Economic Update

Broadleaf Partners, LLC

# Black Holes and Red Giants

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As I write, there are a number of market technicians calling for a rally in gold to $2,000 an ounce and for the stock market, measured by the Dow, to fall an additional thousand points or so to 6500. While I do pay attention to technicals, they are also momentum based strategies, that generally hold to the view that prices that are moving up will continue to do so and that prices that are moving down will continue to do so. They aren't so good at determining inflection points, which may be extraordinarily important to keep people from buying at nosebleed levels and then selling too low, after all hope has been lost.

Speaking of gold, lots of folks are bullish on it, perhaps because it is being viewed as an alternative store of value to paltry treasury yields (backing dubious stimulus programs) and the dollar safety trade. The same thing, of course, could have been said about oil over the summer - that it was a good hedge against inflation. But look what happened. Technicians were calling for oil to hit $200 as it moved through successive prices on the upside and yet now it has fallen to $32, hardly even reaching $150. If you're going to buy oil, today's prices look much better!

John Lisy, a former institutional salesman who covered me from Merrill Lynch makes some good comments on gold, which you can read on his new blog, Yet Another Investment Opinion. I would only add the question as to why gold is valuable in the first place. It seems to be valuable only because people believe it is. Other than dentistry, I don't know of many industrial uses for it and the jewelry market isn't exactly hot these days. In a sense, it has temporal "value" because it is one of the few prices moving up in a market devoid of such action. The upward move, in my mind, reflects the beginning stages of fund flows gone wild, which almost invariably ends badly. I can hear the faint sucking sound of a black hole where a red giant once dwelled.

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As markets come dangerously close to testing their November lows, many technicians are saying that we'll likely violate these lows and move exponentially downward. Again, the view is that prices that are moving down will move down, perhaps forever. Instead of buying lower and selling higher, we are coaxed to buy when the market has moved up (January) and sell lower after it has moved down (now). Now, I know that it is easy to be bearish right now. Things are not rosy in the least. But to a large extent prices are discounting some really tough times already.

What am I worried about? Personally, I question the wisdom of some of the spending in the stimulus programs and some of the current proposals to fix the mortgage mess. I'm not sure that lowering the payments of mortgage holders that are at risk of foreclosure will be effective. I would guess that if you're close to foreclosure, you've likely already tapped most of your sources of liquidity and so saving an additional few hundred dollars a month may only delay the inevitable. Check out today's NY Times article on the subject, which seems to support this view. While I do believe that we should act charitably as individuals, doing what we can, government money - our taxes - might be better spent elsewhere or if in this area, in alternative ways.

It's probably safe to say that the Obama honeymoon is over. The Presidency isn't an easy job.

I'm guessing you have to really want it.

Kindest Regards,

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