The Atlantic GOLD & SILVER CENTRE

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Has Mr.Market gone crazy?

Written by David Ford

For those of you not familiar with him, Mr.Market is a theoretical persona used to represent a partner in a business who is often offering to buy your share of the business, or sell you his share of the business. Whether he is offering to buy or sell, and for how much depends entirely on how he is feeling. You see Mr.Market is a manic-depressive, with his valuation of the business usually being very pessimistic, or wildly optimistic.

Mr.Market was invented by Benjamin Graham, author of the 1949 book 'The Intelligent Investor'. If you imagine that when buying or selling stocks or commodities, you are dealing with Mr.Market (who will come up to you and offer you a BID and an ASK for anything you want to trade) then you will have a much better idea of who you are dealing with !

If all investors based their investment decisions on rational estimates of intrinsic value, it would be very difficult to make money in the stock market. However, the participants in the market are humans subject to the influence of emotions. They are frequently given to bouts of over-optimism and greed, which causes prices to be bid up very high. These same investors are also vulnerable to excessive pessimism and fear, in which case, prices are driven down substantially below intrinsic value.

Intelligent investors use their knowledge of Mr.Market to their advantage, picking up bargains when he is depressed, and selling them on to him when he is euphoric. Normal market conditions mean he regularly alternates between these two conditions over many timeframes (daily, weekly, monthly or annually)

Newsletter Frequency

Since starting our newsletters in January of this year, we have received great feedback from customers on our content.

Unfortunately, we are not professional bloggers or writers, and run the danger of repeating what others have already printed.

As such, we will be changing the frequency from Monthly to Quarterly.

We felt it important to conclude part 2 of Kevin's article on Peak oil – hence this newsletter in November.

Our next letter will therefore be in January 2015.

The problem we face is that we have not had normal market conditions for over 5 years. Central Bank and government interventions in the market have been akin to shooting Mr.Market with amphetamines every time he starts to show signs of becoming pessimistic. If Mr.Market was a real person, who was a true manic-depressive, let us imagine the long term effects of shooting him with drugs every time he started to come down. When he first starts to come down from his euphoria, it just takes a small dose to pump him up again. However, the next time – since he is coming down from a longer artificially induced high – you have to dose

him up a bit more. The next time it's even more ! What does this do to poor Mr.Market ? If you did this to a real person, they would very soon begin to lose their mind – becoming entirely schizophrenic.

We see people every day in our stores, who are scratching their heads wondering if the Market has lost it's mind. The answer is yes, it has. Nothing in the financial markets makes sense anymore. Valuations of stock and bonds continue to rise into the stratosphere while precious metals sink lower every month. Governments increase their indebtedness on the promises of future growth which will pay for it, whilst real unemployment continues to rise. Official figures show low inflation whilst the banks print trillions of dollars and we all see prices in the stores rising.

I sympathize with people who have seen the nominal value of their precious metals drop over the last 2 years. However when you step back and look at the fundamentals, nothing has changed, in fact things have become worse. It will not be long before Mr.Market goes over the top and becomes a gibbering psychopath – destroying everything he touches. However those who took advantage of him, when precious metals were low, will be the only ones with anything left in the economic wasteland he will leave in his wake.

Author David Ford is the founder, owner and President of The Atlantic Gold & Silver Centre. He is experienced in commodities & future trading, banking and insurance. He has been actively investing in gold and silver bullion since 2000.

The Party's Over: Peak Oil and Precious Metals (Part 2)

Written by Kevin D.

This is part two of a two part series. Part one was run in the October newsletter, which can be downloaded from our web site.

So what does peak oil have to do with gold and silver?

The basic problem, in a nutshell, is that our fiat-currency-based financial system mathematically requires positive economic growth each year to create the wealth needed to pay the interest on the new currency created the previous year. Without economic growth (and an increase in the total amount of outstanding loans to create more new currency), loans would begin to default en masse, resulting in bank failures, bank runs, stock market crashes, deflation, recession, and ultimately a Greater Depression. The actions of central banks around the world since the 2008 Financial Crisis have made it crystal clear that the banking sector will not tolerate deflation, and will create as much freshly-printed currency as necessary to prevent it. So, we can expect to printing presses to continue to run white-hot as we slide into the peak of global oil production.

The stock market implicitly expects business-as-usual conditions as far as the eye can see. Stocks are typically priced in relation to the price per earnings (PE) ratio. A typical PE ratio is 15, which means that the stock is priced 15 times the expected annual earnings, (a 6% return)meaning that an investor will take approximately 15 years to earn back their initial investment. What happens to a stock price when it becomes clear that economic growth cannot continue 15 years into the future? PE ratios will fall dramatically to reflect this new reality, and stock prices will crater.

Similarly, a bond is an agreement to lend someone your money for a while, provided that they pay you interest before returning your money. Where does the wealth come from to pay that interest? If you've made a good investment, then the borrower will take your money, use it for some economic activity such as manufacturing something or providing a service (which always consumes additional fossil fuels), then pays you back out of the increased wealth that they created. What happens when there's no surplus energy to create new wealth? How can the interest on the bond (let alone the principal) ever be paid back? Bond prices will fall dramatically once it becomes clear that they represent promises that cannot be met.

Finally, over the next 20 years, price inflation will almost certainly run rampant, through both monetary expansion and a dramatic increase in the price of oil, which is used to either build or transport almost everything we use. History shows that in times of high inflation, items of real value are much better investments than financial instruments such as stocks and bonds, and **gold and silver are the best items of real value to own over long periods of time.**

There are many reasons to own precious metals, but one reason that certainly isn't going away in our lifetimes is **the inflation that is baked into the cake by our civilization's dependence on cheap, plentiful oil.** Society is structured to use oil for nearly everything we do, and it took decades to build the highways, vehicles, fueling stations, and other infrastructure required to efficiently use oil. As the US Department of Energy-funded Hirsch report (2005) shows, it would take a minimum of 20 years to transition to a new energy system, and even then only if a Manhattan Project level of urgency and funding was devoted to the project. There's nothing even remotely like that on the horizon…in fact, most people have never even heard of peak oil, and certainly have no sense of the implications for their jobs, investments, and lifestyle.

Gold and silver will always have value in and of themselves, and do not depend on economic growth like stocks, bonds, and mutual funds. **Precious metals will ultimately stand tall when paper promises fail to deliver**.

Contributing author Kevin D. has been investing in gold and silver since 2005. He believes that every investor should hold at least 10% of their assets in physical precious metals stored securely outside of the banking system.