



UP AND DOWN WALL ST

Like a Virgin

By RANDALL W. FORSYTH
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CONDOS ARE OUT, COPPER IS IN. Everywhere you go, from cocktail parties to the putting green to the boat slip to charity dinners, the talk is the same. Nobody's bragging about how much their house has appreciated or the condo in Boca they flipped. That is so passé. Private equity? Been there, done that. And hedge funds? With some of their distinctly pedestrian returns of late, after the managers take their 2-and-20, you might be left with just the 2%.

But commodities, that's this year's ticket. Not just crude oil, which is so unrefined; the real action is metal. Copper, zinc, nickel are this year's bling. Copper and zinc have doubled already this year while nickel is up a mere 50%. It's enough to invoke the "B" word, bubble, which is what the media label anything that goes up, after having been useful idiots during the dot-com craze.

It's no bubble, says Woody Dorsey, the proprietor of Market Semiotics, which keeps a sharp eye on the psychology that ultimately drives markets. An idea -- or meme, as he prefers to call it -- goes through phases, from where it's picked on the periphery, to its getting noticed and entering the zeitgeist, and then becoming progressively less cool until it becomes camp.

Think of Madonna's career, Woody told a clients' lunch. First there was the discovery stage, when only the truly hip heard of her. The peak probably would be around "Truth or Dare" in 1991. And now with her embrace of Kabbalah and domesticity, she's definitely heading toward camp.

So where are commodities on the Madonna timeline? Around "Like a Virgin", her big hit that put her on the MTV map in 1984, says Woody, or just the discovery stage in his cycle. And like Madonna, who has been able to extend her career into its third decade, commodities' run has a long way to go, he says. It is a secular, even generational, trend, he asserts. (Though Madonna's sell-by date will arrive with her AARP card in a few years.)

While commodities have been going out of sight for months, financial markets finally seemed to notice last week. Just as various media outlets impatiently awaited the Dow Jones industrials to print a record high, the market hit an air pocket for a couple of 100-point down days Thursday and Friday. Techs, which had trailed the advance, led the retreat. Bonds continued to sag and corporations made a mad rush to borrow before yields got any higher.

The Federal Reserve doesn't seem to be leading the rise in rates, however. While Bennie and the Feds notched up the federal-funds rate by another quarter point last week, they gave less guidance on what their next move will be in June. Further hikes may "yet" be needed, the Fed said, leaving the market uncertain when and if they may come. The two-year Treasury note ended the week right on top of the funds rate at 5%; if more hikes in the overnight rate were anticipated, the two-year should trade at a higher yield. If stock bulls are right, further Fed tightening should be expected. Which may be why the market ended the week on a nervous note.

To Dave Ranson, gold's surge past \$700 an ounce has nothing to do with a speculative bubble, demand racing ahead of supply, China, India or any of the other usual suspects. It has everything to do with the debasement of the dollar, which by his sights has lost 95% of its value since its last link to gold at \$35 an ounce was severed on Aug. 15, 1971.

Ranson heads H.C. Wainwright & Co. Economics, a Hamilton, Mass., economics consultancy, and his views most recently graced these pages late last year ("[Extreme Contrarianism](#)," Dec. 10). "Everything you know is wrong," he started out then, in typically iconoclastic fashion. And now he takes the conventional wisdom to task for dismissing gold's message of rising inflation.

In what he admits is an extreme historical analogy, Ranson points out that America once had two different dollars; during the Civil War, the U.S. dollar and the Confederate dollar both fluctuated based on which side was winning. By 1864, it became apparent the South had lost, and the Confederate dollar's value collapsed, resulting in hyperinflation. The U.S. dollar also lost 50% of its value during the greenback era, resulting in a doubling of the price level. But when its link to gold was reestablished, the prices were restored to 1860 levels by 1875.

Ranson thinks gold's surge reflects nothing less than the world's assessment that the U.S. government will eventually have to repudiate its obligations, much as the Confederacy did. This reflects the massive role taken by Washington, starting with the War on Poverty in the 'Sixties and now extending to the war on terror and Iraq. Now, the growth in entitlements is soaring under the Bush administration, especially for Medicare and Social Security (see Tom Donlan's disquieting disquisition on those programs, "[No Laughing Matter](#)," May 8).

After the Katrina catastrophe, Ranson continues, the federal government extended its obligations to help rebuild New Orleans. The precedent is now set for Miami, Houston or

Los Angeles, should disaster strike. But the feds have already begun to pull back on their promises on Katrina rebuilding.

"This is nothing you can prove with numbers," Ranson says. But he thinks gold's rally, which has nearly tripled the metal's price from its lows, reflects the market's vote of no-confidence that the government will meet its obligations.

Gold's rise does seem to jibe with the low readings of consumer confidence, not so much when it comes to present conditions but in future expectations. And while administration mouthpieces trumpet the latest GDP numbers, Ranson avers, "The man in the street knows more than the federal government. He sees prices and he sees the reduction in his real wages" resulting from inflation.

In recent years, the U.S. currency's value has been maintained by what's been described as Bretton Woods II, a kind of de facto dollar standard maintained by the world's central banks. In the interest of holding their own currencies' value relatively stable, the banks buy greenbacks by the carload. This results in several quandaries for foreign central banks. First, their purchases of dollars swell their domestic money supplies, which threatens domestic inflation, unless they are offset ("sterilized," in the parlance) by sales of government bonds. Even so, they're stuck with an ever-growing pile of dollars that risk losing value -- unless the central banks double down and buy more to keep the greenback from sinking. Not exactly a good use of taxpayers' money.

Similar strains became apparent with the original Bretton Woods system, under which foreign currencies' exchange rates were fixed to the dollar, which would be convertible (for foreign monetary authorities) at \$35 an ounce. The U.S. wanted foreigners to hold dollars, but when France demanded gold, as was their right, and U.S. gold reserves plummeted, President Nixon finally abrogated the promise.

Today, there is no promise to redeem a dollar for anything but 100 pennies (each of which now is worth more than a cent because of soaring copper and zinc prices). But foreign holders of dollars are voting with their feet and diversifying into other assets.

Indeed, while Washington last week stopped short of declaring China a "currency manipulator," China was being urged domestically to more than quadruple its gold reserves, to 2,500 metric tons from 600 metric tons, according to China Gold News, a leading industry publication cited by Dow Jones Commodities Service.

Just as it was 35 years ago, international monetary stability is threatened by foreign holders' diminished willingness to hold dollars. Ironically, now Washington would prefer revaluation of other currencies and a cheapening of the dollar. (That the administration did not push harder on the yuan may have to do with other, bigger problems, notably getting China's cooperation in dealing with the other two Axes of Evil, North Korea and Iran.)

In any case, it's dangerous to dismiss gold's rise and the dollar's fall as the mere machinations of speculators. The world wants anything but greenbacks, and a devalued dollar is bad news for financial assets (but good for real ones), Ranson concludes.

SOMETIMES, YOU CAN be wrong for all the wrong reasons. Others, you can be right but for the wrong reasons. Given the choice, I'd rather be lucky than good. Luck hasn't favored a couple of stocks mentioned in this space recently, however.

In the [March 27 column](#), it seemed [Telecom New Zealand](#) was a washed-out value play. Its New York Stock Exchange-traded American depositary shares (ticker: NZT) were making a daily appearance on the 52-week-low list and were off 20% since the turn of the year. Much of that loss reflected not the fundamentals of the company, the largest telecommunications provider in New Zealand, but the plunge in the kiwi dollar, from about 70 cents to 61 cents against the U.S. dollar. All of which seemed a bit overdone, especially for Telecom, which provided a better-than-junk-bond dividend yield in excess of 9% at the ADS price of just over 26 as we went to press.

And for a while, that indeed was a lucky call. The kiwi bottomed a couple days later and bounced back to 64 cents. And Telecom's ADS rose similarly, climbing to a bit over 29 by May 2, better than an 11.5% gain. That brought the shares back only to where they had traded in February, but if you got in then, you were looking at a sweet 20% total return.

The very next day, New Zealand's socialist government pulled the rug out from under Telecom, forcing it to open up its network to competitors. The ADS collapsed, plumbing new lows below 23 Friday. According to a research report by Credit Suisse, its forecast of net profits after taxes for the fiscal year ending June 30 were cut by 3.9%; for fiscal 2007, its estimate was reduced by 8.2%. Telecom's dividend policy has been to pay out 85% of earnings to shareholders, so the payout is apt to be shaved a bit next year. But given the 20% hit to the share price since the beginning of May, and the dividend continuing to yield north of 9%, the worst seems to be over -- with any luck.

Another stock mentioned that week, [Central Fund of Canada](#) (CEF), has played out closer to script, albeit not altogether profitably. This closed-end fund invests in gold and silver bullion but commanded a double-digit premium over net asset value. With the long-awaited [iShares Silver Trust](#) exchange-traded fund (SLV) set to bow, and with the availability the [streetTRACKS Gold Trust Shares](#) (GLD) and the [iShares Comex Gold Trust](#) (IAU), it seemed that Central Fund of Canada's premium should shrink. The gold and silver ETFs provided an easy play on the metals, so why pay up for the closed-end fund?

The theory did work, to a degree. Central Fund of Canada's premium did shrivel to around 2% at the end of March and again the week before last, but you probably missed that if you blinked. Early last week, it was back to double digits, and was 8.63% at Thursday's close, according to [etfconnect.com](#), though it probably contracted a bit on Friday as CEF fell about 3.5%, more than the metals it owns.

In the initial mention of Central Fund of Canada, its more favorable tax treatment was omitted; dividends and capital gains are taxed at 15%, as with other equities. The gold and silver ETFs are taxed as "collectibles," which makes them subject to higher, ordinary-income rates. A long-time bull on Central Fund reckons that's worth paying a 5% premium in taxable accounts.