

Wednesday, August 15, 2007

More on panic containment and let the good times roll

I watched with bemusement the talking heads on BNN this morning, as is my habit since CNBC has been swapped out for a movie channel on my digital cable feed (a better value, I find). They were describing how "normalcy" is returning to the European financial markets and how other sectors are positioning for a "decoupling" from the financial sector being dragged down by the subprime sludge and credit tightening.

So all is well again, all it took was about a half-trillion dollar Hail Mary from Central Banks the world over and we're all supposed to either go back to buying houses with nothing down, no income, no visible means of servicing the debt and an adjustable rate mortgage to boot. Either that or we buy packages of these mortgages bundled together of other people doing exactly that and we're supposed to call it "investing". In any case, the talking heads obliquely referred to this last week of cratering stock markets as a "buying opportunity" that hedge funds will surely position for.

You'll excuse me if I stay on the sidelines, and call me "unpatriotic" if I pick up the short side of any positions (as short sellers were called during that last pretend recession and baby bear market from 2000-2002). I'm used to being called an idiot for saying so, we're heading into the Real Deal now, a full-on secular bear market coupled with a skull crushing recession. Which sucks, I was hoping for a couple more years of "normalcy" to build up my war chest (I've always hoped for a few more years to build up the war chest, get rid of as much debt as possible, etc) but it looks like the clock is running down.

We are here. On the edges of, as one book I read years ago put it, a financial desert we must all cross, one that will last 10 to 12 years. Which really really...sucks. Larry Wallman, who puts out the fantastic Stocks2watch newsletter (which I only subscribe to so I can read his weekly macro overview "Sunday comments"), thinks for various reasons that we still have until after the Chinese olympics until everything seriously goes into meltdown mode. George Ure asked me to posit a drop in the DOW to 7,000 over the next 60 days, which is understandable, George always posits a 50%+ drop in the indices over the next 60 days

But I wanted to update my post yesterday about the Central Bank of Canada where I tallied the nearly 4 billion the bank injected into the markets to pacify/stabilize/mollify them between Aug 7 and Aug 10, I note they dropped another 670 million on monday and 350 million so far today. A billion here, a billion there, pretty soon we'll be talking serious money.

Today the Financial Times carried an article In a world of overconfidence, fear makes a welcome return which I think should be required reading for mortgage applicants, brokers and bankers, there's even a paragraph in it about me:

The fourth stage is over-trading, when markets depend on a fresh supply of "greater fools". The fifth stage is euphoria, when the ignorant hope to enjoy the wealth gained by those who came before them. The warnings of those who cry "bubble" are ridiculed...In the sixth stage comes insider profit-taking. Finally, comes revulsion.

I'm the guy crying "bubble", being ridiculed, especially in the domain aftermarket, where for some reason people seem to think that despite the fact that the domain name aftermarket is exhibiting textbook symptoms of a bubble-mania and that the massive overpricing of even marginal quality names in the aftermarket has nothing to do with the excess liquidity induced by loose credit sloshing the world over looking for "aggressive returns".

So it goes. As Larry Wallman said in last week's Sunday Comments:

"As housing was going up and up and up, we suggested we were in a bubble and that it would end badly Somehow the idea of lending money to people with no visible way to pay it back seemed like a bad business transaction to us. How dare we suggest such a thing? It was obvious that we had absolutely "no idea" to coin a Cramer phrase. We were economic idiots of the highest order. "

And if you watch the talking heads today, we still are idiots. Idiots who may have made a pile on the short side over the last week but idiots all the same.

The only thing I'm treating as a buying opportunity in this climate is gold, which is one nice thing about BNN, being Canadian they aren't as hostile to gold as Cramer and Kudlow are (yeah Kudlow, I remember your "SHORT GOLD GO LONG USD" rant from a few years ago, you were yelling it into the camera...that was over \$300/oz and a few hundred

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piPs in the other direction). The guy on BNN reported a Newmont executive saying "I see three zeros after the price of gold in a couple years, I just don't know what the number on the left hand side will be".

Still crazy? Guess we will all find out sooner or later.

Posted by Mark Jeftovic in Venture Crapital at 12:17