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"As Americans, we are used to games that pit one rival against another; Yankees versus Red Sox, Carolina versus Duke, Chicago versus Detroit. Something to which we are not accustomed, however, is a three-sided game. In the period of the "new normal," we find ourselves in the throes of just such a high-stakes event on the playing field of the currency markets. In this case, the three players are the US, the Eurozone, and Japan. The object is for one currency to devalue against the others faster, but not so quickly so as to incur substantial penalties and "start-over" provisions – otherwise the "winner" becomes the loser. In fact, a few astute market observers have claimed that the goal of the newly-announced $600-800 billion "quantitative easing" (QE2) is nothing more than a staggered default of *someone's* sovereign debt, be it Eurozone, Japan….or ours. The prize for the "winner" is being able to a) stave off a deflationary debt meltdown, b) continue to transfer risk from the banks to the public, c) shun austerity measures at any cost, and d) head for the exits before the political will changes against those in charge. If we can inflate, extend and pretend with a greater magnitude and duration than the other stressed nations, the US, hopefully, will default *last*. Is it any wonder why the rest of the world is outraged by (or maybe just a little jealous of) QE2?

"…Shorter of Breath and One Day Closer to Death" – ***Time*** *by Pink Floyd*

The elusive policy objective of export nations has been to devalue currencies……against, of course, other currencies. Sometimes this involves coordination, other times one nation breaks rank to save itself. Free markets don't seem to impede the execution of such a plan. So far, there has been no real negative fallout (except the ongoing chides from the peanut gallery). US equities are up (although not in terms of constant dollars), interest rates remain artificially depressed, and rising export nation currencies are hurting those countries, not US. The reason is simple - the Fed understands the causes and effects of the monetary feedback loop better than its peers. It goes as follows – print money, buy back US treasuries to fund the deficit, cause price inflation, erode demand due to higher prices, sell bonds at lower interest rates. QE2 becomes QED. This has been essentially Japan's playbook for 20 years, and is likely the reason why their economy is remains stagnant during all that time. Even though the wash/rinse/repeat cycle upon which we are currently embarking has had little positive effect on demand stimulation, there is no other option…. except of course if matters were left to the free market and reduced government……so, as we said, there is no other option.

"Take the red pill, Neo"- Morpheus from ***The Matrix***

Excuse our belittling tone, but it is almost impossible to not mock the parody that central bank policies have become – all in the name of saving a system which is seemingly too far gone. Perversely we all appear to have a vested interest in system's maintenance, as ridiculous as the means of preserving that system have become. For example, how many of us would push a magic button that would restore honesty and austerity if it meant we would lose half of the dollars we have saved or earned during the past 30 years (i.e. the time of the great inflation)? We posit that the number is close to zero. Acknowledging that we have written this in prior pieces, it bears repeating - *the consequences of rotating currency devaluations are unknown.* Precision in this circumstance is key; one false move may cause another leveraged accident, and we don't want to live through *that* again.

"I was gambling in Havana. I took a little risk. Send lawyers, guns, and money – Dad get me out of this." – ***Lawyers, Guns, and Money*** *by Warren Zevon*

Here's the possible reason, in our opinion, as to why these seemingly wayward souls are hell-bent on preserving the status quo. The markets remain beholden to the banks. Seeing another system (especially one backed by metals) arise means markets (as well as taxes, inflation, and wealth concentration) will belong to someone *else*. This is where the threat to the public in general, and investors in particular, is born. When the banks and government can no longer use markets toward their ends, they will seek control over someone or something else. Any guesses as to what or to whom that may be?

If you answered "you," or "my precious metals" then you get a gold or silver star. As the investor class in America, although it may not seem it at times, you are among the very few hands that hold a portion of the wealth of the world – a share that becomes commensurately larger the longer the competitive devaluation game proceeds in its historical form. Over time your active participation has served you well. Despite the taxes and gyrations, on a comparable basis your purchasing power has remained largely intact or has maybe even grown provided you've been an investor and a saver (and not a spender or a debtor). Looking back, would you have changed anything? Probably not. However we think your personal burdens may increase to include not only inflation protection, but tax efficiency, income generation, volatility protection, and capital preservation. We are attempting to approach investing mindful of these issues, sticking to both the school of value and the school of *values*.

Take your ball and go home

In our society's new paradigm, we think an added vigilance toward both *value and values* will allow us to push a different button – one that reminds us to be cognizant of market realities. Hopefully, we will be able to capitalize on global trends in a manner which helps our clients (even if those trends might be inspired by tactics designed to protect banks and governments.) We therefore feel that given the state of the world, we may need to utilize tactical allocation and opportunistic purchases and sales rather than simply a buy-and-hold strategy. Why would we elect to manage in this manner if we already know the outcome of competitive devaluations and quantitative easing number 2.0, 3.0, 4.0 etc? Is it because very few others share our stance and have aligned client success with their own? Is it because we don't really believe that the "Bernanke put" will trump economic principles? Possibly. We are betting that the financial system in its present form will change substantially over time and that the measures employed to preserve the status quo will accelerate that change (More or less what Ben Bernanke admitted this week in Rhode Island).

Watch the Amazing Race….to the bottom….from the cheap seats

Stated another way, we want to invest in opportunities which are largely not dependent upon the current monetary system for their survival. That may mean trading the US, Eurozone and Japan, while making investments elsewhere. This approach requires unique knowledge in certain areas, such as Canada and the commodity complex, as well as a desire to effect change from time to time in enterprises where value may be unlocked. We feel it has been these types of efforts that have produced successful long-term results.

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