SEMI-MONTHLY FISCAL/MONETARY REVIEW - QUIET MONTH OF MAY - THE BEAT GOES ON

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The capital markets were once again relatively quiet, as was the price of gold bullion (down 0.1%) for the month). The gold mining stocks were mixed on the month, with the larger miners (represented by GDX, up 1.8% and the smaller miners, represented by GDXJ down 2.5%. It appears that the re-balancing of GDXJ, which we described last month, and has affected the pricing of some of the small to medium sized miners has largely run its course, so the miners should begin to act a bit more rationally. Our gold related holdings have not changed, but we have found some restaurant/retail companies that we believe offer opportunity to “augment” our returns.

The most significant fiscal/monetary developments over the last month are as follows:

The federal budget debate continues, and is heating up in terms of resistance to the suggested spending cuts. Also, the debt ceiling has to be raised quickly because tax receipts are coming in more slowly than anticipated, and the government is already running on “temporary” spending measures.

While there is evidence of improvement in the economy, in particular the employment numbers (all of which are estimates, normally revised several times) there continues to be many signals that the recovery is anemic. Even the Fed said “the growth is modest………Consumer spending softened, with many districts reporting little or no change in non-auto retail sales”.

Related to the Fed’s observations, the most recent consumer surveys show a clearly weakening trend, which we postulate reflects frustration over POTUS’ difficulty in delivering on campaign promises.

Clearly, the unproductive "noise", largely provided by our inexperienced and "unorthodox" Commander in Chief is undermining policy initiatives. Policy paralysis, in large measure, becomes the result, with executive orders implementing a more limited agenda. Unfortunately, time wasted is exacerbating, not helping, the fiscal/monetary distortions that are negatively affecting the worldwide economy.

Consumer debt is at new highs. The housing “bubble” of 2007 has been replaced by new highs in sub-prime auto debt, student loans, and “shadow bank” (internet) lending. We don’t believe interest rates will rise by much. Higher rates would choke off the already tepid consumer spending and wreck government budget balancing attempts.

We continue to feel that the 1.5-2.0% GDP growth (the weakest "recovery" after recession in at least 50 years) that has been a feature of our economy for almost ten years now is more likely to slow than accelerate. The sluggish growth has been ***in spite o***f close to zero percent interest rates and trillions of newly created dollars. It stands to reason that even modestly higher interest rates and an attempt to reduce the size of the Fed's balance sheet will be a deterrent, not a stimulant, to faster growth. Further, we believe that the modest "tightening" direction will prove to be just a setup to the next phase of stimulation, as the economy stalls and politicians scream "do something". At some point as that process plays out, we expect gold related investments to be the "cream rising to the top" of asset allocation.