



Black Swan Capital

Currency Currents

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Key News

- [The Australian economy has “a long way to go” to full recovery](#), so the government won't move to remove stimulus spending, Treasurer Wayne Swan said. (Bloomberg)
- [Australian manufacturing](#) contracted in July at the slowest pace since September. (Bloomberg)
- [The CLSA China Purchasing Managers' Index rose](#) to a seasonally adjusted 52.8, the highest level in a year, from 51.8 in June. (Bloomberg)
- [Merchandise exports](#) were valued at 612.17 billion rupees (\$12.8 billion), down 27.7 percent in dollar terms from 759.3 billion rupees (\$17.7 billion) a year earlier, according to government figures.
- [The biggest private equity groups are sitting on a \\$400bn debt mountain](#) that needs to be repaid over the next five years, putting the future of some of the largest buy-out deals in doubt. (FT)
- [The UK manufacturing purchasing managers' index rose to 50.8 in July](#) from an upwardly revised 47.4 in June, the first time the number has been above the 50 level that divides contraction from growth since March last year. (Reuters)
- **German retail sales dropped by a real 1.8% in June** from May, and declined 1.6% from June 2008, the Federal Statistics office said Monday. (Dow Jones News Wire)

Quotable

“The antidote to hubris, to overweening pride, is irony, that capacity to discover and systematize ideas. Or, as Emerson insisted, the development of consciousness, consciousness, consciousness.”

Ralph Ellison

FX Trading – Media Superstar Building

It's usually the case that when we get it right in the markets we surmise its brains, and when we get it wrong its bad luck. In trading, getting it right is what matters, no matter if it's for the wrong reason—which when you think about it is lucky.

But what I find interesting is the way the financial media makes superstars out of people who have been right at key moments in the past, but in hindsight we realize these seemingly great seers were just lucky, proven by their history of dismal calls going forward, which we knew about precisely because they were closely tracked being media superstars and all.

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This is a subject I was briefly discussing last night with a couple of good friends, while taking in the sites of the beautiful Bellagio hotel in Las Vegas. It's a good place to watch human emotion and think about risk-reward and luck.

A few past media superstars came to mind during said discussion: Joe Granville--a man who made some great market calls, but when he turned his on-balance-volume skills to earthquake prediction, one had a sense that hubris was starting to overwhelm real analysis; Elaine Garzarelli who was credited with calling the 1987 stock market crash and was awarded the reins of a mutual fund by Lehman Brothers, which turned out not be such a good idea for Lehman or investors their ensconced; Howard Ruff, a man who never met a metal he didn't like, at any time, and seemed to keep recommending gold as it staged its dramatic fall from near \$1,000 down to \$250 as disinflation played itself out across our find globe; George Gilder, who rode that Nasdaq bubble as many did, but confused a liquidity-driven frenzy with his love of technology. These are just a few.

The more you think about it past greats who have faded from the scene, the longer the list will grow. But the beauty is we don't often think about it; this stuff slips down the proverbial memory hole until another media market seeing superstar fades away after a series of well publicized bad calls begins to overwhelm the good and requests for interviews and TV appearances fade. There is nothing new here. [Note: All due respect goes to the players mentioned in the paragraph above, as they were out there, exposed, in the game, doing the best they could, and they *were* right for while whether hubris filled or not.]

When you think about this process of building a media superstar, then crash and burn, it is very much aligned with the natural rhythm of boom-bust cycles which I think is a good stylistic representation of all traded asset markets, especially currencies. We put together the power point slide below for your perusal:

I think, and thinking during a powerful trend can sometimes get us into real trouble, but that said, I think we are very much close to the end of the flaw in perceptions i.e. overshoot & climax stage, when it comes to China. If you examine today's headlines, we see China's manufacturing "boom" and commodities demand as reasons why the bottom in the global recession is in place; it engendered green shoots. But we also know that this boom in China has been a massive force-fed government engineered liquidity-driven phenomenon. [Take a look at this article from [Seeking Alpha](#) sent to me a by a very smart friend in Canada who thinks about this stuff and does seem swayed by price trends alone.]

The article concerns China real estate. It could be applied to other areas in China, as it shows the direct link and ease of force-feeding and favoring state owned enterprises to reward important constituents when there is no real price discovery in the market.

Is it a shell game? Market seers who continue to write books and boast of China's "new way" forward might want to at least consider there may be other reasons for perceived Nirvana.

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