# Beware the Modern Day Alchemists

## August 8, 2005

**The financial markets on or about July 1, 2005 decided to change their collective view of the economic outlook for the US economy. No longer was there a fear of a "soft patch," but rather the concern that an inflation growth pattern was developing. This new market psychology has lifted the level of stock prices, some commodities as well as interest rates.**

**As you know from our previous comments we believe this economy is being driven by debt and speculation, which can be self sustaining as long as the financial community is willing to participate. In the old days they did this by lending. However in this day and age they are the major participants, as well as lending to others. It is a double dangerous deal. By lending to others, they can create the buyers for their own investment positions. What we may have here is the financial equivalent of a perpetual motion machine or better yet the long sought after alchemy.**

**Have you or have you not noticed that much of the increase in profits has come from financial institutions? Have you or have you not noticed that the only money being made by GM and Ford is coming from their banking activities? General Electric the bluest of blue chips most profitable division is their financing arm. Have you or have you not noticed that the largest sector of the S&P 500 is dominated by financial stocks.**

**What's the point? The point is there must be more to our economy than paper shuffling. Somebody needs to produce something of value in exchange for something else of value, saving a bit as they go along. The greater fool theory of trading zero sum assets in the secondary markets just won't cut it forever.**

**By the way, is the following chart a possible scenario concerning the US housing Market? We think so.**