



Financial Intelligence Report

The Global Resource to Protect and Grow Your Wealth

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Key Points

- How speculation — not real demand — has pushed up oil
- Why OPEC and the Saudis are right on supply
- The role of the dollar in high oil prices
- Axel Merk on the coming inflation inferno
- Hans Parisi reveals the South American giant every smart investor should consider

PLUS:

- Our portfolio review and actions to take now

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This month's password is: oil

(Please remember to use lower-case letters.)

Oil Bubble on Brink of Major Bust

The oil bubble is about to bust.

Financial Intelligence Report has long argued that the present bubble in oil is not driven by skyrocketing demand and shrinking supply, as many pundits would have you believe, but by speculators driving up the price of oil to line their own pockets.

Our view is gaining more and more currency among the experts. FIR first warned of this market manipulation nearly three years ago following Hurricane Katrina, when the run-up in crude oil prices hit \$70 a barrel at the time.

Back in 2004, when FIR was just launching, we alerted investors that oil — then selling at \$29 per barrel — was about to spike. We predicted that oil would hit \$60 to \$70 per barrel within 18 months. It did just that.

At the time, we did not link the oil price spike to speculators. We noted that real inflation — not reported by the U.S. government — was accelerating. Such hidden inflation was weakening the dollar. As the dollar collapsed, we posited, oil, which is traded in dollars, would skyrocket. Bingo, it did!

But the price jumps we have seen over the past 15 months, where oil has doubled from that \$70 a barrel to almost \$140 a barrel, has little to do with inflation and much more to do with a mania of speculation.

A back-of-the-envelope calculation shows us that, as the dollar has collapsed by 40 percent over the past seven years, oil prices could reasonably double.

But oil has increased by almost 400 percent in the past few years — and it is up almost 700 percent over the past decade. Inflation can account for just a fraction of that price increase.

Now, with prices nudging \$140 a barrel recently, the commodities market regulators, such as the Commodities Futures Trading Commission (CFTC), have done nothing to stop these market manipulators.

There have been many cases of manipulation in the commodities markets in the annals of time. Perhaps the Hunt brothers' manipulation of the silver markets in the 1970s and early 1980s is the most infamous example.

Throughout the 1970s, the Hunts gradually acquired control of over one-third of the entire world's supply of silver. In their attempts to manipulate the price of silver futures contracts and bullion, silver from September 1979 to



Note to FIR readers: Last month's edition of Financial Intelligence Report was a double issue combining May and June. However, subscribers will not miss a single edition for which they have paid.

January 1980 went to \$50 an ounce from \$11, and the Hunt Brothers were sitting on a pile of riches.

But it didn't last long. The price of silver crashed — falling 50 percent in a single day — and the Hunt Brothers couldn't meet the margin calls on the futures contracts they had taken out, causing a financial panic.

Like the Hunt Brothers' manipulation of silver, this artificial inflation of the price of oil can't go on forever. There are several factors that could finally push oil prices down in the coming months.

But we do not see any dramatic oil-price collapse until after this November, when the U.S. elections are held. We hear from our European sources that the commodities market is not only being manipulated by U.S. hedge funds but by nations and individuals who want the Republicans out of the White House — and Barack Obama to be president. Nothing assures that better than \$4 plus a gallon gas and an angry electorate come November.

It's important to remember this is not the first time oil prices have spiked, helping to cause a dramatic political change in the U.S.

For example, crude oil posted similarly spectacular increases a number of times in the past three decades. Back in the spring of 1980, as gasoline lines lengthened, the price of crude oil was 150 percent above the price of just a year earlier. Ronald Reagan beat incumbent Jimmy Carter in a landslide that same year.

Basic economics dictates that price is determined by supply and demand — ultimately.

“Despite all of the dire predictions about the price of oil, the truth is that it will go down,” William Gamble, author of *Freedom: America's Competitive Advantage in the Global Market*, tells FIR.

“All markets do. What we are witnessing now is the last stages of a buying frenzy that are part of a commodities bubble. If for no other reason, the price of oil will go down because the higher it rises, the greater the possibility of recession. A high price of oil means

that one of the largest inputs for any economic activity is priced out of reach.”

Already, demand here in the U.S. is declining. Even Europe, which was cushioned by the oil price spikes because of a strong euro, is witnessing oil price woes as truckers strike in several countries.

Hedge Funds Artificially Pump Up Oil

Historically, the futures markets allowed oil refiners to hedge against unexpected price swings. Just 10 years ago, the commodities market was dominated by actual buyers. Today, even Mom and Pop investors have commodity accounts and are playing the commodity futures market like a casino.

And the real heavyweights are the institutional investors — not just hedge funds, but banks and even staid pension funds — who are wading into that commodity market to invest rather than to hedge their own risk.

Hedge fund guru Michael Masters told a U.S. Senate panel the other week that institutional investors “are one of, if not the primary, factors affecting commodities prices today.”

As a result of this shift, speculators continue to buy in anticipation of selling at a higher price.

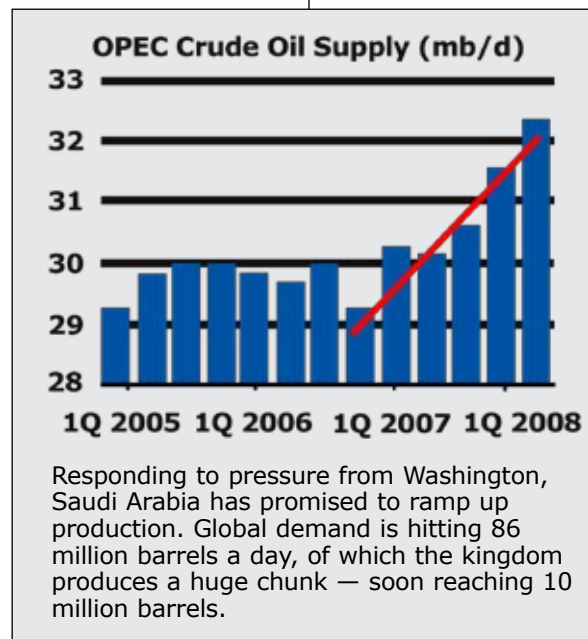
News articles that talk about the coming boom in automobile use in China and India only fuel the frenzy

for more oil contracts — even though many of the investors in these contracts are in for the extremely short term. In no way can these investors ever cash in on expected consumer demand in China and India over the next five to 10 years.

Other economists agree.

“Speculation is behind the run-up in price,” says Harvard University economist Jeffrey Frankel.

The federal government bears part of the responsibility for this state of affairs. The rapid



reduction in interest rates by the Federal Reserve Board has encouraged commodity stockpiling by some, making it less attractive to sell commodities and “put the proceeds into bonds and other debt instruments,” Frankel says.

In other words, as prices spiral up and up, investors keep piling in more and more — the textbook definition of a bubble. Yet the fundamental reasons for buying oil aren't there. Fact is, there is no shortage of oil right now.

In fact, even as prices have skyrocketed, demand is beginning to pull back.

Noted investor Richard Rainwater admitted recently that he dumped his oil stocks when he saw a recent poll on popular investment Web site The Motley Fool. Seventy-seven percent of those surveyed online said they were cutting back on oil use. With demand falling, Rainwater sees oil falling big time, too.

Since 2003, in fact, the number of open futures and options contracts on West Texas Intermediate Crude rose by 880 percent while the global demand for physical, real petroleum rose by just 8 percent.

“So the futures and options market has become more important than the physical supplies in driving the price,” comments Tim Evans, an energy futures analyst at Citigroup's Futures Perspectives.

“We are seeing investment flows into the oil market that don't have anything to do with the demand and supply of oil,” says Evans.

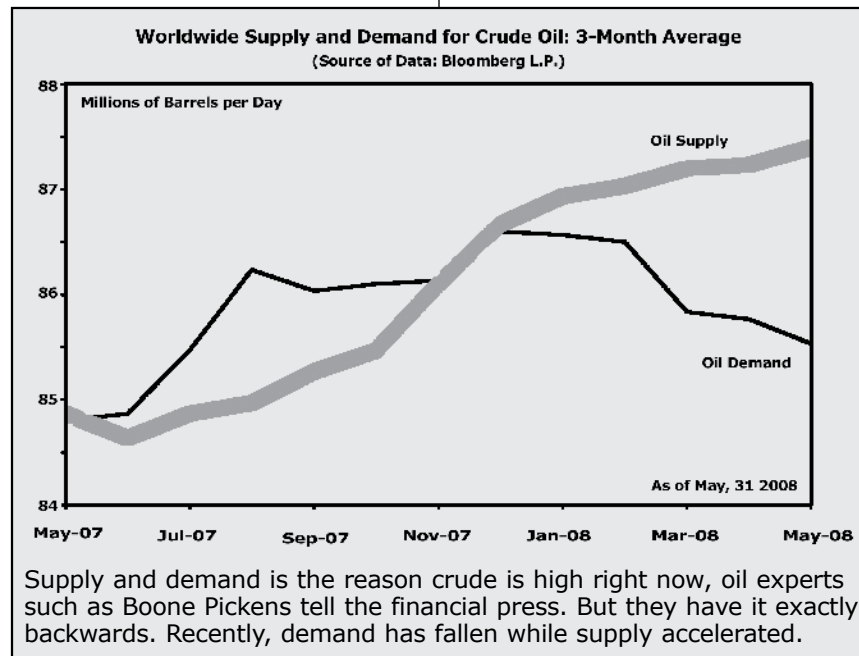
Even hedge funds admit that investor speculation is behind the run-up in oil, although they point the finger at exchange-traded funds. According to congressional testimony from hedge fund manager Masters, speculation by institutional investors in commodities futures has largely been responsible for the dramatic

increase in oil prices over the past four months.

And political guru Dick Morris also has noted that the speculators are running amok. He cites one statistic that shows that the volume of investment in commodities futures soared to \$260 billion in March 2008 from \$13 billion at the end of 2003.

Masters points out that commodity index funds are the biggest culprit behind rising oil demand. These funds are required to hold a certain percentage of physical oil to back their funds. Investors have flocked to these relatively new funds to take advantage of rising oil prices, which has, in turn, created an upward spiral in the price of

oil. And that has caused overall demand to significantly rise above the present supply of oil.



No Supply Shortage of Oil

At first, Saudi King Abdullah rejected President Bush's request — during his June trip to the Middle East — for an increase in oil production. The Saudis complained that there is plenty of oil in the open market and that pumping more oil won't solve the problem. They claim the problem for oil prices can be blamed on speculators and market fears.

For example, Iran has more than 30 million excess barrels of oil that it can't simply sell into the open market.

Despite the glut, Saudi Arabia decided soon after Bush's visit to reverse course and began pumping an additional 300,000 barrels per day. Reportedly, the kingdom hoped the news would temper oil speculation.

The Saudis and other Gulf states learned their lesson in the 1970s. Because they invest most of their assets in the West, it is not wise to make oil so expensive it leads

to a global recession. Ultimately, they will lose.

Certainly, Organization of Petroleum Exporting Countries (OPEC) member Saudi Arabia, which is the world's largest producer of oil, is benefiting from the high price of oil, but it argues that supply is not the problem. The Saudis expect to increase output by a half-million barrels a day to reach 10 million barrels.

In May, the kingdom reported output of 9.20 million barrels, according to the International Energy Agency. With global demand at 86 million barrels a day, a big Saudi increase could have a major impact.

And the Saudis are not alone.

"The problem is not shortage of supply," Hojjatollah Ghanimifard, international affairs director at the National Iranian Oil Company, told Reuters. Iran is OPEC's second-largest producer after Saudi Arabia.

"I think the main problem is outside the oil market. Too much liquidity is available," Ghanimifard said. "A big part of it is in the paper market of crude oil."

"I don't think OPEC can do anything," says Abdullah al-Attayah, oil minister of Qatar, an OPEC member. "If this was related to supply then we could move. Speculation has been very strong. It's a game for speculators."

OPEC president and Algeria's minister for energy and mines, Chakib Khelil, specifically warned against new production. "Any increase in production now will not have an impact on prices because there is a balance between supply and demand," he said.

But don't take OPEC's word for it. Industry agencies and analysts also say that the trouble is not supply. The International Energy Agency (IEA) in Paris slashed its 2008 forecast for oil demand for the fifth month in a row in June. The organization said that world oil demand in 2008 will rise at its slowest pace in six years.

Lehman Brothers recently lowered its forecast for oil prices to \$83 a barrel in 2009 and to as low as \$70 in 2010, citing supply outpacing growth in oil demand.

A Stronger Dollar Could Mean Lower Prices

In addition to arguing that its present production is sufficient to meet real demand, OPEC is pointing the finger at the weak dollar as the cause of soaring oil.

"When the dollar loses 1 percent, the price of a barrel of oil rises by four dollars," Khelil points out.

Oil is priced in dollars. The more the value of the dollar falls, the more it costs to buy the same barrel of oil.

But, on the flip-side of that, if the U.S. dollar gets stronger, it could cause a pullback in the price of oil.

Recently, Fed Chairman Ben Bernanke has acknowledged the need to strengthen the U.S. dollar. Bernanke made a rather incredible claim in a speech

on June 4. He said that the weak dollar has brought an "unwelcome" rise in inflation.

The truth is that the dollar has weakened because of inflation, not the other way around. The Fed claims that U.S. government statistics are accurate, and that inflation over the past decade has been very low, so it can hardly now argue that U.S. inflation caused the commodity price spike. As we have argued, stealth inflation has been behind the dollar's collapse, and behind the global spike in commodity prices Americans have experienced.

"The risk that the economy has entered a substantial downturn appears to have diminished over the past month or so. The Federal Open Market Committee will strongly resist an erosion of longer-term inflation

Oil Run-Up Exceeds Tech Stocks at Their Peak

Is oil just a big, fat bubble about to bust? Compared to tech stocks from back in the days of irrational exuberance, it would seem so.

A new analysis shows that the rise in the barrel price of oil has now surpassed the inflated values of technology stocks that crashed in 2000, leading to a short U.S. recession.

Bloomberg News reports that crude has risen by more than 600 percent since November 2001, when it traded at a now-astonishing \$19 a barrel.

It has set all-time record highs 28 times this year alone, hitting \$139.12 before retreating in the past few days.

In comparison, Internet stocks traded on the Nasdaq exchange had pumped up by 640 percent, according to research by Bloomberg.

After peaking in March 2000, those stocks fell by 78 percent.

expectations,” Bernanke recently remarked.

While we agree that a recession has likely been averted, the Fed will eventually have to raise rates avoid a run on the dollar.

Raising interest rates would boost the value of the dollar because it would make U.S. Treasuries more attractive to global investors. That, in turn, would help ease inflationary pressures on commodities that are traded in dollars, such as oil.

Oil prices have already started to pull back from sky-high levels, but real Fed action will likely mean a bigger drop in oil prices.

Some OPEC Countries Worried

OPEC countries are very much aware of the threat in a collapse in price. In the 1980s, when oil prices collapsed, Saudi Arabia's decision not to pump more oil caused massive damage to the Saudi economy and other OPEC nations.

So it's no surprise that some smaller OPEC members are attempting to squeeze every last penny out of the probable peak in prices. But their actions could have unintended consequences, namely driving down the price of oil.

Long-term, there is the possibility that oil from Iraq could also ease energy prices. But stability must first be established there for that to happen. The Iraqi government this month replaced some of the top officials in state-owned oil companies in southern Iraq, tightening its grip on the industry.

Though the news has for the most part escaped public notice, it is affecting industries in the southern oil hub of Basra, where 30,000 government troops were deployed in March to rein in Shi'ite militia forces.

Baghdad has removed the heads of the South Oil Company, which is in charge of exports, the South Gas Company and the Iraqi Oil Tankers Company.

Iraq wants to boost oil exports this year to a post-war high. Its industry exports most of its crude through Basra, Iraq's gateway to the Gulf, at an average of 1.5 million barrels per day.

The oil industry provides more than 90 percent of government revenues and is seen as crucial to rebuilding the Iraqi economy.

Gamble tells FIR that the concern is corruption. “These companies are often run by politicians who

steal and who can't develop the reserves they have,” says Gamble. “As a result, the amount of oil these companies produce is often declining, resulting in less oil for the world economy.”

Reform of the political system isn't just needed in Iraq, however, Gamble says. “Russia, Venezuela, and Mexico's output have all been declining, despite the availability of accessible reserves.”

Actions to Take Now

Given that oil prices are still high, what are the contrarian portfolio moves that a savvy investor can undertake now?

“If rising energy stock prices have caused your portfolio to become overloaded in energy and or commodities, the last thing you should do now is buy more,” Jerry Miccolis, a senior adviser with the fee-only Brinton Eaton Wealth Advisors, tells FIR.

“Go against the grain and rebalance. Sell just enough energy stocks and energy-heavy commodity funds to get back your target allocation. Reinvest the proceeds in underweighted sectors, like financials,” Miccolis says.

We like that view. Remember, if you own oil stocks and oil prices fall to \$50 a barrel, oil companies will still be rolling in cash.

FIR recommended taking a position in the **ProShares UltraShort Oil and Gas ETF (DUG)** in the April issue as a way to profit from a sharp drop in oil prices. Continue to hold and buy this position, it is sure to show big returns as oil prices fall.

We believe investors should ease into this investment. No one knows for sure when oil will peak. If you place all your chips on the table now, you may be taking too great a risk.

Make a small investment, for example, in the Proshares ETF, and then maybe another at the end of the summer, followed by a third just before election day in the U.S.

We do see a positive outcome for all of this. A fall in oil prices will temper the recession and free up consumer spending. We have been surprised by the resilience of U.S. consumer spending in the wake of the worst housing crisis in modern history.

But, so far, the housing crisis has largely been contained to a few sectors, including residential home building and the finance sectors.

Join the Private Opportunities Club

Find 15% Returns or More

Dear Financial Intelligence Report Reader,

It's not every day that you are invited to join a private club for free.

But to qualified investors and readers of Financial Intelligence Report, we are doing just that.

If you are an accredited investor, you are one of America's wealthy elite. While you may not feel that way, statistics show that those with a net worth of \$1 million or more (excluding their homes) represent just 1 percent of the U.S. population.

And with \$2 million net worth, you are a member of an even more rarefied club.

However, everything is relative.

Here in Palm Beach, where I am penning this letter, those with a \$2 million net worth are not even a footnote in the social register. In this enclave, a \$10 million net worth allows you to have an enjoyable lifestyle. The true "jet set" — those who use private or chartered jets as one way of defining that cliché — will have a net worth of \$150 million or cash flow and income of close to \$10 million annually.

Most "mini-millionaires" probably eschew private jets, and for practical purposes, own used cars for getting about town. You might even find them at a local Denny's restaurant. There is nothing wrong with this "Buffett-style" millionaire lifestyle — you will find such frugal living more typical of those who go on to mega wealth from humble beginnings than those who don't.

Lifestyle issues aside, many regular millionaires want to join the mega rich.

What holds them back? One reason: the crowd. Many new millionaires worked hard to achieve success, and did so by leading successful professional lives, investing in stocks and mutual funds, profiting from real estate investments — using vehicles that are open to all.

But the mega rich invest differently from the masses. They use trust companies to preserve their wealth. The brokerage houses share hot IPO stocks with them. They play in hedge funds. They invest in private equity and real estate opportunities. There is a whole universe of such investments available to the mega rich. But where can you find out about these opportunities?

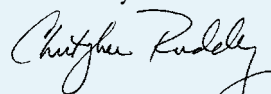
There are limited information resources. For one thing, the wealthy don't like to talk about their investing failures (Who does?), so the learning you might get from shared and collected wisdom is often lacking.

This is one of the reasons we at Moneynews, Newsmax, and Financial Intelligence Report, have decided to publish "Private Opportunities" — a newsletter for accredited investors about the great opportunities — and risks — that await them in the world of private investing.

In fact, in the latest edition of Private Opportunities Club newsletter we detail a private investment where investors are reaping 15 percent to 20 percent annual returns with tax advantages.

So, if you are eligible and want to join this exclusive club to get our latest Private Opportunities Club newsletter, simply contact Aaron DeHoog at 1-888-471-8009 (561-686-1165 ext 1253) or email him at aarond@newsmax.com.

Thank you.



Christopher Ruddy
Publisher

Portfolio Review

Warren Buffett constantly reminds investors to think about the long term and to ignore the day-to-day fluctuations in the stock market. He often tells a story first written by his friend and mentor, Ben Graham.

The tale begins thus: Imagine that you are business partners with a man named Mr. Market. While generally a very nice person, Mr. Market is somewhat unstable and subject to frequent and extreme mood swings. Every day he comes into the office and makes you an offer to buy your share of the business or to sell you his share at a specific price.

Since Mr. Market's moods can swing from wild-eyed optimism to overwhelming depression and anywhere in-between, his daily price quotes are based solely on emotion rather than a fundamental understanding of the business itself.

The moral of this story is that the successful investor should ignore the current mental state of Mr. Market when determining the future prospects of an investment portfolio. Graham and Buffett agree that investors instead should concentrate on the real-life performance of the companies represented by the stocks — and that they should avoid becoming overly concerned with Mr. Market's frequently irrational behavior.

In the past month, Mr. Market has been consistently despondent. The S&P 500 fell by almost 4.5 percent. But times of despair can be followed by bursts of euphoria. The portfolio of Buffett's own Berkshire Hathaway illustrates how quickly Mr. Market can change his mind.

At the end of the first quarter of 2008, for instance, Buffett was forced to reveal losses of more than \$1.2 billion in derivative positions he had entered into over the previous year. By the time of his annual meeting six weeks later, Buffett reported that those positions had regained more than half of their paper losses as the market had rebounded.

Further details on those derivatives soon emerged. It turns out that Buffett had bought positions that would increase in value if the market was higher 10 to 15 years after he entered into the trade.

Looking at data for the S&P 500 index dating back to 1926, we know (as surely Warren Buffett must know) that more than 85 percent of the rolling 10-year periods have been positive, and that 100 percent of the 15-year periods have shown gains.

It is very likely, in fact, that Buffett will close out these derivatives as wins. The Oracle of Omaha keeps his eye on the long term and has become an expert at taking advantage of the moodiness of Mr. Market. By focusing

on the long term, the FIR portfolio will do the same.

Open Positions

Earlier in this issue, we discussed our belief that oil prices are at unsustainably high levels. Our position in **Proshares Ultrashort Oil & Gas (DUG)** showed a small gain last month as the price of crude oil surged to new all-time highs.

Being a short fund, the 3 percent gain in this ETF resulted from declines in the shares of energy-related companies. Mr. Market is consistently telling the investment community that oil and gas companies are overpriced, most likely due to a bubble in the price of the underlying commodities. Investors looking for a way to profit from our expectation of an oil price decline should consider adding to their position in DUG.

Among the month's biggest gainers was **Starbucks (SBUX)**, which we noted last month was a stock which seemed to have all the bad news built into the price. The company announced that they will be adding new drinks to their menu and expanding in Europe.

Pfizer (PFE) looks to be in a similar position, with the stock price reflecting what should be all possible bad news. PFE is trading at a price not seen in more than a decade. The dividend yield has risen to an astounding 7.1 percent and is more than covered by earnings. Analysts following the stock are confident it will experience at least slow earnings growth in the years ahead. Like DUG, this is a stock investors should be adding to at current levels.

Stubbornly high oil prices have led to increased costs throughout the economy. Looking ahead to when the oil bubble bursts, food processors should be among the biggest beneficiaries because they have had to absorb costs too great to fully pass on to consumers.

Rather than immediately reduce prices, food makers are likely instead to take advantage of lower oil and to enjoy increased operating margins and higher profits. **Archer Daniels Midland (ADM)** is uniquely positioned to benefit. The stock is trading at a historically low P/E ratio, meaning that shares of ADM offer capital gains potential from the expected increase in earnings and from an expansion of that ratio.

In addition to food processing, ADM is among the largest players in the ethanol industry and stands to profit from government mandates to increase usage. If those mandates are lifted, ADM can benefit by buying out smaller competitors and gaining market share.

The FIR Portfolio maintained its long term record of outperforming the market last month. On an overall basis,

the average position in the FIR portfolio has returned 35.19 percent, including closed positions. On an absolute basis, current open positions have returned an average of 2.9 percent.

In June, FIR beat the market, returning negative 4.2 percent vs. negative 4.5 percent for the S&P 500 including dividends in both cases.

This demonstrates the value of following our approach,

which looks for stocks with solid long-term prospects. In any given month, some positions will show losses while others will be winners. The goal of FIR is to beat the market over time, not just outperform in a single month.

In addition, most of the winners are eligible for the special tax treatment offered by long-term capital gains. That allows our subscribers to keep more of their gains.

Ticker	Recommendation	Date	Entry Price	Current Price	P/L	Total Return	Latest Recommendation
GABEX	Gabelli Equity Income-Aaa	2-Sep-03	14.8	20.83	40.7%	64.7%	Hold/Stop @ \$19.75
PPH	Pharmaceutical Holdrs Trust	2-Sep-03	75.01	67.84	-9.6%	4.8%	BUY
PCRAX	Pimco Commodity Rr Strat-A	1-Mar-05	15.78	19.78	25.3%	65.9%	Hold/Stop @ \$19.25
PEY	Powershares H/Y Eq Dvd Achie	1-Aug-05	15.5	9.61	-38.0%	-30.1%	HOLD
PFE	Pfizer Inc	1-Aug-05	26.64	17.99	-32.5%	-23.2%	BUY
DNA	Genentech Inc	1-Feb-06	86.14	73.77	-14.4%	-14.4%	BUY
RDY	Doctor Reddy'S Lab-Adr	25-May-06	15.33	16.68	8.8%	9.9%	BUY
PGN	Progress Energy Inc	23-Jan-07	47.54	43.03	-9.5%	-3.4%	HOLD
BDX	Becton Dickinson & Co	23-Feb-07	77.58	82.56	6.4%	8.6%	HOLD
GFI	Gold Fields Ltd-Spons Adr	23-Feb-07	18.47	11.13	-39.7%	-38.8%	HOLD
RCL	Royal Caribbean Cruises Ltd	23-Feb-07	41.19	26.57	-35.5%	-33.9%	BUY
SBUX	Starbucks Corp	23-Feb-07	32.75	18.17	-44.5%	-44.5%	HOLD
WMI	Waste Management Inc	23-Feb-07	34.63	39.06	12.8%	17.7%	HOLD
GSK	Glaxosmithkline Plc-Spon Adr	22-Mar-07	55.48	42.04	-24.2%	-20.0%	BUY
MTA	Magyar Telekom Tele-Spon Adr	22-Mar-07	26.17	24.37	-6.9%	21.5%	BUY
LYG	Lloyds Tsb Group Plc -Sp Adr	22-Mar-07	44.83	27.98	-37.6%	-32.7%	BUY
EWJ	Ishares Msci Japan Index Fd	30-May-07	14.46	12.98	-10.2%	-9.3%	BUY
EWD	Ishares Msci Sweden Index Fd	29-Jun-07	36.07	29.51	-18.2%	-15.2%	BUY
NVS	Novartis Ag-Adr	29-Jun-07	56.07	50.09	-10.7%	-8.0%	BUY
CCJ	Cameco Corp	1-Aug-07	39.71	37.72	-5.0%	-4.4%	HOLD
WTS	Watts Water Technologies-A	1-Aug-07	34.08	26.93	-21.0%	-19.8%	BUY
DBU	Wisdomtree Intl Utl Sector F	1-Oct-07	33.28	32.76	-1.6%	-0.8%	BUY
FXB	Currencyshares British Pound	1-Oct-07	204.43	195.11	-4.6%	-3.8%	HOLD
HTE	Harvest Energy Trust-Units	8-Nov-07	27.85	24.73	-11.2%	-1.6%	HOLD
FRO	Frontline Ltd	8-Nov-07	41.86	61	45.7%	67.5%	Place Stop @ \$58
CPL	Cpfl Energia Sa-Adr	12-Nov-07	58.81	65	10.5%	15.0%	Hold/Stop @ \$63
RNE	Morgan Stanley East Europe	8-Nov-07	42.85	35.03	-18.2%	5.2%	BUY
GLS	Genesis Lease Ltd-Ads	28-Jan-08	18.15	11.09	-38.9%	-35.3%	BUY
DUG	Ultrashort Oil & Gas Proshar	1-Apr-08	37.28	28.15	-24.5%	-24.5%	BUY
FXP	ProShares UltraShort FTSE/Xinhua China 25 ETF	19-May-08	62.78	78.62	25.23%	25.2%	BUY
ADM	Archer Daniels Midland	16-Jun-08	32.43	32.43	-	-	BUY

Data Date (except ADM): June 13, 2008

Bernanke's Fed Cornered by Inflation

By Axel Merk

“The road to hell is paved with good intentions” is a proverb coined centuries ago, but today’s Federal Reserve should take note when it does its own coining.

Fed Chairman Ben Bernanke is in a tough spot; despite his best efforts to convince the markets of the opposite, he may well be the catalyst for substantially higher inflation as well as a substantially weaker dollar. What we are experiencing may be the beginning, not the end, of inflation.

Recently, Bernanke gave two pep talks on the dollar. The market humbly obliged and provided the greenback a boost for about two days. Many observers noted that the Fed rarely ever talks about the dollar and instead leaves this up to the Treasury.

While this very much applied to Bernanke’s predecessors, Bernanke has been seeking the discussion about the dollar ever since becoming chairman. In his academic publications before joining the Fed, Bernanke extensively discussed how a weaker currency during the Great Depression would have alleviated the hardship on the people. The dollar is an integral monetary policy tool for Ben Bernanke, make no mistake about it.

The two recent talks by Bernanke were the culmination of a series of talks by other influential Fed officials. It turns out they were aimed at cushioning the impact of European Central Bank (ECB) President Jean-Claude Trichet, who subsequently announced that the ECB will quite likely raise rates at its next policy meeting to pre-empt the “secondary effects” of inflation; these secondary effects of inflation refer to the spreading of high commodity prices as inflation in other sectors of the economy.

Unlike the Fed, which these days mostly talks tough but acts soft, the ECB has the credibility that it will keep the monetary leash tight. Trichet’s comments crushed the rally and undid the hard work by the Fed to talk up the dollar; it may have been much worse for the dollar had the Fed not tried to woo the markets.

What this episode shows is that the Fed and the ECB at least talk and provide a heads-up on announcements that may rock the markets.

In recent years, monetary policies in Europe and

the U.S. have pursued rather different policies; the ECB very much disagrees with the aggressive rate cuts pursued in the U.S. At some key events during the credit crisis, the Fed and ECB acted without consulting one another.

Aside from merely trying to support the dollar, Bernanke’s comments suggest that he — at least in my humble opinion — is wrong about inflation and the dollar. Bernanke is clearly surprised that the weaker dollar has contributed to a surge in inflationary pressures.

The models of numerous economists at the Fed have shown that a weaker dollar in past economic cycles has not been linked to substantially higher inflation in the U.S. The grave danger with economic modeling is that modern monetary history is simply too short to cover a satisfactory set of different economic environments; over and over again, central bankers are some of the smartest economists of their time yet make new mistakes (or worse, the same mistakes all over again) just when they thought and publicly proclaim that they have learned from history.

Until early 2007, the weaker dollar did not cause much inflation, but import prices are up more than 15 percent year-over-year; even excluding food and energy, inflationary pressures are piling up.

Inflation Has Been Years in the Making

Inflationary pressures have been building for years on goods and services that could not be imported, such as the cost of education, healthcare, and services, like local craftsmen. Because policies fostering global overproduction — easy credit, low taxes in the U.S., as well as Asian policies that include subsidizing exports through weak exchange rates — flooded American consumers, consumer prices remained low for a long time. However, the same global overproduction has caused commodity prices to go through the roof.

Asian economies are far more sensitive to surging commodity prices than is the U.S. economy. Starting

in early 2007, then, Asian producers could no longer absorb surging commodity prices and other inflationary pressures but had to start passing their higher costs on, namely to American consumers.

And what should be to no one's surprise, we have started to build new manufacturing plants in the U.S. to export sneakers to Vietnam, just because our imports are more expensive.

While the world scrambles with the impact of inflation, Bernanke gives his view of what has caused inflationary pressures to build. While we agree with much of his analysis, we beg to differ with his comfort about the outlook.

Bernanke says this time is different (from the 1970s) because the U.S. economy does not experience the same wage pressures. Darn right he is: U.S. consumers are exhausted; 20 percent of homeowners are insolvent, i.e., their homes are worth less than their mortgages. Jobs are difficult to come by as the economy is unlikely to show significant growth in light of Fed policies that, amongst others, allow financial institutions to park their bad reserves with the Fed rather than to clean up their balance sheet right away.

But to conclude that, as a result, we won't have a further buildup of inflationary pressures, is misguided. What it means is that fighting inflation would be orders of magnitude more painful than when Paul Volcker squeezed inflationary pressures by hiking interest rates to 20 percent.

While it was tough in 1981, that's simply not an option without throwing the country into a depression.

This time around, inflationary pressures will likely come from imports as Asian countries allow their currencies to float higher to combat inflation; already these countries are abolishing domestic energy subsidies. Giving in to pressures to allow currencies to float higher will reduce the cost of imported commodities.

We have discussed in the past how we believe that Asian countries producing goods at the higher end of the value chain, such as China, will be best positioned to pass on higher costs. American corporations will likely to react to an ever-tougher environment by outsourcing even more. As most basic production processes have already been outsourced, more sophisticated operations may now follow suit.

It is China that benefits the most, as China is — in our assessment — the only country that has the

skills, infrastructure, and capacity to absorb the next generation of outsourcing projects.

We are already at a stage where many consumers do not have the money for basic necessities, and the Fed has not done anything to tighten monetary policy.

This time is indeed different from the 1970s as the Fed's hands are tied; it cannot combat inflation without causing a severe recession, something we do not think the current composition of the Fed is willing to accept.

Instead, the Fed would love to have higher nominal housing prices to bail out consumers, i.e. it welcomes inflation. Indeed, it may love to see some wage inflation, so that it could at some point down the road try to balance the monetary system through tightening.

For now, we have a Federal Reserve that does not want a recession but a Fed unwilling to accept a recession will get inflation. At the same time, some Asian countries as well as Europe will fight inflation. As a result, we believe we have only seen the beginning of inflation and that the dollar may have a lot further to go on the downside.

Policymakers Have a False Sense of Comfort

As a final note, as political pressure builds to restrict "speculation" in industrial commodities, any measure may only deepen the trouble for the greenback.

Speculative money flowing into soft and hard commodities is money seeking a safe haven from inflation. If policymakers take away choices to diversify, the remaining choices will benefit. Notably, gold may well benefit, as we very much doubt policymakers will restrict the hoarding of gold, given its insignificant industrial use. The dollar may suffer as selling dollars may be one of the few inflation hedges left if investors are restricted from buying commodities.

The Fed certainly means well. But policymakers may be blinded by past academic studies that give them a false sense of comfort. They are also prisoners of their own policies, policies that extend the agony in the financial services industry. As a result, institutions may be reluctant to extend credit, a key ingredient for economic growth.

A patchwork of initiatives, all with the best intentions, may unintentionally pave the way to the proverbial inflation hell.

Why You Should Be Into Brazil

By Hans Parisis

Brazil clearly is one of the best places in the world to invest right now. Taking into account today's environment, however, the big question is if Brazil can weather potential global turmoil.

According to Brazil's Central Bank, the Brazilian economy looks well-armed to face that turmoil. Its growing cushion of nearly \$198 billion in international reserves — combined with a continuous improvement in macroeconomic indicators — has reduced its external vulnerability in such a way that the country now has an investment-grade rating from Standard & Poor's.

Driving that amazing reserves pile is huge foreign demand for the raw materials that Brazil has in abundance, like iron ore, soybeans, and sugar for ethanol.

Of course, if the U.S. were to enter a long, deep recession, then Brazil and the whole world would be impacted. But that impact in Brazil will be far less than most people think.

Brazil's own domestic demand now represents 8 percent of the country's economic growth while external demand is running at negative 1.8 percent, logical in a slowing world economy.

Household consumption at the end of the first quarter hit 8.6 percent, with the highest job creation since 2000 and rising. Consumer confidence stands at a high of 150 on the scale that tops out at 200. Gross domestic product (GDP) growth is forecast by the Central Bank at 4.8 percent this year, in line with the most recent survey of analysts who follow the country.

It's also important to note that exports to the United States represent 15.1 percent (it was at 22.2 percent in 2003), while Europe accounts for 24.2 percent (the

same as in 2003). Asia, including China, sits at 15.1 percent (up from 13.5 percent in 2003).

Latin America has become, together with Europe, Brazil's biggest export destination, at 24.5 percent (up from 17.7 percent in 2003). So, there is still huge room left for exports to Asia to grow!

Of course, if the U.S. were to go into a deep and prolonged recession, all economies in the world would be hurt. But Brazil's huge reserves could mitigate such an impact.

All that said, investors should always look closely at all of the negatives.

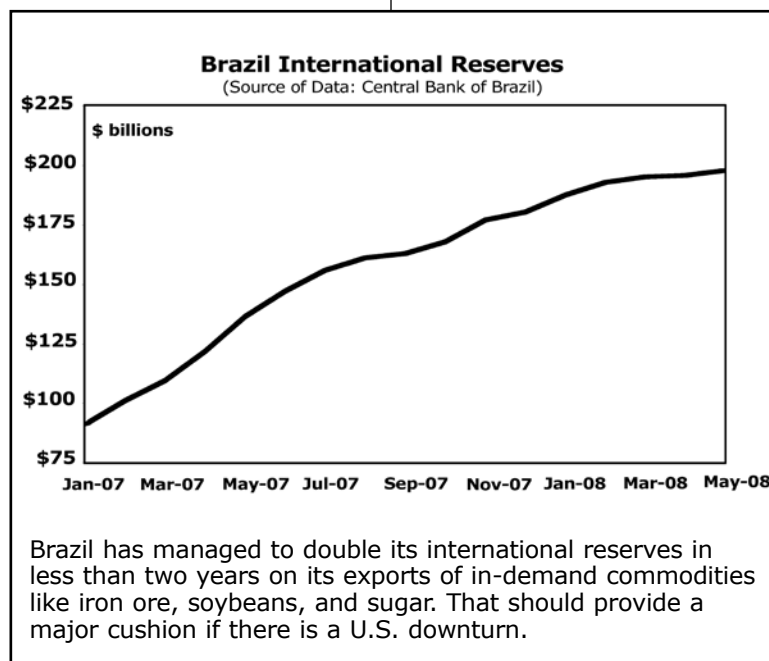
It's a fact that many reforms have been left undone during this ongoing commodity windfall. Another weak point is that Brazil's capital inflows have been, until now, short-term. Big, institutional investors don't invest long term in countries that lack investment-grade status. Getting that rating will help bring money into Brazil.

Soon after achieving graduation from speculative to investment grade, Brazil promptly sold \$500 million of bonds due in 2017.

It's also interesting to note that Brazil still has very high real interest rates, averaging 8.4 percent from 2006 to 2008.

Their target interest rate, the SELIC, has just recently been raised to 12.25 percent in order to fight inflation (one analyst targets 14.25 percent by year end). These kinds of interest rates, however, are not a big problem for Brazilians, who are long-used to high interest rates.

Every investor should, as always, do his or her homework before investing.



Financial Briefs

Buffett Bets S&P Will Slay Hedge Funds

Warren Buffett is literally putting his money where his mouth is.

He's betting hundreds of thousands of his own cash that a simple, passive investment in a major stock index will slay hedge fund returns over a decade.

Buffett, the world's most celebrated investor and billionaire CEO of Berkshire Hathaway, has been a vigorous critic of excessive money manager fees, commissions for active trading, and performance fees tied to some — but not all — managed funds, and a staunch advocate of index funds.

So he is putting up \$320,000 against a fund of five hedge funds managed by Protégé Partners. The hedge fund managers will do the same against Buffett's S&P 500 position.

Buffett's huge success as a winning stock picker looms large in Protégé's respect for the Sage of Omaha.

"Fortunately for us, we're betting against the S&P's performance, not Buffett's," says Ted Seides, a principal of Protégé.

Protégé describes the terms of the bet as follows:

The bet began on January 1, 2008 and will be decided on the basis of net returns — minus fees, costs and expenses — at the end of trading, December 31, 2017.

The wagered money was invested in a bond with an expected yield at maturity of \$1 million. The proceeds will be given to a charity designated by the winner.

Before the winning bet can be determined, management fees must be deducted, costs which Buffett says nibble away at returns.

Protégé says its total fees — normally a 1 percent annual management fee, and a fund of funds fee of 1.5 percent — are justified because their portfolio managers can return profits and beat the market even after those assessments are deducted.

By comparison, the fee for a typical index fund, like the Vanguard S&P 500 index fund, is a measly 15 basis points (0.15 percent), barely enough to dent an investor's wallet.

Historically, two-thirds of managed funds are

outperformed by stock indexes. Yet from January 1, 2000 to the end of March, 2008, the S&P 500 returned 3.3 percent, an annualized 0.4 percent return.

Excluding dividends, the index's real return has been a 10 percent decline during this period.

Advocates of the index approach argue that the last eight years of only modest returns have not been typical because of terror attacks on U.S. interests here and abroad, the cost of the Iraq war, and other economic jolts, including the price of oil and the housing and financials meltdown.

Buffett calculates his chances of winning at a less-than-bullish 60 percent.

By contrast, Protégé says its chances of winning stand at 85 percent.

If the S&P 500 and Buffett win, the money will be donated to Girls Incorporated of Omaha. If Protégé Partners wins, the money will be donated to Friends of Absolute Return for Kids, Inc.

The Reagan Era for Wall Street Is Over

The credit crisis that has gripped Wall Street over the past year is likely to end the Reagan-era trend toward deregulation, no matter who wins the White House next, famed short-seller Jim Chanos told investors.

Chanos, founder of the \$5 billion-plus hedge fund Kynikos Associates and a hedge fund lobbying group, said the mortgage crisis and government bank bailout have led to a consumer and citizen backlash that lawmakers on Capitol Hill cannot ignore.

"There is a strong sense on the Hill that the securities laws and regulations that came in after the Great Crash (of 1929) are seriously outmoded," Chanos said as keynote speaker at the Securities Industry and Financial Markets Association in New York.

The enactment of higher taxes to fund deficits and increased regulation of lenders "is pretty much baked into the cards if you talk to people on the Hill, no matter who moves into the White House," Chanos said.

Chanos, famed for shorting Enron Corp prior to its spectacular collapse in 2001, declined to name individual stocks that his fund is currently shorting.

But he said more working- and middle-class Americans than ever are upset over perceived abuses and inaccessibility of insurance and healthcare, which is lessening those industries' power in Congress. He said investors can draw their own conclusions about a stock-picking strategy for that.

"The insurance, HMO and drug lobbies will not prevail as they have," said Chanos, who also predicted that as more Americans face insolvency, a stringent new bankruptcy law passed in 2005 that benefited the credit-card and student-lending industries will face an "overhaul."

Chanos, who established his Coalition of Private Investment Companies to give his industry another voice in Congress, also said hedge funds should expect more regulation over the next year. He said the industry should cooperate with this or be left out of the debate.

"To attempt to fight that is fraught with danger," said Chanos, whose group has more than 30 members collectively managing more than \$100 billion.

Chanos, whose utterances are closely followed on Wall Street, also bashed the financial media for lowering reporting standards by citing rumors, self-serving blogs and other outlets as legitimate news.

"Some of our financial journalists are making the news," Chanos said. "A lot of this is just being manufactured to sell stories and get ratings."

He called on regulators to "throw the book" at those who spread self-serving reports through electronic and other means. "There are IM (instant messaging), e-mail records and taped phone calls," Chanos said. "This is not hard."

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Wall Street's Global Land Scramble Begins

Say "food stock" and you might immediately think of a brand, like Heinz, or a big grocery chain.

On Wall Street these days, food stock is starting to mean land itself. Private equity and hedge funds are scrambling to buy farmland ahead of rapidly escalating global food demand.

Also popular now are companies that make fertilizer, grain elevators, and food-shipping equipment.

"The equity markets have not fully come to grips

with the enormity of this increased demand, but investment funds are beginning to comprehend it, and the money flow toward farms has begun," economist Glen Langan told BloggingStocks.

Calyx Agro — a division of Louis Dreyfus Commodities — is buying tens of thousands of acres of cropland in Brazil with the backing of large institutional investors, like AIG Investments.

Private equity fund BlackRock is buying farmland acreage in parts of the world as diverse as Africa and England. Emergent Asset Management is raising up to \$750 million to buy small plots of farmland it plans to aggregate in sub-Saharan Africa.

The Ospraie Special Opportunities Fund is buying 66 grain elevators with a total capacity of 110 million bushels from ConAgra for \$2.1 billion. The deal, expected to close by the end of June, also will give Ospraie a stake in 57 fertilizer distribution centers and the barges and ships necessary to keep them supplied with low-cost imports.

Unlike the grains grown on it, new supplies of land cannot be created. Owning crop-producing land frees investors from regulations that curb the number of speculative bets they can make in commodity markets.

"China and India combined could add about 3 to 5 million members to the world's middle class each year over the next decade," Langan points out.

"Those are consumers with money to spend, and they'll consume more food. And that total does not include expanding middle classes in South America, Eastern Europe, and the Middle East."

Grain elevators on agricultural land provide another way to increase investment returns by allowing land-owning investors to store harvests and manage grain sales themselves.

"There is a considerable interest in what we call 'owning structure' wherever the profit picture is improving," Cole Partners Asset Management president Brad Cole told The New York Times.

Not everyone feels entirely positive about these new agricultural investments, however.

"It's important to ask whether these financial investors want to actually operate the means of production, or simply want to have a direct link into the physical supply of commodities and thereby reduce the risk of their speculation," says fund adviser Mark Lapolla.

Lapolla notes that when crop prices are climbing, for instance, holding back inventory for future sale can yield higher profits than selling to meet current demand. When prices differ widely in different parts of the world, too, inventory can be shipped to the more profitable market.

The risk, of course, is inflated prices and increasingly hungry poor.

Fund executives say such fears are unfounded, claiming their farmland investments will encourage increased production of the grains the world so desperately needs.

“What this new investment will buy is more technology,” says Axel Hinsch, CEO of Calyx Agro.

“We will be helping to accelerate the development of infrastructure, and the consumer will benefit because there will be more supply.”

Schwarzman: Time Is Ripe for Private Equity

Stephen Schwarzman, CEO of private equity firm Blackstone, says that now is a good time for deals in his industry, despite the continued turmoil in credit markets and weakness in the U.S. economy.

“We’ve always found the best returns in private equity come from transactions done in the first year or two of the credit crisis,” he told the Financial Times in a recent interview.

Ironically, returns for deals made now could far surpass those for deals made during what appeared to be the salad days of 2006 and 2007.

“The heyday of 2007 was pretty remarkable in terms of the kind of credit one got,” Schwarzman says.

“It’s unclear whether the deals done during that period will offer the best returns for private equity investors.”

For that very reason, his own firm did only one deal last year, purchasing Hilton Hotels. “We significantly cut back in 2007,” Schwarzman says.

Of course Blackstone did do a major deal of another sort last year, consummating an initial public offering for its own shares. Since opening trading last June at \$36.45, Blackstone shares have slumped almost 50 percent.

“I think we ended up — to some degree through happenstance — selling our securities at what proved to

be a market peak,” Schwarzman says.

That worked out just fine for Schwarzman: He took \$449 million out of the firm at the IPO. But his remaining 23 percent stake in the company has plummeted, along with the shares of other investors.

“We believed that the debt cycle was somewhat extended, but no one likes to sell securities a week or two before a market peak, because it’s not a good result for the buyers of those securities,” he says.

“So actually I wish that the cycle would have extended for another year or longer, so that people who bought the stock at the IPO would have had much better after-market performance. I’ve always been trained that everyone should win in those types of transactions.”

On another subject, Schwarzman says Western criticism of sovereign wealth funds is self-defeating.

A Chinese fund bought a stake in Blackstone last year. Schwarzman says he isn’t worried that foreign funds will try to use their economic clout to advance political interests against the United States.

“I’m not worried at all, and I think the negative attitude toward the sovereign wealth funds is quite unjustified,” Schwarzman says.

“Sovereign wealth funds function very much like U.S. pension funds. They have highly diversified positions and professional management. No one has found a case where they’ve made uneconomic investments for political reasons.”

Indeed, their investments have proved a lifeline to troubled financial giants like Citigroup and Merrill Lynch, Schwarzman argues. All the criticism of sovereign funds has simply kept them from investing more in capital-starved financial firms.

“That has occurred,” Schwarzman says. “Since the attack on sovereign wealth funds occurred [early this year], to my knowledge there have been no investments made by the sovereign wealth funds in financial institutions in the U.S.”

Spending Will Kill U.S. Economy

Investors who thought the subprime mortgage crisis was devastating may soon be assailed by an even more potent predator — all that money the U.S. owes its own citizens in unfunded medical and retirement benefits.

“The bottom line is we have \$40 trillion in debt right

now, and it grows by \$2 trillion a year because of the power of compounding,” says David M. Walker, CEO and president of the Peterson Foundation, a non-profit, launched recently by the founder of the Blackstone Group.

A former U.S. comptroller general and head of the Government Accountability Office (GAO) calls the entitlement mess and its trillions of unbudgeted costs a “super subprime crisis.”

In an interview, Walker pointed out that the current deficit is simply not comparable to the future costs piling up. “Right now, we’re in the hole. But, we’re talking about unfunded promises for military benefits and pensions. And the really big numbers are from Social Security and Medicare,” he says.

Walker retired earlier this year from the position of comptroller general, which he had held for nine years and was previously a trustee for the U.S. Social Security system and for Medicare. He called on Congress to be more forthcoming with the public about the burgeoning debt problem, which he says could damage the investment climate in the U.S. if not addressed soon.

“We have to be more truthful and transparent with the American people,” Walker told Forbes.

“Washington hasn’t learned the first rule — when you are in the hole, stop digging.”

Walker adds that Social Security spending and tax collection needed to be reformed first. Then healthcare spending — the federal Medicare program — could be tackled next.

“We have to separate the wheat from the chaff in terms of what federal programs are working,” said Walker.

Spending constraints on the federal budget were removed in 2002, and federal government spending has been getting out of control since then, he says.

Other federal budget experts agreed with Walker’s dire assessment.

Veronique de Rugy, a budget scholar at the Mercatus Center at George Mason University, tells Moneynews that part of the problem is that the government is funding many routine, day-to-day programs with “emergency spending” bills — the budgetary equivalent of paying the power bill with a credit card.

These supplemental spending bills were originally created to enable Congress to cover unanticipated

emergencies, like disaster relief for Hurricane Katrina. But these emergency spending measures have been used in recent years to fund the War on Terror, as well as the military campaigns in Iraq and Afghanistan.

“This supplemental epitomizes what has gone terribly wrong with the way this war has been funded,” de Rugy tells Moneynews. “Not only are we still funding a war that started more than five years ago as an emergency, we are adding billions in unrelated domestic spending to the largest supplemental bill ever. And no one cares.”

Comparing the unfunded trillions in federal spending to the mortgage market mess is not a stretch.

Timothy A. Canova, associate dean at the Chapman University School of Law, tells Moneynews that the unfunded liabilities may be even greater than expected. “The solution to Social Security and other entitlements is to bring more citizens into the program as paying contributors,” says Canova.

“When the officially unemployed are added to others who are not presently paying into the system — part-time workers, discouraged workers, those who have dropped out of the labor force — probably 15 to 20 percent of the population is not paying into the system.”

Go Short on Buffett — One Man Makes His Case

Hedge fund manager and famed short seller Doug Kass says he’s betting against Warren Buffett.

By shorting Buffett’s holding company, Berkshire Hathaway, Kass will profit if the price of one of America’s most revered stocks — managed by America’s most revered investor — falls.

Kass acknowledges that Buffett has achieved an amazing record over a 50-year career, but he writes on TheStreet.com that Buffett has begun to morph from the “Shakespeare of investing” into the “Mozart of marketing.”

Kass manages Seabreeze Partners, a short-only hedge fund which has delivered some impressive returns. Since it began trading in January 2005, the fund is up 40.7 percent through the end of April 2008. This compares with a gain of 15 percent in the S&P 500 over that same time frame.

In calling Berkshire overvalued, Kass echoes a December 2007 Barron’s cover story.

In it, Barron's argued then that fundamental ratios suggested Berkshire's price was too high, and that the stock should see a 10 percent decline, to \$132,000.

Within weeks of that story, Berkshire fell (in line with the overall market) and reached Barron's target. Over the next few months, it traded even below what Barron's considered at publication to be fair value, by more than 15 percent at its lowest.

By the time Kass wrote his more recent opinion, the fundamental valuations of Berkshire had returned to their historical averages. In fact, the price was where Barron's predicted it should be, trading recently around \$132,990.

Now Kass sees even lower prices for Berkshire ahead.

Ignoring fundamentals, Kass looks inside Berkshire's portfolio and is troubled by what he finds.

Buffett's largest investments have underperformed recently, and Kass thinks they will continue to suffer, leading investors like Kass to seek profits from what he considers to be Buffett's mistakes.

Coca-Cola, Wells Fargo, Kraft, and American Express make up almost half of Berkshire's total stock portfolio. Over the last decade, these four stocks have underperformed Berkshire itself.

Holding these four stocks "forever," as Buffett is wont to do, has caused Buffet to miss out on other, more profitable opportunities, Kass maintains.

More worrying, Kass suggests, the holdings do not necessarily have big competitive advantages, what Buffett calls the "moat" around the "castle" of a big stock.

"To paraphrase the Master, 'Where are the future moats at Coca-Cola, Wells Fargo, Kraft and American Express?'" Kass wonders.

The math seems to support Kass' argument. Berkshire is down about 5.5 percent so far this year. Only Kraft has preformed better, yet it has lost 2.3 percent.

Coca-Cola is down about 7 percent, Wells Fargo nearly 12 percent, and American Express more than 12 percent.

Another factor that will adversely impact Berkshire going forward is one Buffett himself mentions every year in his letter to shareholders. The company's asset and earnings bases are simply too large for the business to continue performing as it has in the past.

In short, future gains are likely to be lower.

Follow Kass if you dare.

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