lifestyle? It has taken far longer for retirees to realize that they are living longer and don't have the money to live through their retirement from their pension, and as a result they need to continue to work. They are also starting to realize that chasing growth and outsize returns is not viable. As this occurred in Australia, people started to focus on the quality of life elements- exercise, food, and culture. Melbourne, where I grew up, has moved from being a food wasteland to, in my mind, one of the gastronomic capitals of the planet with every price point from an $8 curry laksa to a $3000 menu de gustation, and everything in between. The most expensive coffee on the planet was sold in Melbourne at $130 a cup. The fastest growing coffee houses in New York are ex Melbournites bringing their zeal and expertise to the USA. One of my friends owned a Bicycle distribution business and his business exploded post the 90's financial crisis in Australia. From the time of our first investment in a restaurant, when there were a few, to a decade later, when there are now thousands, I have observed these same changes in New York, Italy, and the Todd English's food court in the Plaza. When I first worked in New York a decade ago, it was all about portion size, with not so much quality- that is now clearly changing. When at Todd English's establishment I enjoyed a curry laksa which was on par with the best that I have had in Malaysia and Australia, this was not available even a few years ago. The focus on quality of life, specifically health, food, and the arts, provided opportunities to those individuals that did not have enough pension to provide income in the totality. Many new businesses that were created provided employment. Now this was also without the wide spread adoption of the internet and things like 3D printing so I imagine that the number of new businesses that will be created in the USA will far eclipse anything that we saw occur in Australia.

The Day the Law Left Town

6-28-11

As I have predicted in earlier posts, cities will need to consolidate and administrations will be collapsed in order to deliver the same services with lower cost through lower overhead. Australia did not suffer when this occurred in the 90's, in fact it went on to prosper. Aivars Lode

By Ana Campoy

ALTO, Texas—Folks here are bracing for a crime wave after the city put its police force on furlough. Budget woes in Alto, Texas have forced drastic measures, including laying off the five-member police force. A newspaper's antique printing press is being moved to a museum for safe keeping. WSJ's Ana Campoy reports.
."Everybody's talking about 'bolt your doors, buy a gun,' " said Monty Collins, Alto's mayor, who was against the measure.

But Alto wasn't going to make payroll in the coming months. So the City Council made the call, and on June 15 the police chief and his four officers secured the evidence room, changed the passwords on their computers and locked the department's doors for six months—longer if local finances don't improve by then.

Meanwhile, Cherokee County Sheriff James Campbell, based 12 miles north in Rusk, is policing Alto, a city of about 1,200. Mr. Campbell said the extra load would strain his 25 deputies and reservists, who oversee a 1,000-square-mile territory. The sheriff is already responsible for the nearby city of Wells, which has a population of about 800 and earlier this year shed its only police officer. Crime went up initially, the sheriff said, but has stabilized.

"I'm going to try, but I can't guarantee you there will always be an officer in the town," he said of Alto.

With city budgets tight across the country, police departments are under the gun to cut costs. Some are disbanding special units. Some are shedding other personnel. And some small jurisdictions are doing away with their police forces altogether.

Half Moon Bay, Calif., a picturesque surfside city, is now patrolled by the San Mateo Sheriff's Office after city government earlier this month dissolved the local department to save more than $500,000 a year. Nazareth Borough, Pa., is negotiating a contract for public-safety services with a regional force. In Wenonah, N.J., voters will decide in November whether to sign up with another municipality to replace its seven officers. The move has the potential to slash around $300 to $400 from the average property tax bill of $9,000, in part by reducing employee insurance costs, according to the mayor.

Whether a county sheriff is obligated to provide public-safety services free of charge or is paid for them depends on state law. In most cases, the sheriff's office is paid, said Fred Wilson, director of operations at the National Sheriffs' Association.

The closure of small-town police departments is part of a broader consolidation of services in communities all over the U.S. Keeping the peace is rarely a revenue-making operation and is easier to outsource to county or state agencies than other city responsibilities, such as utilities, some officials say. Others see advantages in having a bigger, more professional force watch over their communities.

Proponents of local police say regional forces are stretched too thin as it is and may not have enough staff to take over security in individual cities. Outsourcing services to a bigger entity also erodes the ties between officers and the community, an essential element in crime fighting, said Mark Marshall, president of the International Association of Chiefs of Police and chief of the Smithfield, Va., police department.

"You get to the more reactive model that was used in the 1960s and 1970s, which was proven not to be the most successful," he said.

Alto, meaning "high" in Spanish for its perch above the wooded countryside, has been struggling. The city-owned natural-gas distribution system from which it derives most of its revenue was in dire need of expensive repairs, wiping out several hundred thousand dollars. Reduced sales and property tax collections from the sluggish economy are putting pressure on the town, where residents mostly make their living in cattle ranching, lumber and the oil and gas industry.

City Council officials calculate a budget shortfall of around $185,000 for the fiscal year ending Sept. 30. It costs about $230,000 to run the police department.

"We had to do something drastic," said Jerry Flowers, councilman and hay farmer. "The police department, being a non-money-making entity, was the easiest to get rid of while we catch our breath and build up some cash."

James Green, Alto police officer, on patrol in Alto, Texas.
.Some in town, including Police Chief Charles Barron, complain that the city should have cut elsewhere, given local crime. Last year in Alto, which clocks in above the statewide crime rate, there were 39 larcenies, 23 burglaries, two assaults, one robbery and one auto theft, or 66 crimes, compared to 51 the year before, although that year included a rape and four aggravated assaults.

"Why did they totally throw public safety to the wind?" said Chief Barron. "If the city is broke as they say, I would think they can't afford anybody else either."

Mr. Flowers said the council was looking at cuts in other departments and would try to reinstate the police department after the furlough, although he thinks it should employ fewer officers in the future.

Residents are circulating a petition demanding the city government restore the force. Some business owners said they had removed valuable objects they don't use regularly from their places of work in preparation for the furlough. Others worry that the absence of local police could dissuade businesses and visitors from coming to town.

And some on the outskirts who are already under the sheriff's jurisdiction are worried, too. Because of their proximity, Alto police officers were often the first responders to crime calls until county deputies arrived.

"The thought that we could be 35 or 40 minutes from getting the sheriff's deputy here, depending on where they are in the county, is scary," said Kelly Curry, manager of the Shiloh Ridge off-road vehicle park. Ms. Curry has two guns for self-defense.

Terri Underwood asks who's going to alert citizens when something goes awry in the middle of the night, like the time water began to cascade from the front door of her downtown cafe. "It could have been a lot worse had they not called me," Ms. Underwood said of the furloughed police.

How Safe Are We? Crime Writer Compares Stats, Then and Now

12-20-11

I have heard any number of mothers say we have to protect our children as the world is a lot less safe than when we grew up and that it is the internet's fault. Let's all keep it in perspective! Aivars Lode

By Kathryn Casey

I write about crimes, real and fictional, so my view of the world is a bit off-center. Perhaps it's a natural outcome of spending months at a time in courtrooms taking notes on sensational murder cases.

It's dramatic, sure, but it forces one to confront head-on a world most of us prefer to relegate to the things-that-happen-to-someone-else category. Once you know the families the worst has happened to, it's not so easy to distance oneself. The truth is that they're often not that different from the rest of us.

The result is that I tend to drive friends and family a bit crazy, warning them to be careful. My friends, thanks to my constant nagging, know all the cautions, from parking under lights in lots and having their keys ready when they leave to never, ever, ever getting in a car with a would-be abductor. One of my homicide detective friends is so adamant that he's told his wife and daughter to turn and run even if an assailant has a gun. "The truth is that the guy's probably not a crack shot," my friend explains. "But if you get in the car, the statistics aren't good."

So, I have a tendency to be a worrier, I admit.

Yet I've never felt that way close to home. I live in a quiet Houston suburb, a bedroom community with tree-shaded streets where kids ride bikes and joggers dominate the sidewalks mornings and evenings. Sure, I know crimes occur all over the country, all over the world, including in neighborhoods like mine, but it's always felt like a bit of a haven to me. I appreciate the fact that a big crime in my neighborhood is a kid knocking down a mailbox — that was, until last week, when I drove home from the local Kroger and noticed a hand-lettered sign on a wooden post stuck into the grass at a corner that read: "Anyone with information on the robbery/assault that occurred here, please call…."

For a moment, I felt puzzled. Was that real? Was someone mugged just blocks from my home? That night I watched the local news including video of a well-dressed middle-aged man driving a white Prius stealing delivered packages from front porches.

Over the years, I've heard often that tough economic times breed crime, and as I watched the news, I wondered what our will-it-ever-end recession is doing to crime rates.

So before bed, I did what many of us do when confronted with a question, I Googled, typing in: U.S. CRIME RATE STATISTICS PAST AND PRESENT. What I discovered was the opposite of my assumption; despite the anti-Santa who was stealing presents, despite the nightly headlines and news footage that makes us question our safety, despite the anomaly of a mugging in my quiet neighborhood, I was relieved to discover that we're safer now than we were a decade ago. As a matter of fact, the overall crime rate in 2010 wasn't much different than it was in 1968. Did you know that? I didn't.

Looking at the trends, rates climbed from 1960 through 1990 and then began to fall. In fact, according to the United States Crime Index, rates per 100,000 inhabitants have declined nearly every year since 1990, both violent and non-violent offenses. In 1970, for instance, the overall crime rate was 3.984. Twenty years later in 1990, it hit 5.820. Fast forward two more decades, and by 2010 the figure had plummeted to 3.345. The only troublesome statistic I came upon was that a larger percentage of the crimes are violent now than they were in 1968. Then: 298.4. Now: 403.6. Yet in 1990 it was a whopping 731.8, so even that's headed in the right direction.

Why? A bit more scouting, and I read a lot of theories, from the aging of baby-boomers (crime is predominantly committed by the young), to harsher sentences and more people in prisons, to better policing. There were also theories about cocaine fueling the rise in crime rates through the Eighties and into the Nineties. The bottom line, it appears, is that no one truly knows why rates are lower, at least not definitively.

Was this drop in crime reported and I missed it? It could be. Perhaps it was simply lost in the murders and mayhem that dominate the headlines. Whatever the situation, I was glad to read it now, to understand that despite my perception that the U.S. is a more dangerous place than decades ago, it's truly not.

The gloomy economic environment and our high unemployment rates are admittedly painful on many levels, but it's at least comforting to learn one result isn't higher crime rates. That said, will I stop locking my doors and parking under lights? No. But it's nice to know that statistically I'm safer now than I was twenty years ago.

Draft White Paper Details European Commission's Plans for Pensions

2-14-12

The news here is that those relying on a pension will have to work a little longer. HMMM anyone guess where I saw this before?

By Cecile Sourbes

EUROPE – The European Commission has reiterated its desire to reinforce second and third-pillar pensions and said it will support EU member states' efforts to raise legal retirement ages.

According to a leaked draft of the White Paper on pensions, the Commission also aims to develop a "code of good practice" for European occupational schemes, addressing issues of employee coverage as well as measures of risk-sharing.

The draft, circulated by the Commission last week, said: "[The White Paper] aims to gear EU policy instruments towards offering better support to pension reform efforts in the member states and proposes a set of mutually reinforcing initiatives, ranging from legislation over financial incentives to policy coordination and monitoring progress towards shared objectives within the integrated and comprehensive Europe 2020 framework."

The Commission also reiterated its intention to offer financial support to member states and social partners wishing to share information with other countries or international organisations on the implementation of pension reforms and new retirement policies.

This would occur through the Commission's PROGRESS programme and the future Programme for Social Change and Innovation – which both facilitate mutual learning and policy development.

In a previous leaked draft version seen by IPE in November last year, the Commission already said it would encourage member states to implement wide-ranging pension reforms by providing financial support for any initiatives.

In the new draft version, the Commission goes even further. The Brussels-based institution lists a range of measures it hopes to implement, while stressing that the EU has no powers to legislate on the design of pension systems in the member states.

Among the measures proposed, the Commission said it would ask the Social Protection Committee (SPC) and the Advisory Committee on equal opportunities between women and men to identify and recommend best practice in reducing the gender gap in pensions – including promotion of equal pay, minimum pension entitlements, care credits and pension rights splitting at divorce.

One person acquainted with the drafting of the White Paper pointed out: "If a country allows women to retire at age 60 and men to retire at age 65, the state adds at least 20% to its public pension bill."

The Commission said it aimed to promote joint work by the SPC and the Employment Committee (EMCO) on gender-specific obstacles.

It will also call on social partners to develop ways of adapting workplace and labour market practices.
"This will include career management – notably regarding strenuous jobs – so as to facilitate longer working lives for women and men," it said, adding that the European Foundation for the Improvement of Living and Working Conditions and the European Agency for Safety and Health at Work would provide "expert advice" at EU level.
Building on its proposal for the European Social Fund (ESF) in the 2014-20 programming period, the Commission said it would also encourage member states to make use of the ESF to support active and healthy ageing, including the reconciliation of work and family life.
It said it would monitor whether programmes backed by the fund effectively supported the reform needs identified in this area by the White Paper under the Country Specific Recommendations heading.
As part of its plan to develop complementary private retirement savings, the Commission is seeking to invite the SPC to review good practice with regard to individual pension statements.
According to the Commission, this would encourage member states to provide better information to individuals for their retirement planning and decisions on how much to save through supplementary pension schemes.
Regarding the second pillar, the Commission repeated its intention to develop a code of good practice for occupational pension schemes, addressing issues such as the payout phase, risk-sharing and mitigation, cost-effectiveness, shock absorption and ways of avoiding pro-cyclicality in investments.
With respect to cross-border activity, the Commission said it would promote the development of pension-tracking services, allowing people to keep track of entitlements acquired in different jobs.
The draft said: "[The Commission] will consider, in the context of the revision of the IORP directive and the proposal for a portability directive, how the provision of the required information for pensions tracking can be ensured, and it will support a pilot project on cross-border tracking."
One of the main issues for the development of cross-border pension vehicles, according to the Commission and pension providers, remains tax obstacles to cross-border mobility and cross-border investments.
The Commission said it aimed to investigate tax rules and would initiate – where necessary – infringement procedures.
The person familiar with the matter, however, insisted that, even though the IORP directive was mentioned in the report, the White Paper was not about taking the elements of the IORP review, as this specific regulation already had its own agenda.
The source explained that the delay in the White Paper publication had mainly been due to the changes brought up by the member states since the Green Paper consultation.
He said: "The publication of the White Paper had to be delayed in order to fully take on board all the new instruments and then suggest European level measures to support member states to implementing these country-specific recommendations."
The Commission is expected to publish the final version of the White Paper some time this week.

For Boomers, It's a New Era of 'Work Till You Drop'

2-21-12

What happened in Australia in the 90's is now happening here in the USA. I have also commented that the stimulus packages have just delayed the realization that changes need to take place, such as retirees understanding that they will have to continue to work for a lot longer. It looks like that day has arrived. In Australia during the 90's many new business were created around something that people were passionate about. Making his own wine, opening a gourmet restaurant, or making the best croissant known to man. This will be an exciting decade to experience the new pleasures that will be brought to us out of the current perceived hardship. Aivars Lode

By John Rogers

When Paula Symons joined the U.S. workforce in 1972, typewriters in her office clacked nonstop, people answered the telephones and the hot new technology revolutionizing communication was the fax machine.
Symons, fresh out of college, entered this brave new world thinking she'd do pretty much what her parents' generation did: Work for just one or two companies over about 45 years before bidding farewell to co-workers at a retirement party and heading off into her sunset years with a pension.
Forty years into that run, the 60-year-old communications specialist for a Wisconsin-based insurance company has worked more than a half-dozen jobs. She's been laid off, downsized and seen the pension disappear with only a few thousand dollars accrued when it was frozen.
So, five years from the age when people once retired, she laughs when she describes her future plans. "I'll probably just work until I drop," she says, a sentiment expressed, with varying degrees of humor, by numerous members of her age group.
Like 78 million other U.S. Baby Boomers, Symons and her husband had the misfortune of approaching retirement age at a time when stock market crashes diminished their 401(k) nest eggs, companies began eliminating defined benefit pensions in record numbers and previously unimagined technical advances all but eliminated entire job descriptions from travel agent to telephone operator.
At the same time, companies began moving other jobs overseas, to be filled by people willing to work for far less and still able to connect to the U.S. market in real time.

"The paradigm has truly shifted. Now when you're looking for a job you're competing in a world where the competition isn't just the guy down the street, but the guy sitting in a cafe in Hong Kong or Mumbai," says Bill Vick, a Dallas-based executive recruiter who started BoomersNextStep.com in an effort to help Baby Boomers who want to stay in the workforce.
Not only has the paradigm shifted, but as it has the generation whose mantra used to be, "Don't trust anyone over 30," finds itself now being looked on with distrust by younger Generation X managers who question whether boomers have the high-tech skills or even the stamina to do what needs to be done.
"I always have the feeling that I have to prove my value all the time. That I'm not some old relic who doesn't understand social media or can't learn some new technique," says Symons, who is active on Twitter and Facebook, loves every new time-saving software app that comes down the pike, and laughs at the idea of ever sending another fax.
"Ahh, that's just so archaic," she says.
Meanwhile, as companies have downsized, boomers have been hurt to some degree by their own sheer numbers, says Ed Lawler of the University of Southern California's Marshall School of Business. The oldest ones, Lawler says, aren't retiring, and more and more the youngest members of the generation ahead of them aren't either. It's no longer uncommon, he says, for people to work until 70. "People who would have normally been out of the workforce are still there, taking jobs that would have gone to what we now call the unemployed," he said.
John Stewart of Springfield, Mo., sees himself becoming part of that new generation that never stops working.
"No, I don't see myself retiring," says Stewart, who is media director for a large church. "I think I would be bored if I just all of a sudden quit everything and did whatever it is retired people do." Then there are the financial considerations. Like many boomers, the 60-year-old acknowledges he didn't put enough aside when he was younger.

For more than 30 years, Stewart ran his own photography business, doing everything from studio portraits to illustrating annual reports for hospitals and other large corporations to freelancing for national magazines and newspapers.
As the news media began to struggle, the magazine and newspaper work dried up. As the economy tanked, his large corporate clients began to use cheaper stock photos purchased online rather than

hire him to take new ones. Eventually he took his current job, producing videos of pastors' sermons and photos for church publications. He says he is glad to be one boomer to make a late career change and keep working.
"There were times when the money was really rolling in," he says of his old business. "But somehow retirement wasn't really in the forefront of my thinking then, so saving for it wasn't an automatic thing."
Steve Wyard, of Los Angeles, says he and his wife have planned carefully for retirement.
He's worked for 30 years for a company that sells and services commercial washers and dryers, and she's been with a health maintenance organization for even longer. They've invested cautiously, lived in the same house for decades and meticulously paid down the mortgage.
Plus he's one of the few boomers who figures that, no matter what technology comes along, his job won't go away.
"Everyone has to do the laundry," he says.
Still, he and his wife have two sons, 19 and 21, to put through college, and Wyard, 61, sees that pushing back retirement for several years.
Until then he plans to keep working, which is what every physically able boomer should consider doing, says USC's Lawler.
Union membership, which has been declining for years, now includes only about 10 percent of all eligible U.S. employees, according to the Bureau of Labor Statistics. Meanwhile, the number of defined benefit retirement funds offered by private enterprise have fallen from about one in three employers in 1990 to about one in five in 2005.

With unions no longer in a strong position to fight for benefits like pensions, with jobs disappearing or going overseas, and with Gen Xers and even younger Millennial Generation members coveting their jobs, Lawler warns this is no time for boomers to quit and allow the skills they've spent a lifetime building to atrophy.
"My advice is above all don't retire," he says. "If you like your job at all, hold onto it. Because getting back in in this era is essentially impossible."

Enterprising Oldies

2-25-12

The topic of the day, you can no longer expect to retire. What does this mean? Oscar Wilde said America went headlong from Barbarism to Decadence and missed out civilization, most of us know in sales that when you miss out a step you always have to come back and repeat the missed step in order to get to a close.

How relevant for the USA? New businesses will be started by us older mates focused on something we are passionate about. So rather than huge meals, coffees, or cakes it will be about quality. A renaissance of sorts. We can already see it with Starbucks and their concept stores which are more refined and offering different flavors of coffee and now moving to utilize the store as many hours a day with wine and cheese. Aivars Lode

The Economist

Founding new businesses is not a monopoly of the young, even if it seems so nowadays. “A LAZY bastard living in a suit” is Leonard Cohen’s description of himself in his new album, “Old Ideas”. Mr Cohen is certainly fond of wearing a suit, on and off stage. But lazy seems a bit harsh. He is 77, which is 12 years beyond the normal retirement age in Canada, where he was born. But there is no sign of his laying down his guitar. He spent 2008-10 on tour, performing on stage in Barcelona on his 75th birthday. “Old Ideas” has won widespread acclaim. Mr Cohen says he has written enough songs for another album.

In the 1960s pop was a young person's business. The Who hoped they died before they got old. Bob Dylan berated middle-aged squares like Mr Jones in "Ballad of a Thin Man". But today age is no barrier to success. The Rolling Stones are still touring in their 60s. Bob Dylan's songwriting skills, if not his vocal chords, have survived intact. Sir Paul McCartney warbles on.

It is time to do for enterprise what such ageing rockers have done for pop music: explode the myth that it is a monopoly of the young. This idea has been powerfully reinforced by the latest tech boom: Facebook, Google and Groupon were all founded by people in their 20s or teens. Mark Zuckerberg, aged 27, will soon be able to count his years on earth in billions of dollars. But the trend is not confined to tech: Michael Reger was a founder of one of America's most innovative energy companies, Northern Oil and Gas, aged 30.

The rise of the infant entrepreneur is producing a rash of ageism, particularly among venture capitalists. Why finance a 40-year-old (with a family and mortgage) when you can back a 20-year-old who will work around the clock for peanuts and might be the next Mr Zuckerberg? But it is not hard to think of counter-examples: Mark Pincus was 41 when he founded Zynga and Arianna Huffington was 54 when she created the *Huffington Post*.

Research suggests that age may in fact be an advantage for entrepreneurs. Vivek Wadhwa of Singularity University in California studied more than 500 American high-tech and engineering companies with more than $1m in sales. He discovered that the average age of the founders of successful American technology businesses (ie, ones with real revenues) is 39. There were twice as many successful founders over 50 as under 25, and twice as many over 60 as under 20. Dane Stangler of the Kauffman Foundation studied American firms founded in 1996-2007. He found the highest rate of entrepreneurial activity among people aged between 55 and 64—and the lowest rate among the Google generation of 20- to 34-year-olds. The Kauffman Foundation's most recent study of start-ups discovered that people aged 55 to 64 accounted for nearly 23% of new entrepreneurs in 2010, compared with under 15% in 1996.

Experience continues to count for a great deal, in business as in other walks of life—or, to borrow a phrase from P.J. O'Rourke, age and guile can still beat "youth, innocence and a bad haircut". It is one thing to invent a clever new product but quite another to hire employees or build a sales machine. And even when it comes to breakthrough ideas, age may still be an asset. Benjamin Jones of Northwestern University's Kellogg School of Management and Bruce Weinberg of Ohio State University examined the careers of Nobel prize-winners in chemistry, physics and medicine. They found that the average age at which these stars made their greatest innovations is now higher than it was a century ago. Mr Wadhwa speculates that many of the most promising businesses in future will result from the mating of two subjects that each take years to understand—robotics and biology, say, or medicine and nanotechnology.

Experience may be nothing if it is not linked to mould-breaking creativity. But there are plenty of older people who are capable of breaking moulds. Ray Kroc was in his 50s when he began building the McDonald's franchise system, and Colonel Harland Sanders was in his 60s when he started the Kentucky Fried Chicken chain. David Ogilvy worked as a chef and a spy before turning to advertising in his late 30s, an age when Bill Gates reinvented himself as a philanthropist. The late Steve Jobs was as creative in his second stint at Apple, from 1995 to 2011, as in his first.

This is not to say that the rise of young entrepreneurs like Mr Zuckerberg is insignificant. The barriers that once discouraged enterprise among the young are collapsing. Social networks make it easier to build contacts. Knowledge-intensive industries require relatively little capital. But the fact that barriers are collapsing for the young does not mean that they are being erected for greybeards. The point is that the creation of fast-growing businesses is now open to everybody regardless of age.

Back on the road again

The evidence that older people are if anything becoming more enterprising should help to calm two of the biggest worries that hang over the West (and indeed over an ageing China). One is that the greying of the population will inevitably produce economic sluggishness. The second is that older people will face hard times as companies shed older workers in the name of efficiency and welfare states cut back on their pensions.

Here, Mr Cohen is a man for our times. In 2004 he faced financial ruin when he discovered that his manager, Kelley Lynch, had misappropriated most of his savings. He sued successfully but could not lay his hands on the money. So he had no choice but to go back to work. Mr Cohen told the *New York Times* that reconnecting with “living musicians” and “living audiences” had “warmed some part of my heart that had taken a chill”. Let us hope the same is true of the ageing boomers who will have little choice but to embrace self-employment as the West’s welfare states discover that they cannot keep their promises.

Western Civilization: Decline – or Fall?

3-18-12

An interesting take on the current state of things and what needs to be done to reboot. Taking ideas from elsewhere and implementing them here in the States. What a novel concept. However there are some issues to getting implemented. I have personally been at dinners where individuals have almost become violent in their opposition of the importation of solutions. Aivars Lode

By Niall Ferguson

As a freshman historian at Oxford back in 1982, I was required to read Edward Gibbon's Decline and Fall of the Roman Empire. Ever since that first encounter with the greatest of all historians, I have pondered the question whether or not the modern West could succumb to degenerative tendencies similar to the ones described so vividly by Gibbon. My most recent book, Civilization: The West and the Rest attempts an answer to that question.

The good news is that I do not believe that Western civilization is in some kind of gradual, inexorable decline. In my view, civilizations do not rise, fall, and then gently decline, as inevitably and predictably as the four seasons or the seven ages of man. History is not one smooth, parabolic curve after another. The bad news is that its shape is more like an exponentially steepening slope that quite suddenly drops off like a cliff.

To see what I mean, pay a visit to Machu Picchu, the lost city of the Incas. In 1530 the Incas were the masters of all they surveyed from the heights of the Peruvian Andes. Within less than a decade, foreign invaders with horses, gunpowder, and lethal diseases had smashed their empire to smithereens. Today tourists gawp at the ruins that remain.

The notion that civilizations do not decline but collapse inspired the anthropologist Jared Diamond's 2005 book, Collapse. But Diamond focused, fashionably, on man-made environmental disasters as the causes of collapse. As a historian, I take a broader view. My point is that when you look back on the history of past civilizations, a striking feature is the speed with which most of them collapsed, regardless of the cause.

The Roman Empire did not decline and fall over a millennium, as Gibbon's monumental work seemed to suggest. It collapsed within a few decades in the early fifth century, tipped over the edge of chaos by barbarian invaders and internal divisions. In the space of a generation, the vast imperial metropolis of Rome fell into disrepair, the aqueducts broken, the splendid marketplaces deserted.

The Ming dynasty's rule in China also fell apart with extraordinary speed in the mid–17th century, succumbing to internal strife and external invasion. Again, the transition from equipoise to anarchy took little more than a decade.

A more recent and familiar example of precipitous decline is, of course, the collapse of the Soviet Union. And, if you still doubt that collapse comes suddenly, just think of how the postcolonial dictatorships of North Africa and the Middle East imploded this year. Twelve months ago, Messrs. Ben Ali, Mubarak, and Gaddafi seemed secure in their gaudy palaces. Here yesterday, gone today.

What all these collapsed powers have in common is that the complex social systems that underpinned them suddenly ceased to function. One minute rulers had legitimacy in the eyes of their people; the next they did not. This process is a familiar one to students of financial markets. Even as I write, it is far from clear that the European Monetary Union can be salvaged from the dramatic

collapse of confidence in the fiscal policies of its peripheral member states. In the realm of power, as in the domain of the bond vigilantes, you are fine until you are not fine—and when you're not fine, you are suddenly in a terrifying death spiral.
The West first surged ahead of the Rest after about 1500 thanks to a series of institutional innovations that (to entice younger readers) I call the "killer applications":
1.Competition. Europe was politically fragmented into multiple monarchies and republics, which were in turn internally divided into competing corporate entities, among them the ancestors of modern business corporations.
2.The Scientific Revolution. All the major 17th-century breakthroughs in mathematics, astronomy, physics, chemistry, and biology happened in Western Europe.
3.The Rule of Law and Representative Government. An optimal system of social and political order emerged in the English-speaking world, based on private-property rights and the representation of property owners in elected legislatures.
4.Modern Medicine. Nearly all the major 19th- and 20th-century breakthroughs in health care were made by Western Europeans and North Americans.
5.The Consumer Society. The Industrial Revolution took place where there was both a supply of productivity-enhancing technologies and a demand for more, better, and cheaper goods, beginning with cotton garments.
6.The Work Ethic. Westerners were the first people in the world to combine more extensive and intensive labor with higher savings rates, permitting sustained capital accumulation.
For hundreds of years, these killer apps were essentially monopolized by Europeans and their cousins who settled in North America and Australasia. They are the best explanation for what economic historians call "the great divergence": the astonishing gap that arose between Western standards of living and those in the rest of the world. In 1500 the average Chinese was richer than the average North American. By the late 1970s the American was more than 20 times richer than the Chinese.
Westerners not only grew richer than "Resterners." They grew taller, healthier, and longer-lived. They also grew more powerful. By the early 20th century, just a dozen Western empires—including the United States—controlled 58 percent of the world's land surface and population, and a staggering 74 percent of the global economy.
Beginning with Japan, however, one non-Western society after another has worked out that these apps can be downloaded and installed in non-Western operating systems. That explains about half the catching up that we have witnessed in our lifetimes, especially since the onset of economic reforms in China in 1978.
I am not one of those people filled with angst at the thought of a world in which the average American is no longer vastly richer than the average Chinese. I welcome the escape of hundreds of millions of Asians from poverty, not to mention the improvements we are seeing in South America and parts of Africa. But there is a second, more insidious cause of the "great reconvergence," which I do deplore—and that is the tendency of Western societies to delete their own killer apps.
Who's got the work ethic now? The average South Korean works about 39 percent more hours per week than the average American. The school year in South Korea is 220 days long, compared with 180 days in the U.S. And you do not have to spend too long at any major U.S. university to know which students really drive themselves: the Asians and Asian-Americans. The consumer society? 26 of the 30 biggest shopping malls in the world are now in emerging markets, mostly in Asia. Modern medicine? As a share of gross domestic product, the United States spends twice what Japan spends on health care and more than three times what China spends. Yet life expectancy in the U.S. has risen from 70 to 78 in the past 50 years, compared with leaps from 68 to 83 in Japan and from 43 to 73 in China.
The rule of law? For a real eye-opener, take a look at the latest World Economic Forum (WEF) Executive Opinion Survey. On no fewer than 15 of 16 different issues relating to property rights and governance, the United States fares worse than Hong Kong. Indeed, the U.S. makes the global top 20 in only one area: investor protection. On every other count, its reputation is shockingly bad. The U.S. ranks 86th in the world for the costs imposed on business by organized crime, 50th for public trust in the ethics of politicians, 42nd for various forms of bribery, and 40th for standards of auditing and financial reporting.

What about science? U.S.-based scientists continue to walk off with plenty of Nobel Prizes each year. But Nobel winners are old men. The future belongs not to them but to today's teenagers. Here is another striking statistic. Every three years the Organization of Economic Cooperation and Development's Program for International Student Assessment tests the educational attainment of 15-year-olds around the world. The latest data on "mathematical literacy" reveal that the gap between the world leaders—the students of Shanghai and Singapore—and their American counterparts is now as big as the gap between U.S. kids and teenagers in Albania and Tunisia.
The late, lamented Steve Jobs convinced Americans that the future would be "Designed by Apple in California. Assembled in China." Yet statistics from the World Intellectual Property Organization show that already more patents originate in Japan than in the U.S., that South Korea overtook Germany to take third place in 2005, and that China has just overtaken Germany too.
Finally, there's competition, the original killer app that sent the fragmented West down a completely different path from monolithic imperial China. The WEF has conducted a comprehensive Global Competitiveness survey every year since 1979. Since the current methodology was adopted in 2004, the United States' average competitiveness score has fallen from 5.82 to 5.43, one of the steepest declines among developed economies. China's score, meanwhile, has leapt up from 4.29 to 4.90.
Not only is the U.S. less competitive abroad. Perhaps more disturbing is the decline of meaningful competition at home, as the social mobility of the postwar era has given way to an extraordinary social polarization. You do not have to be an Occupy Wall Street activist to believe that the American super-rich elite—the 1 percent that collects 20 percent of the income—has become dangerously divorced from the rest of society, especially from the underclass at the bottom of the income distribution.
But if we are headed toward collapse, what will it look like? An upsurge in civil unrest and crime, as happened in the 1970s? A loss of faith on the part of investors and a sudden Greek-style leap in government borrowing costs? How about a spike of violence in the Middle East, from Iraq to Afghanistan, as insurgents capitalize on our troop withdrawals? Or a paralyzing cyberattack from the rising Asian superpower we complacently underrate?
Is there anything we can do to prevent such disasters? Social scientist Charles Murray calls for a "civic great awakening"—a return to the original values of the American republic. He has a point. Far more than in Europe, most Americans remain instinctively loyal to the killer applications of Western ascendancy, from competition all the way through to the work ethic. They know the country has the right software. They just cannot understand why it is running so damn slowly.
What we need to do is to delete the viruses that have crept into our system: the anticompetitive quasi monopolies that blight everything from banking to public education; the politically correct pseudosciences and soft subjects that deflect good students away from hard science; the lobbyists who subvert the rule of law for the sake of the special interests they represent—to say nothing of our crazily dysfunctional system of health care, our overleveraged personal finances, and our newfound unemployment ethic.
Then we need to download the updates that are running more successfully in other countries, from Finland to New Zealand, from Denmark to Hong Kong, from Singapore to Sweden. And finally we need to reboot our whole system.
Voters and politicians alike dare not postpone the big reboot. If what we are risking is not decline but downright collapse, then the time frame may even be tighter than one election cycle.

Heart Surgeon Speaks Out On What Really Causes Heart Disease

3-18-12

This is an interesting statement from a Heart Surgeon on how the food pyramid is so out of whack with reality. Two things to fix the medical system in the USA - reform Tort law and educate the masses on correct eating. Aivars Lode

By Dr. Dwight Lundell

We physicians with all our training, knowledge and authority often acquire a rather large ego that tends to make it difficult to admit we are wrong. So, here it is. I freely admit to being wrong. As a heart surgeon with 25 years experience, having performed over 5,000 open-heart surgeries, today is my day to right the wrong with medical and scientific fact. I trained for many years with other prominent physicians labelled "opinion makers." Bombarded with scientific literature, continually attending education seminars, we opinion makers insisted heart disease resulted from the simple fact of elevated blood cholesterol. The only accepted therapy was prescribing medications to lower cholesterol and a diet that severely restricted fat intake. The latter of course we insisted would lower cholesterol and heart disease. Deviations from these recommendations were considered heresy and could quite possibly result in malpractice. **It Is Not Working!** These recommendations are no longer scientifically or morally defensible. The discovery a few years ago that inflammation in the artery wall is the real cause of heart disease is slowly leading to a paradigm shift in how heart disease and other chronic ailments will be treated. The long-established dietary recommendations have created epidemics of obesity and diabetes, the consequences of which dwarf any historical plague in terms of mortality, human suffering and dire economic consequences. Despite the fact that 25% of the population takes expensive statin medications and despite the fact we have reduced the fat content of our diets, more Americans will die this year of heart disease than ever before. Statistics from the American Heart Association show that 75 million Americans currently suffer from heart disease, 20 million have diabetes and 57 million have pre-diabetes. These disorders are affecting younger and younger people in greater numbers every year. Simply stated, without inflammation being present in the body, there is no way that cholesterol would accumulate in the wall of the blood vessel and cause heart disease and strokes. Without inflammation, cholesterol would move freely throughout the body as nature intended. It is inflammation that causes cholesterol to become trapped. Inflammation is not complicated -- it is quite simply your body's natural defence to a foreign invader such as a bacteria, toxin or virus. The cycle of inflammation is perfect in how it protects your body from these bacterial and viral invaders. However, if we chronically expose the body to injury by toxins or foods the human body was never designed to process,a condition occurs called chronic inflammation. Chronic inflammation is just as harmful as acute inflammation is beneficial. What thoughtful person would willfully expose himself repeatedly to foods or other substances that are known to cause injury to the body? Well, smokers perhaps, but at least they made that choice willfully. The rest of us have simply followed the recommended mainstream diet that is low in fat and high in polyunsaturated fats and carbohydrates, not knowing we were causing repeated injury to our blood vessels. This repeated injury creates chronic inflammation leading to heart disease, stroke, diabetes and obesity. Let me repeat that: The injury and inflammation in our blood vessels is caused by the low fat diet recommended for years by mainstream medicine. What are the biggest culprits of chronic inflammation? Quite simply, they are the overload of simple, highly processed carbohydrates (sugar, flour and all the products made from them) and the excess consumption of omega-6 vegetable oils like soybean, corn and sunflower that are found in many processed foods. Take a moment to visualize rubbing a stiff brush repeatedly over soft skin until it becomes quite red and nearly bleeding. you kept this up several times a day, every day for five years. If you could tolerate this painful brushing, you would have a bleeding, swollen infected area that became worse with each repeated injury. This is a good way to visualize the inflammatory process that could be going on in your body right now. Regardless of where the inflammatory process occurs, externally or internally, it is the same. I have peered inside thousands upon thousands of arteries. A diseased artery looks as if someone took a brush and scrubbed repeatedly against its wall.

Several times a day, every day, the foods we eat create small injuries compounding into more injuries, causing the body to respond continuously and appropriately with inflammation. While we savor the tantalizing taste of a sweet roll, our bodies respond alarmingly as if a foreign invader arrived declaring war. Foods loaded with sugars and simple carbohydrates, or processed with omega-6 oils for long shelf life have been the mainstay of the American diet for six decades. These foods have been slowly poisoning everyone. How does eating a simple sweet roll create a cascade of inflammation to make you sick? Imagine spilling syrup on your keyboard and you have a visual of what occurs inside the cell. When we consume simple carbohydrates such as sugar, blood sugar rises rapidly. In response, your pancreas secretes insulin whose primary purpose is to drive sugar into each cell where it is stored for energy. If the cell is full and does not need glucose, it is rejected to avoid extra sugar gumming up the works. When your full cells reject the extra glucose, blood sugar rises producing more insulin and the glucose converts to stored fat. What does all this have to do with inflammation? Blood sugar is controlled in a very narrow range. Extra sugar molecules attach to a variety of proteins that in turn injure the blood vessel wall. This repeated injury to the blood vessel wall sets off inflammation. When you spike your blood sugar level several times a day, every day, it is exactly like taking sandpaper to the inside of your delicate blood vessels. While you may not be able to see it, rest assured it is there. I saw it in over 5,000 surgical patients spanning 25 years who all shared one common denominator -- inflammation in their arteries. Let's get back to the sweet roll. That innocent looking goody not only contains sugars, it is baked in one of many omega-6 oils such as soybean. Chips and fries are soaked in soybean oil; processed foods are manufactured with omega-6 oils for longer shelf life. While omega-6's are essential -they are part of every cell membrane controlling what goes in and out of the cell -- they must be in the correct balance with omega-3's. If the balance shifts by consuming excessive omega-6, the cell membrane produces chemicals called cytokines that directly cause inflammation. Today's mainstream American diet has produced an extreme imbalance of these two fats. The ratio of imbalance ranges from 15:1 to as high as 30:1 in favor of omega-6. That's a tremendous amount of cytokines causing inflammation. In today's food environment, a 3:1 ratio would be optimal and healthy. To make matters worse, the excess weight you are carrying from eating these foods creates overloaded fat cells that pour out large quantities of pro-inflammatory chemicals that add to the injury caused by having high blood sugar. The process that began with a sweet roll turns into a vicious cycle over time that creates heart disease, high blood pressure, diabetes and finally, Alzheimer's disease, as the inflammatory process continues unabated. There is no escaping the fact that the more we consume prepared and processed foods, the more we trip the inflammation switch little by little each day. The human body cannot process, nor was it designed to consume, foods packed with sugars and soaked in omega-6 oils. There is but one answer to quieting inflammation, and that is returning to foods closer to their natural state. To build muscle, eat more protein. Choose carbohydrates that are very complex such as colorful fruits and vegetables. Cut down on or eliminate inflammation- causing omega-6 fats like corn and soybean oil and the processed foods that are made from them. One tablespoon of corn oil contains 7,280 mg of omega-6; soybean contains 6,940 mg. Instead, use olive oil or butter from grass-fed beef. Animal fats contain less than 20% omega-6 and are much less likely to cause inflammation than the supposedly healthy oils labelled polyunsaturated. Forget the "science" that has been drummed into your head for decades. The science that saturated fat alone causes heart disease is non-existent. The science that saturated fat raises blood cholesterol is also very weak. Since we now know that cholesterol is not the cause of heart disease, the concern about saturated fat is even more absurd today. The cholesterol theory led to the no-fat, low-fat recommendations that in turn created the very foods now causing an epidemic of inflammation. Mainstream medicine made a terrible mistake when it advised people to avoid saturated fat in favor of foods high in omega-6 fats. We now have an epidemic of arterial inflammation leading to heart disease and other silent killers. What you can do is choose whole foods your grandmother served and not those your mom turned to as grocery store aisles filled with manufactured foods. By eliminating inflammatory foods and adding essential nutrients from fresh unprocessed food, you will reverse years of damage in your arteries and throughout your body from consuming the typical American diet.

A Virulent Monster is Dangerously Out of Control. Let Us Slay it Together

4-7-12

A different perspective on inflation. Aivars Lode

The Economist

PRICE inflation remains relatively subdued in the rich world, even though central banks are busily printing money. But other types of inflation are rampant. This "panflation" needs to be recognised for the plague it has become.

Take the grossly underreported problem of "size inflation", where clothes of any particular labelled size have steadily expanded over time. Estimates by *The Economist* suggest that the average British size 14 pair of women's trousers is now more than four inches wider at the waist than it was in the 1970s. In other words, today's size 14 is really what used to be labelled a size 18; a size 10 is really a size 14. (American sizing is different, but the trend is largely the same.) Fashion firms seem to think that women are more likely to spend if they can happily squeeze into a smaller label size. But when three out of four American adults and three out of five Britons are overweight, the danger is that size inflation reduces women's incentive to eat less. Meanwhile, food-portion inflation has also made it harder to fight the flab. Pizzas now come in regular, large and very large. Starbucks coffees are Tall, Grande, Venti or (soon) Trenta. "Small" seems to be a forbidden word.

Inflation is also distorting the travel business. A five-star hotel used to mean the ultimate in luxury, but now six- and seven-star resorts are popping up as new hotels award themselves inflated ratings as a marketing tool. "Deluxe" rooms have been devalued, too: many hotels no longer have "standard" rooms, but instead offer a choice of "deluxe" (the new standard), "luxury", "superior luxury" or "grand superior luxury". Likewise, most airlines no longer talk about "economy" class. British Airways instead offers World Traveller; Air France has *Voyageur*. Sardine class would be more honest. The value of frequent-flyer miles is also being eroded by inflation: it is increasingly hard to book "free" flights; they cost more miles, and redemption fees have increased. This was inevitable: airlines have been issuing so many miles (for spending on the ground as well as in the air) that the total stock is worth more than all the dollar notes and coins in circulation. Central bankers would shudder at such reckless inflationary policies—were they not themselves earning triple miles up in first class.
Some other strains of inflation have more serious economic effects. One example is grade inflation, the tendency for comparable academic performance to be awarded higher grades over time. In Britain the proportion of A-level students given "A" grades has risen from 9% to 27% over the past

25 years. Yet other tests find that children are no cleverer than they were. A study by Durham University concluded that an A grade today is the equivalent of a C in the 1980s. In American universities almost 45% of graduates now get the top grade, compared with 15% in 1960. Grade inflation makes students feel better about themselves, but because the highest grade is fixed, it also causes grade compression, which distorts relative prices. This is unfair to the brightest, whose grades are devalued against those of average students. It also makes it harder for employers to identify the best applicants.

Fight the flab
Employers are themselves distorting the jobs market with job-title inflation, which has recently accelerated because a fancier-sounding title is cheaper than a pay rise. Firms are awash with an excess of chiefs and directors, such as Director of First Impressions (receptionist) and Chief Revenue Protection Officer (ticket inspector). This is not just a laughing matter. Job-title inflation has economic costs if it makes the jobs market more opaque and makes it harder to assess the going pay rate.
Inflation of all kinds devalues everything it infects. It obscures information and so distorts behaviour. A former German central banker, Karl Otto Pöhl, compared inflation to toothpaste: easy to squeeze out of the tube, almost impossible to put back in. The usual cure, monetary and fiscal tightening, will not work for panflation. Women will never squeeze back into their old clothes unless they reject size inflation. Instead, it is time for everybody to tighten belts (literally) and fight all sorts of inflationary flab.

Transportation and Young Adults: Driving is Down, Biking and Public Transport Way Up

4-11-12

In Aussie, after the crisis in the 90's, bicycle riding took off! Interesting to see the parallel. Aivars Lode

By Leslie Brokaw

Biking and the use of public transportation are up significantly among 16 to 34-year-olds in the U.S., while driving has dropped.

New research shows that young people in the U.S., Canada, Germany, South Korea, and other countries are driving less, and, in the U.S., biking more and using public transportation in significantly higher numbers.

"Transportation and the New Generation: Why Young People are Driving Less and What it Means for Transportation Policy," [pdf] a report by the U.S. Public Interest Research Group Education Fund and the Frontier Group, includes these statistics:

- **Driving is down:** The number of vehicle miles traveled by 16 to 34-year-olds in the U.S. dropped 23% between 2001 and 2009. As well, the share of 14 to 34-year-olds without driver's licenses grew between 2001 and 2010 from 21% to 26%.
- **Biking is up:** In 2009, 16 to 34-year-olds in the U.S. took 24% more bike trips than in 2001 – even with that age group shrinking in size by 2%.
- **Public Transport is up:** Public transport use by that same group also rose in the same period — passenger miles traveled are up by a huge 40%.

The report says that reductions in driving are "a phenomenon becoming characteristic of developed countries." A 2011 study by the University of Michigan Transportation Research Institute showed that seven developed countries — Canada, Great Britain, Sweden, Norway, Japan, South Korea and Germany — had decreases in the percentage of young people with driver's licenses. As well, "vehicle-miles traveled have either leveled off or fallen in Western European countries including Belgium, Denmark, France, Germany, Italy, The Netherlands and Spain."

Among the reasons cited for the changes in the U.S.:

- **It's easier to use a phone when you're not driving.** "Public transportation is more compatible with a lifestyle based on mobility and peer-to-peer connectivity than driving," notes the study.
- **Environmental commitment.** In a KRC Zipcar survey, 16% of 18 to 34-year-olds said they strongly agreed with the statement, "I want to protect the environment, so I drive less." Only about 9% of older generations said the same thing.
- **Bike-sharing programs are more available.** Technology "makes bike-sharing programs possible and convenient," says the study. In just the past two years, at least nine U.S. cities have launched bike-sharing services, including Boston, Chicago, New York, and Washington D.C.
- **Car-sharing programs are also on the rise.** Says the report: "Technology has also led to the creation of transportation options that did not exist 15 or 20 years ago. With car-sharing services such as Zipcar, for example, the Internet and smart phone applications allow users to reserve, pay for and locate cars easily, at any time of the day."

The report notes that, of course, "people who are unemployed or underemployed have difficulty affording cars, commute to work less frequently if at all, and have less disposable income to spend on traveling for vacation." But, significantly, the report says that the trend toward reduced driving "has occurred even among young people who are employed and/or are doing well financially."

Phineas Baxandall, senior transportation analyst for U.S. PIRG Education Fund and a co-author of the report, says in a press release that the report has implications for transportation policy. "America needs to understand these trends when deciding how to focus our future transportation investments, especially when transportation dollars are so scarce."

The report's recommendation:

"America's transportation policies have long been predicated on the assumption that driving will continue to increase. The changing transportation preferences of young people — and Americans overall — throw that assumption into doubt. Transportation decision-makers at all levels — federal, state and local — need to understand the trends that are leading to the reduction in driving among young people and engage in a thorough reconsideration of America's transportation policy-making to ensure that it serves both the needs of today's and tomorrow's young Americans and moves the nation toward a cleaner, more sustainable and economically vibrant future."

'Classic' Retirement Becoming Less Likely

5-27-12

Following the crisis in the 90's in Australia, individual Australians realized that they could not retire as per their expectations. What did they do? They focused on a passion of theirs and since then Australia has moved to a much more cultured place than it was. Aivars Lode

By Mary Beth Franklin

Some may have to work, while others may be forced to retire due to layoffs or ill health

Once upon a time, the storybook vision of retirement focused on endless leisure hours filled with golf and travel. Whether that idealized vision was ever real for the majority of retirees is questionable. But for a growing number of today's workers, it is downright laughable.

The one-size-fits-all vision of retirement has become a victim of the Great Recession and its collateral damage to investment portfolios, home values and job security. Increasingly, employees who don't have a pension expect to work past traditional retirement ages, if they can, as a way to make up the shortfall in their nest eggs.

The stark reality is that many won't have the choice, due to layoffs or health issues.

In an online survey of more than 3,600 private-sector employees, nearly 70% said that they won't be able to accumulate enough money to fund a comfortable retirement even if they work and save until 65.

“American workers are adjusting their expectations of retirement, including working past age 65 and planning to work part time in retirement,” said Catherine Collinson, president of the Transamerica Center for Retirement Studies, which conducted the survey. “Now it's time to provide an updated road map to help them achieve retirement income to last throughout their lifetime.”

People need to develop a clear vision of their retirement, including a backup plan in case they can't work as long as they envision, Ms. Collinson said.

It might mean downsizing to a smaller home or relocating to a less expensive area, annuitizing a portion of their nest egg to ensure that they don't outlive their money or relying on family members for help.

“Life's unforeseen circumstances, such as a job loss or health issues, can have a devastating impact on the best-laid plans,” Ms. Collinson said. “The "what if' scenarios are mission-critical for American workers of all age ranges to include in their long-term preparations.”

A new study from MetLife Inc.'s Mature Market Institute proves that point.
OFF THE JOB

Despite predictions to the contrary, the study found that more than half of 65-year-old baby boomers are fully retired or working part time. And half those who are retired said that they retired earlier than they had expected, mainly because of health problems.

Just as John Lennon wrote: “Life is what happens while you're busy making other plans.” Of course, the musician, who died at 40, never had to worry about retirement.

Financial advisers need to adapt their investment techniques and how they communicate with clients to embrace this splintered vision of retirement.

“Not all pre- and post-retirees have the same goals,” said Laura Varas, principal of Hearts & Wallets, a research firm specializing in retirement market trends for the financial services industry. “It is critical that the financial services firms know their audience.”

Based on nationwide focus groups, the firm's study divides older investors into three main groups, based on their preferences and attitude about retirement income and advice.

“Full-steam aheads” plan to work, at least part time, to avoid mental deterioration and maintain their independence.

“Balancers” view part-time work as an insurance policy for the future and a way to earn spending money.

“Leisure pacers” plan to stop working — or already have — but are more involved with their finances than ever before.

Although many firms think of retirement income planning as a service that helps older Americans decide how and when to tap their personal assets, the term “retirement income” means different things to different types of older investors, Ms. Varas said.

For example, the first segment interprets “retirement income” as a reference to entitlement programs such as Social Security.

“Because this group tends to take responsibility for themselves and others, they don't even think "retirement income' applies to them,” Ms. Varas said. “This misunderstanding is a tragedy because many of these offerings are specifically designed for people like them.”

Chris Brown, another Hearts & Wallets principal, cautions financial services firms and advisers about expecting older investors to consolidate all their assets.

“Retirement income services may help providers increase wallet share, but only a minority of older investors will consolidate with a single provider,” he said.
EARNING SENIORS' TRUST

Some investors who have been burned by advisers in the past, for example, still may work with one but will put in extra time checking up on the adviser's recommendations.

And while marketing to seniors, be careful how to word your pitch.

“Pre- and post-retirees don't see themselves as senior citizens,” Mr. Brown said. “Financial services firms and advisers that use positive wording, such as "freedom,' to describe this phase of life, will have a stronger connection with this market segment.”

Labor Faces New Challenge. Losses in Wisconsin, California Come as Ranks of Government Unions Decline

6-6-12

Once again, it is interesting for me to read articles like this as they closely mirror the news of the day in the 90’s back in Australia. The unions tried to hold out, however economic reality prevailed much the same as what is described in the following article. Aivars Lode

By Kris Maher and Melanie Trottman

Barb Forgue, front, of Marshall, Wis., sings a union song in support of recalling Gov. Scott Walker on Tuesday. The governor defeated the bid.

Organized labor, reeling from blows to government workers in Wisconsin and California elections, is grappling with the prospect of diminished political clout and fewer members in public-sector unions that have formed the core of the movement's power in recent years.

Now, even in some Democratic pockets of the country, voters are signaling they are comfortable with shaving benefits and bargaining power from government-worker unions.

The shift has broad economic implications. For cash-strapped states, it opens an avenue for cuts to obligations that are a big source of spending. For government employees, it erodes some of the benefits they have come to expect in recent years.
More

GOP Looks for Post-Wisconsin Boost
White House: No Deeper Meaning in Wisconsin

New figures show that membership in the American Federation of State, County and Municipal Employees—one of the nation's largest and most politically powerful unions—is declining across the country.

Membership in Afscme fell 4.2% to 1.32 million, from 1.37 million, between March 2011 and February 2012, according to internal union documents viewed by The Wall Street Journal. The union had declines in all but seven states. In the same period, the number of state and local workers nationwide fell less than 1%, according to the Labor Department.

Afscme membership in Wisconsin fell 45% after a law pushed by Gov. Scott Walker made membership optional. While some of the decline was due to layoffs, much of it came after the state stopped collecting union dues from paychecks.

An Afscme spokesman said the drop in Wisconsin membership represents a snapshot and doesn't take into consideration the recent organizing of thousands of new members. He also said some members could be reinstated if a federal judge strikes down part of the law that has been challenged.

The rebukes to labor Tuesday came in two distinct parts of the country. In Wisconsin's recall election, Gov. Walker, a Republican, held on to his seat after he ushered in cuts to public-worker bargaining rights, pensions and health-care benefits.

In San Jose, Calif.—where registered Democrats outnumber Republicans—voters overwhelmingly approved a ballot measure to force city workers either to pay significantly more toward their pensions or accept more modest benefits.

And in San Diego, voters backed a measure that will put many newly hired city workers into a 401(k) retirement plan rather than the guaranteed pensions current employees receive.

"Liberals and conservatives all understand the same thing: We have had to cut services to pay for pensions," said San Jose Mayor Chuck Reed, a Democrat.

The shifting tide hasn't hit all parts of the country. In Ohio, voters in November overturned a law that limited public-employee unions' bargaining rights. Polls suggest the country remains divided over curbing the power and benefits of union workers.

Labor officials on Wednesday played down the significance of the Wisconsin defeat.

"Even with this loss, Wisconsin's voters have sent a clear message that attacks on workers' rights will not go unchallenged," said Gerald McEntee, the president of Afscme. He said Mr. Walker had "ended more than a half century of labor-management cooperation in state government," but that the union would continue to fight to win back government-worker bargaining rights.

Afscme saw membership drops in other states that are politically important and tend to be labor-friendly. In the 12 months ended in February, Ohio's membership fell 8.5%, Pennsylvania's dropped 3.4% and Michigan's declined 11.7%. In California, membership rose 2%.

Coming public-sector union battles are expected in a range of states, including Michigan, New Hampshire, Florida, New Jersey and Pennsylvania. In many cases, the initiatives aimed at trimming union rights or benefits wouldn't be as far-reaching as Gov. Walker's. Some political experts say that could help the new efforts pass more easily.

In Michigan, Republican Gov. Rick Snyder's office on Wednesday reiterated he doesn't intend to pursue a right-to-work bill because "it would be too divisive and create a lot of unproductive fighting," a spokesman said. Right-to-work laws forbid labor contracts that require all employees be union members.

But there is support among many Michigan lawmakers to scale back pensions for government employees and eliminate automatic dues deductions for teachers' unions. Mr. Snyder already eliminated collective-bargaining rights for home-health-care and child-care workers with an executive order last year.

"Michigan is a state that has taken the death by a thousand cuts approach," said Naomi Walker, director of state government relations for the AFL-CIO. She said unions are mounting an effort to get an initiative on the November ballot that would amend the state constitution to protect collective bargaining.

In New Jersey, lawmakers are considering a bill that would allow cities to consolidate services, which could lead to job cuts and eliminate protections for unionized workers such as compensation for layoffs.

In Pennsylvania, Republican lawmakers are pushing an effort to give state workers 401(k) retirement plans instead of defined-benefit pensions.

In a sign that public sentiment had shifted, San Jose's police union decided not to campaign aggressively against the city's pension measure because officers knew it was an uphill battle to persuade voters, said union president Jim Unland.

The union now is focusing on preparing a legal challenge to the pension changes, which Mr. Unland said violate basic contract law.

San Diego Mayor Jerry Sanders, a Republican, was surprised by how much support his city's pension measure received given there are more registered Democrats than Republicans in the city. "Anytime you get 66%, it means people were pretty fed up with something," he said.

The economic impact of the shift could ripple out. Justin Wolfers, an economist and associate professor at University of Pennsylvania's Wharton School of Business, estimates that being in a union gives workers wages that are about 15% higher than nonunion workers'.

Some analysts cautioned against overstating the significance of the Wisconsin vote. They say the recall focused more on Mr. Walker than on collective-bargaining rights. They also note that lawmakers elsewhere may not want to provoke a costly battle against unions.

"With the vote that we had here in Ohio that would not be likely something we would undertake," said Republican House Speaker William Batchelder of trying to pass certain provisions to trim union rights. But he said lawmakers could consider making changes to pension plans and have commissioned a study on the subject due out in July.
—Michael Corkery, Erica Orden and Daniel Lippman contributed to this article.

Which USA Do You Work In?

8-17-12

Education and opportunities to start a business have never been better. Stanford this year gave a Physics course on line to 15,000 students; last year 300. MIT recently announced putting all its course content online for free. Mark Cuban has an interesting take on education. Aivars Lode

By Mark Cuban

When it comes to getting a job, the USA has bifurcated into two employment worlds, the digital world and the brick and mortar world.
The brick and mortar world is everything you physically touch. Its manufacturing. Its retail sales. Its

distribution. Its construction. Etc.
The digital world is everything defined by what you find on computing devices. It can be on your desk, in your hand or in the cloud.
What has happened is that the brick and mortar world has had every bit of intelligence that can be sucked out of it completely removed. Any information that can be created, identified or recognized is being captured in as automated a process as possible and delivered to "big data" or even small data databases in the cloud. What used to require some intelligence at the brick and mortar work place has been seeded and ceded into the cloud.
Every smart company wants to become smarter and the way to do that is not by asking their employees to communicate orally or in writing to management, its by automating everything.
When Starbucks introduces Square, its not to make their in store employees do more, its to simplify the process involved in serving customers and to allow them to spend more time on improving the customer experience.
The problem for those who work in brick and mortar is that as the intelligence is sucked out of the job. The intelligence required to do the job is reduced. Yes, you still have to be good at what you do. But you can be great at customer service or great in a factory line without a college education. The competition for jobs that don't require degrees has pushed down the wages paid for brick and mortar jobs as well. When there are no specific skills beyond basic people and communication skills required the job pool competing for any openings expands considerably. Forcing down wages. Leaving more unemployed unemployed.
The other unfortunate part of working brick and mortar is that as intelligence is moved out of of physical locations it also reduces the number of jobs available. Have you ever seen a cashier at an Apple Store ? Unemployment is sky high in the brick and mortar world.
Thats not to say there aren't some bright lights in this area. As the intelligence of the factory is sucked up from the floor the cost of labor falls and makes manufacturing in the US more competitive. Hence we are seeing some manufacturing return to the US which is of course a good thing
In the other world, the digital world, the non-brick and mortar world, there is negative unemployment. Thats right there are far more jobs than there are people to fill them.
If you just look at the unemployment rate for recent college graduates its 6.8pct. My guess is that if you take out Sports Management majors and a few other "I did this for passion and not a job" majors (Sorry had to get that in there), that rate might be under 5pct. That is close to full employment for college graduates and even non college graduates that had the foresight or luck to learn the skills required to get a job in the digital world.
Everything of intelligence is being moved into the cloud. There is not one business process that you can think of that makes sense to put in the cloud that hasn't been written as an app. I get dozens of proposals for these types of apps every WEEK.
The explosion is due to the fact that digital entrepreneurship is experiencing a renaissance. Why ? Because with a Laptop, a SmartPhone, a broadband connection and an account on Amazon Web Services or one of their competitors, if you understand technology and are willing to work your ass off, you have everything you need to start a cloud based company. Everything.
I don't know the exact numbers but it wouldn't shock me if thousands of these companies are being formed every month.
And those cloud based service companies are hiring, hiring, hiring. You would be hard pressed to find a single example of one of these companies that is not looking to hire more smart people. Experience not required.
That giant sucking sound you hear is the sound of intelligence being sucked from the brick and mortar locations into smart applications in the cloud licensed or owned by the companies that own the brick and mortar locations.
The best news is that with online educational resources coming on, and I'm not talking about the for profit schools, I'm talking about FREE educational resources, anyone with the focus and inclination and access to a pc on the net has a chance to learn a digital skill that can be of value to these new digital companies and allow you to change worlds.
What is my solution ? I will tell you what I told my alma mater Indiana University and the University of North Texas committee that I am on. Every junior and senior should hold open at least 1 class in each of their junior and senior years for job skills training.

The university should make those classes fungible. Meaning each year the range of job skills classes is defined by the needs of employers in the global marketplace. If they change every 2 years. Great. Employers will be thrilled and so will students who will be able to find jobs. If they change every year. students will have broader skill sets. Which also makes employers happy.
Companies struggle to keep up with all the changes the latest in digital technology requires. Train people and they will hire them.
The university should also make those classes available for high school seniors. If they can test in , let them. It will allow smart kids to do smart things and get smart digital jobs. And who knows, they just might change their mind and go to IU or North Texas or be happy grabbing a great job. Either way the school has done something good.
Trust me if Sports Management Majors were good at Pig Latin (And if you think im talking about Igpay Atinlay, you probably could have benefited from a class like this), they could get far better jobs than they are getting today. When they get them.
Who is upset ? Professors and administrators at universities. Why ? Because some of the classes they have taught for years would be replaced by newbie classes. I personally think a little change in the culture at schools is a good thing. Stop building and taking on debt and invest in new and relevant courseware. But that is me.
I've had a lot to say about Education and you can find my blogs on the subject here .

Naples Man Sees the Light and Turns His Inspiration into Decorative Bollard Business

10-3-12

As we have discussed many a time in the past, once individuals begin to realize that they cannot permanently retire, they will create new businesses that have not existed previously. This is a great example right in our backyard. Aivars Lode

By Aisling Swift

NAPLES — When Dick Metchear saw metal lights at Walt Disney World Resort in Orlando corroding from the sprinkler system's reclaimed water, a light bulb went off in his head.
Why not make them out of precast concrete?
The idea spawned a new company for the Naples man, a former lighting consultant for Bob Vila's PBS TV series, "This Old House," and his wife, Betsy Piper, an interior designer.
The couple incorporated Stonelight LLC in January 1996, the day they married, and now manufacture their distinctive concrete bollard lights in a Bonita Springs warehouse.
Their first delivery went to Animal Kingdom after Disney officials spotted the lights on their website, stonelight.com. Since then, their security and decorative bollard lights, which often are used to light pathways, have been installed in many parks, beaches, businesses and communities, including Pelican Bay, Pelican Marsh, Royal Poinciana's entrance, and Gulf Shore Boulevard condos such as The Regent, Provence, Le Jardin, and Monaco Beach Club.
"If someone asks me what I do, I say I hide the source of light," said Metchear, 76, of Naples. "I have a passion for lighting and this product I came up with — and I'm loving it."
The company has expanded to turtle lights, which they've sold on Jekyll Island in Georgia, Deerfield Beach and Treasure Island in Florida. Now, it's begun delivering 220 to the Marco Island Marriott Resort & Spa, which is installing them around the hotel and beach.
"When the turtles hatch, we want them to go to the moonlight," Metchear said, noting that Stonelight's dark amber LED lights, which shine downward, exceed Florida Fish and Wildlife Conservation Commission standards.
Government restrictions on beachfront lighting keep light from shining on beaches, where bright lights and urban glow from afar can discourage sea turtles from nesting and endanger turtle hatchlings by attracting them away from the moon's reflection on the Gulf of Mexico.

"The turtles cannot see amber lights. They're invisible to them," Metchear said. "A lot of residents think yellow bug lights are OK with code, but they're not."
The turtle lights are a new direction for Stonelights LLC, which has focused on decorative lights that highlight walkways, landscaping and sculptures, provide security or block access. Like their other lights, the turtle bollards come in a variety of styles and sizes. Stonelight also makes concrete mailboxes.

"We don't have any inventory," said Piper, 72. "It's all custom orders. We mostly sell to the states and the islands, but we have sold in Alaska."
The company doesn't sell to retail stores, but markets its products online at stonelight.com.
On a recent day, bollards lay on the ground outside their warehouse, curing in the sun, as one of four subcontractor employees, Oscar Gonzalez, directed his brother as he poured concrete into a mold inside.
"The bollards have to cure for three weeks after we pour the concrete," Piper said. "Otherwise, they'll crumble when we ship them on a flatbed."
The lights, which contain only American-made parts, stand up to high winds, rain, strong sun, and other harsh weather conditions. A spritz of chlorine and water keeps them clean.
In 2009, they introduced the Stonelight Solar Bollard, which doesn't require remote panels or wiring and stores enough solar energy to produce light for five nights, even without sunshine. The LED, 8-watt impact-resistant glass lights have an average life of 50,000 hours, and also can be used for turtle lights.
They don't list pricing on the website because there are too many variables and prices go down with quantity. Their most popular bollard, The Granada, which is 8-by-44 inches, sells for $875 each for orders of one to 11 bollards.
Stonelight doesn't have to advertise. Most business comes to the couple through their website, which Piper peppers with keywords to get hits during Google searches. In addition, satisfied customers' recommendations — and their certification as one of four approved turtle light vendors on the state fish and wildlife website — bring in business.
Metchear does the marketing; Piper does the designs, website, invoices and answers the phones.
Schools in Texas and New Mexico continue ordering bollards, they just completed a Bermuda order and are finishing work at Pelican Bay's Bay Colony Beach. They're awaiting an order for 140 from Clearwater, working on a project in East Naples, and just did a presentation for bollards for Siesta Key's downtown crosswalks, where pedestrians have been hit.
Government officials in Oman, in the Middle East, are interested in 6,000 bollards for a botanical garden. If Stonelight gets that job, he said, it's too much to ship, so they'll send molds and an employee to supervise manufacturing there.
Metchear, who owned four lighting shops in Boston, has always been fascinated with lighting and still does consulting work on homes and businesses worldwide, including Chicago, Lyford Cay in the Bahamas, and Canyon Resort in Miami. Locally, he's designing lighting for Moorings Park's restaurant and auditorium.
He's working seven days a week, he said, adding, "I love it. I don't know what I'd do without it."

The Graying of South Florida's Work Force

11-12-12

Just as happened in Aussie in the 90's, retires realized they needed to continue to work and in result, fantastic new businesses were created. Aivars Lode

By Donna Gehrke-White

At 82, Joseph Mastropierro is planning on working forever.
The former engineer who became an entrepreneur is now trying to open a deli in Dania Beach.
"I want to make good sandwiches and salads," said Mastropierro, who is waiting for the necessary

permits to open his deli. "My grandfather had a deli in Italy, and he taught me a lot of things when I was a little boy."

The deli will help him supplement his Social Security check, he added.

He is not alone with wanting to earn extra money. The nest egg is cracked — or maybe was too small to begin with — so more South Florida seniors are marching back to work.

Broward women have almost doubled their rate of working past 65, once the traditional U.S. age of retirement, according to the U.S. Census Bureau. Palm Beach women have more than doubled their percentages of working past 65, the Census found, while the rate of men in both counties have jumped too. Now as many as a quarter of South Florida men 65 and older are working or looking for work.

The reason?

Vanishing pensions, not enough savings, the gyrating stock markets, zero interest in bank accounts and Social Security checks that fail to cover all the bills. The average Social Security payment is just over $1,200 a month.

"People who retired are going back to work because they need the extra money," said Edith S. Lederberg, executive director of the Aging and Disability Resource Center of Broward County. "I think it is a growing trend because people are living longer."

Lederberg herself just turned 83 last month and is still working full-time — despite a recent hospital stay. Like many other women of her generation she said she stayed home to raise a family and now relishes working.

"I don't plan to leave as long as I am a positive force in the agency," Ledenberg declared.

Around the nation, more seniors are holding down jobs when even a decade ago they would have been at home or traveling. They range from doctors to Walmart greeters.

The number of Americans 65 and older still employed has jumped 69 percent in just a decade, according to October data from the U.S. Bureau of Labor Statistics.

Just in a year, 8 percent more Americans above 65 were working in October — the largest percentage jump in at least a decade, BLS reported.

An elder workforce has become a signature of some businesses. Publix, for example, has more than 2,000 workers 65 and above in Broward, Palm Beach and Miami-Dade counties, said spokeswoman Kimberly Reynolds. That's almost more than a quarter of the 7,000 Publix employees in Florida who are 65 and above, Reynolds said.

"Those numbers almost double," she said in an e-mail, "when we look at how many associates we employ over the age of 60."

Publix, which won a national award for its hiring of seniors, benefits from its mature work force that "brings experience, a strong work ethic and a positive, friendly attitude to Publix," Reynolds added.

Others have used their later years to concentrate on civic and volunteer work.

Jack Brady, a retired schoolteacher, was first elected to the North Lauderdale City Commission in 1988 while he was still working. Now 70 and a popular re-elected mayor, Brady said he likes concentrating on his city full-time.

He said he runs his city to help others — from saving taxpayers' money to organizing a group of volunteers to clean a yard of an elderly person who can't.

"God helps us, giving the strength to do things for other people," he said.

Still, Boca Raton's Jack Weglinski, who at one time had his own business, said health may force people to cut short their working years and he's glad he saved to retire early.

"I took early Social Security at age 62 and am now 67," he said, "so, even if I die today, at least I got something."

Many younger workers are paying attention to the new reality and think Social Security benefits will be reduced – or even eliminated – by the time they reach retirement age.

That's why Brian Javeline, 47, of Coral Springs is regularly working out of a gym. He wants to stay fit to work well into old age.

"You have to be a realist," said Javeline, who started the contractors' website,MyOnlineToolbox.com.

Indeed, he said he doesn't expect to ever quit working

"The word retirement should be retired," he quipped.

Australia’s 1996 Gun Law Reforms: Faster Falls in Firearm Deaths, Firearm Suicides, and a Decade Without Mass Shootings

12-14-12

This story is on the back of the tragic shooting in Connecticut yesterday. I want to make this very clear to everyone: I hunted as a kid, shot Rifles and Shotguns, and I am not anti gun; however, I have been at dinners where I have been told to take my foreign views and put them somewhere unpleasant. Here is a link to a study on what happened in Aussie after numerous mass shootings, resulting in the banning of certain types of weapons. I am not advocating the same approach here, but something has to happen and we should look elsewhere for help on what to do. Aivars Lode

By Professor S. Chapman

Background: After a 1996 firearm massacre in Tasmania in which 35 people died, Australian governments united to remove semi-automatic and pump-action shotguns and rifles from civilian possession, as a key component of gun law reforms. Objective: To determine whether Australia’s 1996 major gun law reforms were associated with changes in rates of mass firearm homicides, total firearm deaths, firearm homicides and firearm suicides, and whether there were any apparent method substitution effects for total homicides and suicides.

Design: Observational study using official statistics. Negative binomial regression analysis of changes in firearm death rates and comparison of trends in pre–post gun law reform firearm-related mass killings. Setting: Australia, 1979–2003.

Main outcome measures: Changes in trends of total firearm death rates, mass fatal shooting incidents, rates of firearm homicide, suicide and unintentional firearm deaths, and of total homicides and suicides per 100 000 population.

Results: In the 18 years before the gun law reforms, there were 13 mass shootings in Australia, and none in the 10.5 years afterwards. Declines in firearm-related deaths before the law reforms accelerated after the reforms for total firearm deaths ($p = 0.04$), firearm suicides ($p = 0.007$) and firearm homicides ($p = 0.15$), but not for the smallest category of unintentional firearm deaths, which increased. No evidence of substitution effect for suicides or homicides was observed. The rates per 100 000 of total firearm deaths, firearm homicides and firearm suicides all at least doubled their existing rates of decline after the revised gun laws.

Conclusions: Australia’s 1996 gun law reforms were followed by more than a decade free of fatal mass shootings, and accelerated declines in firearm deaths, particularly suicides. Total homicide rates followed the same pattern. Removing large numbers of rapid-firing firearms from civilians may be an effective way of reducing mass shootings, firearm homicides and firearm suicides.

Aivars has an incredible understanding of global economic trends at a very strategic level. He can articulate REAL, long-term solutions! But you have to be able to think outside the box to grasp concepts that may at first not seem possible, but are truly game-changers! As someone who focuses on long term workforce issues, I find that his insights are not only refreshing, but could solve long term problems and create a competitive advantage for those who take time to understand them.
- Dwayne Ingram, Chairman of the Board, CareerSource Florida

"I have known Aivars for approximately six years and collaborated with him in several ventures. Aivars always impresses me with what a most recent article in the Wallstreet Journal headlines "Innovating through Analogies". Meaning he analyses and addresses economic challenges in a way not many are able to. I.e. transferring events and lessons from other economies, times or areas of life onto current constellations or developments via emphasizing the fundamental and abstract commonalities inherent in them. In human psychology, intelligence and evaluation we distinguish between the capability to merely reproduce information, the capability to interpret and analyze certain issues and, on the most advanced level, the capability to project any paradigm, issue or historical event onto a contemporary situation that bears no or little resemblance to the original one. That, im my experience and opinion, is a gift Aivars displays like none other. In addition to that Aivars is extremely generous with the sharing of his gift and insights and has helped many entrepreneurs, no matter if established or start-up, to refine their go-to market or expansion strategies. "
- Udo Fischer, Psychologist PHD and Entrepreneur, Naples, FL.

"Aivars has an unbridled passion for good sense and the power of reason. He earnestly aspires for the genuine improvement of mankind's condition through a process of reflection and learning. You may not always agree with his conclusions, but you have to admire his enthusiasm for the debate and the quality of his sources"
- Jeremy Hardisty FPIA

"Aivars reminds us once again that "news" is not what it seems, nor is it always accurate. It is clear that investors need not only track the news but the news over time, for trends and also to validate the sources of that news before it is to be believed."
- Jim Burke CEO Profit Path Systems

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