# Myrmikan Research

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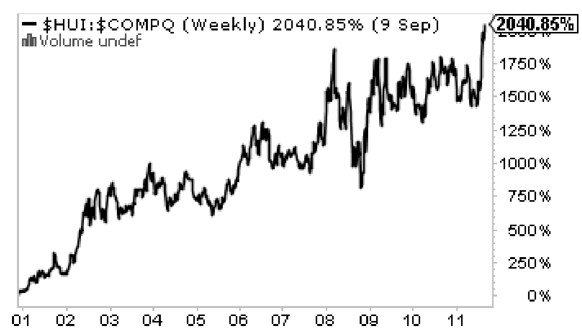
The HUI Gold index is comprised of gold miners which do not hedge their production beyond eighteen months. It began trading on June 4, 1996 with an adjusted price of 213. A little over four years later, it stood 83% lower. The HUI staged some impressive bounces during the decline; for example, in April 1999, nearly three years into the decline, it surged 41% in less than a month. Then it plunged another 58% over the next eighteen.

Worse for gold investors, this was the precise time that the NASDAQ was bubbling. Pricing the HUI in the terms of the NASDAQ, gold investors lost 93%.


The HUI bottomed on November 14, 2000. Within a month it was 27% higher. Those who caught the rise would have been forgiven for selling, since all previous bounces were merely preludes to even deeper plunges. But, this time, the HUI kept going higher: within four months it was 58% higher. Over the ensuing decade, it would surge twenty *times* versus the NASDAQ, more than making up for its losses. Sadly, it is doubtful that many who took the trip down had the fortitude to stay for the trip back up.

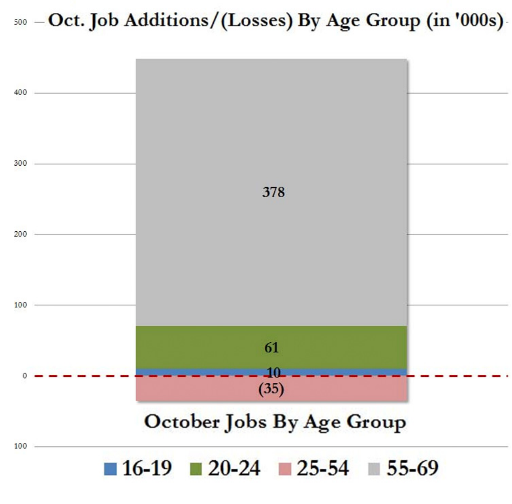



Since the peak in 2011, the HUI has lost 83%, and, against the NASDAQ, it has lost 92%, nearly the exact losses as in the late 1990s over the same time period. Along the way, there have been large bounces that suggested the bottom was in, but each time a steeper plunge followed.

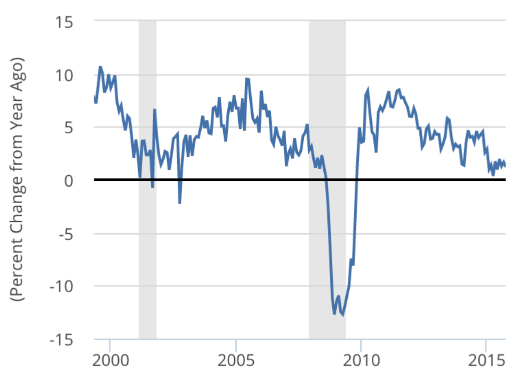
Case in point: the HUI surged 28% in the first two weeks of October. Then came October's job report on November 6, which surpassed all expectations—all and sundry proclaimed that the financial crisis is now past, and it is safe for the Fed to begin raising rates in December. Gold plunged back to cycle lows, the gold stocks following.

Yet, the data does not support the narrative that the economy has healed. Zerohedge, for example, published the graph at right to demonstrate that even the stellar jobs report number was hollow—it cannot be healthy when retired folks have to go back to work and working-age folks can't find a job.

Meanwhile, the metrics that the Fed says it looks at continue to soften.

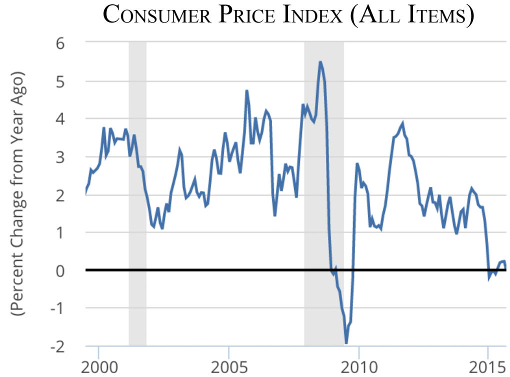



Retail Sales (Excluding Food Services)

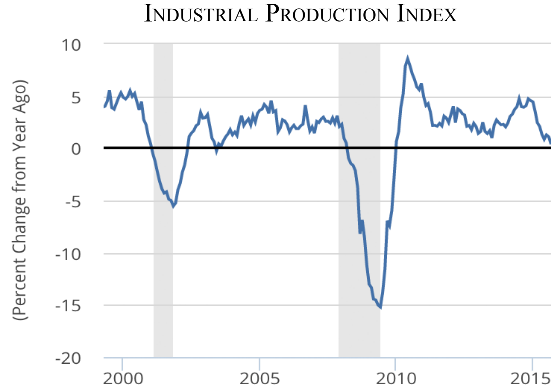



CCC Bond Yield: The Marginal User of Credit

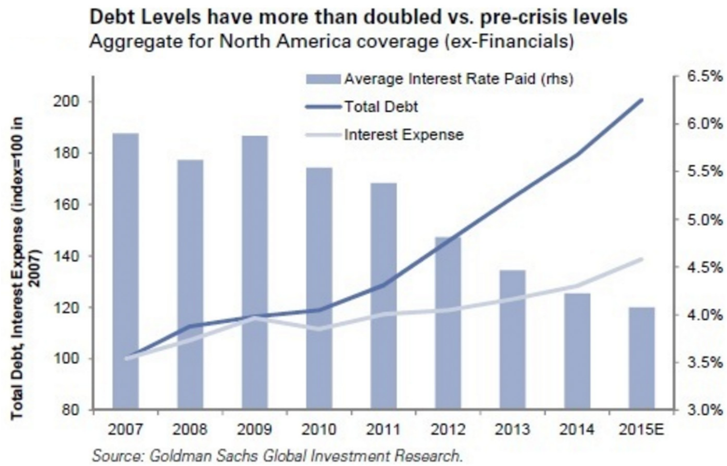

Consumer Price Index (All Items)



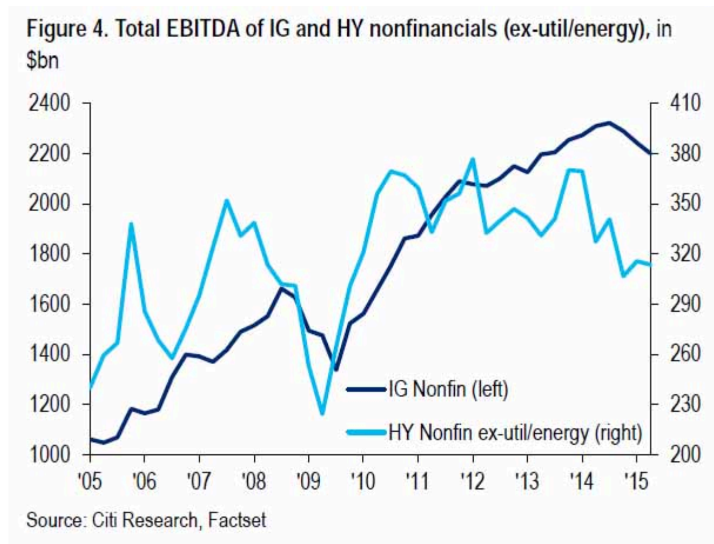

Industrial Production Index



But the scariest charts are the two at right. The top chart shows clearly that far from deleveraging after the crisis, the corporate sector has taken on massive amounts of new debt, made possible by the Fed's low rates. Even so, the interest burden is rising. What happens to the value of equity if rates rise as well?




The bottom chart shows that EBITDA, in other words, the ability to pay this debt burden, is falling—it is the graphic display of Senator Root's warning in his plea opposing the passage of the Federal Reserve Act of 1913:

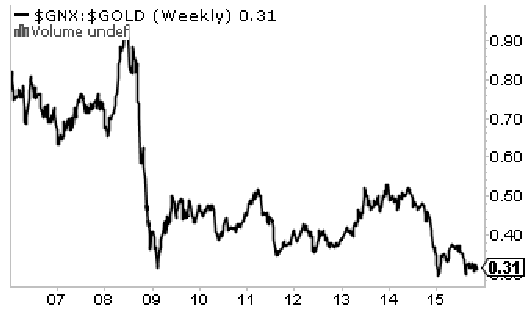



> All the world moves along upon a growing tide of optimism. Everyone is making money. Everyone is growing rich. It goes up and up, the margin between costs and sales continually growing smaller as a result of the operation of inevitable laws, until finally someone whose judgment was bad, someone whose capacity for business was small, breaks; and as he falls he hits the next brick in the row, and then another, and then another, and down comes the whole structure. That, sir, is no dream. That is the history of every movement of inflation since the world's business began.

Myrmikan retains the view that the Fed cannot raise rates without destroying the financial system. The insane amount of leverage does not allow any interest burden whatsoever. Rates must be kept negative, in fact, to keep the debt pyramid from collapse.

Of course, as technical matter, the Fed may hike by 25 basis points in December just to show they can. But this will merely hasten the deluge and the next round of printing, at which point money will begin to rotate back into the gold mining sector, as it did in 2000.

The share prices of gold miners are a continuing disaster, but the real cost of mining gold has never been lower. The graph at right shows an industrial commodity index priced in gold, and it is near the lowest level ever recorded. At some point, this declining cost of operations will feed into earnings and valuations.




The imbalances in the financial system will resolve, and likely dramatically, and likely soon. The only question is, who will own the gold mining shares when they finally take off?