



## Quotable

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“My friend is no fool. He is intelligent and eloquent, and I always learn something from his side of our endless arguments. But one thought — a self-evident truth that I'd hope would occur to every rational person — has apparently never crossed his mind: that government is force. Like so many people, he assumes, without reflection, that if some imagined social condition seems desirable, government should try to bring it about.”

Joseph Sobran

## FX Trading – To business: get with the program.

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The change in mood among market participants from July to August is palpable. It can be seen throughout the globe, but let's stick to the US for now. The uncertainty factor is again in play on growing concern about a double-dip recession. Corporate investment was supposed to keep things humming, leading the charge even though employment is soft, but corporations aren't stepping up to the plate. Who can blame them!

We all know the productivity story that began in the wake of the financial crisis. Companies cut costs and employees. Now many of these companies are experiencing strong earnings growth as those savings go straight to the bottom line. These earnings were supposed to provide all that investment fuel that lays the groundwork for future job growth. Instead, we see dividends being paid to keep shareholders happy, as we discussed on Tuesday. This makes sense because in the theoretical world of corporate finance, if a corporation doesn't have viable projects that meet its internal rate of return criteria, it should pay money out to shareholders. So dividends in place of investment should be no surprise given the landscape of uncertainty our fine leadership seems so adept at creating.

As a friend of Black Swan, an asset manager and financial planner, passed along to us today supporting [his economic/financial criticisms of our current administration](#):

Mr. President, ask *them* what they need from the Federal Government. They want to hire, to bring back laid-off workers. Actually ask “how can I help you grow your business?” Tell them “we in government are here to *serve* you, because we know that a small- and large-business growth in America is the key. Ask them how you can help. YOU represent the serving organization -- the federal government. Businesses do *not* serve you, despite your misguided messianic complex.

We've not discussed this with him, but we understand his frustrations. While we're not sure exactly what he expects *from* the Federal Government, being fans of the market process we expect a hands-off approach from those who are there to serve us. But what we imagine was baked somewhere in our friend's message: the Federal Government right now is doing more harm than good. This from everyone's favorite dark-mustached "20/20" anchor, John Stossel:

The problem today is that the economy is not being left alone. Instead, it is haunted by uncertainty on a hundred fronts. When rules are unintelligible and unpredictable, when new workers are potential threats because of Labor Department regulations, businesses have little confidence to hire. President Obama's vaunted legislative record not only left entrepreneurs with the burden of bigger government, it also makes it impossible for them to accurately estimate the new burden.

So that's where we are in the US – so many seem so concerned that companies are scared to death of taking risk in this economy. (We already know that consumers are still in deleveraging mode. Sales of existing are still falling, to record lows. Credit card debt has fallen to the lowest level in 8 years.)

It's not a pretty picture in Europe, either, where Ireland is the latest victim of a Sovereign debt downgrade. We've talked enough about the systemic threats of default in the Eurozone; so let's let Sean O'Grady, Economic Editor of *The Independent*, [tell you the story](#).

Still, we saw an uptick of in the speed of loans doled out to the Eurozone private sector in July. And:

The forward-looking GfK consumer sentiment indicator, based on a survey of 2,000 Germans, rose to 4.1 for September from an upwardly revised 4.0 for the previous month, the Nuremberg-based group said. (Reuters)

This apparently means German consumers are a bit more optimistic about their economy's near-future. But things aren't so peachy for business in the Eurozone.

But loans to companies were down 1.3 percent over the year, following a fall of 1.6 percent in June. Corporate borrowing also fell from the previous month, recording its second month-on-month decrease in a row. (Reuters)

Right, right, right. We know that the US has its problems, and the Eurozone has its own issues. But what about an economy that's not bound by "crisis" in all corners?

*The Wall Street Journal* reports on Australia:

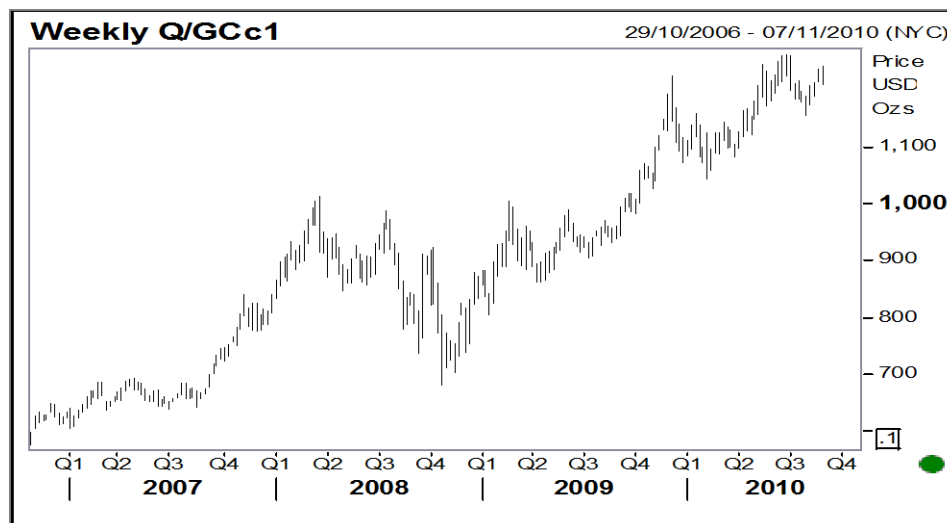
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“Australian business investment fell 4% in the second quarter when analysts had expected a rise. The sign of weakness is likely to take some shine off second-quarter GDP forecasts ...

“Business investment is a key ingredient of the central bank’s robust medium-term expectations for economy, and a central plank of its rationale for aggressively hiking rates earlier this year. Coupled with softer looking U.S. outlook as well as benign wage and inflation reports, urgency for more hikes appears to be gone for now.”

The dreaded second half is here. You remember: when we were seeing such recovery-happy evidence in the first half, there were those telling us the numbers will moderate in the second half. Will “moderate” mean things get worse before they get better? Or is this just the “new normal”?

Maybe gold will tell us. Risks seem to be rising. Gold is playing its role. **Gold Futures Weekly:**



Gold is on the verge of testing all-time highs, seeming to thrive on uncertainty, and playing its historic role as a safe haven lately. We think this is more proof that gold can do quite well in times of deflation (not inflation).

And as sovereign credit risks spike, if this ugliness continues, promises backing fiat currencies look even more ridiculous. Not exactly encouraging we know, but it’s a safe bet the ever-popular father-in-law gold-bug is smiling as he fortifies his home security system.

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## Leading the Way to Lower Highs, Lower Lows: An Opportunity!

You're probably well aware of the correlation between major asset classes by now. And that goes to the same risk-on, risk-off trading theme that's been driving capital flow.

The rally in stock markets through the month of July meant a similar rally in currencies, at the dollar's expense. We called the beginning of the correction back in June when we alerted our Currency Investor members to exit a position that profited from a weaker euro. That trade netted a very nice gain. Since then we've been waiting for signals that the correction has come to an end, that the euro would resume its decline. We seem to have reached that point.

Sentiment has shifted back into bearish territory ... and the major global risks have not been addressed to any meaningful extent. A new, deep move lower in the euro could be triggered by a coming collapse in stocks. A failed test on the S&P 500 of critical resistance has been followed by a lower low and a lower high – the markings of a downtrend in the making. Will you be ready to play it? Will you know how?

[Currency Investor.](#)

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