Monthly Chartbook

November 2007

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Executive Summary

In past months chartbooks we have mentioned that getting the expansion in the USA balanced was going to be tricky. In plain English, this means we cannot continue to have negative savings rates forever. At some point households need to spend, ***save and invest.*** The stock market and/or the housing market (rising asset prices) cannot be counted on to do our saving for us.

Now it is clear ***to us*** that the US Federal Reserve's job is to manage asset prices, not inflation or unemployment.

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The Macro View

•The US economy is leveraged and stressed with pockets of weakness and strength. It could be that our service-based US economy now has sector- or industry-specific recessions without national recessions. This is not our forecast or opinion, just a suggestion that warrants further study.

•The Global economy is benefiting from commodity prices (emerging markets) and increased final demand from the so-called BRIC's. (Brazil, Russia, India, China)

•It seems as though everyone is betting **against** the US dollar and **on** the ability for the World to de-couple from US growth.

•A retail recession in the US seems inevitable.

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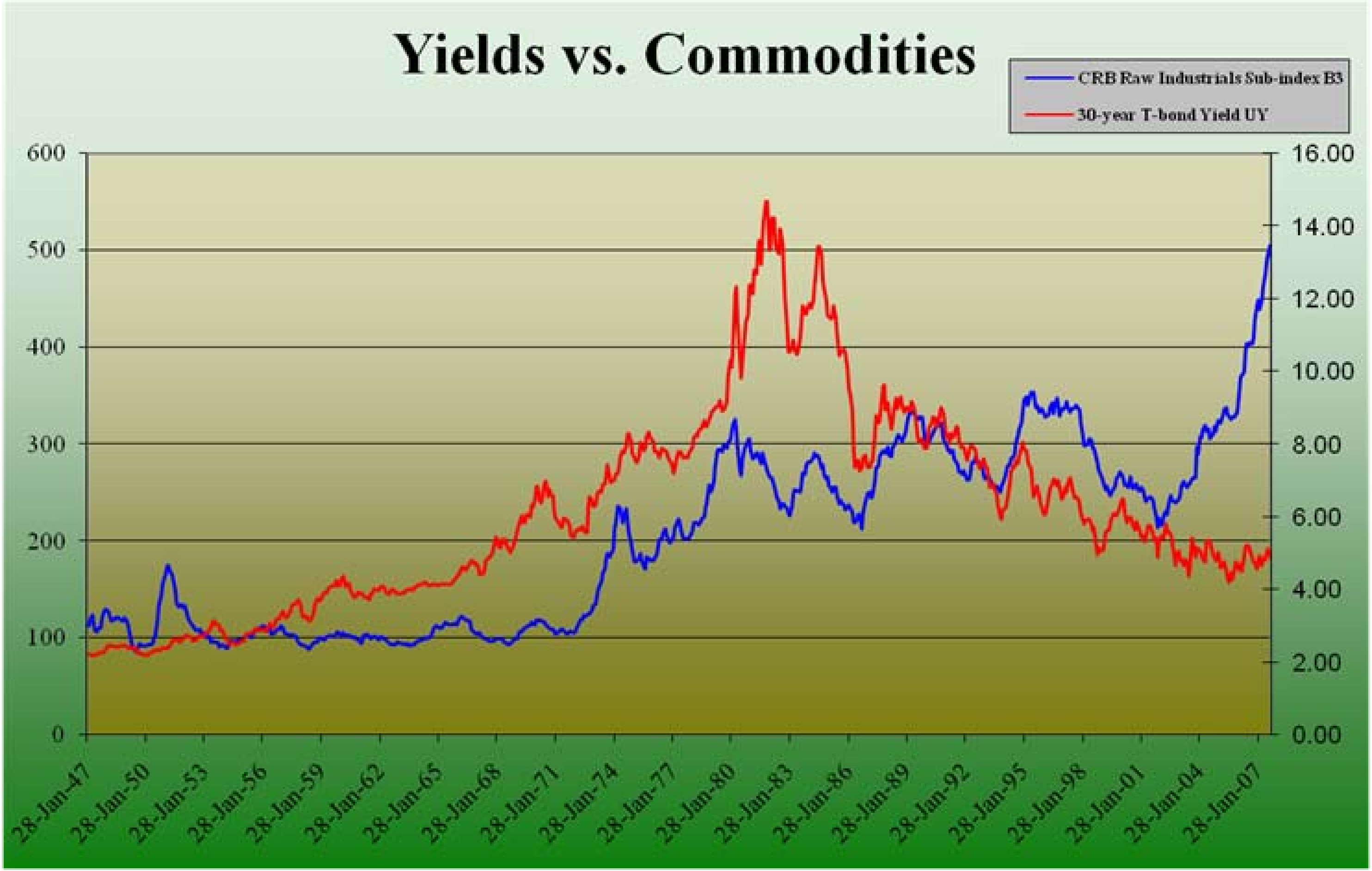
Yields vs. CRB Raw Industrials



This is the REAL conundrum. Bond yield and commodity prices normally trade together, with yields rising as commodity prices rise. Has the above situation ever happened before in the history of the world????

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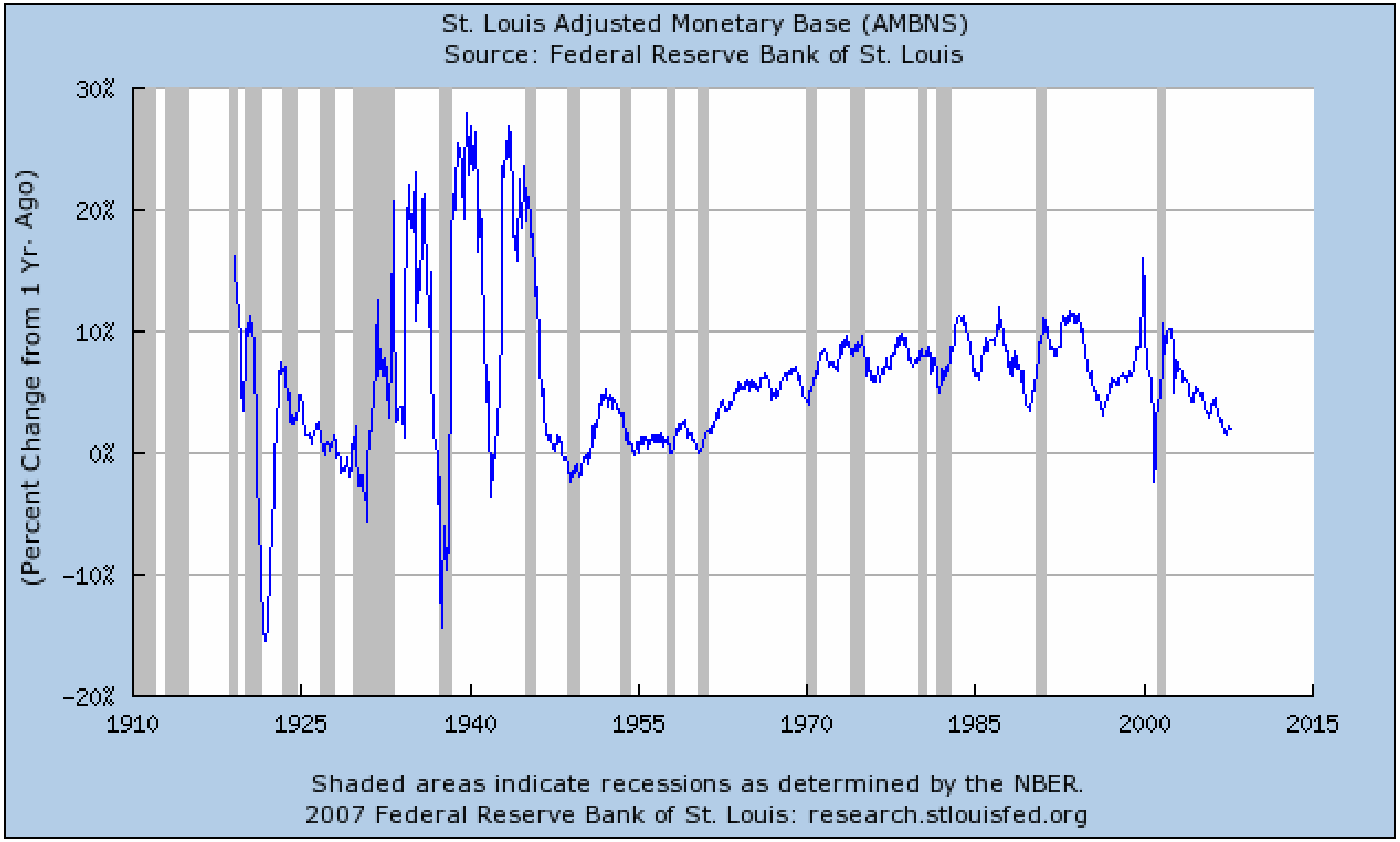
St. Louis Adjusted Monetary Base NSA Yr/Yr



High powered money isn't even keeping up with all urban CPI? And we are blaming the Fed for money printing? How? They aren't using open market operations in the classic sense.

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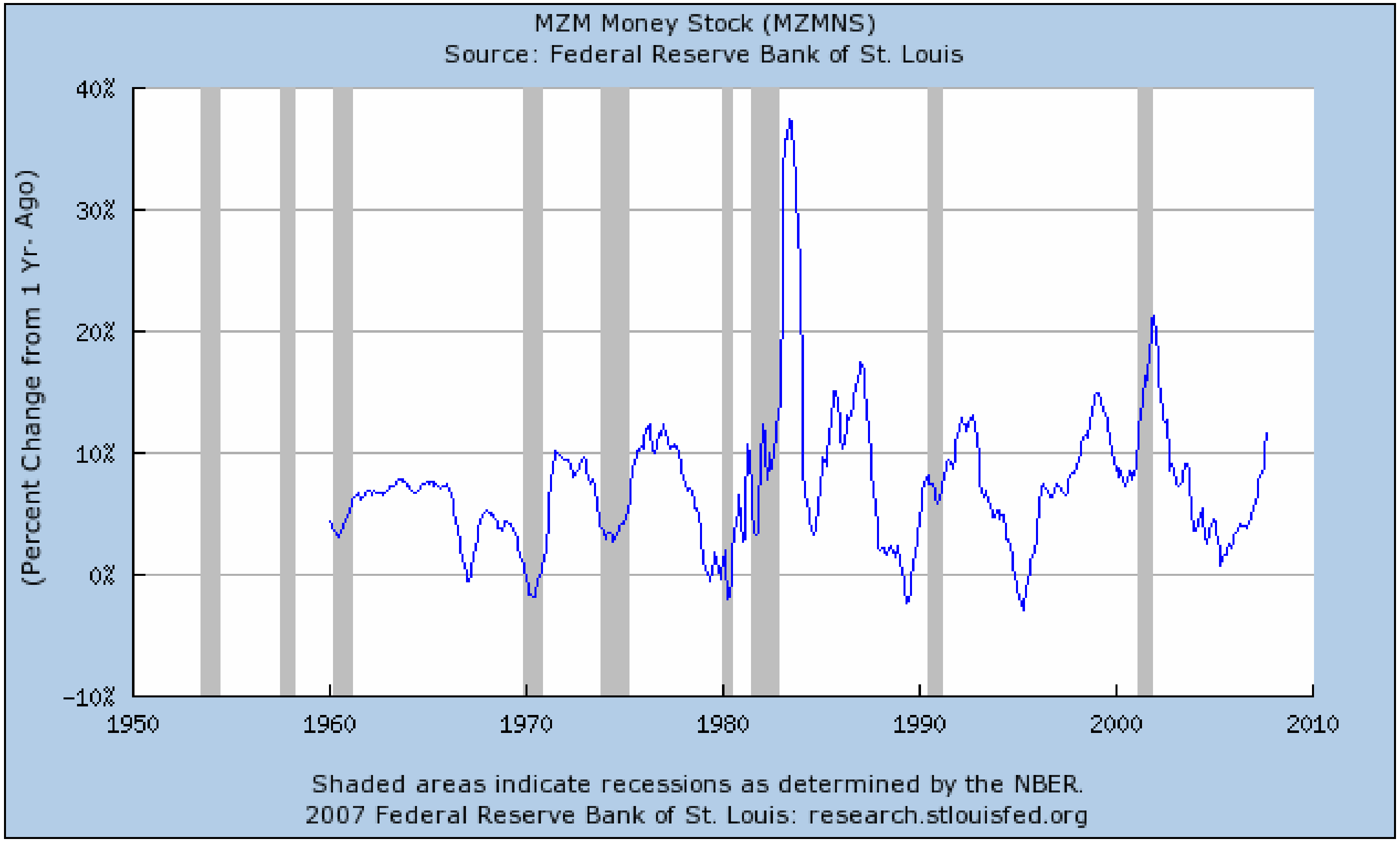
MZM NSA Yr/Yr



But MZM is really moving higher. Why the disconnect to the Monetary Base? Savings in the USA,….ha ha! No such luck.

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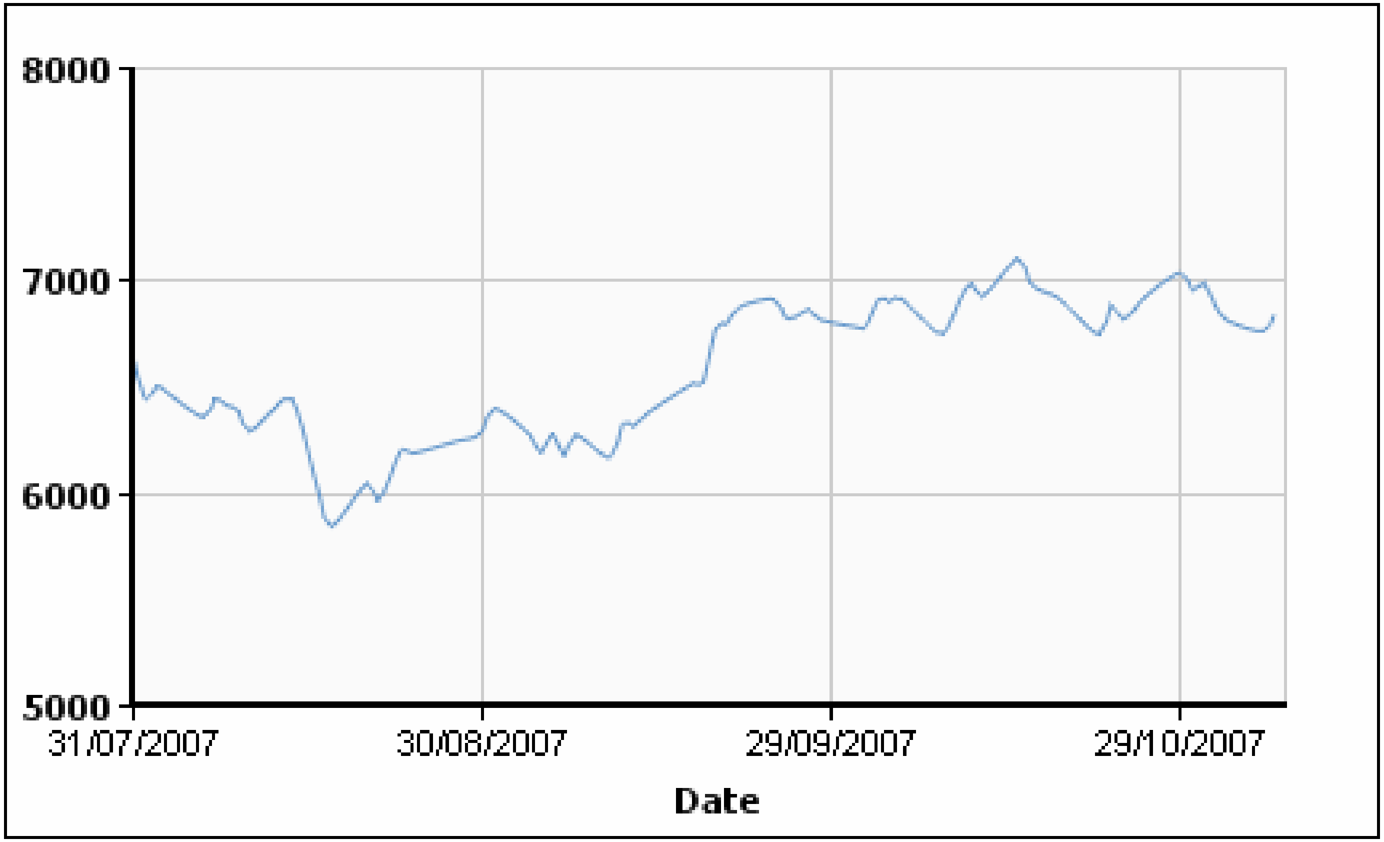
LME Copper, 27 Month forward buyer



Is this contract the best leading indicator if you like to watch Dr. Copper's economic forecasts? It is hanging in there like a champ…

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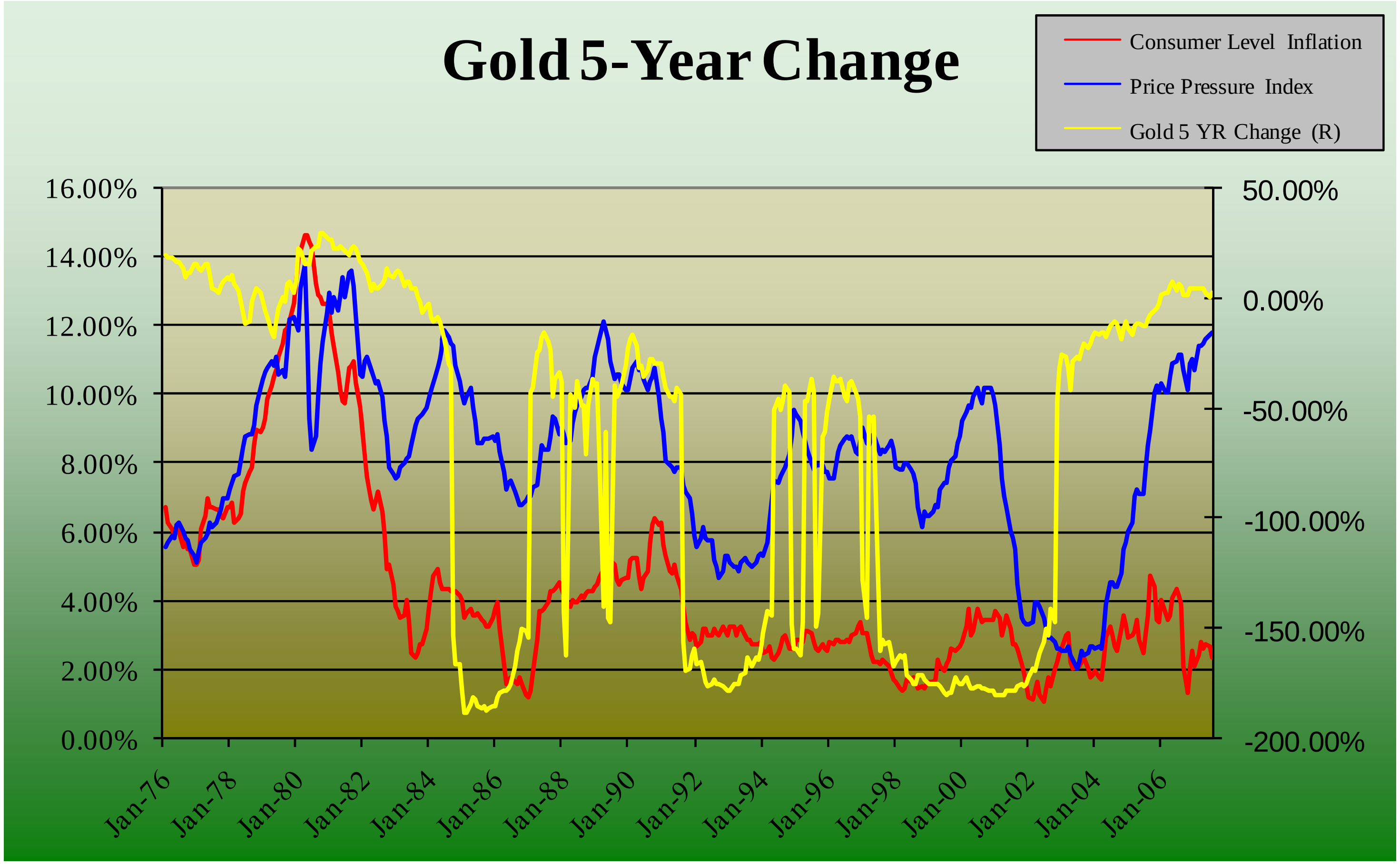

Gold's 5 year annualized numbers sure look funny to us…the kook goldbug's manipulation crys may be valid indeed….

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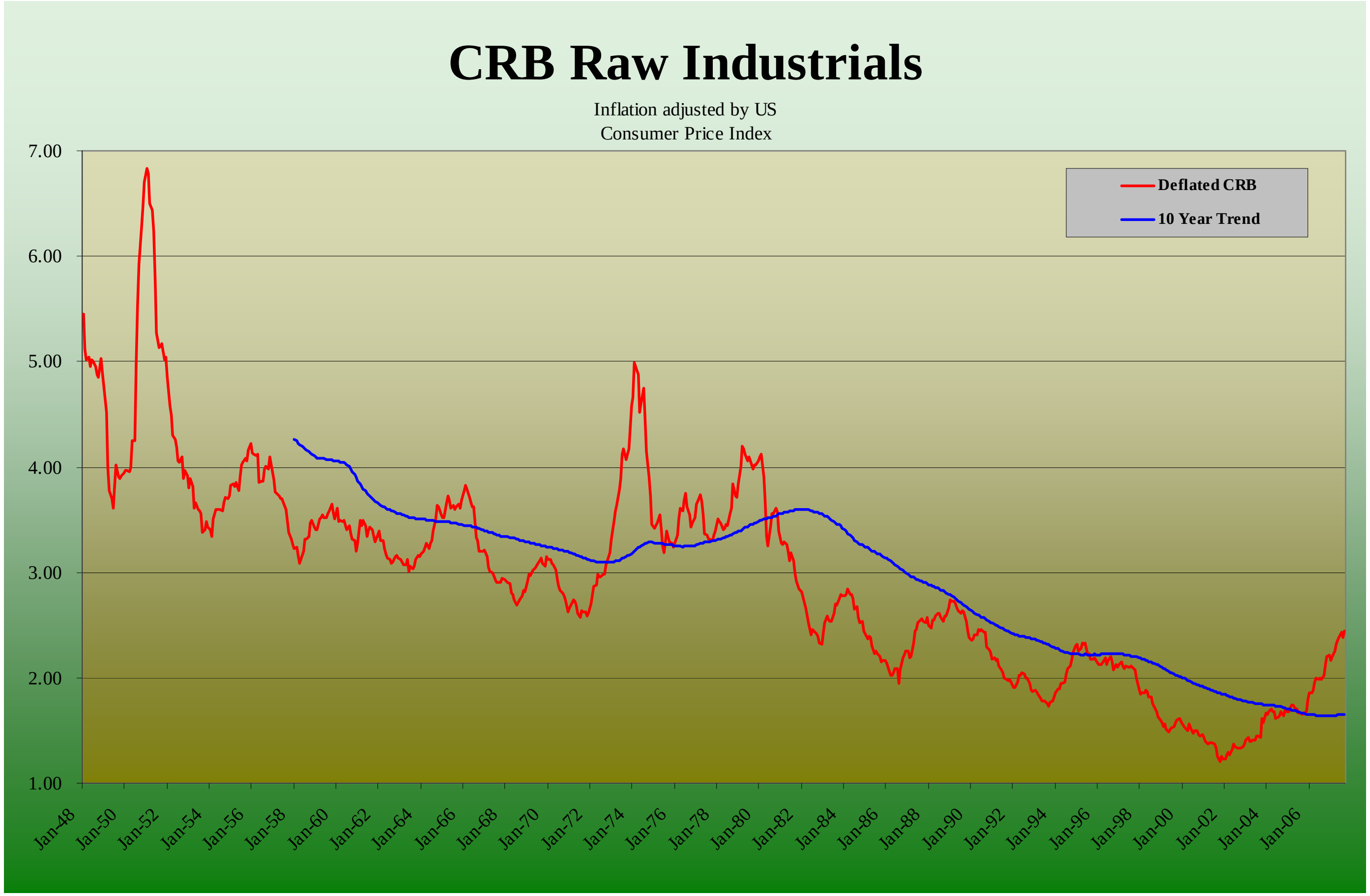
All Urban CPI deflated CRB Raw Industrials



If this is a 10-25 year Super Cycle, where are we on price??? Year 5, year 10?

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Prices, Prices, Prices!

Consider that from 1/1/1974 to 9/30/2006:

	1/1/1974	**9/30/2006**	**% change**
CPI	46.9	207.4	77.39%
Gold	129.51	598.06	78.34%
US$	105.84	81.75	-29.47%
S&P 500 EPS	7.68	74.91	89.75%
Monetary Base	85.27	834.268	89.78%
M2 NSA	861.5	6882.4	87.48%
Nominal GDP	1447	13197.3	89.04%

While the value of the dollar has fallen 78% versus Gold and the government's basket of goods (CPI), it has only fallen 30% versus other fiat money. In a controlled monetization, you want to own assets with pricing and earnings power. Has the Fed really done a good job since we abandoned the gold standard in 1971?

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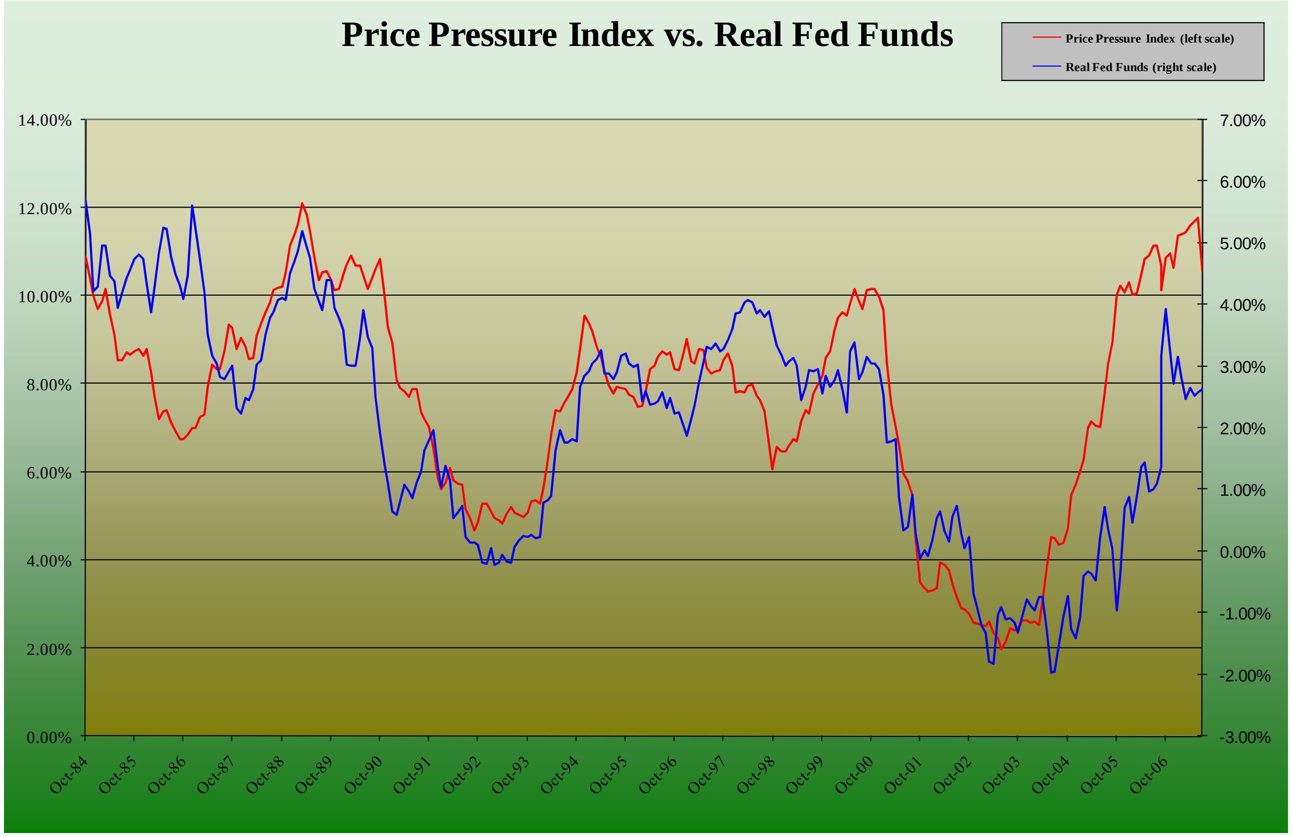
Price Pressure Index Vs. Real Fed Funds



Prices are higher than the Fed has rates set for, even before the Subprime Crisis.

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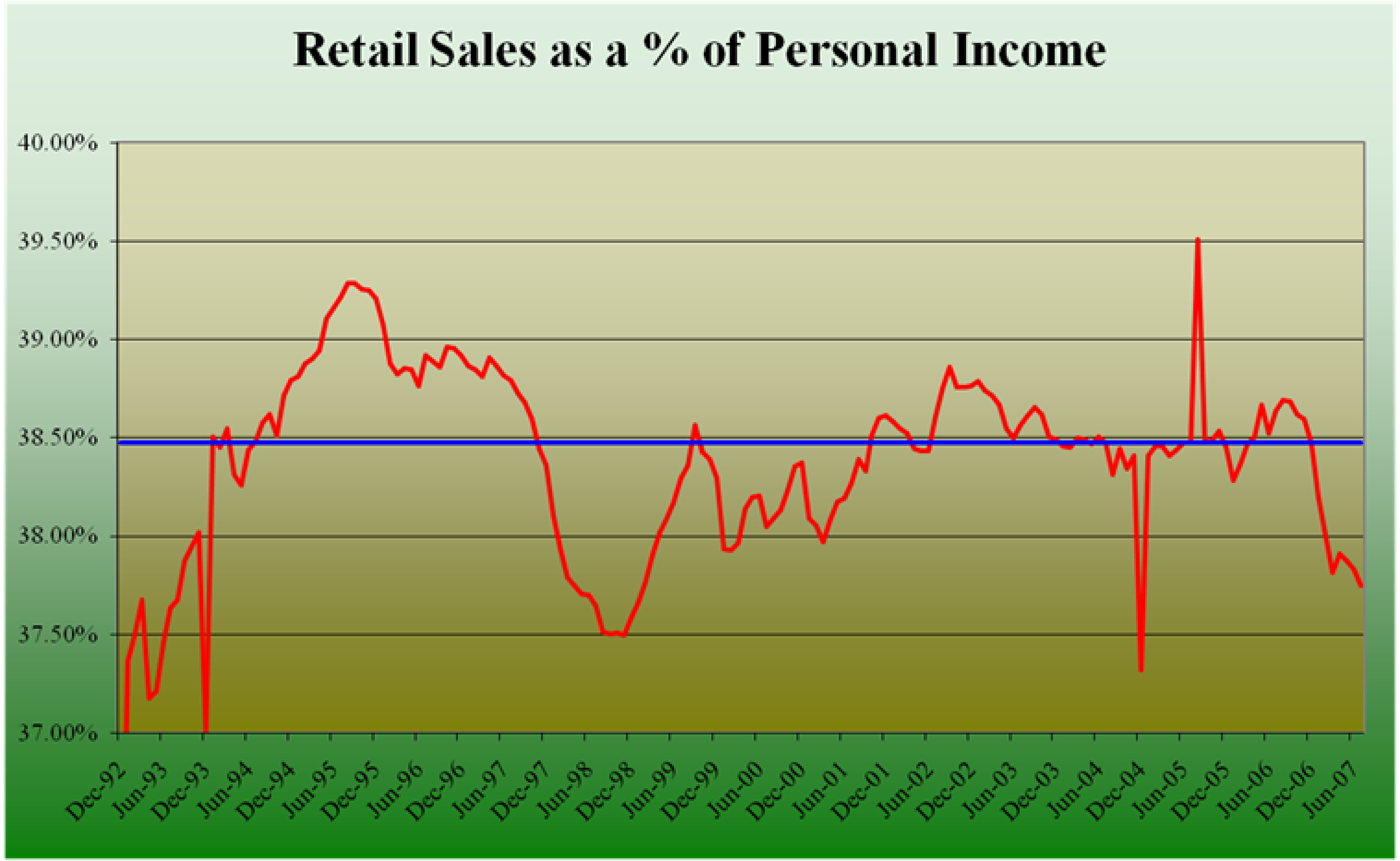
Retail Sales as a % of Personal Income



Retailers are already in recession.

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Inflation expectations

It is hard to imagine that pressure on prices is weak with the falling dollar, rising oil and gold prices. ***Stores of value are soaring.***

We have detailed the anecdotal evidence regarding price pressures in past months' chartbooks.

The official numbers on inflation in the USA are wrong. What more can we say?

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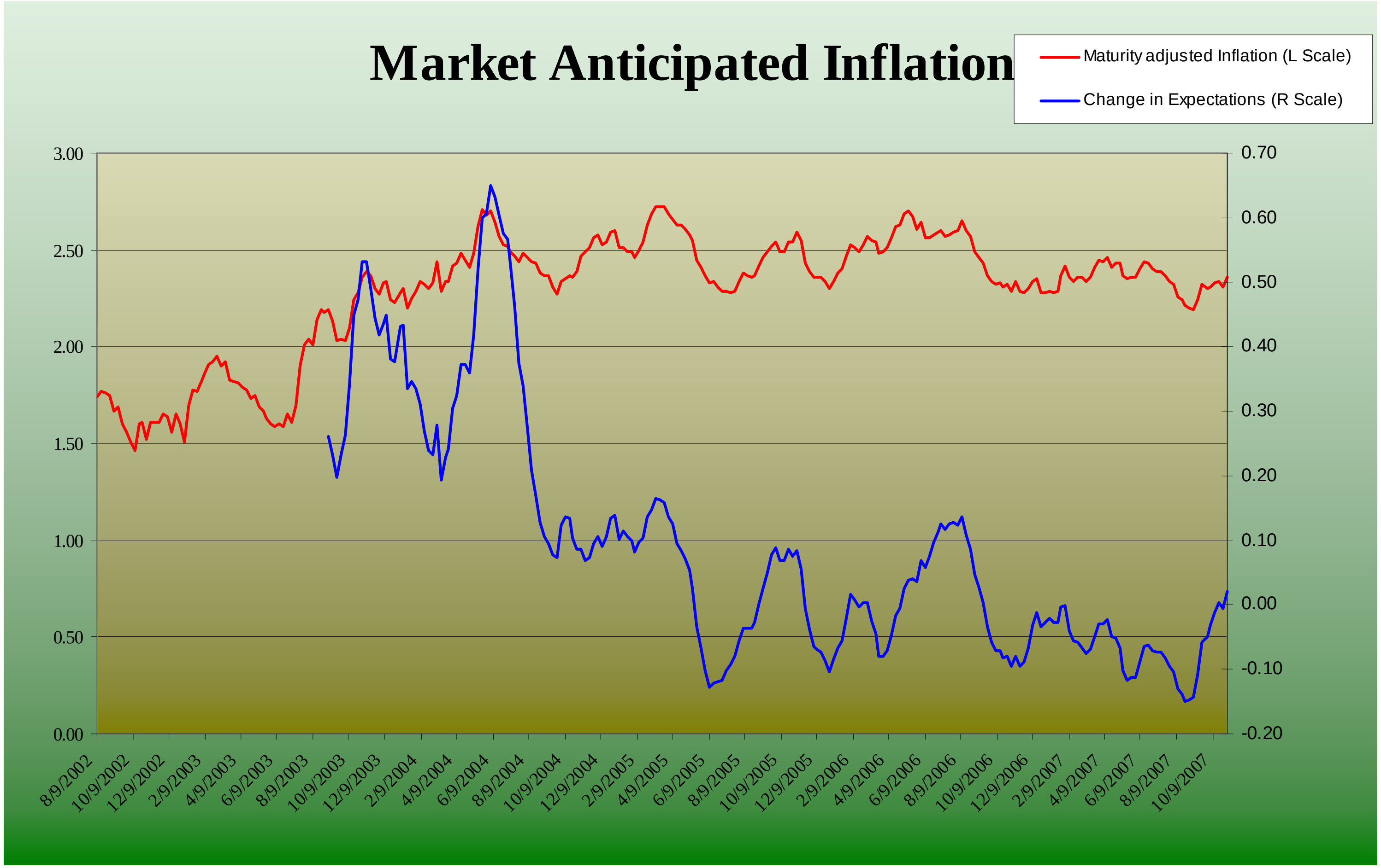
Inflation expectations



Watch expectations closely, Gold Y/Y may lead this by about 8 months or so. No good explanation for the lag.

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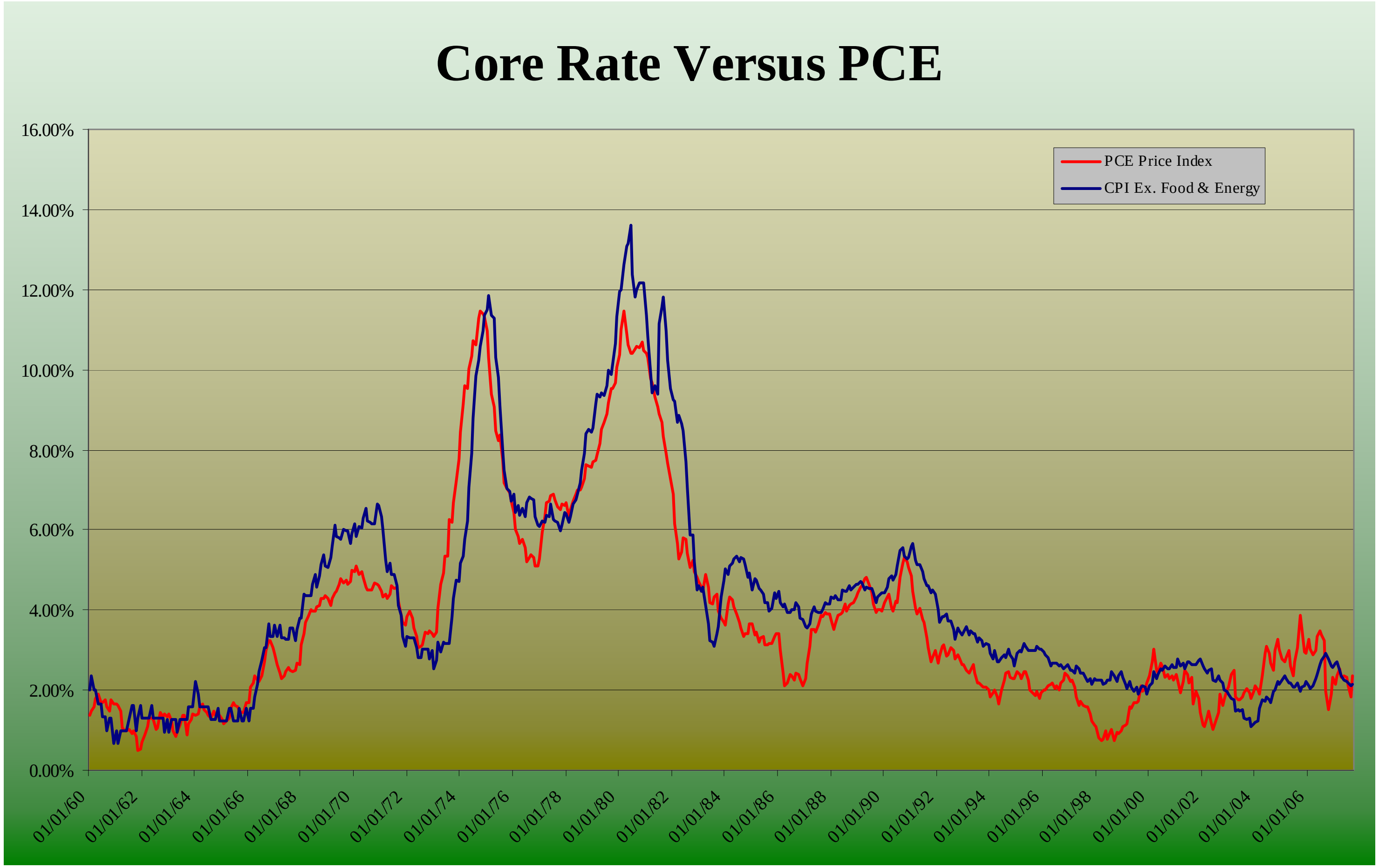
Inflation expectations



I often feel like Alice in wonderland when reviewing these numbers… "drink this one and inflation will be little".

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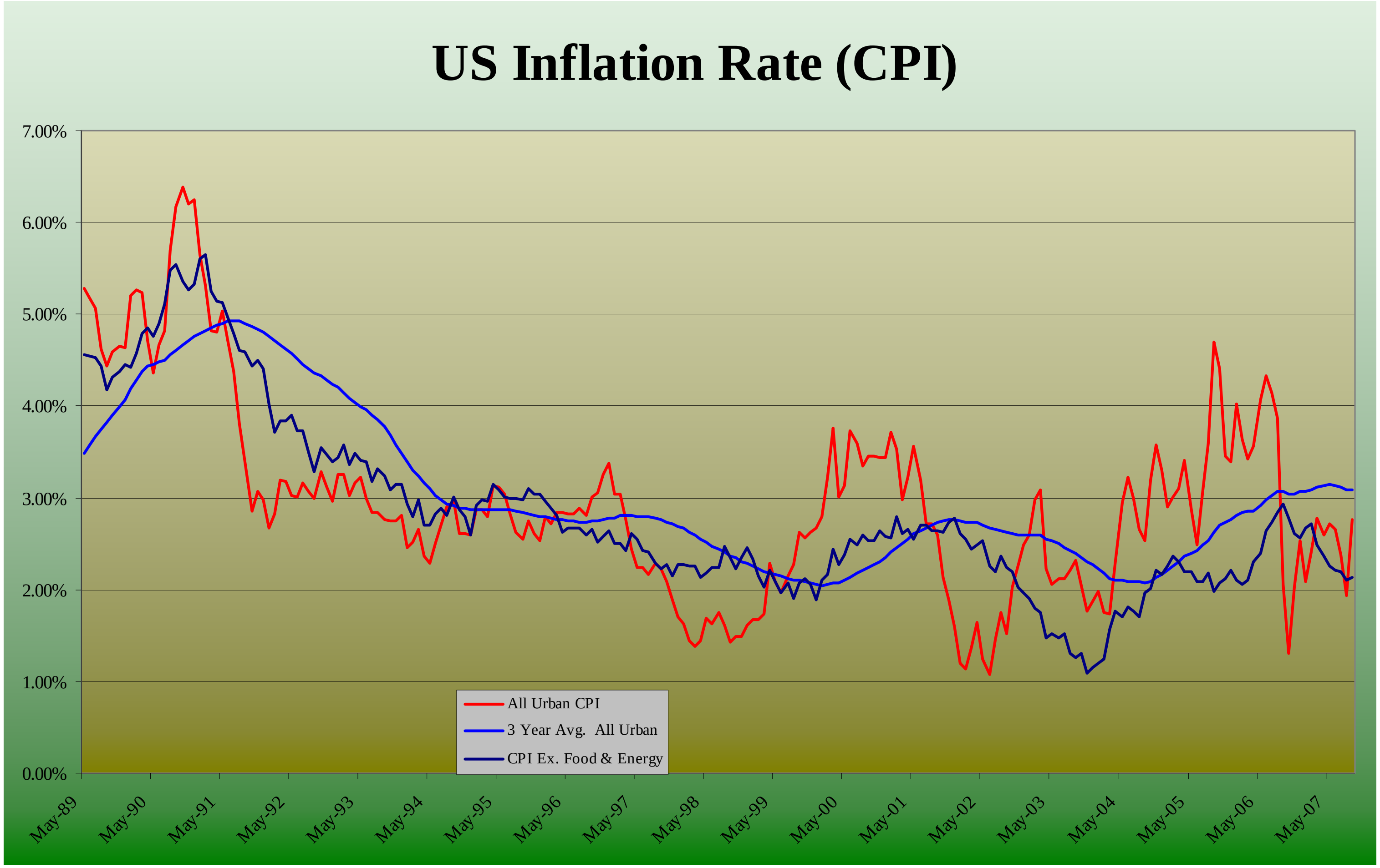
Inflation expectations



Look for the food and energy piece to come storming back…

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11/7/2007

Federal Reserve Watch

50 bps there, 25 bps here…whatever it takes to keep charts pointed up.

That's what they are gonna do…

Hopefully the Saudi's won't abandon the dollar peg and spoil the party, we only get to print money to solve problems because we are the world's reserve currency.

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The Fed took the pressure off, but difficult decisions remain. Investors/speculators/US Households are leveraged to Real Estate. A cut in the Fed Funds rate can quickly inflate Gold, but not empty beachfront condos. Nor consumers wallets.

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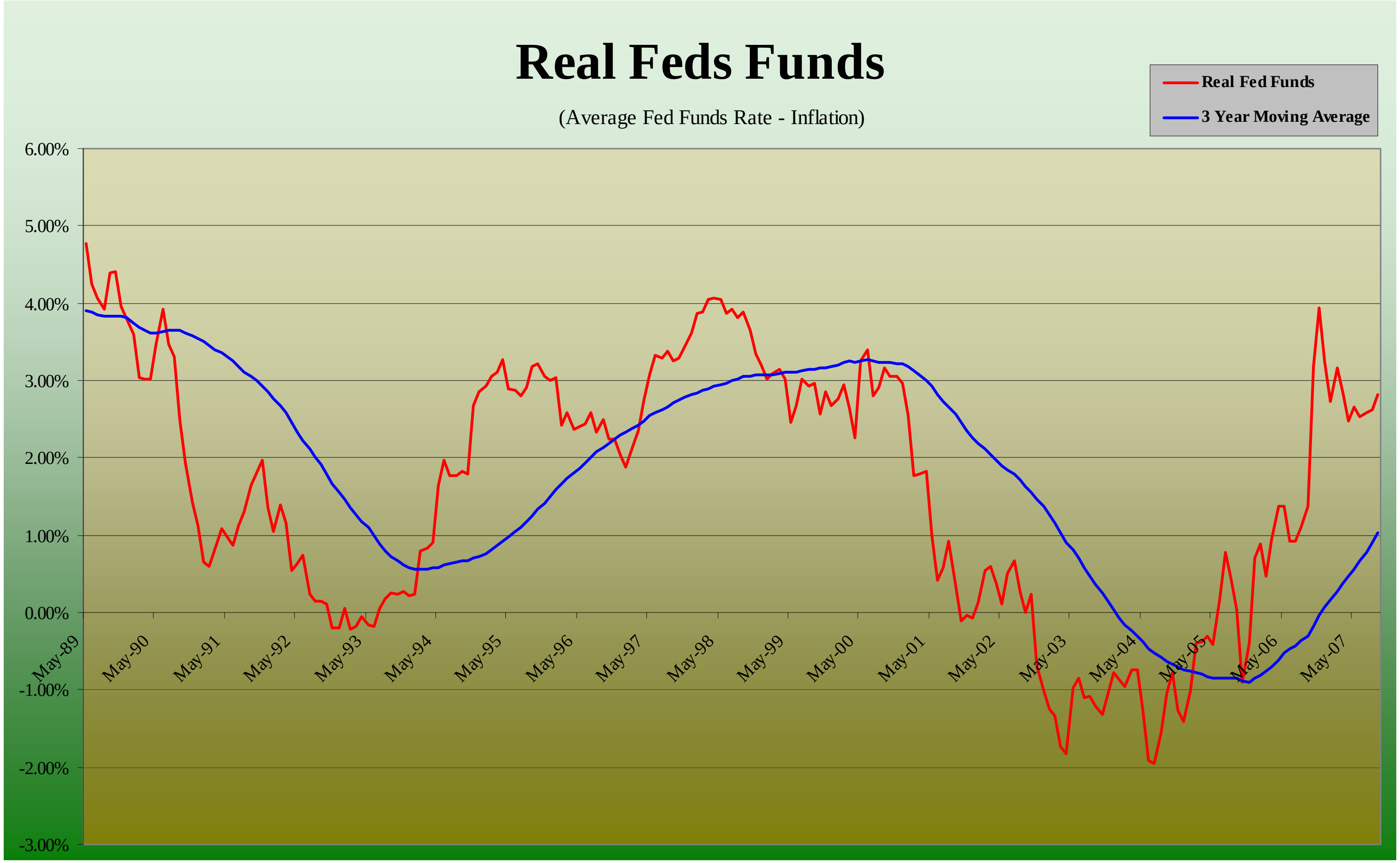
Federal Reserve Watch



Real Fed Funds was finally back to "normal" (not punishing savers), before the cutting began in earnest..

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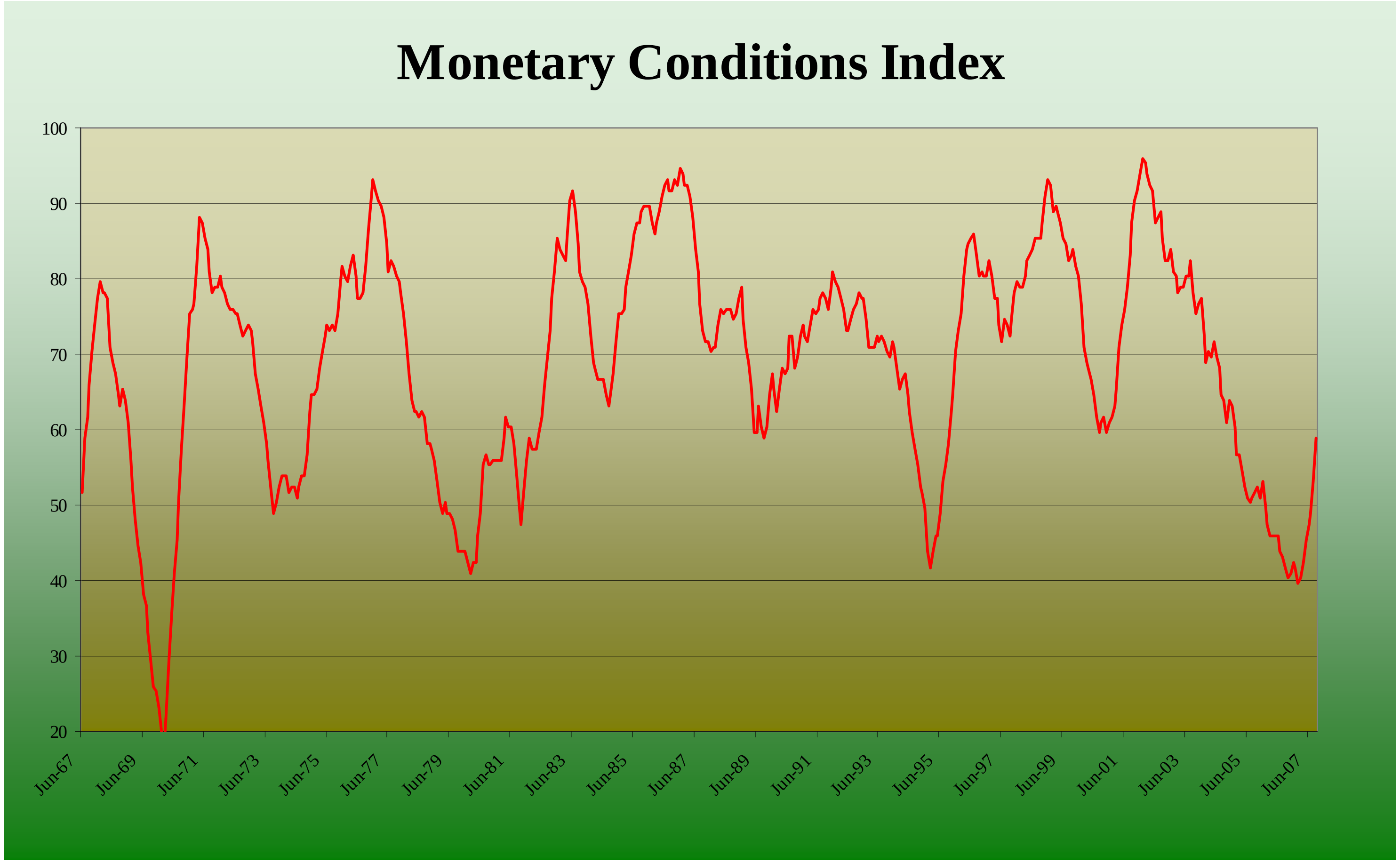
Federal Reserve Watch



Powerful Fed intervention. And, like many times in the past, this money finds its way into stocks and commodities quickly.

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The 3 month T-bill is going to need a real spread above whatever inflation really is to get the Gold/Oil/Dollar under control.

The Fed was trying to normalize things, and the wheels came off in the Subprime crisis.

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Outlook

The street seems to be settled on a melting up scenario with the US Economy just slowing, Global growth continuing and inflation moderating.

We say, hope for the best, plan for the worst.

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