

ARRO Capital Trends

Investing in Insight



May 11th, 2009 - ARRO Capital Trends Newsletter 3rd Edition

A Suckers Rally

We are now firmly in the midst of a suckers 'bear market rally' and the media pundits on television and in print would have us believe that the worst is behind us. This scene has been played before when under similar circumstances bear market rallies preceding the great depression of the 30's were hailed as a return to market normalcy. No matter how out of whack the fundamentals there always seem to be those who will heed the poor advice of corporate mediated talking heads and jump feet first into the ice cold waters.

The question is how many people have to lose their life savings before they stop listening to the hype coming from television and newspaper analysts? How often have these analysts been right about anything? It's like those suits at the Fed who continually produce the worst effects but are still given rapt attention by the politicians and media alike as if they have something wise to say. This economic downturn has just begun; the system is seriously broken and is in need of repair in a bad, bad way.

It's Just Paper

The governments of the United States, Great Britain, Japan and Switzerland have taken a shared stance regarding the now protracted economic 'downturn', which is a unified 'yes' to quantitative easing, a fancy term for the printing of more money. Despite concerns that simply printing more money doesn't actually create jobs and imparts the nasty side effect of inflationary pressure and currency debasement, the plan is moving ahead full steam, and the political pressure on those nations not yet sold on the notion is growing daily. Canada for instance has been reluctant to engage in the printing press solution and is still bravely and firmly holding out hope (1) that a recovery can occur without any over-the-top stimulus. However across the Atlantic the European Central Bank just released what some would call a surprising statement that they would begin a mild form of easing. It seems the pressure proved too much for those few holdouts within the ECB. Ambrose Evans-Pritchard of the UK Telegraph reports on the story:

The European Central Bank has cut interest rates a quarter point to a record low of 1pc and embraced quantitative easing (QE) for the first time, catching markets off guard with plans to buy €60bn (£53.5bn) of covered bonds.

The hotly-disputed move to purchase assets brings the ECB into line with the central banks of the US, Britain, Japan, among others, that have begun "printing" money to stave off debt deflation.

Julian Callow from Barclays Capital said the ECB had crossed the Rubicon. "This is likely to morph into fully-fledged quantitative easing. It's how the Fed began last October when it started purchasing commercial paper," he said.

The step-change in policy follows an open clash within the ECB's governing council over its handling of Europe's worst slump since World War Two, pitting national governors from southern Europe and Ireland against the ECB's German-led hawks. Bundesbank chief Axel Weber has fought a rearguard battle to head off QE, calling it an "undesirable option" that risked inflation later. (2)

So how long will it be before the Bank of Canada gives in to pressure from the United States to do its part in reestablishing market liquidity?

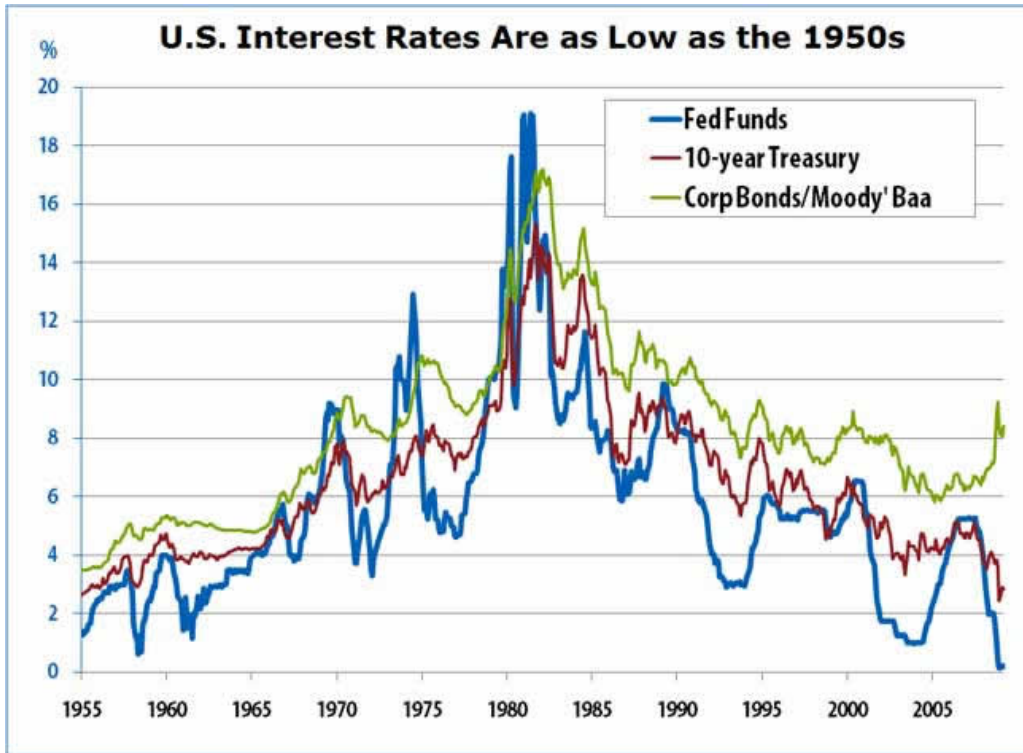
Interest Rates

With all of this money printing occurring at the Fed there is a movement towards higher interest rates. In a bid to stimulate the economy the Fed cut its target rates to a historic low of 0 to 0.25%. Bud Conrad of Casey Research notes:

Deleveraging and a rush to safety sent yields on long-dated government bonds to near 2.5%, with short-term yields actually going negative at times. Reduced foreign purchasing of long-term U.S. debt, coming at the same time that the government is seeking to sell record quantities of same, have pushed yields on 30-year T-bond rates back above 4% for the first time since November of 2008.

Within this trend a great investment opportunity arises - inverse interest rate funds. With these investment vehicles one can short the interest rate market by investing in short futures contracts on long-term Treasuries. It can be expected to gain as Treasury yields rise.

Some are speculating that betting on interest rates rising are perhaps the investment of the decade and looking at the chart below I might feel inclined to agree. Where else can US interest rates really go considering the fact that inflation is increasingly wiping out any gains for purchasers of US Bonds.



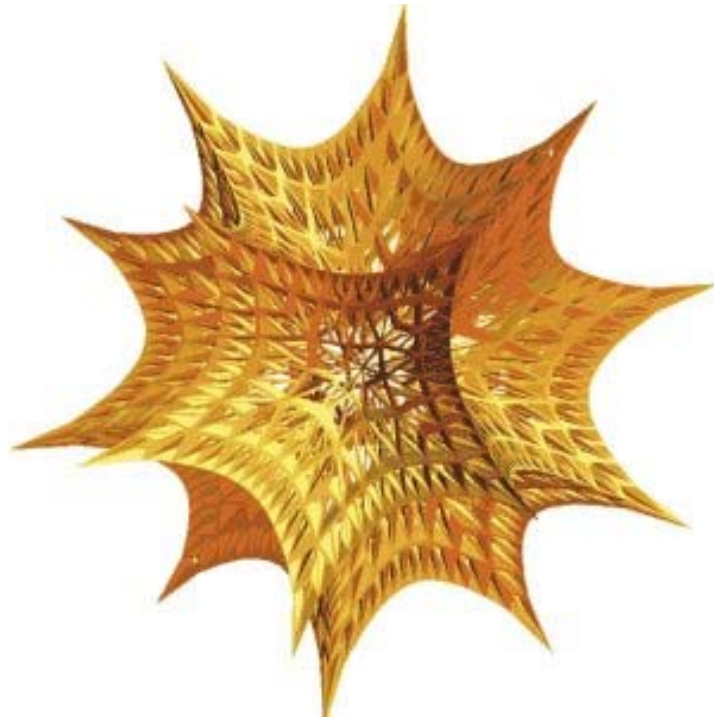
Tech Trends

Technology has the ability to re-shape the social landscape like few other things, the printing press and the internet come to mind as being two of the most powerful innovations in the evolution of information distribution. The social impact of information that was previously accessible only to a privileged few becoming widely accessible led to the Renaissance and the specialization of study. As these tools have reshaped society they have continued to evolve in their own right and both seem about ready to take a quantum leap forward in tandem.

The early web browser allowed internet users to retrieve information based on queries which would then instigate a web search. The algorithms that web browsers used to find data points was at first very simple, but as with everything technological the complexity involved grew over time. We now take for granted the fairly intuitive nature of the Google search engine, despite its imperfections, it works well enough that most data sets that are not locked behind closed networks are accessible quite readily. Now a new web technology seeks to transform the landscape of information retrieval in a profound way, the name of this technology is **Wolfram Alpha**. Here is an excerpt from the UK Independent (3):

Wolfram Alpha will not only give a straight answer to questions such as "how high is Mount Everest?", but it will also produce a neat page of related information – all properly sourced – such as geographical location and nearby towns, and other mountains, complete with graphs and charts.

The real innovation, however, is in its ability to work things out "on the fly", according to its British inventor, Dr Stephen Wolfram. If you ask it to compare the height of Mount Everest to the length of the Golden Gate Bridge, it will tell you. Or ask what the weather was like in London on the day John F Kennedy was assassinated, it will cross-check and provide the answer. Ask it about D sharp major, it will play the scale. Type in "10 flips for four heads" and it will guess that you need to know the probability of coin-tossing. If you want to know when the next solar eclipse over Chicago is, or the exact current location of the International Space Station, it can work it out.



The ability of this search function to cross reference internal data points in relationship opens up a vast avenue of possibilities for quicker research times since the time needed to cross reference multiple web pages and do the calculations is removed. What this browser provides is a quickening in the arena of information accessibility and unification. The idea for Wolfram Alpha is to create a voice recognition interface that will respond according to the exact question of the user, and though the technology is still new I foresee a very fast acceleration rate for its usability and accuracy. For those who use the internet as a research tool this type of development will increase the throughput of any information dissemination project.

Another development that is reaching commercialization is a printing press that weds traditional publishing with the internet in a way that tears down the barriers that have surrounded self publishing. This smart little invention is called the Espresso Book Machine and is described by its manufacturer:

What Gutenberg's press did for Europe in the 15th century digitization and the Espresso Book Machine will do for the world tomorrow.

Library quality paperbacks at low cost, identical to factory made books, printed direct

from digital files for the reader in minutes, serving a radically decentralized world-wide multilingual marketplace. In essence, an ATM for books.

In a series of lectures in 1999 at the New York Public Library, Jason Epstein outlined his vision of the next generation of pod technology: a fully automatic, low cost device that could be placed in a neighborhood bookshop, coffee shop, newsstand, library, hotel, even aboard a cruise ship or in airports. Unknown to Mr. Epstein, a prototype of the machine he envisioned actually existed in the St. Louis workshop of its inventor, Jeff Marsh.

To see the machine in action watch the video link below:

[Espresso Book Machine](#)

I can only imagine how the Espresso Book Machine will decentralize publishing and open up a new season of alternative information availability in a hardcopy format. It's one thing to have digital files of some obscure document, it's quite another to have a hardcopy, real world, tangible 'hold in your hands' book! In time the price point for this type of technology will drop and self publication will become the norm.

Commodities and Peak Oil

For those who are not yet familiar with the term 'peak oil' and for those who are but need a refresher please check out the video links below.

[The End of Suburbia](#)

[Richard Heinberg on Peak Oil](#)

Hard statistics point very clearly to the fact that energy is the basis upon which the economy functions, without a constant supply of relatively cheap energy to heat our homes, fuel our cars and run our power plants the viability of our consumer lifestyles is in question. I'm not going to provide a detailed explanation as to the peak oil situation since my goal is to provide an easier to digest newsletter this month, except to say that the entire contraction of the global economy is really a manifestation of a global energy shortage. It is a little known fact that various governments around the world have been aware of the peak oil situation for decades but have not had the political will to properly prepare their citizens. The addiction of oil revenue for government budgets has immobilized any real society wide awareness and this state of ignorance is exactly what is underlying the contraction of global trade. It is said that global trade in recent months has plummeted to levels consistent with the pre-1950 period, yet despite this oil is still more expensive than it was even five years ago, food prices are increasing at a staggering rate and energy prices have increased world wide leading to protests and riots. So what gives?

What gives is that we have reached the peak of our energy carrying capacity, we have overshoot the oil infrastructures ability to provide for our continued consumer binge. We still have over 6 billion inhabitants on earth that need to eat, yet food costs are increasing to such an extent that many nations are crumbling under the strain. The truth is that competition for energy has become fierce, so much so that geopolitical tensions are reaching fever pitch. NATO is threatening Russia with encirclement to secure vital oil and gas pipelines through the Cacaucus region. The United States is pushing further into Pakistan hoping to create a failed state, since

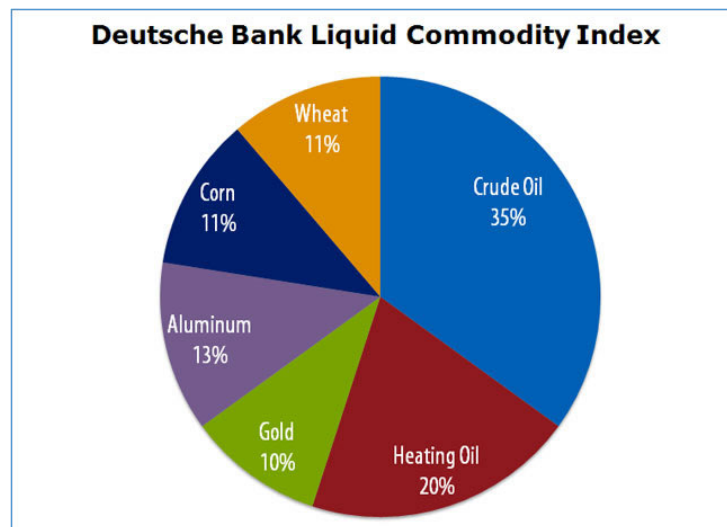
failed states are open for exploitation and generally do not consume large amounts of energy.

Everything that is now occurring militarily has nothing at all to do with spreading 'democracy' since anyone with a depth of political historical knowledge knows that the United States has propped up many tyrannical regimes worldwide in order to secure vital resources. Iraq is just the latest example of a war for resources, since of course there never were any weapons of mass destruction and after all Saddam Hussein was a CIA placement. (4)

The point is this, the number of humans on earth is exploding while the amount of available cheap energy to support this explosion is simply not sufficient. This is leading to increased costs due to a general and gradual shortage of everything from refined auto fuel to agricultural staples. In this type of market, even under a situation of economic contraction, and I would say especially under a contraction scenario (producers going bankrupt) it is wise to buy tangible commodities as a hedge against shortages and price shocks. Understanding the macro-trend beyond the macro-economic model of Wall Street is what is needed to properly navigate the landscape ahead. We are in times of extreme volatility in every sector of life, and with volatility comes opportunity for those who are not blinded by the noise but who can see clearly.

In this respect there is an easy way to buy into a commodity basket, this vehicle is the **PowerShares DB Commodity Index Tracking Fund (DBC)**.

DBC is an exchange-traded fund (ETF) designed to track the Deutsche Bank Liquid Commodity Index-Optimum Yield Excess Return. The index is a rule-based index composed of futures contracts on six of the most -heavily traded and important physical commodities in the world.



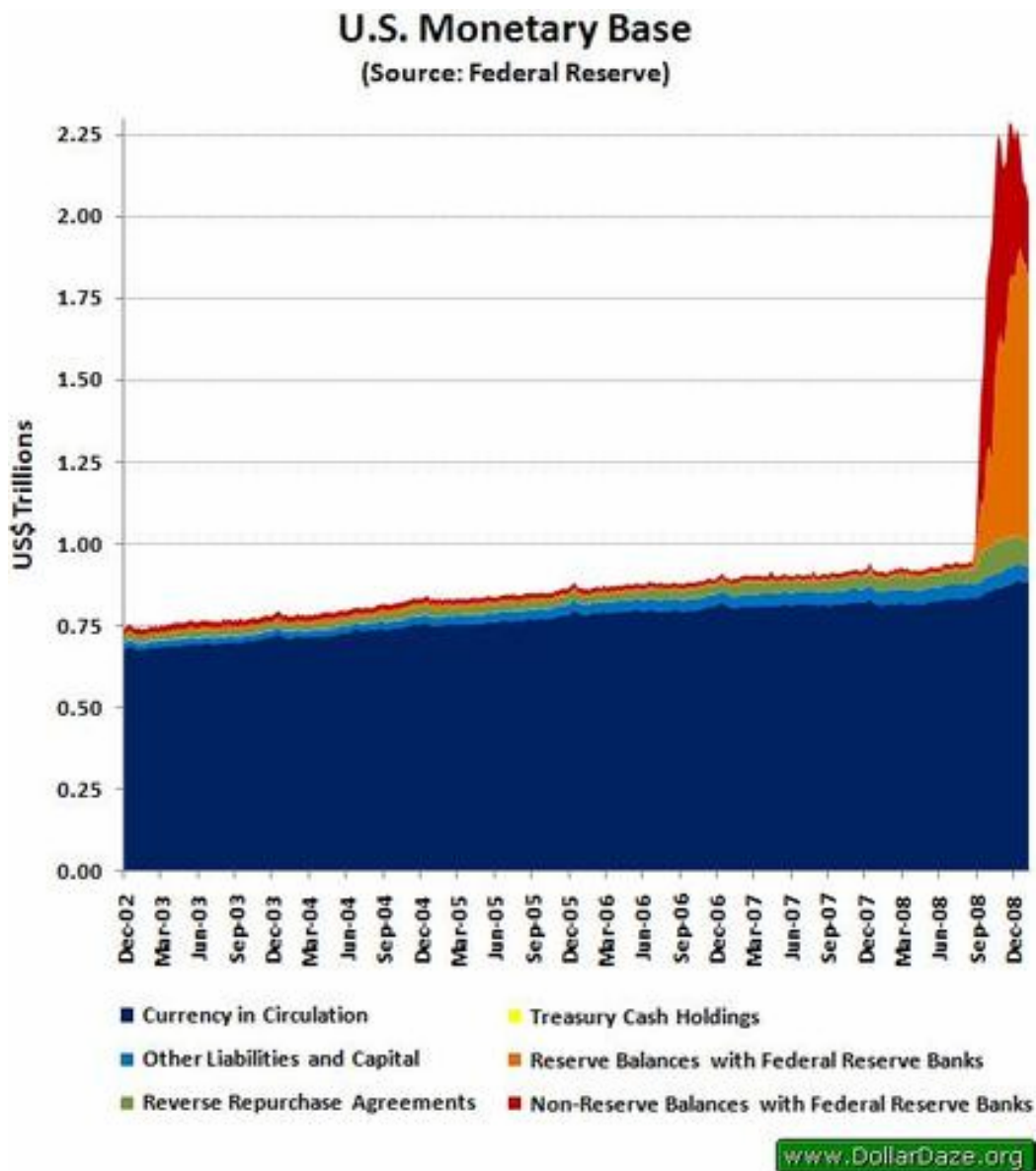
This is a broadly balanced commodity fund that automatically balances your exposure across the spectrum of commodity markets – Agriculture – Energy – Metals.

I have a very strong sense that we are currently in a bit of a plateau period before some major gyrations begin to occur later this summer and fall. I think by November things will be very topsy turvy.

And as always, Gold and Silver.

May you prosper,

Angelo Zachos



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Sources:

- (1) <http://www.financialpost.com/story.html?id=1494919>
- (2) <http://www.telegraph.co.uk/finance/financetopics/financialcrisis/5292781/European-Central-Bank-falls-into-line-and-embraces-quantitative-easing.html>
- (3) <http://www.independent.co.uk/life-style/gadgets-and-tech/news/an-invention-that-could-change-the-internet-for-ever-1678109.html>
- (4) <http://www.representativepress.org/CIASaddam.html>

Links of interest:



GoldMoney
The best way to buy gold & silver



"What you leave behind is not what is engraved in stone monuments but what is woven into the lives of others - Pericles"