
July 30, 2005

**John Mauldin's ... Thoughts From The Frontline
India - The Next Big Player**

July 29, 2005

As always, thanks to Dr. Bob...John, the housing affordability index in the US dropped to a 14 year low last month, at a time when interest rates are SIGNIFICANTLY lower than they were back in 1991.

Signs of Distress In The Effervescent Housing Market

July 29, 2005

As always, thanks to Dr. Bob...John, a good summary by Comstock. People are very complacent:

A High-Risk Market

July 28, 2005

As always, thanks to Dr. Bob...John, Business Week has come out with the Top Global Brands for 2005:

Best Global Brands 2005

As you've heard me say a few times in conversation, investors continually underestimate the power of a brand as time moves on. This comes back to Buffett's "mindshare" and Munger's "Lollapalooza" effects. A brand value can compound just like interest in a savings account, dividends and investing in equities in general. This brand strength usually translates to high returns on equity and capital. For instance, the 5 year average Return on Capital of the top 10 brands is 14% while the total S&P 500 median is 8.5% (average 10%). By the way, Coke's return on capital averaged 21% over the past 5 years.

Interesting also is the Brand Value as a percent of market cap. Coke's is 64% while McDonald's is 71%. Far and away the two largest percentages in the top 10.

Both Munger and Buffett relate stories of how most people will choose the brand name product over any other as "comfort" (particularly products that are ingested into one's own body). The difference between the two is night and day and is reflected in the long-term value of the brand. As a result, these companies have

PRICING POWER.

Here's a Buffett quote:

“The durability and strength of the franchise is the most important thing in figuring out [whether it's a good business]. If you think a business is going to be around 10 or 20 years from now, and that they're going to be able to price advantageously, that's going to be a good business. And if somebody has to have a prayer session every time they want to raise the price a dollar a pound on whatever they're selling, that's not going to be a good business.”

Again, most people underestimate this, in my opinion.

July 28, 2005

As always, thanks to Dr. Bob...John , an interview with Jim Rogers. He talks about Hubbert's peak and questioning Saudi levels of reserves

[Jim Rogers: Hot on Commodities...Thoughts on Gold, Hubbert's Peak, and More](#)

July 28, 2005

As always, thanks to Dr. Bob...John, here's a link to a presentation given by Andrew Smithers from the UK on Equity Market Return expectations:

[Andrew Smither's Outlook For Equity Market Returns](#)

There are some good charts as well.

July 27, 2005

As always, thanks to Dr. Bob...John, here's Jeremy Grantham's latest piece:

[Jeremy Grantham's Letter Q2 2005](#)

He talks about oil:

“Including some new research on real estate, we now have 30 completed bubbles (2 standard deviation upside breakouts above trend line), all of which came back to the preexisting trend. Of these, we now believe 29 were genuine bubbles, and one – oil – was a paradigm shift that nevertheless managed to just retouch its old trend 3 years ago.”

“If you believe our paradigm shift argument, however, the 1980 high was just an ‘ordinary’ 2 sigma, 1 in 40 year event above the new higher trend; the low in 1998 was also a 2 sigma event below the new trend; and the price today is merely a very normal 1.3 sigma, 1 in 10 year event, where mean-reverting players are interested, but not frothing at the mouth. One very interesting fact revealed by this data is that those who shorted oil in 1980, expecting a return to the \$16 trend, just made their money in 1998, but not, we believe, because it returned to the old trend, but because they got lucky and the price fell to a 2 sigma low below trend.”

July 27, 2005

As always, thanks to Dr. Bob...John, I just thought I'd forward a link to a group of 3 lectures that Mr. Buffett gave to students back in 1991 which were edited by Whitney Tilson (just in case you may not have read them). I find his non-prepared remarks just as valuable as what he formally presents in his annual reports and articles.

Three Lectures By Warren Buffett

A snippet which I think is terrific (and which we didn't really talk about last week):

“That's why Graham is so important. Graham's book [The Intelligent Investor] talks about the qualities of temperament you have to bring to the game, and that is the game. Now I can (garbled).

He may not know anything about a Coca Cola, or something of that sort, but that isn't what makes you the money. What makes you the money is your attitude going in, your attitude toward stock market fluctuations. There's two chapters in The Intelligent Investor, chapter 8 and chapter 20, they're more important than everything that's been written on investments, in my view, before or since. And there's no specific technical knowledge in those things. It just tells you what frame of mind to be in when you come to the game. And people just don't get it. But that is not because I'm particularly skillful. And bear in mind that I didn't have that

(garbled). It's not like I was Mozart and sat down at five or something. I mean I was churning things, I was computing odd lot statistics, I mean I loved all that stuff because I always liked numbers and playing around with them. It was like baseball averages or something. But what I needed was a philosophical bedrock position from which I could then go out and look at businesses, and probe through that filter, and decide whether that's [a bargain or not]. And that's Ben Graham's contribution. And that's the game.”

July 22, 2005

**John Mauldin's ... Thoughts From The Frontline
Those Clever Chinese**

July 22, 2005

As always, thanks to Dr. Bob...John , here's Sprott's latest:

He talks about Housing and oil as being the keys to everything in the GLOBAL markets in the near-term.

Throwing Stones From Glass Houses
by Eric Sprott, CA and Sasha Solunac, CFA

"We have seen estimates that

Americans extracted as much as \$700 billion from their home equity last year. That's roughly 7% of

GDP or, alternatively, 20% of retail sales – highly significant to say the least."

"So far this year home equity loans are running in excess of 30% higher than last year, meaning that home equity

extractions will likely significantly exceed the already egregious \$700 billion extracted in 2004."

On oil:

"In our last article, we've already mentioned a natural global decline rate of 8% (confirmed by experts at

Schlumberger, Baker Hughes, and Exxon), but it has come to our attention that the "cashless" decline rate

of the world's oilfields is more like 20%! ("Cashless" meaning no money is invested to sustain

production). What this implies is that even to achieve an 8% decline rate assumes that reams of money

must get thrown at the oilfield to prevent its production from falling off a cliff."

July 22, 2005

**Compliments of [Welling@Weeden](#)
Kathryn Welling's interview with Jim Rogers
The Next Scapegoats**

July 20, 2005

From the Daily Reckoning's Rude Awakening...

From Murphy's Trade
By Tom Dyson

Capt. Edward A. Murphy is the man after whom Murphy's Law is named.

He was an engineer in the air force, working on a project to see how much deceleration a pilot could withstand in a crash. One day, he lost his temper with a technician.

The guy had wired a switchboard incorrectly, says the legend, and when Murphy discovered the mistake, he cursed the technician saying, "If there is any way to do it wrong, he'll find it."

There's an interesting approach to market forecasting that starts with Murphy's Law as its premise. Those who follow this approach take the line that, if it can go wrong, it will go wrong, and when it does go wrong, it'll take down the greatest number of people with it.

Look at these returns over the last 3 years:

U.S. Stocks (S&P) +24%
U.S. Bonds (TLT) +33%
U.S Real estate (OFHEO) +19%
Europe stocks (IEV) +10%
European Bonds (Framlington) +19%
Europe real estate (FinFacts) +17%
UK stocks (FTSE) +12%
UK bonds (S&P services) +30%
UK real estate (Halifax) +25%
Emerging markets (EEM 28 months) +114%
Copper (Kitco) +105%
Gold (Kitco) +40%
Crude Oil (AP) +117%
Japanese stocks (ITF) +3%
Pacific Stocks Ex-Japan (EPP) +17%

All the standard metrics used to measure the value of these assets are off the chart. There are no more obviously cheap stocks however you look at them, real estate prices bear no relation to rental yields, and bond yields don't even compensate you for inflation.

Everything is up.

Across the board, asset prices have been pushed higher by excess liquidity. The source of liquidity: The 2001-2 recession - aided by the tech wreck, Y2K, Enron's collapse, and 9/11 - pushed U.S monetary administrators to take drastic action. They cut interest rates to 46-year lows and flooded the markets with cheap credit. The cheap credit flowed into global asset markets like rainwater to a gutter, and pushed prices up everywhere.

"Had the government not intervened four years ago," writes Fred Hickey's High-Tech Strategist, "the national savings rate would not have been driven to zero on the eve of the retirements of the early baby-boomer generation."

"The current account deficit would not have doubled, household mortgage debt would not be nearly \$3 trillion higher and we wouldn't be so reliant on the generosity of foreign lenders, who own nearly 45% of the publicly-owned portion (\$4.5 trillion) of our \$7.84 trillion national debt (up over \$2 trillion in less than 4 years)."

Debt has been used as a way to prolong consumption and consequently, Americans as a whole owe large amounts of money. The majority is a debtor. Murphy's Law says the majority gets it.

Picture all that debt. Debt gets paid in cash. Cash is liquidity. The worst thing that can happen to a debtor is that liquidity dries up and he is unable to pay the interest on his debt. Bankruptcy ensues.

Here's the debtor's worst-case scenario, the Murphy's Law prediction:

Bond traders keep pushing bond prices higher. This is exactly the kind of trade bond vigilantes like, because it puts the Fed over a barrel.

The more prices on 10-year and 30-year Treasury bonds rise – prices the bond vigilantes control – the tighter the rope around the economy's neck becomes. That's because when short-term bond prices are higher than long-term bond

prices – a situation known as an inverted yield curve - there's no incentive for banks to make loans and they pull money out of the system. Liquidity dries up.

Debt still needs to be serviced. The country will be screaming out for cash to pay its debts like a junkie screams for more drugs as he's being strapped to his bed. Anyone with debt feels the pain, and in America, that's most people.

A self-fulfilling circle will have been put in motion. Higher bond prices will choke the economy of even more liquidity as the curve inverts further. Consumerism will grind to a halt. The U.S. economy will hit a wall. Assets that went up will come down fast. You'll get bankruptcies, profit warnings and unemployment...

A cash crunch ensues. People panic and rush into safe haven investments. Treasury bonds are still the most trusted instruments in the world; they will be popular and their prices will spike even higher. People will talk about a bubble in bonds.

Here's the Fed's problem. They'll do anything to avoid this "deflationary" scenario and the bond market knows it. So by choking the economy, the bond market essentially forces the Fed to pump more artificial liquidity into the economy or face financial reckoning day.

The bond market has a golden opportunity to put the Fed in this tight spot. Buying bonds is a bet they take it.

[Ed. Note: There is another law we are all familiar with, "what goes up...." What happens when America is forced to find cash that is no longer around? Folks will be clamoring to get their hands on what's left. Protect yourself and garner a healthy return for your position here:

July 20, 2005

Is being generous good for business?

Costco CEO profits as he offers top pay, benefits

By STEVEN GREENHOUSE

New York Times

July 19, 2005

Dude, Where's My Home Equity?

by Bill Bonner

A housing market does not have to crash to cause problems. That's the difference between a bubble in the housing market and one in stocks. Stock market bubbles are financial phenomena. Housing bubbles – at least, those in the Anglo-Saxon countries – are economic phenomena. What's the difference? In the first, when the bubble comes to an end, the people who get hurt are investors who should have known better. Who cares about them? Typically, somebody blows his brains out and blames it on falling stock prices. But the rest of the world goes about its business.

But when a housing bubble ends, the whole economy suffers, because ordinary working people have come to rely on increases in house prices just to pay the bills. When the "equity" stops coming, they have to cut back. Soon, the economy is in a slump.

Housing prices took off in the Netherlands between '97 and 2000.

Thereafter, they did not crash; they just stopped rising so fast. The Dutch economy had become "hostage to the housing market," say analysts. When housing cooled off, so did the economy, which has been in a slump for the last five years.

"People don't feel that they are automatically getting richer any more," ABN AMRO economist Charles Kalshoven said.

"House prices tend to stimulate consumer spending so much that just removing that stimulus tends to lead to a sharp deceleration of consumption," Fortis economist Nick Kounis added. "For the housing market to start being a drag on consumer spending, you just need it to stop providing a boost."

People stop taking out equity when there is no equity to take out. Last year, homeowners took out more in phony equity than they got from pay increases. Without the \$700 billion of extra spending, the U.S. economy would have been in a slump, too.

Most people cringe at the thought of recession, but a recession in America would be an improvement. As it is, the national economy is like a man with a serious mental problem. It needs to straighten out. But Dr. Greenspan and the other quacks in charge of the economic policy encourage his delusions with soothing words and easy money. Now, every day that goes by, the poor man is in worse shape. His debt increases; his wealth decreases. His ability to function declines.

Say Fed governors: "See, I told you we could prevent a slump!"

America's GDP is positive – despite the fact that people get poorer. Inflation is not a problem despite \$60 oil and housing costs rising at 10% per year. Housing prices are "solid" say economists, despite the fact that few people can afford to pay them. Americans are getting wealthier, they add, despite the fact that people don't really earn more money.

And in the financial markets, rarely have we seen so many people so sure that nothing is wrong. No one is buying puts. Inflation-adjusted Treasuries earn almost as much as those without the protection. Mortgage lenders hand out money to bad credit risks with no apparent concern about getting it back. Not since 1914 has the average man been so confident... and never before has he been so confident with so little reason to be.

In 1914, Americans had the confidence of youth – the United States had become the world's biggest economy in 1910; it was still growing fast and on its way to becoming the world's superpower... and its only true empire. Now, the empire seems to have peaked out. America is on the losing end of the imperial trade – it pays the costs of maintaining open, globalized markets. But it loses money every day. Still, Americans have not quite caught on. As long as housing prices are rising, they figure they are on top of the world. They are still confident, but they are the confidence of an old fellow who has lost his grip and his wits.

July 18, 2005

Contrarian Chronicles

Sign of trouble: A BlackBerry with your pizza

July 18, 2005

**John Mauldin's ... Thoughts From The Frontline
Quarterly Review and Outlook**

By Van R. Hoisington and Lacy H. Hunt, Ph.D.

July 15, 2005

**John Mauldin's ... Thoughts From The Frontline
Mid-Year Forecast - More See-Saw Fed by John Mauldin**

July 11, 2005

As always, thanks to Dr. Bob...John, more from this article on China: Another thing that Canada has: Uranium.....Cameco runs largest Uranium mine in the world

“One uranium nuclear fuel pellet less than a centimeter square (the size of the tip of your index finger or so) is equal to the energy from 1,780 pounds of coal; or 149 gallons of oil; or 17,000 cubic feet of natural gas. Once you realize we get so much power from such a small pack it's puzzling to hear the brouhaha over the “thousands of tons” of waste we will need to dispose of. In fact, all of the country's nuclear power plants together produce about 2,000 metric tons of used fuel annually. But, since uranium is the heaviest substance on earth, of course there's a lot of weight! Let's look at it slightly differently: all the used fuel produced to date by the U.S. nuclear energy industry – that's every power plant in America over more than 40 years of operation — would cover an area the size of a football field to a depth of about 100 yards. Stated that way, without emotion and misleading numbers, it doesn't seem like an insurmountable problem...

Finally, there is no uranium in Saudi Arabia. None in Libya that we know of. None in Kuwait or the UAE. Virtually none in Nigeria or Venezuela. On the other hand, 72% of the world's known oil reserves are located in

predominantly Islamic nations. Where would you rather get your fuel – from that paragon of stability and tolerance, Saudi Arabia, or from Canada, which produces 25% of the world's uranium.”

I guess it's fair to say that Canada is the RICHEST in terms of resources of any country in the world. Does Canada (or even better yet our Government) even realize this? And what are we doing to preserve and protect these precious resources? Worth thinking about.....

July 11, 2005...

Excerpt from Richard Russell's Dow Theory Letters...

Debt in the US plus unfunded liabilities is now running into the multi-trillions. Nobody denies that. The only arguments have to do with how the nation is going to deal with all this debt. So far, nobody has the answers. In fact, nobody, except certain academics, are even talking about the question.

I've been reading some very bright people on both sides of the equation. My friend, A. Gary Shilling, was one of the very first to take the deflation side. Gary even wrote a book entitled "Deflation." Gary has been joined by other bright people, the latest to join the deflation-club being none other than Morgan Stanley's Stephan Roach and Pimco's Bill Gross. On the inflation side, I just read the latest paper by the brilliant Stephan Leeb, editor of the new service, the "Complete Investor."

The deflationists talk about the US and even the world economy slowing down. They talk about global over-production. They point to the steady decline in bond yields. The inflationists point to the Fed and its morbid fear of deflation. They talk about record oil prices. They insist that at any hint of disinflation, the central banks of the world will drive interest rates to zero if need be, while flooding the planet with even more liquidity.

The latest (July) Bank Credit Analyst has the brilliant Martin Barnes saying quite a lot to say about the picture, as note -- "The perfect breeding ground for inflation has been in place in the past few years: large fiscal deficits and a weak dollar. It speaks volumes that core inflation has remained close to 1.5% (based on the personal consumption price index) in that environment. Powerful structural forces are keeping a lid on inflation: intense global and technological advances are boosting productivity.

"To the extent that inflation is always, and everywhere, a monetary phenomenon, the Fed's easy stance has had an important impact. It has shown up in rising house prices, rather than conventional consumer price indexes. . . The housing bubble is likely to get bigger before it inevitably bursts. However, when the housing bubble does burst, it will represent a huge deflationary shock to the economy.

"Looking ahead, the risks facing the US and global economies will remain more deflationary than inflationary. Other than burst housing bubbles, there is also the

lingering concern that global investors will, at some point, be unwilling to finance US profligacy, forcing a major retrenchment in demand."

July 11, 2005

John Mauldin's ... Thoughts From The Frontline

The New Carry Trade By GaveKal Five Corners

July 8, 2005

John Mauldin's ... Thoughts From The Frontline

Are There Too Many Hedge Funds?

July 8, 2005

"Gold still represents the ultimate form of payment in the world... Fiat money in extremes is accepted by nobody. Gold is always accepted."

Alan Greenspan, speaking to the House Banking Committee, May 20, 1999

Why Gold? Why an allocation to gold may benefit investment portfolios

July 5, 2005

As always, thanks to Dr. Bob...John, Marc Faber's latest:

The Destruction of the Old and the Creation of New Bubbles

Very interesting, the reaction to the explosions in London. Oil and gold especially

July 5, 2005

As always, thanks to Dr. Bob...John, Jim Puplava interviews Marc Faber about the inflation/deflation debate. Well-worth a read.

The Gloom, Boom & Doom Report By Dr.Marc Faber, Ph.D.

Inflation / Deflation

July 4, 2005

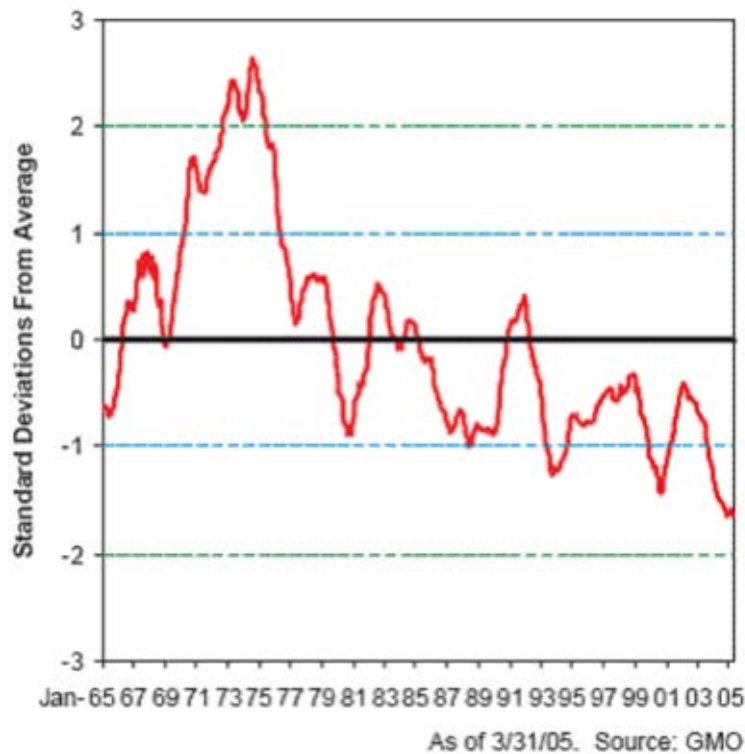
As always, thanks to Dr. Bob...John, here's a recent white paper from an individual who works at Grantham, Mayo (Jeremy Grantham's firm):

The Trouble With Value... By Ben Inker

One chart actually struck me as very interesting:

Exhibit 9

Relative Valuation of High Quality Stocks in U.S.



This chart shows that HIGH QUALITY companies as measured by GMO (companies with high profitability, stable profitability and low debt) are very inexpensive when compared historically. I have actually noticed it as well (but less officially and more of a matter of observation). This bodes well for those managers focusing on only the best companies for investment and who only buy them when REASONABLY priced.

July 4, 2005

**John Mauldin's ... Thoughts From The Frontline
Pictures of a mania? - US Housing
By James Montier**

July 3, 2005

As always, thanks to Dr. Bob...John, things are getting kind of scary.....
"He warns that the scramble for resources could eventually descend into war."
Is Canada well-protected should oil go to \$100 a barrel?

Compliments of The Observer

Oil 'will hit \$100 by winter'

**Worst-ever crisis looms, says analyst - Surging demand to keep prices high
By Heather Stewart, economics correspondent**

July 1, 2005

John Mauldin's ... Thoughts From The Frontline

Thoughts on the Housing Bubble

July 1, 2005

Compliments of Contraryinvestor.com

The Ultimate Squeeze Play?

July 1, 2005

As always, thanks to Dr. Bob...John, a great piece on oil.

"Today, Simmons suspects that the Saudis are injecting 15 to 18 million barrels of water per day into Ghawar – three times the quantity of oil that is being produced. Simmons believes Saudi oil production can collapse at any time."
Markets at a glance...

Oil painting by numbers

by Eric Sprott, CA and Sasha Solunac, CFA