Alan M. Newman's Stock Market

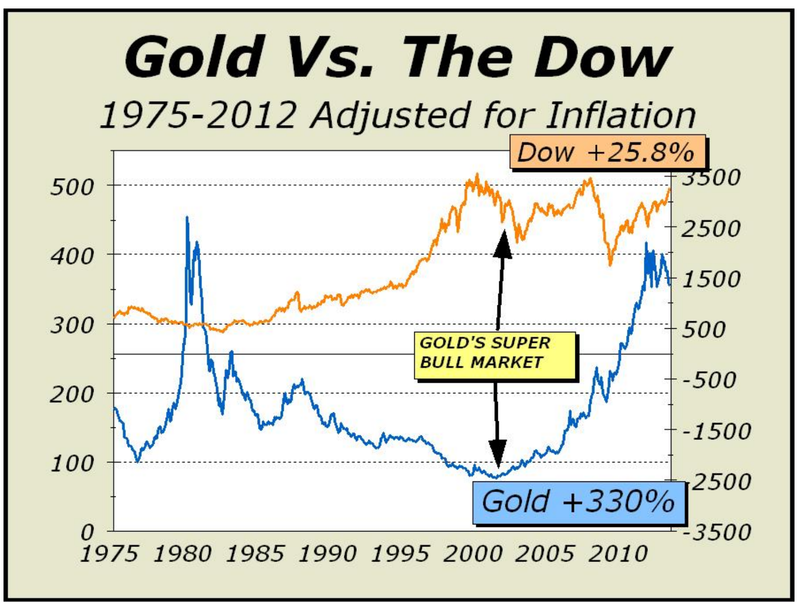
CROSSCURRENTS

U.S. STOCK MARKET OUTLOOK for MARCH 11, 2013
DJIA 14,397 - SPX 1551 - NASDAQ 3244

WE EXPECT CENTRAL BANKS WILL CONTINUE TO ERR IN FAVOR OF INFLATION TO AMELIORATE ONGOING DEBT PROBLEMS. COMPETITION TO ESTABLISH WEAKER CURRENCIES EQUATES TO HIGHER GOLD PRICES. ***- NEXT ISSUE - APRIL 8, 2013 -***

Comparisons Tell The Story.

The Fed would dearly love to see a robust economic rebound so they can finally temper the policy of expanding an already engorged balance sheet by buying $85 billion in bonds each month, but it's not going to happen. The easiest monetary policy in our history has not accomplished much. Despite the media cheerleading of housing gains and stock market rallies, fourth quarter GDP in 2012 was in the black by a scant 0.1%, housing prices are still well below their peaks and the broad based S&P 500 is still shy of its 2007 peak. Plus, there are gigantic pitfalls ahead. The U.S. does not exist in a vacuum and around the globe, there are can't miss signs of slower growth ahead for the Eurozone and China, the world's second and third largest economies.



Much of the world has entered a period of retrenchment that will likely last for many years. Central banks have been content to sit back and watch while one bubble and then another build, simply hoping the desired wealth effects can ameliorate the problems catalyzed by a previous credit crisis. Now that Japanese Prime Minister Shinzo Abe has admitted that a modest rate of inflation is what Japan needs to kick it out of a 24 year funk, we expect a groundswell recognition that inflation is the only way to cure the problem of a world still drowning in debt. The greatest threat to worldwide economic growth at this juncture is our failure to deal with debt by allowing natural economic cycles to function. Another credit crisis will have the potential to bankrupt the world financial system. The only protection that will survive a debasing of paper and book entry fiat money will be hard assets, especially precious metals. However, the cure is not guaranteed. *Strategizing a modest growth of inflation is akin to keeping a dangerous fire under control.* Just as leverage and debt grew to uncontrollable levels, so may inflation.

Over the years we have been asked repeatedly why we adjust for inflation when we compare gold bullion and the Dow. There is no point in comparing current dollars to the past. The Consumer Price Index (CPI) is 29.3% higher than it was when we believe Gold's super bull market commenced with the 911 attacks. Based on that major turning point, bullion is up 330% against only 26% for the Dow Industrials. However, can you really trust the CPI, which then implies the cost of living has risen at a rate of less than 2.1% per year in the last dozen years? John William's Shadowstats website (http://bit.ly/83I42h) paints an entirely different picture, placing the rate of inflation more than two-and-half times the official numbers based on 1990 methodology and more than four-and-a-half times the

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BLS stats based on 1980 methodology.

Attesting to the enormous strength in gold's super bull market, while stocks were down just over 50% adjusted for inflation from the 2007 peak to the 2009 bottom, *bullion rose by over 23%*. While stocks have risen 74% adjusted for inflation since that point, *gold has nevertheless been quite competitive*, rising 57%. This is a stunning development. The last four years have resulted in one of the five greatest rallies ever, yet volume has declined and investors have abandoned equity mutual funds to the tune of $592 billion in a bit over six years. Clearly, this is a circumstance unmatched in stock market history. On the other hand, the price of gold bullion has remained in a wide consolidation zone after a spectacular run and despite recent huge sales of gold by exchange traded funds. Since the beginning of the year, ETFs have sold 3.6 million ounces of gold, *3 million of which were sold in only the last eight days of February*. Yet the price of bullion has fallen only nominally. In the latter case, we interpret the absorption of these sales without a wholesale decline in price as a distinctly positive development. Of course, despite the public's ongoing exit from mutual funds, stock prices have gone higher, but we believe any positive connotation is overwhelmed by the metamorphosis of the U.S. stock market to a mechanically driven micro-second plaything of computer algorithms. The perception of value in stocks is now problematic.

The Dow/Gold Ratio (see chart at lower left) has been our guideline since our super bull market call was initially made in 2001. At that time, the ratio was 36:1 and had been as high as 42:1 when paper assets were peaking just before the tech mania imploded. Our eventual target was set at a 5:1 ratio, which was later briefly adjusted to 6:1 and then readjusted back to 5:1 last year. The current ratio of 9.1 to 1 means either gold is way too cheap or the Dow is way too expensive or a combination of the two. While our 5:1 target would indeed be achieved if gold traded to $2879 per ounce, based on the current Dow, the ratio would also be achieved at $2000 per ounce if the Dow traded down to 10,000. In a worst case scenario where gold remained at the current $1577 per ounce, the ratio would be also achieved at Dow 7885. Despite our bullish bent for bullion, all of the iterations are possible and the best we can do is to point out that every iteration favors gold over the Dow. Of those countless other iterations, one even sports the Dow at 15,000 and bullion at $3000 per ounce. Dow 15,000 would be a 4% improvement but Gold at $3000 per ounce would be 90% higher.

At bottom right, gold priced in U.S. Dollars, Deutsch Marks and British Pounds still points to a consolidation within a tremendous super bull market move. There is neither nothing unusual about the sideways jaunts of the last two years nor any evidence that this bull is anywhere near to running its course. Japan's current efforts to weaken the Yen as a strategy to stimulate exports is not limited to just that nation. Indeed, similar attempts to weaken currencies have been an ongoing feature of the continuing weak economic environment worldwide. However, as suggested in this recent CNBC report, available at http://bit.ly/102Leax, "the symptom of underlying issues" cannot be ignored. There are way too many countries living on the edge at this time. Developments in Greece, Spain and Italy threaten the fabric of the European Union and China could soon be nearing a huge drawdown or collapse from a huge housing bubble and domestically, we have yet to deal with the debt limit. The only certainty is that the uncertainties are growing, a perfect environment for gold's bull market.

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(Continued on page 3)

-THEN & NOW-

A comparison between the October 2007 peak and today

Dow Jones Industrial Average: Then 14164.5; Now 14164.5
Regular Gas Price: Then $2.75; Now $3.73
GDP Growth: Then +2.5%; Now +1.6%
Americans Unemployed (in Labor Force): Then 6.7 million; Now 13.2 million
Americans On Food Stamps: Then 26.9 million; Now 47.69 million
Size of Fed's Balance Sheet: Then $0.89 trillion; Now $3.01 trillion
US Debt as a Percentage of GDP: Then ~38%; Now 74.2%
US Deficit (LTM): Then $97 billion; Now $975.6 billion
Total US Debt Outstanding: Then $9.008 trillion; Now $16.43 trillion
US Household Debt: Then $13.5 trillion; Now 12.87 trillion
Labor Force Participation Rate: Then 65.8%; Now 63.6%
Consumer Confidence: Then 99.5; Now 69.6
S&P Rating of the US: Then AAA; Now AA+
VIX: Then 17.5%; Now 14%
10 Year Treasury Yield: Then 4.64%; Now 1.89%
EURUSD: Then 1.4145; Now 1.3050

Gold: Then $748; Now $1583

NYSE Average LTM Volume (per day): Then 1.3 billion shares; Now 545 million shares
— from Zero Hedge, March 5,2013 (http://bit.ly/13EfFZF)
Ed note: we have emphasized the most important piece of information.