



Leather Apron Letter

Founded in 1727 by Benjamin Franklin, the Leather Apron Club was a club for mutual improvement whose purpose was to debate questions of morals, politics, philosophy and business affairs.

~ A note from Ben ~

Given our absence last week, this week's letter will be a bit longer than usual. So without too much commentary we'll jump right into it. A quick reminder, however, we are in the works to release a new section of the letter within the month so please stay tuned. As always, questions, criticisms and commentary can be sent to info@leatherapronletter.com. Enjoy the weekend.

-Ben Franklin

~ Fact of the Week ~

[Gizmodo](#) — “You're out drinking with your friends, matching them round for round. They're sippin' fancy whiskey, but you're saving money, sticking with the well specials. So why is it, halfway through the night, you're suddenly hit with a brutal headache, and everybody else is fine?

Congeners, also known as fusil oils, are a byproduct of the mash fermentation process. They are, essentially, impurities. There are hundreds of types of congeners, some of which are higher-order alcohols (i.e. non-ethanol) that our bodies can't really process. Essentially, our bodies treat them as a poison, and a headache is a very common symptom of poison processing. That said, different people may be better or worse at metabolizing and flushing these toxins.

Because all alcoholic beverages begin with fermentation, [any type of booze is liable to have congeners](#). It is widely believed that because cheaper alcoholic beverages begin with lower-quality ingredients, more congeners are likely to be produced at the fermentation stage.

Darker spirits, like brandy, whisky, and cognac, tend to have higher concentrations of congeners than their clear brethren—vodka, gin, or white rum. (Tequila is an exception.) This isn't a cheap vs. expensive thing, though, it's simply a difference in the distillation process. The mark of a good vodka is no flavor, whereas whiskey should have a distinct flavor.

You often hear that cheap red wine causes the worst headaches. There is actually a medical term called [Red Wine Headache](#). The thing is, its exact causes are not understood, and the comparative price of a wine doesn't seem to be a factor, as every extremely expensive wines can cause Red Wine Headache. The leading cause seems to be histamines, which are present in grape skins.

Another factor is sugar content. Here is a time the cheap wines may be a culprit—they're often very sugary. Something like a cheap wine cooler may even have sugar added to it. Adding sugar to grape juice can accelerate the fermentation process, but this typically [leads to an inferior type of alcohol](#). Also, the added sugar will cause a spike in your blood-sugar. When it comes crashing down, headaches are a common side effect.”

July 12, 2013

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~ Articles of the Week ~

1. The big news during this slow summer week was the non-event in the release of the FED minutes and the subsequent Q&A session after the close. We quote Ben Bernanke by way of [Bloomberg](#):

“Highly accommodative monetary policy for the foreseeable future is what’s needed in the U.S. economy,” Bernanke said yesterday in response to a question after a speech in Cambridge, Massachusetts.

The Fed chairman spoke just three hours after the central bank released minutes of the June 18-19 gathering showing that about half of the 19 participants in the Federal Open Market Committee (TREFTOTL) wanted to halt \$85 billion in monthly bond purchases by year end. At the same time, the minutes showed many Fed officials wanted to see more signs employment is improving before backing a trim to bond purchases known as quantitative easing.

The debate underscores Bernanke’s challenge in affirming that, even after starting to reduce monthly bond buying, policy makers plan to maintain unprecedented stimulus with a record-high balance sheet and near-zero target interest rate.”

Comments: The FED release did not indicate a change in policy or a massive change of course. FED pseudo spokesman Jon Hilenrath agrees, “Bernanke speech last night was very much like the press conference and didn’t notice much change in policy” ...the markets were apparently caught off guard with risk assets ticking up (Spoo and Gold) and USD ticking lower, all of which are butting up against significant supports/resistance...

Dollar Index—“Dixie”



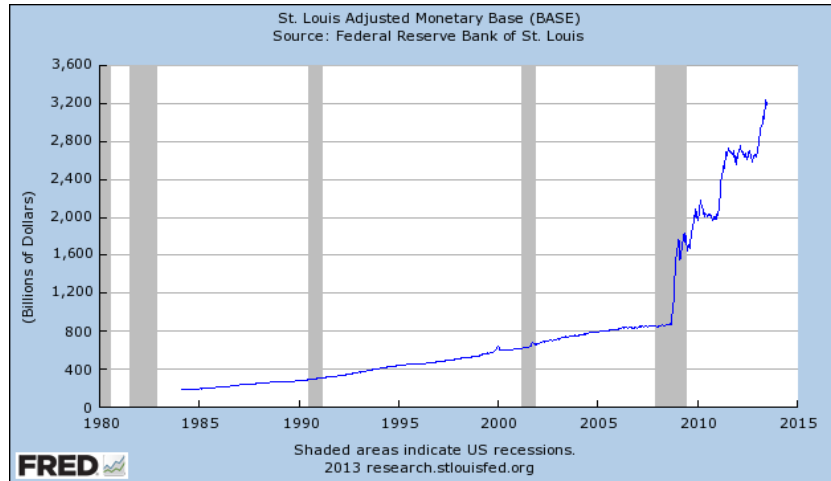
Weekly S&P 500—“Spoo”



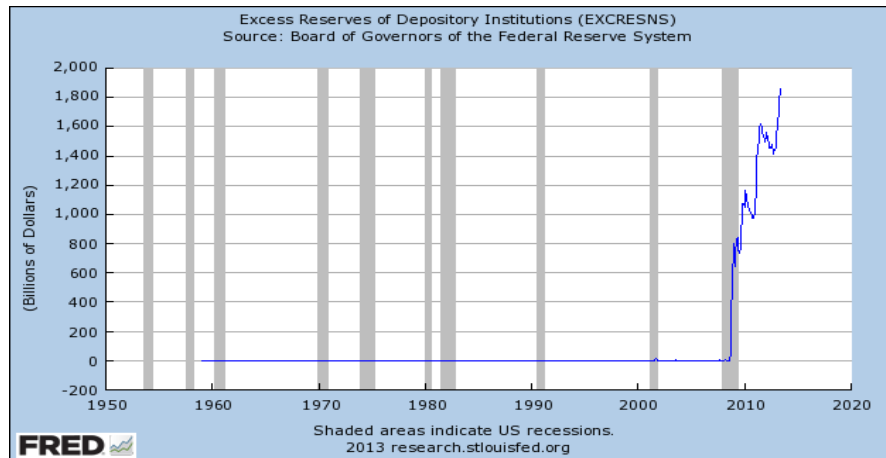


2. An interesting caveat is that all this jawboning may be serving its purpose....remember the FED has a dual mandate of price stability (create 2% inflation) and employment...during the crisis, the monetary base exploded as USD was injected into the economy but much of the money has been stuck on the banks balance sheets, unable or unwilling to lend amidst the current ZIRP policies...

Money has been injected into the economy shown below in the chart of the monetary base...



But banks have been holding this newly printed money as reserves rather than lending to spur the broad economy...

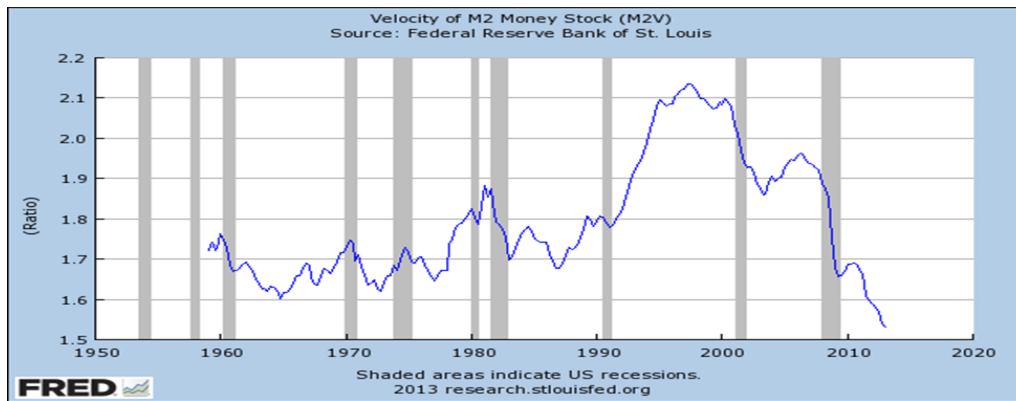


The main culprit for this is the current zero interest rate policy (ZIRP) and a flat yield curve because of QE...we quote Bill Gross:

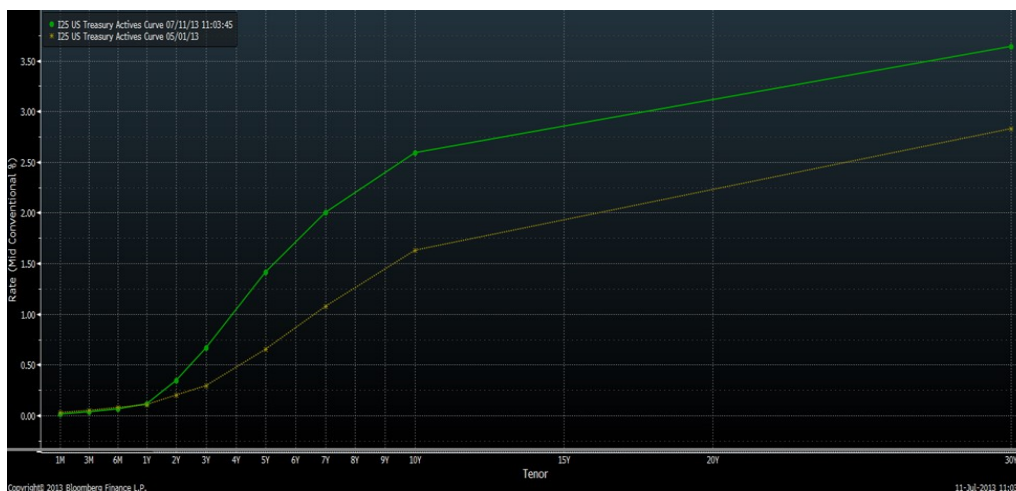
“just as profits are critical to the longevity of our capitalistic real economy so too is return or “carry” critical to our financial markets. **Without the assumption of “carry,” or return over and above the fixed, if mercurial, yield on an economy’s policy rate (fed funds), then investors would be unwilling to risk financial capital and a capitalistic economy would die for lack of oxygen.** The carry or return I speak to is most commonly assumed to be a credit or an equity risk “premium” involving some potential amount of gain or loss to an investor’s principal. Corporate and high yield bonds, stocks, private equity and emerging market investments are financial assets that immediately come to mind. If the “carry” or potential return on these asset classes were no more than the 25 basis points offered by today’s fed funds rate, then who would take the chance?”



To create inflation and spur employment, the FED must work to get the money out of the banks and into the hands of businesses and consumers (i.e. increase the velocity of money)...

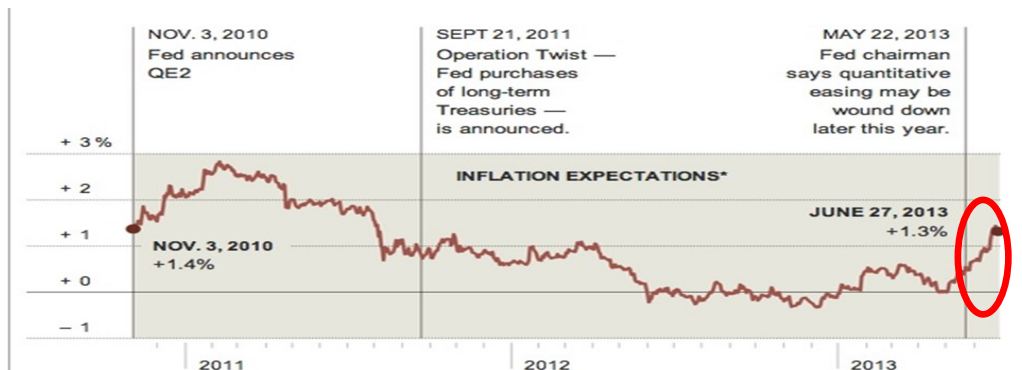


With the ZIRP policies still in place, and therefore the yields on the short end of the curve (short term debt) remaining low, the recent jawboning has increased yields on the back end of the curve (longer term debt), creating a steeper yield curve...



Green Line is current yield curve; Orange shows the curve from 5/1/2013

Since the banks borrow short term (taking your deposits and pay you nothing) and lend money long term, it is this steeper yield curve that the FED hopes will create incentives for the banks to lend and thus spur employment and inflation...



Source: WSJ



So the recent jawboning/confusion coming from the FED heads has worked in their advantage by incentivizing banks to lend while shaking off some complacency and exuberance in the marketplace; we quote David Zervos of Jeffries, by way of the [Absolute Letter...](#)

[the FED's] pronouncements appear to be a conscious effort to inject uncertainty into a fixed income market that feeds on certainty. [Bernanke] was taking a cue from the great Hyman Minsky. By acting against a market that had become too complacent, he was attempting to force out the dangerous and excessive leverage in the system. And while that may feel a little painful right now, we may end up being very thankful that the Committee took the actions it did Wednesday in the name of preserving future financial stability.

Given that EVERY word from the FED is meticulously chosen for a specific reason, the volatility in the markets based on the recent words of Ben Bernanke likely did not come off the cuff... so is this part of Ben's masterplan coming to fruition, and if so will we grow ourselves out of our woes?? Or have they simply lost control of the curve as our friend and great thinker Bill Fleckenstein [recently penned??](#) Stay tuned and stay liquid my friends....

3. As Zervos notes above, speculation and bubbly activities have been noted in many parts of the market (such as the high yield and real estate markets). As we have discussed in previous LALs, massive money flowed from Wall Street and hedge funds and into the real estate space to take advantage of the high cap rates vs treasuries...But as yields ticked up, mortgage rates followed, putting new home affordability out of reach for some, while closing the spread for the investment-only players...we quote Mark Hanson in his always informative research (click [here for more](#))...

"We have been raising red flags on the spike in rates for weeks now. But today, the back of the market was broken, as **"real rates"** used by the majority of buyers / refinancers — not the "bait & switchers" quoted in your local rag, by the GSE's, or by organizations that don't realize people **don't** take out mortgages that cost 3 points — rates shot over 5% today with conviction...3% 10s and 5.75% mortgage rates look to be in the bag.

But even at today's levels "the surge" was a significant "credit event" for housing and mortgage. It's going to be an ugly Q3/Q4 for these sectors.

Below I quickly summarize the damage done to Existing Sales, house prices, builders, New Home Sales, home improvement, and the mortgage-centric regional and national banks:

1) To Existing Home Sales and macro house prices "the surge" takes the PE investor out of the equation. The PE "investor" was the cohort regularly paying 10% to 20% more than the appraised value or listed price looking at 1.5% UST and rental yields to guide them. They are responsible for pushing up the floor on housing, creating a new price bubble, and establishing high "comparable sales" in every region they pounce. **At a sub-3% cap-rate in the most popular "buy and rent" regions this "trade" now looks rotten relative to a 2.7% 10-year note.**

And remember, it only takes 3 sales to change the value of 300 houses using the comparable sales valuation method.

Moreover, it further sidelines First-Time buyers who have already been priced out of the market by PE firms...volume down as much as to 70% since 2010. **Lastly, it greatly diminishes the ability for "move-up" organic buyers to complete their "contingent" transaction** as they just lost 20% purchasing power in the past 2 months...not able to sell their house and/or buy the new one.



2) To Builders / New Home “Sales” – at least half of which are not associated with a “locked-in” mortgage rate at the time the “sale” is counted as such — **“the surge” will increase fall out of the past 6 months’ sales by 19%, I estimate.**

There is no way for builders to make up for this large of Q3 and Q4 fall out through increased sales volume in a surging rate environment.

3) To home improvement/materials – although being highly levered to distressed resales, which are down 70% (artificially) in the important regions over the past 18 months — the spike in rates and subsequent fall in house sales volume on tap will weigh. This will happen right about the time the average investor (e.g., the real money sov wealth fund that owns HD etc) realizes how important to these firms’ sales “distressed” really was.

4) To the mortgage-centric regional and national banks, they now have a hole blown into earnings by the sudden loss of “mortgage banking”, which has driven top and bottom line earnings for since Q4 2011.”

Zerohedge.com cues in on this trend with this chart...



Key here is whether the FED will allow the mortgage rates to continue to increase (shown by a declining red line) thereby impacting home sales and subsequently the home builders (seen on chart below)...or as we have discussed in previous LALs has the bond market gone too far, too fast thus stabilizing the mortgage market in a range??

Homebuilders ETF—ITB





4. *With all this debate on real estate and debt, its good to check in on one of the great investors and thinkers of the hedge fund world, Seth Klarmon...Seth does a good job at throwing cold water on the whole situation...*

ZeroHedge—"If the economy is so fragile that the government cannot allow failure, then we are indeed close to collapse.

Is it possible that the average citizen understands our country's fiscal situation *better than many of our politicians or prominent economists?*

Most people seem to viscerally recognize that the absence of an immediate crisis does not mean we will not eventually face one. They are wary of believing promises by those who failed to predict previous crises in housing and in highly leveraged financial institutions.

They regard with skepticism those who don't accept that we have a debt problem, or insist that inflation will remain under control. (Indeed, they know inflation is not well under control, for they know how far the purchasing power of a dollar has dropped when they go to the supermarket or service station.)

They are pretty sure they are not getting reasonable value from the taxes they pay.

When an economist tells them that growing the nation's debt over the past 12 years from \$6 trillion to \$16 trillion is not a problem, and that doubling it again will still not be a problem, this simply does not compute. They know the trajectory we are on.

When politicians claim that this tax increase or that spending cut will generate trillions over the next decade, **they are properly skeptical over whether anyone can truly know what will happen next year, let alone a decade or more from now.**

They are wary of grand bargains that kick in years down the road, knowing **that the failure to make hard decisions is how we got into today's mess. They remember that one of the basic principles of economics is scarcity, which is a powerful force in their own lives.**

They know that a society's wealth is not unlimited, and **that if the economy is so fragile that the government cannot allow failure, then we are indeed close to collapse. For if you must rescue everything, then ultimately you will be able to rescue nothing.**

They also know that the only reason paper money, backed not by anything tangible but only a promise, has any value at all is because it is scarce. With all the printing, the credibility of our entire trust-based monetary system will be increasingly called into question.

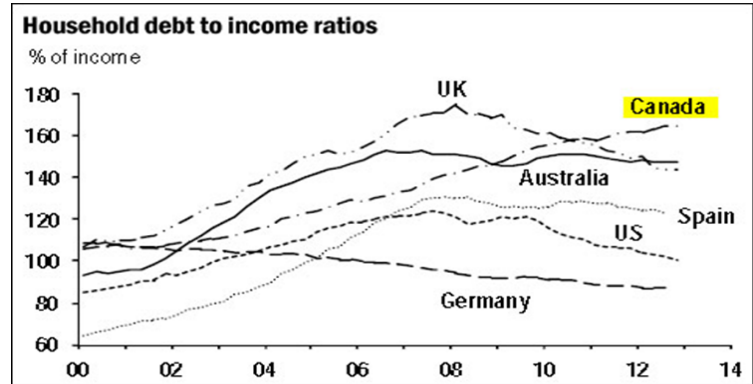
And when you tell the populace that **we can all enjoy a free lunch** of extremely low interest rates, massive Fed purchases of mounting treasury issuance, trillions of dollars of expansion in the Fed's balance sheet, and huge deficits far into the future, **they are highly skeptical not because they know precisely what will happen but because they are sure that no one else—even, or perhaps especially, the policymakers—does either.**



5. Speaking of housing and debt, and a theme we have covered in numerous LALs, Canada continues to have its problems of overleverage and overbuilding...

[Globe&Mail](#)—...Some Canadians see the frenzied building boom that repopulated this part of downtown Toronto and worry that it may end badly.

Historically low interest rates and financially healthy banks eager to lend have spurred Canadians to shop for houses and condos. So builders built. Just over 55,000 new condo units are under construction in the city. ...Median condo prices have risen 25 per cent since 2009. Two-bedroom condos of about 850 to 900 square feet in Liberty Village sell for about \$500,000.



“There is no question that the housing market in Canada is overshooting,” said Benjamin Tal, deputy chief economist of CIBC World Markets. “Now the cocktail party conversation in Canada is: ‘Will this lead to a U.S.-style crash?’”

The worriers are not just on the party circuit. Last month, the Bank of Canada said that the growing inventory of unsold condos in Toronto could eventually create “the risk of an abrupt correction in prices and residential construction activity.”

After almost five years of growth, high-rise condo sales were down 6.4 per cent in May, according to the Toronto Real Estate Board. The worry now is that prices will also start to follow a downward path.

“In Canada during the recovery it was almost a crime not to take a mortgage,” said Tal, who works for a unit of the Canadian Imperial Bank of Commerce, one of the five large banks that dominate the country’s mortgage lending business. “We were able to borrow our way out of this recession, which is why we are now sitting on this elevated debt level.”

Some of the developers are resorting to gimmicks to try to clear the books before the wheels falls off...deja vu ...

[Globe&Mail](#)—In the desperate days of the early eighties real estate crash, the developer of a luxury tower on New York’s Upper East Side offered buyers a free Rolls Royce with every condo.

Recounting this story to city insiders at the recent launch of Trump Tower Vancouver, one offered this deadpan reply: “Well, they could always sleep in it after losing their shirt on the real estate market.”

While the Vancouver equivalent of this might be sleeping in your Smart car, the sudden appearance of sales incentives to attract buyers in the city’s glutted condo market has been nothing short of enthusiastic.

In Vancouver’s once frenzied condo realm, the norm used to be waiting in line in the rain to register for a Bob Rennie project and getting in if you were lucky. Now, developers are lining up to attract purchasers.

Millennium Group is dangling keys to a free Fiat 500 to entice buyers into its Bohème development.

One North Vancouver development, the Seylynn Village, is even raffling off a free unit.



Comments: The CAD just bounced off major support (see chart, above right)...keep an eye on these northern developments...



6. *Jumping across the pond to Europe, we saw several relatively intelligent investors beginning to wade back into the water...*

[CNBC](#)—Wilbur Ross, the U.S. billionaire who has made 65 percent profit on his 2011 investment in a struggling Bank of Ireland (BOI), said he is likely to bid for banks or financial assets in Spain over the next few months.

Ross, whose WL Ross & Co owns 9.9 percent of BOI, said in a telephone interview that he had spent a lot of time in Spain recently and had been impressed by banking sector reforms.

"We haven't decided yet whether to buy assets or to invest in banks themselves, but the likelihood is that we'll show up bidding on something in Spain," he said.



<http://www.marcfabernews.com/2013/07/markets-in-europe-have-made-major-lows.html>

Markets in Europe have made major lows

For the first time in my life, I bought European shares, and I plan to buy more. I wasn't optimistic for a long time, although I bought some Swiss insurance stocks after the crisis in 2009. Then, last May, I took another look, as sentiment was so negative. The S&P had doubled from its 2009 lows, yet many markets in Europe were at or below their 2009 lows. Something was out of sync. Markets in Europe have made major lows. But investors don't fully comprehend what happened in Cyprus. In the event of future bailouts, bank depositors will lose a percentage of their money. Money in the bank isn't 100% safe anymore. That's why I own stocks, and corporate bonds, and real estate.

Comments: Faber makes an interesting point...with Europeans fearing cash because of the Cyprus dealings, will money start finding its way into the stock market?? Buying a undervalued European company surely cant be as risky as having money at your bank these days...

Speaking of the Cyprus mess...we read this interesting piece on the "common" currency...(thx W.C.)

[NYTimes](#)—Tangled in restrictions imposed in March as part of a [bailout for the country's ailing banks](#), a euro in Cyprus is no longer the same as one in France, Germany or Greece.

"A Cyprus euro is a second-class euro," said Mr. Loucaides, the managing director of the Cyprus Trading Corporation.

Capital controls, once a tool used frequently by governments in times of crisis, have become extremely rare in Europe, though they are not unknown. Iceland, which is not a member of the [European Union](#) and uses its own currency, imposed them in 2008 after its three main banks imploded.

With a gross domestic product of about \$23 billion and shrinking, Cyprus is little more than a rounding error in the \$9.5 trillion euro zone economy. But Cyprus is also the first nation using the euro to restrict the flow of capital, raising a crucial question: Has the breakup of the euro zone — something European leaders have been struggling to prevent for three years with frantic summit meetings in Brussels and a series of bailout packages worth hundreds of billions of euros — in fact already started?

President Nicos Anastasiades of Cyprus certainly thinks so. "Actually, we are already out of the euro zone," he said, citing restrictions on the movement of euros from Cyprus as evidence that his country's money now has a different status and value from that in France, Germany and the 14 other European Union nations that use the currency. "It is a peculiar situation," Mr. Anastasiades said in an interview.



7. Moving east, we read an interesting article on a small part of the Chinese shadow banking sector..a few good nuggets in here...

[SydneyHerald](#)—There has been a lot of talk lately about shadow banking in China. Between curbside lenders, microcredit institutions, pawnshops, trust loans, “wealth management products” from banks and other components, this murky and unregulated financial universe is now worth an estimated \$US5 trillion (\$5.5 trillion), challenging the dominance of the traditional banking sector.

Such unrestrained growth naturally worries China’s central bank, which fears that a flood of bad shadow loans could prompt a financial meltdown similar to the US subprime crisis in 2008.

A liquidity squeeze in June, when the central bank allowed interbank lending rates to rise to as high as 20 per cent before intervening, was widely interpreted as a warning to banks to clean up their shadow portfolios.

China’s shadow bankers are easy to demonise. ...many are nicotine-stained and seemingly unsophisticated. Their methods are unorthodox, possibly even unsavory. Their loans don’t show up on any balance sheets. They look like a disaster waiting to happen.

I believe these fears are misplaced, and I should know: Eight months after my visit to Hangzhou, I became a shadow banker myself. Since 2011, I have run a microcredit firm in Guangzhou, which provides loans to thousands of small-scale entrepreneurs: florists, restaurateurs, fish farmers, vegetable growers, roadside hawkers.

Although we charge about 24 per cent annually for our money, demand remains virtually unlimited. Our customers are too small and too unstable to get traditional bank loans. At the same time, because we keep our loan amounts small - \$US20,000 apiece on average - and because we have close contact with our clients, the business has proved reasonably secure. Our bad debts have not strayed above 5 per cent since the firm was founded five years ago.

In recent weeks, news reports have described mass bankruptcies among small businesses that had borrowed heavily from shadow banks at exorbitant rates.

But neither should one condemn all of shadow banking because of stories like these. Shadow banking is well diversified, and serves a legitimate customer base. By and large, it has much lower leverage than banks or corporate China. Losses at shadow banks are often absorbed by entrepreneurs themselves, without affecting the taxpayer.

Even the “wealth management products” offered by regular banks are not to be feared, because they are just deposits, pure and simple, whatever the theoretical distinctions. I buy them myself.

Certainly, the sector could stand to be brought under greater supervision. But many of the regulations already in place are vague and unreasonable. Authorities have never clearly defined something as fundamental as what constitutes “illegal fundraising.”

Microcredit operations, like ours, are allowed to borrow from no more than two banks for any more than 50 per cent of their equity capital. Why only two banks? Why only 50 per cent? These restrictions are arbitrary, and they severely limit our ability to lend to underprivileged customers.

The government and the media are scapegoating the wrong culprit. Shadow banking has flourished in China for one simple reason: financial repression. By keeping interest rates artificially low, authorities have forced savers to search for more lucrative financial products. By favoring banks - which, in turn, favor state-owned or well-connected private-sector companies with loans - they have forced small enterprises to seek out people like me and Wang.

Meanwhile, projects that might look sketchy at 9 per cent interest rates suddenly look feasible at 6 per cent. Under such conditions, traditional banks have steadily lowered their lending standards - from prime loans to subprime and then to simply silly loans.

Sound familiar? That’s how the 2008 financial crisis began, too. Leaders are right to worry about the possibility of a banking crisis in China. But instead of focusing their ire on shadow bankers, they should raise benchmark interest rates in order to reduce the amount of credit flowing to dodgy loans through the formal banking sector. The threat to China’s financial system is right there - out in the open - not lurking in the shadows.”



8. Well turn the show over to the commodity king to discuss the gold market...nothing new here, but a few nuggets to digest...

“Business Insider: Two years ago, you told us you could see gold going to \$1,200. How did you arrive at that level?

Jim Rogers: I'm sure it was all based on intuition from Business Insider, but gold had been up at that point 11 - 12 years in a row which is an anomaly.

I don't know any asset that's gone up 12 years without a down year, and gold needed and deserved a correction. And, if it's going to happen where would it go? \$1,200 was between 35% - 40% and 35% - 40% reactions are commonplace, so that was the first number. I wish I could tell you I had a formula.

I'm not sure we've found the final bottom yet, it would make a lot of sense for gold having had 12 years up, to have at least a longer consolidation, a longer correction, maybe a few days, a few weeks, or a year or two. Why not 2014, 2015? My view is that gold is in the process of making a complicated bottom which could take a while. So I'm not buying gold. I haven't sold any gold or silver, but I'm not buying any. I'm watching and expecting a new low, which might be lower...

BI: Do you have any guesses for how long it would take to make a bottom?

JR: I wish I was that smart. I don't really know it could happen before 2014 or 2015. But the bull market's not over. Gold is going to eventually make new highs. It seems that there may be another. It's because it had these 12 years without going down, I don't know anything in investment history that has gone up 12 years without a declining year. There may be something I just don't know of it...

BI: What drove gold prices higher for 12 years?

JR: That's a very good question. Another question could be what's caused it to go down finally? What caused it to go up 12 years in a row was a 20 year bear market.

Gold had collapsed starting in 1980 and it went down for over 20 years. It went down substantially. So, when you have a very long extended bear market like that, everybody sells out, mines close, mines open and you lay the foundation for a nice, long bull market. And that's what happened to gold after 20 year period of real despair in gold, then you can have a nice long bull market. And yes 12 years is a long time, but it's nowhere near 20 years. The foundation was built for a long-term bull market.

Then it was driven by the fact that we had a lot of money printing in the world, we had a lot of debt, a lot of crises around the world. So there were all sorts of psychological reasons, all around the world, not just in America, for people to buy gold.

Now what caused it to finally go down, and as much as I love India and Indians, they are the largest buyers of gold in the world. And India has a huge balance of trade deficit. The largest drivers are oil and gold. You can't do anything about oil so the Indian politicians are blaming their problems on gold. And they've taken many measures, and more measures are coming to diminish or even eliminate the import of gold. I'm not the only person who saw that. They've been pretty loud about it. That was the main catalyst or the straw which broke the camel's back which made gold start going down finally, after 12 years of going up. And the foundation had been built for over 20 years and many, many fundamental things came together. But then after 12 years of a bull market more mines started opening, more gold mines were formed and then the Indians said, among others, but mainly the Indians said we're going to stop all this.

Con't.



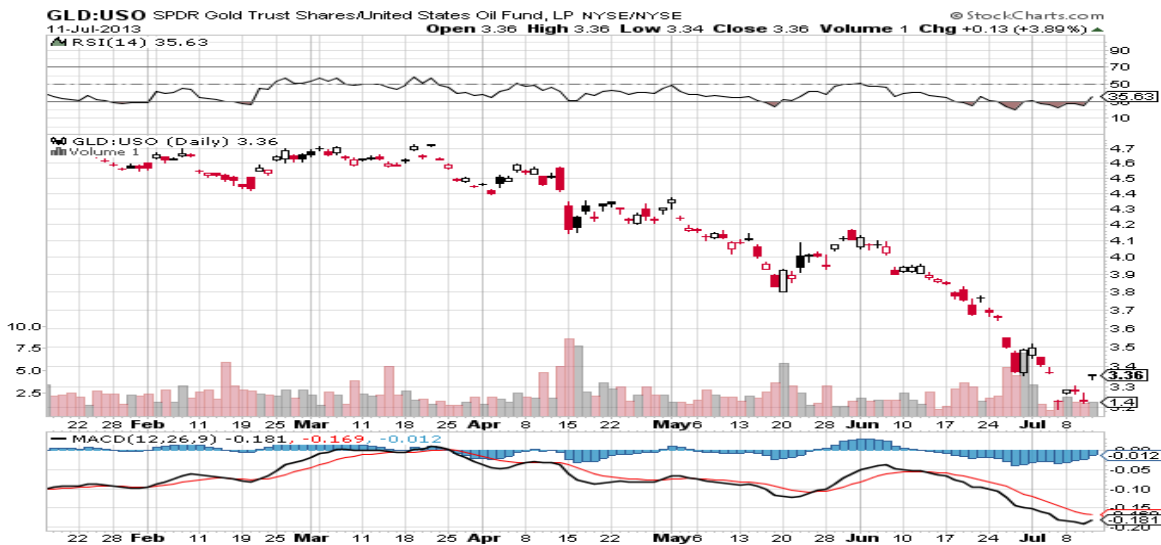
Business Insider: What's next for gold miners and mining stocks?

Jim Rogers: I don't own gold mining stocks. There's so many other easy ways for people to buy gold now that the miners have stiff competition. And there's lots and lots of competitive situations in mining.

30 years ago if you wanted to buy gold, you were almost restricted to gold mining shares. That's not true anymore. You can buy all sorts of coins. In those days only Krugerrands were available, 30 years ago. Nobody even made gold coins except Krugerrands. Now many countries have them. [There's] All sorts of ETFs, ETNs, futures, now there's many ways to buy gold. So the miners have a serious competitive situation and of course there's hundreds of them.

Mark Twain said the definition of a gold mine is 'a hole in the ground with a liar standing at the top of the hole,' because there's just so many of them. Somebody once did a study, and I think he determined that more money has been lost in gold mining shares than any other industry in America, including airlines and railroads at one time. So miners are going to have a very difficult time ahead of them.

Gold (GLD) vs Oil (USO) - a declining line isn't a good sign for the miners...



Gold—the red line shows massive support right around where Rogers hopes to get long...





9. *Jumping to another commodity that we've touched on in previous LALs...*

[MinyanVille](#)—"Will uranium ever be the new gold? Maybe... but not quite yet. Despite its recent plunge to below \$40 per pound, which is the first time it has dipped that low since 2006, uranium inventories remain plentiful in the US and Europe. But that could soon change.

The new low looks like a low-risk entry point, as the long-term outlook for uranium is positive, supported by a renewed pro-nuclear movement on the near-term horizon. In Japan, concerns about air pollution and rising costs have quelled the nuclear opposition. Recently a pro-nuclear government was elected, so Japan's 48 inactive reactors should come back online sooner than expected.

Also, countries including Germany and China are planning to initiate new nuclear reactors and restart existing ones for the first time since the Fukushima disaster. After the catastrophe, shares of even the largest uranium explorers and producers like **Cameco** ([NYSE:CCJ](#)), the "ExxonMobil of uranium," plunged 61% in less than a year.

With uranium recently falling to \$39.50 per pound, buyers -- especially utilities -- are currently trying to take advantage of the low spot prices. However, only a few small sales transactions are going through, as sellers are resisting filling large orders taken at such depressed levels. And in anticipation of Japan's new pro-nuclear regulations taking hold, producers are also holding out for higher prices in what could be a new dawn for nuclear power.

In Japan, a new energy policy went into effect July 8 and already **Tokyo Electric Power Co.** (TYO:9501) has filed with the nuclear regulatory authority to restart two idle reactors. Four additional Japanese utilities are expected to follow in Tokyo Electric's footsteps with applications to be filed in the coming week.

In other countries, the anti-nuclear movement has also proved expensive and environmentally counterproductive.

In China, the noxious air pollution situation seems most critical. A recent *New York Times* headline said it all: "In China, Breathing Becomes a Childhood Risk." To improve air quality, a [six-fold increase](#) in China's installed nuclear capacity is expected by 2020; that would represent the largest source of future nuclear demand worldwide by far.

Prior to Fukushima, Germany was on track to reducing noxious emissions to a record low. Then, in the wake of the disaster, eight nuclear reactor plants were shut down. By 2012, carbon dioxide emissions had increased to the point where some German utilities started suing the government in opposition to rising electricity costs and air pollution.

Using nuclear power to replace coal and gas power has prevented 1.8 million deaths globally since the 1970s and could save millions more lives in future decades, concluded NASA researchers in [a recent study](#).

The World Nuclear Association (WNA) estimates a uranium short fall in future years, as rising nuclear demand requirements are forecast through the next half century. A deficit of about 40,000 tonnes uranium (tU) is [WNA's estimate for 2030](#); (2030 demand, 137,000 tU; 2030 primary production, 97,000 tU)."



10. Last week we touched on sugar...its Brazilian cousin, coffee, has been in the same boat, down some 60%...Bloomberg reports...

<http://www.bloomberg.com/news/2013-07-03/coffee-crushed-as-slumping-real-spurs-brazil-sales-commodities.html>

The weakest Brazilian real in four years is accelerating coffee shipments from the biggest growing nation, adding to a glut that is cutting costs for Starbucks Corp. (SBUX) and Kraft Foods Group Inc.

First-half shipments were 20 percent higher than a year earlier at 13.385 million bags, or 803,000 metric tons, the Brazilian Trade Ministry said July 1. The real's 9.4 percent retreat in the second quarter, the most among 24 major emerging-market currencies, increased revenue from dollar-denominated coffee sales and encouraged exporters to tap stockpiles that are the biggest since 2007.

Brazil is increasing competition among coffee sellers as farmers unload beans to clear storage space for the next harvest, judging that losses will be limited by translating dollar revenues into weaker reals. With global output exceeding demand for a fourth year, accelerating sales will drive prices down 11 percent to \$1.08 a pound by Dec. 31, according to the median of 18 analyst estimates compiled by Bloomberg.

"The lower real will most certainly help exports, making Brazil a much more aggressive seller," said Rasmus Wolthers, a trader at Wolthers & Associates, a brokerage in Santos, Brazil. "There's a lot of coffee in Brazil, and there isn't enough space to store it all, so producers will have to sell. I expect to see much more aggressive sales offers."

...Government intervention may curb the surge in exports and halt the slump in coffee prices, said Jack Scoville, a vice president at Price Futures Group Inc., a broker in Chicago. The government approved a record 3.16 billion reals (\$1.4 billion) of subsidies last month to expand storage, buy beans and invest in plantations. It is also considering a proposal to compensate growers when prices drop below a certain level.

...Lower coffee prices and a weaker real may mean a financial squeeze on Brazilian growers, forcing some to cut spending on products such as fertilizers that they buy in dollars, according to Ourique, whose cooperative produces about 3.2 million bags a year. That would curb output from the 2014-15 season.

Exporting coffee rather than stockpiling may be the best option for growers, according to Kona Haque, a London-based analyst at Macquarie Group Ltd. The average cost of production dropped to \$1.15 a pound from \$1.35 at the start of the year as the real weakened, the bank estimates.

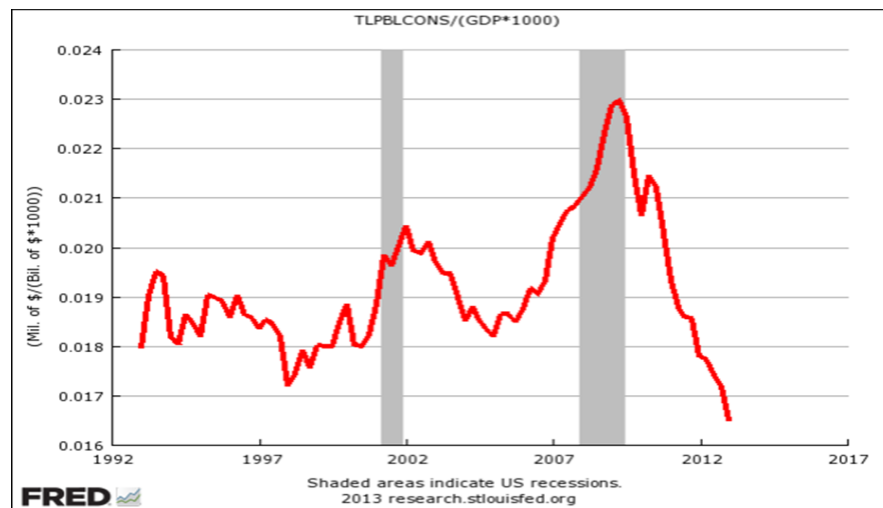
During the last major devaluation of the real, a 30 percent drop in 2008, green-coffee exports rose 5 percent to a then-record 26.033 million bags even as the harvest declined 16 percent, Cecafe and USDA data show. Brazil also exports robusta, the second-most-consumed coffee variety.

Comments: If you are watching these soft commodities, make sure you watch the Brazilian Real...the devalued currency has thrown endless supply on the market...





11. Earlier in the letter we mentioned perusing the *Absolute Letter*; in it Niels included a chart that sparked our interest...



What this chart shows is the total amount spent by the government for construction and infrastructure projects in relation to GDP... as evident by the chart, we have been vastly under spending as a country...the cracks (no pun intended) are beginning to appear...

... “the American Society of Civil Engineers gives the United States a [D+ grade on infrastructure](#), 1 in 9 bridges are [structurally deficient](#), and according to a recent study, [air transit ranks 33rd globally](#) behind Panama and Malaysia.”

Jumping to high tech infrastructure, [according to Bloomberg](#), the US ranks 14 in broadband speed.

And our water?? According to [IMT](#), “The U.S. Environmental Protection Agency (EPA) puts the minimum repair investment at \$335 billion for fresh water and \$298 billion for wastewater. AWWA’s 2012 report, [Buried No Longer: Confronting America’s Water Infrastructure Challenge](#), puts the figure at more than \$1 trillion over the next 25 years just for the drinking water infrastructure, and another \$1 trillion for wastewater.

The [ASC has indicated](#) we need roughly 3.6 Trillion dollars by 2020 to bring our infrastructure up to code...while this may be a bit biased (considering the source) the point still stands, public monies will be allocated and spent in these sectors over the next couple decades...mind you this is a very long term trend, but any trend backed by the government that spans decades is an interesting place to research...always play with the wind at your back...

Infrastructure ETF—IGF





12. Reading up on the infrastructure plays, reminded of us of our water plays...we have covered water in past LALs but the trend is worth repeating as several of our members sent in articles this week (thx MG & DH)...

[ZeroHedge](#) —According to analysts, the world will end up facing a crisis over water shortages, and it has already begun in many parts of the world; and not just in those that are in Africa. Sometimes those places are much closer to home than either we might expect or that we would like for our comfort-zone. By **2030**, we will have a **40% shortfall between the water that is available and what is being demanded**.

There are many countries in the world that have a higher rate of extraction of water than its replenishment, and that means that water is being used up at unbelievable rates today.

- The total volume of water on the planet is fixed, estimated at about **1.386 billion km³**.
- But, **97.5%** of that is saline water.
- Only **2.5%** is fresh, with the vast majority in either unreachable places or trapped in ice reserves somewhere around the world.
- Only about **0.3%** is on the surface of the planet and directly available to us.

Food prices were volatile in 2008, 2009 and 2010 and it is obviously water that will lie at the heart of the problem in the future. Water will be the agricultural challenge in the years ahead. Water supplies, which are already scarce, are being depleted by growing industries and countries that are demanding that water in their manufacturing processes.

The World Economic Forum states that **“we are now on the verge of water bankruptcy in many places around the world, with no clear way of repaying the debt”**. Water bubbles have existed around the world, because we have had water prices maintained at very low prices in order to meet the needs of growing industrialists. The knock-on effect in certain regions around the world that are seeing their water bubbles burst (China, the Gulf States, India, the Middle East) will be (further) **political instability and economic upheaval**.

Today the figures show the following:

- Agriculture represents about 71% of water usage today (**3, 100 billion km³**).
- This will increase to **4, 500 billion km³** in the next fifteen years.
- Industry represents about **16%** of water usage today in the world.
- This will increase to 22% in the next decade and a half.
- China’s water usage for industry will stand at 40% of the increase in demand for water around the world over that same period.

As the population around the world grows our water consumption grows too. But, it does not grow at the same proportional rate as the size of the population. The global population grew between 1990 and 2000, for instance by a factor of four. Water consumption grew by a factor of nine over that same period. Seems very much as if the more we grow, the thirstier we become. The richer we become, the more we waste that particular resource.

The world is a vulnerable place subjected to diminishing resources coupled with a population that is growing by the day. Births average out at about 134 million per year and deaths stand at 56 million today. That means that there is a **net growth in world population of approximately 78 million** people and world population is estimated to grow to between **8.3 and 10.9 billion by 2050**. World population is currently at over [7.163 billion people today](#). As our world grows in population size, it will thirst even more for water. Yet water is sometimes considered only as a commodity to be bought and sold economically. It’s much more than that. It has a religious dimension, a social and cultural side too, as well as a biological need. That means that it will always be required. Water scarcity is just like the financial crisis that was pooh-poohed as being nothing or impossible, the bubble that would never and could never burst. But, that did burst with a big slap in the face at the same time. We shouldn’t look at water scarcity and the bankruptcy of certain countries in terms of water supply with disdain and dismiss the problem belittling it. It will spread like the financial crisis unless we take things in hand.



13. The UK Guardian also [touched on the water theme this week...](#)

Peak oil has generated headlines in recent years, but the real threat to our future is peak water. There are substitutes for oil, but not for water. We can produce [food](#) without oil, but not without water.

We drink on average *four litres of water per day, in one form or another, but the food we eat each day requires 2,000 litres of water to produce, or 500 times as much.* Getting enough water to drink is relatively easy, but finding enough to produce the ever-growing quantities of grain the world consumes is another matter.

Grain consumed directly supplies nearly half of our calories. That consumed indirectly as meat, milk, and eggs supplies a large part of the remainder. Today roughly 40% of the world grain harvest comes from irrigated land. It thus comes as no surprise that irrigation expansion has played a central role in tripling the world grain harvest over the last six decades.

During the last half of the twentieth century, the world's irrigated area expanded from close to 250m acres (100m hectares) in 1950 to roughly 700m in 2000. This near tripling of world irrigation within 50 years was historically unique. But since then the growth in irrigation has come to a near standstill, expanding only 10% between 2000 and 2010.

In looking at water and our future, we face many questions and few answers. Could the world be facing peak water? Or has it already peaked?

Today some 18 countries, containing half the world's people, are overpumping their aquifers. Among these are the big three grain producers – China, [India](#) and the US – and several other populous countries, including Iran, Pakistan and Mexico.

During the last couple of decades, several of these countries have overpumped to the point that aquifers are being depleted and wells are going dry. They have passed not only peak water, but also peak grain production. Among the countries whose use of water has peaked and begun to decline are [Saudi Arabia](#), Syria, Iraq and Yemen. In these countries peak grain has followed peak water.

Comments: “Peak” gets thrown around a lot these days...water is somewhat replenishable, so lets hope technology can advance to counteract this trend...however when it comes to food and water, tensions can and will run high (remember Arab Spring)...the last few decades, wars have been waged to secure the black gold...could the next revolution be over water?...the foundation is already being scripted...

[TheIndependent](#)—The Gaza Strip, a tiny wedge of land jammed between Israel, Egypt and the Mediterranean sea, is heading inexorably into a water crisis that the United Nations says could make the Palestinian enclave uninhabitable in just a few years.

With 90 to 95 per cent of the territory's only aquifer contaminated by sewage, chemicals and seawater, neighbourhood desalination facilities and their public taps are a lifesaver for some of Gaza's 1.6 million residents. But these small-scale projects provide water for only about 20 per cent of the population, forcing many more residents in the impoverished territory to buy bottled water at a premium. The UN estimates that more than 80 per cent of Gazans buy their drinking water. "Families are paying as much as a third of their household income for water," said June Kunugi, a special representative of the UN children's fund Unicef.

The Gaza Strip, governed by the Islamist group Hamas and in a permanent state of tension with Israel, is not the only place in the Middle East facing water woes. A Nasa study of satellite data released this year showed that between 2003 and 2009 the region lost 144 cubic kilometres of stored freshwater – equivalent to the amount in the Dead Sea – making a bad situation much worse.

But the situation in Gaza is particularly acute, with the UN warning that its sole aquifer might be unusable by 2016, with the damage potentially irreversible by 2020. Between 5 and 10 per cent only of the aquifer's water is safe to drink, but even this can mix with poor-quality water during distribution, making it good only for washing.



14. So with water running out, what does that mean for the future supply of food given that it takes 2000 liters of water to produce the food we eat each day??? That question is one WaPo raised this week...

[WashingtonPost](#)—It's a question that keeps crop scientists up at night: How are we possibly going to feed the world over the next few decades?

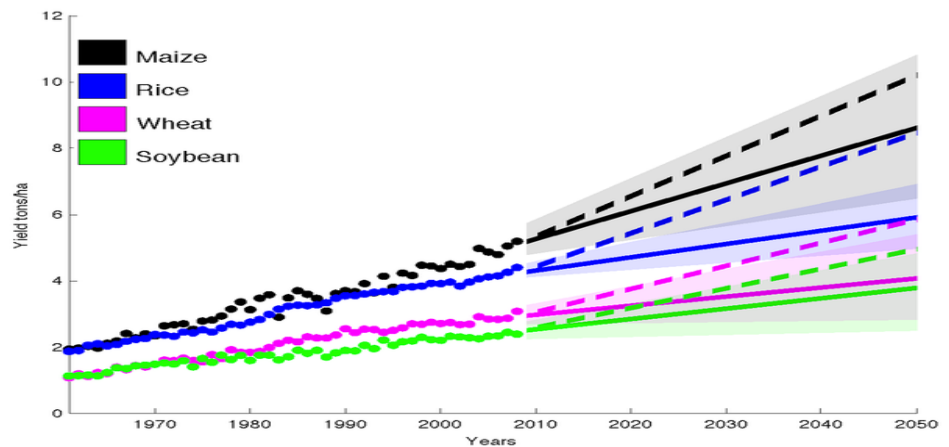
After all, consider what we're up against: The global population is expected to swell from 7 billion today to [9.6 billion by 2050](#). The rising middle class in China and India is eating more meat than ever. And this is all happening at a time when we're setting aside a greater slice of farmland for biofuels *and* trying not to cut down any more forests (which exacerbates climate change). Doing this in a sustainable manner is tricky.

In theory, there's a simple solution here: The world's farmers will just need to get better at squeezing more productivity out of existing farmland. Crop yields have been steadily improving since the advent of synthetic fertilizer and modern agricultural techniques. So those yields will just need to keep improving in the years to come.

But there's a big problem: This isn't happening. Or at least, it's not happening fast enough. A recent [peer-reviewed study](#) in the journal PLOS ONE found that crop yields haven't been rising at a sufficient pace to meet projected demand by 2050

As you can see [on the chart on the right], **yields per acre have been growing fairly constantly in all four areas. The solid lines show what would happen if this growth continued.**

And it's not enough. **The dashed lines above show how productivity would need to grow even *more* rapidly for the world to satisfy expected demand and double global food production by 2050 in a sustainable manner, without razing more forests for farmland. "Current rates," the authors note, "are not achieving this goal."**



In the U.S. Midwest, wheat yields per acre have been rising at a decent 2 percent per year. But in parts of India or Eastern Europe, they've basically flat-lined. The same holds true for other crops: "China, India and Indonesia are witnessing rice yield increases of only 0.7%, 1.0%, and 0.4% improvement per year," the paper notes.

There are two big reasons why yield gains could be stagnating, explained Jonathan Foley, an agricultural expert at the University of Minnesota, in an interview we did a few months back. "In many parts of the world, we haven't seen enough investment in agriculture because of economics or policies or institutions," he said. Many former Soviet states, say, could improve their yields through better fertilizer use. They just aren't doing it.

But in some parts of the world, there's a more worrisome prospect — farmers are doing everything they can to squeeze more productivity out of their farmland, but they're starting to hit a biological "wall," a limit on how much yields can keep rising.

Comments: Water and food security will be an ongoing trend with huge implications for the global population...agriculture prices will be forced to rise over the long term to balance the supply/demand chart...but with increasing prices, come global instabilities, revolutions and geo-political tensions...



15. As can be seen by the chart in the previous section, yields per acre and productivity of our farmers has pumped supply and helped keep prices at bay even though population and caloric intake is rising multiples faster than the output seen...this productivity trend is attributed to better irrigation and more importantly to genetically modified seeds (GMO)...which raises yet another question: what would happen to the global food supply/demand chart if GMOs are found to be losing their efficiency???

[MotherJones](#)—“Ah, high summer. Time to read stories about the declining effectiveness of GMO-seed giant Monsanto's flagship products: crops engineered to resist insects and withstand herbicides.

Back in 2008, I felt a bit lonely participating in this annual rite—it was mainly just me and reporters in a the Big Ag trade press. Over the past couple of years, though, it's gone mainstream. Here's NPR's star agriculture reporter Dan Charles, on corn farmers' agrichemically charged reaction to the rise of an insect that has come to thumb its nose at Monsanto's once-vaunted Bt corn, engineered to contain the bug-killing gene of a bacteria called *Bacillus thuringiensis*:

It appears that farmers have gotten part of the message: Biotechnology alone will not solve their rootworm problems. But instead of shifting away from those corn hybrids, or from corn altogether, many are doubling down on insect-fighting technology, deploying more chemical pesticides than before. Companies like or that sell soil insecticides for use in corn fields are reporting huge increases in sales: 50 or even 100 percent over the past two years.

And this, from a veteran observer of the GMO-seed industry who—in my view—sometimes errs on the side of being too soft on it.

The Wall Street Journal's Ian Berry got the ball rolling early this year with a May report bearing the evocative headline "Pesticides Make a Comeback: Many Corn Farmers Go Back to Using Chemicals as Mother Nature Outwits Genetically Modified Seeds":

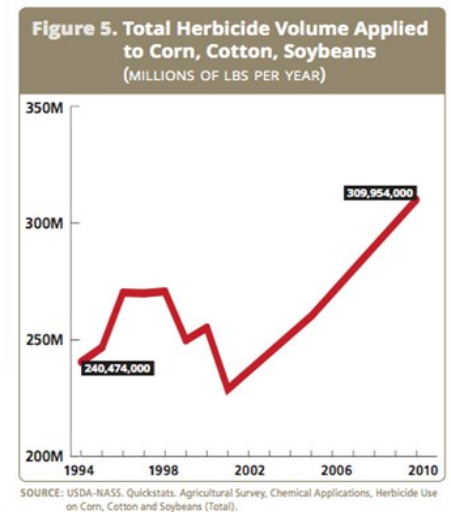
Insecticide sales are surging after years of decline, as American farmers plant more corn and a genetic modification designed to protect the crop from pests has started to lose its effectiveness. The sales are a boon for big pesticide makers, such as American Vanguard Co. and Syngenta.

All the attention on superinsects has taken the major-media spotlight off of the "superweeds" that have evolved to shrug off copious doses of Roundup, the herbicide that's supposed to make Monsanto's Roundup Ready crops immune to weed problems. But that doesn't mean these thug weeds have stopped working their magic. They're "gaining ground" in Iowa, heart of the US corn/soy belt, reports the Cedar Rapids-based Gazette. And farmers are responding just as they did in the South, where Roundup-resistant weeds have had been rampant for at least five years: with a chemical deluge. Here's one of several anecdotes in the Gazette piece on that illustrate this familiar theme:

Tracy Franck, who farms 2,400 acres in Buchanan County with his dad and son, said they "are putting on more Roundup every year to kill the same amount of weeds." They, like most other farmers in their area, are also applying a pre-emergent residual herbicide to help control the glyphosate [the active ingredient in Roundup]-resistant weeds that are just beginning to show up in their fields. "We are starting to see some lambs quarter and giant ragweed that are tough to kill," he said.

All of which raises the question: If Monsanto's seeds are failing, why are farmers still buying them in such vast numbers?

Comments: There has been an uptick in both superbugs relating to humans and superweeds/superinsects when it comes to crops...mutations are creating manifestations that are prone to resist our standard cures...this has huge implications from our health to our food...winners will be made in those that can counteract this ongoing trend....





16. Continuing our agricultural theme, we saw this week that India passed a bill designed to feed its growing population...but what are the global implications??

[NYTimes](#)—The right to **food is finally becoming a lively political issue in India**. Aware of the forthcoming national elections in 2014, political parties are competing to demonstrate – or at least proclaim — their commitment to food security. In a country where endemic undernutrition has been accepted for too long as natural, this is a breakthrough of sorts.

The rhetoric, however, is not always matched by understanding of the issues, let alone action. The National Food Security Bill taken up by Parliament in December 2011 in pursuance of electoral promises made by India's governing coalition, the United Progressive Alliance, is at the heart of the current debate over food security. The bill was to be put to vote during the last session of Parliament, along with a series of amendments based on the report of a parliamentary standing committee. Opposition parties, however, continuously disrupted the proceedings under one pretext or another.

Exasperated by this obstruction, and quite possibly hoping to win votes, **the government recently promulgated the National Food Security Ordinance 2013. The ordinance effectively activates the bill, but it must be ratified by Parliament within six weeks of its first sitting or else the bill will lapse.** The use of emergency powers to promulgate this ordinance is being criticized as undemocratic, and rightly so, but most political parties bear some responsibility for this outcome.

The bill is a modest initiative. It consolidates various food-related programs and entitlements that have made gradual headway during the last decade. **Provisions of the bill dealing with food grain entitlements under the public distribution system have grabbed most of the attention.**

Rank	Country	Production (1000 MT)	
1	China	144,000.00	<div></div>
2	India	108,000.00	<div></div>
3	Indonesia	37,700.00	<div></div>
4	Bangladesh	34,200.00	<div></div>
5	Viet Nam	27,850.00	<div></div>



Comments: Under the program hundreds of millions will be granted access to rice and wheat...Given that India is a top 5 exporter of rice, this bill could have global implications on the price of rice...stay tuned...



17. Finally an article that should “hit” home with all the investors out there...from Josh Brown over at ReformedBroker.com.

“...A good decision process is more important than analysis. And in baseball there are things more important than a good swing, “things that are more constant than the swing itself.” You Need a Good Pitch “A good hitter can hit a pitch that is over the plate three times better than a great hitter with a questionable ball in a tough spot.”

The first rule of hitting actually comes from a fellow baseball legend, Rogers Hornsby.

He told Williams that the single most important thing for a hitter was to get a good ball to hit.

Ever a student of the game, Williams carved the strike zone into 77 cells, each the size of a baseball.

Williams knew that swinging at balls in the best cells, the red ones, would allow him to bat pretty close to .400; deviating outside of that, and reaching for his worst spot, would reduce him to .230.

His patience would make the difference between a trip to the hall of fame and a ticket to the minors.

We all have a strike zone, this is our circle of competence. This is an area in which we are capable of understanding with a high degree of probability the relevant variables and likely outcome.

This is our sweet spot and it's different for all of us.

Everyone wants to have a large circle — just as everyone wants to hit home runs. But that’s not really what’s most important.

Knowing the boundaries of our circle of competence is more important than its size. Familiarity with something is different than competence.

Charlie Munger says “It’s not a competency if you don’t know the edge of it.”

“If we have a strength, it is in recognizing when we are well within our cycle of competence and when we are approaching the perimeter. Predicting the long term economics of companies that operate in fast-changing industries is simply far beyond our perimeter. If others claim predictive skills in those industries—and seem to have claims validated by the behaviour of the stock market we neither envy nor emulate them. Instead, we just stick with what we understand. If we stray, we will have done so inadvertently, not because we got restless and substituted hope for rationality.” — Warren Buffett

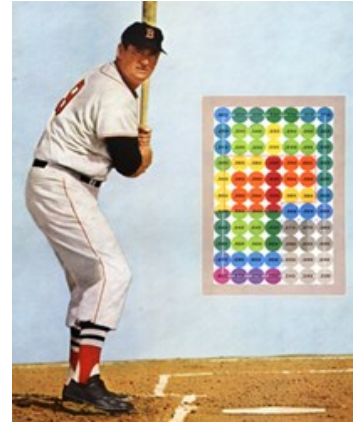
Unlike Williams, Buffett can't be called out on strikes if he resists pitches that are barely in the strike zone. He can, quite literally, wait for the perfect pitch. That explains why he bats pretty close to 1.0 while Williams had to settle for much less. When we're investing, we can choose to do the same thing.

Most decisions, however, are not investment related. We don’t have the option to wait for the perfect pitch. We have to make decisions. Knowing the boundary of our aptitude can help guide those decisions and how we make them.

Clearly, making decisions that are outside of our circle of competence (i.e., we don't know what we're doing) is riskier than making decisions inside our circle (i.e., where we do know what we're doing.) Williams batting average dropped off when he swung outside his core, and so to will ours.”

If we have to decide something and we know we're not in our sweet spot, we can take steps to improve the odds of making the right decision. Or, at the very least, acknowledge that the decision we’re making is risky. We know we're the patsy.

Whatever decision you're making, know where it falls in your strike zone. To the extent possible you should attempt to deal with things that you are capable of understanding.”





And on to our random short articles of the week...

18. ["We are now on the cusp of mainstream 3-D printing," suggests Technology Prof-its Confidential editor Ray Blanco](#)

"As evidence, he submits the following..."Amazon has created a new 3-D printing section on its website," he says. Seriously. You won't find it in the drop-down menu on the homepage -- yet -- but it's right there in the Industrial & Scientific category. Meanwhile, the brick-and-mortar retailer Staples is adding a line of 3-D printers in its stores.

As further evidence, Ray informs us "Microsoft will build 3-D printing support into its latest iteration of Windows, version 8.1."

"The operating system will make it as simple to connect to a 3-D printer as it is to a 2-D one. Furthermore, Microsoft is including additional software support for developers to make it easy to create applications including 3-D printing functionality on Windows."



Comments: *We have been both bullish and bearish 3d printing over the past 52 weeks... it's a strong trend but difficult to predict the winner...*

19. [Obamacare employer mandate delayed until 2015 to give Democrats breathing room until after 2014 midterm elections, says Treasury source](#)

"[Politico](#) noted that Tuesday's pivot from the White House will not affect the so-called 'individual mandate,' which will require most Americans to be insured. It also won't delay the scheduled October rollout of health care marketplaces, called exchanges, set up to help taxpayers and companies find coverage that satisfies the Obamacare law. The administration has been on a full-court press in California, Texas and Florida, enlisting the help of Hispanic advocacy groups and Spanish-language media networks to encourage enrollment in advance of the autumn start date."

Comments: *Many business-owners have been seeking part-time workers and/or cutting hours to get under the 50 worker threshold that was expected in January 2014... this delay in implementation should give a slight boost to employment numbers in the coming months and give the Dems a temporary boosts to some economic indicators leading into the mid-terms...*

20. [Permits Soar to Allow More Concealed Guns](#)

"Since July 1 of last year, Florida has granted more than 173,000 new concealed-carry permits, up 17% from the year before and twice as many as five years ago, for a total of about 1.09 million permits in the state.

Ohio, meanwhile, is on pace to nearly double last year's total of 65,000 new permits, which would be nearly three times as many as in 2007. And Oklahoma, Tennessee, Wyoming and Nebraska all have nearly matched or surpassed last year's totals with half of 2013 still to go.

A dozen states surveyed for this article, including Texas, Utah and Wisconsin, issued 537,000 permits last year, an 18% increase compared with a year prior and more than double the number issued in 2007. Early figures for 2013 show many states are on pace for their biggest year ever.

About eight million Americans had concealed-carry permits as of last year, the Government Accountability Office said in what it called a conservative estimate."



Comments: *The prevalence and popularity continues to gain momentum...a trend we've discussed in past LALs...Smith&Wessen chart to the right...*



21. <http://qz.com/102530/hedge-funds-may-be-coming-to-a-billboard-near-you/>

The US Securities and Exchange Commission (SEC) has voted to allow hedge funds to advertise to the general public, easing 80-year-old restrictions on how investment funds can raise money in the United States.

The rule change stems from the Jumpstart Our Business Startups Act (JOBS Act), a 2012 law meant to spur investment in small businesses by relaxing rules on how companies and funds can raise money. And in fact, private equity funds and other startup companies that were once barred from “general solicitation” will—once the rule goes into effect—be able to publicly ask for money and discuss investment opportunities.

The bill still limits would-be investors in the funds to people with [assets in excess of \\$1,000,000](#), or those who have had an income of \$200,000 or more per year for the last two years. That ends up including about [7.8% of the population](#). Critics have argued that relaxing these restrictions increases the likelihood of fraud.

Comments: We can't wait to see the Blackrock Yankees take on the Bridgewater mets in a few years...

22. [http://online.wsj.com/article/SB10001424127887324260204578584060534891582.html?](http://online.wsj.com/article/SB10001424127887324260204578584060534891582.html?mod=WSJ_hpp_MIDDLENexttoWhatsNewsThird)

[mod=WSJ_hpp_MIDDLENexttoWhatsNewsThird](#)

As more than 50 million Twinkies start making their way to stores next week, the first order of business for the 83-year-old brand's new owner is to let customers know a classic is back.

But behind the return of the familiar cream-filled sponge cake is a leaner operation, free of the union contracts and the \$1.3 billion in debt that saddled the brand's previous owners. With that clean slate, the new owner and chief executive, C. Dean Metropoulos, plans to launch an ambitious growth plan and avoid the problems that led to two Chapter 11 bankruptcies, the last of which ended in liquidation.

In his first interview about the company's strategy, Mr. Metropoulos said the new Hostess Brands LLC, based in Kansas City, Mo., **will be focused on innovation, efficiency and getting more Twinkies in more places.**

Comments: Can't wait to see how he innovates my Twinkies...

23. <http://www.bloomberg.com/news/2013-07-05/argentina-applies-law-that-jails-hoarders-as-bread-prices-double.html>

Argentina plans to apply a law that forces holders of wheat and flour suitable for bread making to sell stock on the domestic market in a bid to contain inflation.

Interior Commerce Secretary Guillermo Moreno announced the measure in the [official gazette](#) today. The 1974 law allows authorities to freeze prices and obliges companies to maintain supply. Those in breach are subject to fines and imprisonment. “If the law on supply is applied, the one who should go to jail is Moreno himself,” former Economy Minister Martin Lousteau said in an interview with Radio Mitre today. “He’s to blame for the lack of wheat in Argentina.”

Argentine wheat production has decreased since 2006, when President Cristina Fernandez de Kirchner’s predecessor and late husband Nestor Kirchner set export quotas. Lousteau was appointed by Fernandez in December 2007 and resigned four months later amid disputes over a bill that sought to increase export duties, a move that led to a four-month farmer protest and failed to move through Congress.

The rising cost of wheat locally has pushed up the price of bread to 20 pesos per kilo (\$3.70), double year-ago levels, according to Abeceb.com research company.

Comments: First toilet paper, now bread...socialism at its finest...forget gold, we all know what to stockpile now...



24. [Quartz](#)— “Japan’s rapidly aging population is producing some interesting new business opportunities, including a booming market for adult diapers.

The [Nikkei newspaper](#) (subscription only) reported on Thursday that three Japanese paper companies—Daio, and Nippon Paper—are expanding their manufacturing facilities for what are politely called “incontinence products” due to an expected surge in demand. The Nikkei said adult diapers are expected to outsell baby diapers in Japan by 2020, but according to Unicharm, Japan’s biggest diaper maker, [the tipping point was in 2011](#).

The adult diaper market is growing at 6-10% a year, and already pulls in 140 billion yen (\$1.4 billion) by catering to Japan’s elderly population—it has the highest percentage of over-65s in the world, making up more than 20% of the population.”

Comments: Japans population is expected to decline from ~127m to sub 100m in a few decades...with demographics like that you’d think we’d be leaning short...but with Abe on your side its tough to be short...that is until Japan inevitably sh\$ts itself (no pun intended) under its mountain of debt...on a side note, the growth of the diaper industry is a trend worth exploring.. with the developed world demographics in a tailspin and China relaxing their “one child” policy due to a bottoming of the dependency ratio, this may be a trend to play for decades to come...

25. [Bloomberg](#)— “Let’s say you want to become a raisin farmer. This is probably a bad business model if you live in, say, northern Minnesota, but in California’s San Joaquin Valley it makes a lot of sense, since that’s where most U.S. raisins—and half the raisins in the world—come from. You can see the Sun-Maid and Dole Food ([DOLE](#)) fields as you drive along the highway, their grapes shriveling in the sun. So you move to Fresno, buy some land, grow some grapes, turn them into raisins and then sell them.

Wait, not so fast. Did you give part of your crop to the federal raisin reserve?

Last month the Supreme Court ruled on an obscure little case called [Horne v. Department of Agriculture](#), brought by a California raisin farmer who claims that by requiring him to pay into this so-called raisin reserve, the U.S. Department of Agriculture (USDA) is illegally confiscating his private property. The case didn’t attract much media attention because the unanimous ruling was just a logistical one—it was kicked it back to a lower court—that was dwarfed by the gay-marriage and voting-rights decisions, which, understandably, are much bigger political issues than dried fruit.

Still, for most of us the discovery of a governmental raisin hoard will count as a question-raising surprise. Where are they kept? Why are they kept? Is the American economy in danger of being thrust into recession by an avalanche of underpriced raisins? What other piles of fruit are out there, and, more importantly, can we eat them?

...the raisin reserve is part of what’s called a federal marketing order, a set of rules establishing how much of a specific crop can be sold in any given year. The regulations date back to the Agricultural Marketing Agreement of 1937, which sought to give Depression and Dust Bowl-ravaged farmers a way to limit supply collectively so they could raise crop prices to sustainable levels. Make the grapes a little less wrathful, and all that.

“They’re just set aside in a separate stack at each packaging plant,” says Gary Schultz, president of the Raisin Administrative Committee. In the past, up to 47 percent of a raisin yield has been reserved this way. Once set aside, they aren’t allowed to be sold. “Then if the committee decides to release some or all of them into the marketplace later ... we hold an auction,” Shultz says. Every raisin farmer has to surrender his raisins, whether he wants to or not..”

Comments: Big Brother steals my fruit cup...



~ Reads of the Week ~

Below are a few longer article/publications that are worth the read if you haven't already done so:

A journal of the investments and mindset of one of the winners in the 2007/2008 global financial crisis, Michael Burry:

<http://csinvesting.org/wp-content/uploads/2013/07/Michael-Burry-Case-Studies.pdf>

Another manager that cut his teeth in the GFC, Kyle Bass...his quarterly letter:

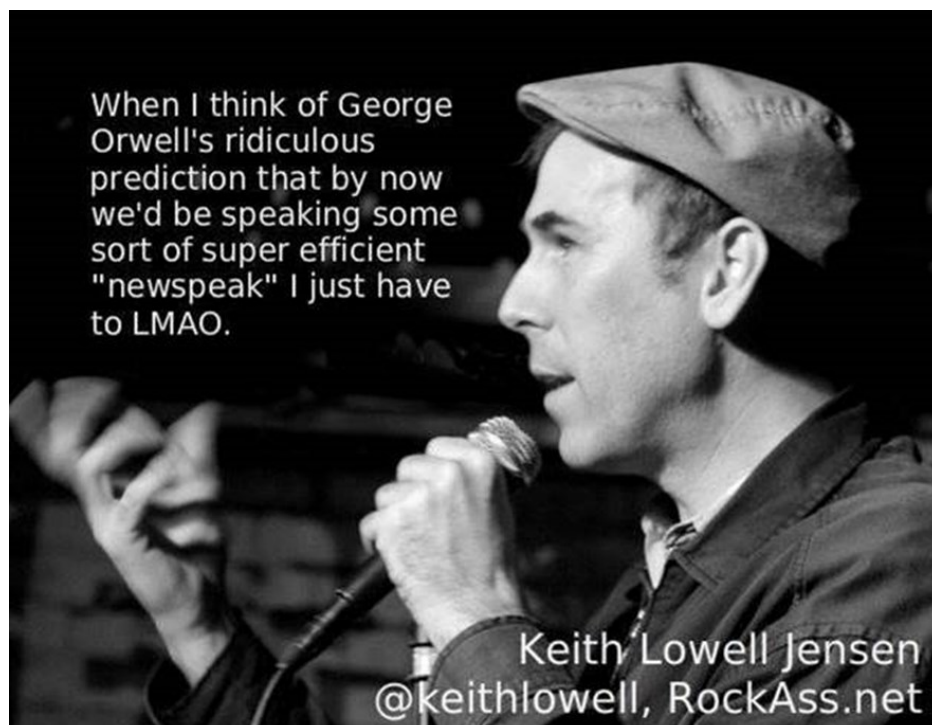
<http://www.scribd.com/doc/151533387/Hayman-Japan-Update-June-2013-FINAL-Kyle-Bass-China>

The monthly tome from Niels Jensen of Absolute Return...

http://www.arpinvestments.com/The_Absolute_Return_Letter_0713.pdf



~ Happy Endings of the Week ~





Contributors

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Harris Kupperman is the president and founder of Praetorian Capital, a macro themed hedge fund based in Florida. Since its launch in 2003, the fund has consistently sought to be early in identifying longer term macro trends and finding companies that will benefit from those trends.

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Leather Apron Letter was designed to foster and encourage the free flow of information. If you have something interesting to share, email Ben Franklin at **Info@LeatherApronLetter.com**

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