THE NATIONAL INVESTOR

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YELLEN REITERATES FED'S *TRIPLE* MANDATE

"***Don't you realize I have to be more vague, to be more transparent?"***

At first blush, nothing came out of the first F.O.M.C. meeting chaired by Janet Yellen that had not been expected by pretty much everyone. First, the Fed announced that it was reducing its official money printing program by another $10 billion per month, bringing the new total down to $55 billion worth of Treasury and mortgage paper that it will monetize. In addition, it was pretty well expected that the Fed would drop an official 6.5% target for the headline unemployment rate as *one of* the thresholds it wanted to see reached before it *considered* raising short-term interest rates. No surprises with any of this.

Nonetheless--as you already know--most markets had pretty violent (if, as it turns out, fairly short) reactions when Yellen *seemed* to indicate in her Wednesday afternoon press conference that the federal funds rate could rise as early as next Spring. One reporter questioned how soon the Fed might raise that rate from its 0 - 0.25% basement once Q.E.-III is *completely* unwound; the central bank has pretty much always said that a "considerable period" could follow Q.E.'s end before any rate hikes started. Yellen's hypothetical answer was that the considerable period could mean "around six months or that type of thing." If Yellen's words are taken literally as a prediction/forecast, this indeed *could* well mean that the federal funds rate would start to climb sooner in 2015 rather than later.

Similarly to last May when the markets threw a temper tantrum after Yellen's predecessor Ben Bernanke indicated that the central bank was thinking about printing a little less money via Q.E., it was mostly high-frequency traders that were tripping over one another to recalibrate their various bets. As this past week ended, however--and unlike the nastier drop last Spring in bond and stock valuations and elsewhere--most folks seem to have already sobered up quite a bit. And this is for good reason, since (in my opinion) traders read way too much into a statement that not only was no more than a "maybe," but was overwhelmed by so much more that Mrs. Yellen *also* said pointing to the likelihood that the federal funds rate still won't be going up for a long time.

Almost everything else that Yellen said--and the whole exercise to begin with of getting rid of the specific forward guidance targets that she was the architect of in the first place--pointed to a Fed wanting more latitude if it sees fit to NOT raise interest rates. It's been pretty darn obvious as the official unemployment rate was approaching 6.5% (before, most recently, ticking back up a notch to 6.7%) that the Fed is nowhere near wanting to move, and thus that target is fairly meaningless. **If nothing else, the central bank has taken on an attitude of setting an even greater (if now more vague) threshold for when it will again raise rates.** Further, focusing on those few words above, traders totally ignored what Yellen said immediately after that to *herself* clarify her own hypothetical; stressing for the umpteenth time that, "But you know, it depends. What the (F.O.M.C.) statement is saying is *it depends what conditions are like."* (*Emphasis* added.)

What was also overlooked--but to me, remains the single most important factor to consider here--is the fact that Yellen more than once reinforced the fact that the Fed has THREE mandates before it. First, according to the Congress (chiefly, the Humphrey-Hawkins legislation of the 1970's) two are:

* **Full employment** (which a 6.5% target won't cut, thus its abandonment for some better signs)

* and **Stable prices**, which the Fed these days defines as a core inflation rate of about 2%.

The third of these--as introduced more formally by Ben Bernanke last September, as you will remember, and repeated by Yellen on Wednesday--is (in her words) **"readings on financial developments."**

Simply put, there is no way the Fed will continue on its course to wind down the rest of Q.E. and, at some point, begin hiking short term interest rates to boot, if the markets are rebelling too much, or are otherwise in turmoil. As former Texas Congressman and presidential candidate Dr. Ron Paul quipped a while back, all the markets have to do is really "say BOO!" and the Fed will beg forgiveness with *more* "money." *Even if* both the employment and inflation pictures get back near their "mandate-consistent levels," according to another of Yellen's statements in her presser, short-term rates STILL might not move. *And that's if nothing hits everyone from out of left field*.

BUT NOW, THE YIELD CURVE -- AND THE FED'S OWN "SAFETY VALVE" RELATED TO ENDING Q.E. -- HAVE BEEN TRASHED

As I explained to you in a couple issues late in 2013 (most notably, the second regular issue for November) the Fed knew it had to do *something* different. Basically, its Q.E. gambit wasn't loved by much of anyone any more, *yet the central bank still had to come up with a way, primarily, to keep the key 10-year Treasury Note yield south of the 3% mark*.

Basically, the Fed has been working toward a regimen where it would accomplish that goal not by continuing to buy a stated quantity of long-term Treasury paper, but by being prepared to buy virtually *unlimited* quantities of *shorter* maturities. Back at the beginning of November last year, in fact, Federal Reserve staff had actually circulated a couple papers describing this new idea for keeping long rates anchored, dubbed *Optimal Control*. In short, it would focus more -- and with more money, which might not all necessarily show up on the Fed's balance sheet in this context, and thus be less noticeable -- on keeping the front part of the yield curve down nearer zero and, thus, *pull* long-term interest rates down or otherwise keep them "anchored." Two things were implicit in these papers, which the Fed circulated at the time among key bond market participants, bankers and others.:

1. First, the central bank would at least implicitly change its thresholds for when it might at some point finally start to raise short-term rates. To make sure the economy has enough "escape velocity" to grow without quite so much of the Fed's "help," the central bank would target something closer to a 5.5%

unemployment rate, and an inflation rate consistently nearer 2.5% than 2.0%, before it would act, all else being equal.

2. By adopting this in the overall context of a more qualitative than quantitative approach to its forward guidance, the central bank would then hope to convey the message that short-term rates would not be raised any time soon and, indeed, may well stay near zero *even until 2017*.

Nevertheless--and despite the fact that Bernanke and, then, Yellen had been fairly aggressively selling this new idea that short-term rates may be raised *later* than folks had been expecting--markets were beginning to price in an initial rate hike next summer. Now, thanks to Yellen's "about six months" comment, it's next Spring. The result is that short-term rates spiked dramatically higher last week. *Interestingly, however, longer-term rates, after shooting up initially albeit at a lesser rate, fluttered back down a bit by Friday's close.*

Some of the more cynical Fed watchers out there think that what some have described as a fairly innocent slip of the lip or "rookie mistake" on Yellen's part may have been something more. I remember last May when some were doing the Monday morning quarterbacking following Bernanke's tapering reference and the markets' then-hysterical response. **One pundit in particular was of the view that the whole thing was largely by design; and that the Fed was treating traders somewhat as "lab rats" to see what dislocations, if any, might ensue if it signaled (back then) a tapering of Q.E.** For a while in that prior example, long-term interest rates moved higher for several months threatening, by last Fall, to start causing some problems. At that point, Bernanke saw the need to put the experiment back in the bottle somewhat, by deciding after the September F.O.M.C. meeting to delay the Q.E. taper. And, as I have sought to remind you good folks and others numerous times since, one reason he gave is that there were imminent dangers of someone being "offside" and getting into trouble, now that the 10-year Note yield had, perhaps, gone up more than intended. That helped take some of the pressure off.

Maybe it's true that, now, the Fed is kind of fishing around to get some initial reactions over the prospect of short-term rates being hiked sooner rather than later. At least some folks at the central bank *had* to know that--whatever the many ameliorating words and assurances to the contrary--*any* indication that rates might rise sooner would be reacted to by the itchy trigger fingers of algorithmic traders and other speculators in the credit markets.

I have to wonder whether the Fed lobbing yet another missile over the markets' bow might be designed to add to the downward pressure on long-term rates, even if the short end of the curve has been hammered. **Don't lose sight of the fact that--no matter how it accomplishes the task--the long end remains the Fed's focus.** Back on January 14, in my between-issues commentary of that day, I spoke of what happened back then to take some pressure off the bond market:

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"...Last week, a 10-year Treasury yield that had crawled a couple basis points over that 3% level got put back into its place by two things. Friday's surprisingly low jobs number did a lot of this. But also last week, minutes of the previous F.O.M.C. meeting showed that the Fed might be a little more cognizant of the fact that its money printing has been creating a bubble in stock prices than had been thought.

"But yesterday got traders' attention even more when Goldman Sachs came out and said the same thing in even starker terms. This 'bank' -- a de facto governmental body in its own right -- warned in starker terms yesterday that stocks may be overvalued, and that a correction is likely. This was chiefly responsible for yesterday's 180 point drop in the Dow, its first loss of more than 1% since October.

"Now, you know that I *usually* dismiss talk of 'conspiracies' when it comes to asset markets. What is more at work here is that the Powers-That-Be desire a certain outcome, and plant whatever seeds they need to out there in the hopes that 'the markets' (i.e.-- traders and portfolio managers with more money than brains, and who can usually be counted on to follow the herd) will act as they need them to.

"In this case, the Fed knows it has to find some way to short-circuit the months-long rise in long-term interest rates. For the moment, it's 'Mission Accomplished.' At one point yesterday, the 10-year bellwether's yield slipped all the way back down to 2.82%.

"Methinks that, if the Fed could have its heart's desire in 2014, it would come in the form of essentially stagnant stock prices (though there will be a lot of winners and losers, as the 'Great Rotation' gets underway in greater earnest) and, by extension, a firming of demand for Treasuries that will take some of the pressure off the bond market. As I wrote in the most recent regular issue, the Fed simply CANNOT allow that key 10-year yield to move much above the 3% level. *If it has its way, portfolio managers will do much of its work for it in an environment of renewed demand for Uncle Sam's paper*." (*Emphasis* added.)

....

Intended or not, the anxieties the Fed injected into the markets this last week may well serve to, once more, get some investors to get out of the riskiest assets among stocks/bonds, and into *long-term* Treasuries. The Fed doesn't want to repeat this too often, but it probably truly is a bit worried not so much about the stock market *generally*, but over the recent craziness over certain sectors (some areas of technology and biotechnology, together with some of the crazier recent IPO's) showing that investors have little fear.

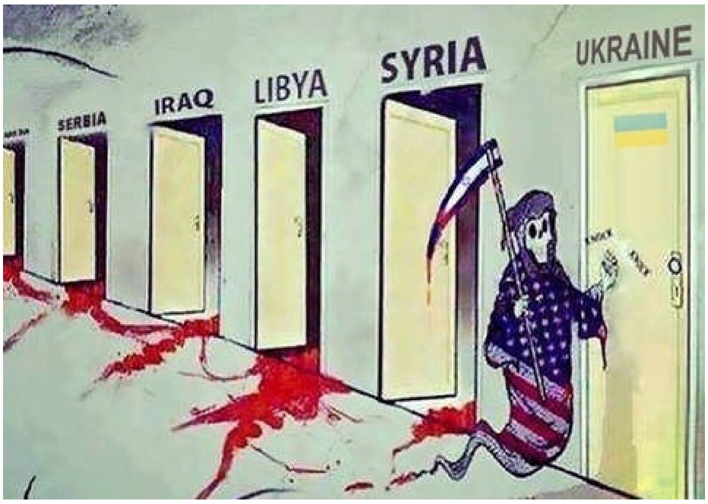
As I suggested back in January, it wouldn't surprise me that the Fed might have some desire to keep some of these traders/speculators at least a little "honest." **As a consequence, if it also gets some folks who sober up just a little where stocks are concerned to dump some money back into longer-term Treasuries, it will have killed two birds with one stone.**

As always, the Fed is playing a dangerous game in tweaking investors' psyches. As I have so often pointed out with my various Frankenstein monster references, it can ill afford to let all the monsters/bond vigilantes get *totally* out of hand (don't forget its "third mandate!") Were a stock market correction to get too nasty...or if greater expectations of a nearer-term rate rise were to start *pushing up* long-term rates unduly, it would have to cool things off.

Adding to the anxieties traders have anew is they are trying to get to know a new Fed chair and a renewed vague policy that is even more of a moving target. Soon, though, Yellen and the crew will be joined by incoming Vice Chairman Stanley Fischer (right) who--among other things--will be the first top Fed official with dual citizenship (U.S. and Israeli.) The well-traveled Fischer will anchor the Fed in much the way that Dick Cheney was always behind George W. Bush during their administration.

Reinforcements are on the way!

MORE PERTINENT THOUGHTS ON UKRAINE



One take, sent to me by a Russian friend from their press

One of the good things for the moment of the Ukraine worries being a bit less acute is that we don't have to listen to quite so much of the just plain nonsense being reported in the press about what is going on. Most of you reading this have a sense already that our government doesn't always tell us the truth...that it lies to us while hiding behind the flag...that it basically treats the people as a bunch of ill-informed children who will buy their shallow platitudes and simplistic disinformation rather than ask questions. Their education system has served them well.

It's been refreshing to hear at least some who are willing to take issue with the party line out of Washington and their war-drum-beating chicken hawks pining for a conflict with Russia. A few days ago in an interview with CNBC where the subject of Ukraine came up, former Rep. Dr. Ron Paul (R-TX) had the courage to discuss the open secret about Ukraine's destabilization in the first place: that is, the U.S. involvement in the effective overthrow of a democratically-elected government (that of President Yanukovich) via, in part, financing various NGO's (non-governmental organizations) and protesters-for-hire to riot in the streets and ultimately remove him. Then, when it's Russia that has to play "defense" and, in part, pick up the pieces in a destabilized country on its border, this is *all Russian President Vladimir Putin's fault?*

Those of you who really want to know who all the "players" are would do well to read a recent piece from the intelligence service *Stratfor*; a most comprehensive and scholarly description of the country's several different factions/ethnic groups. Authored by Eugene Chausovsky and dated March 11, 2014, it's entitled, "Ukraine's Increasing Polarization and the Western Challenge" and is available at: http://www.stratfor.com/weekly/ukraines-increasing-polarization-and-western-challenge

You know I like UBS Financial's Art Cashin, the always-witty and informative veteran floor trader at the New York Stock Exchange who is one of the regulars on *CNBC* worth listening to. He also recently took issue with the rather shallow, ignorant portrayal of the whole issue of Crimea specifically by reminding us all of something called *The Monroe Doctrine*. In short, it should surprise nobody that Russia would feel compelled to exercise such influence in its own back yard, let alone on its border.

But while I'll leave it to others to hash over more of the cultural and political issues involved beyond this, I want to spend a few minutes on the issues affecting YOU; both as a consumer, and as an investor.

1. **First of all, the forgotten player in Ukraine that has been mentioned very little is CHINA.** You may recall that, last September, I told you of a then-major deal that had been reached between Ukraine and China, whereby an area of Ukraine *the size of Belgium* was going to be leased or otherwise acquired by Chinese interests for the purpose of raising livestock/food for all those hungry mouths in their country. You have heard nothing of this aspect of the Ukraine equation in the press; certainly, not in the U.S. press. But it begs many questions, which we don't have the answers to *yet*. Will all these intrigues really not matter that much to the Chinese in the end, as long as they get their land/food and the deals are

honored? Will something behind the scenes result in China being used as leverage by the U.S. to get Russia to back off? *Or against the U.S. by Russia?* Will Russia and China end up to be more friendly--or greater foes--over Ukraine? Certainly, this bears watching.

And that is partly because China has reportedly already been injured by Ukraine on a *previous* deal. As the *South China Morning Post* reported on February 27, Ukraine appears to be in default to China's Export-Import Bank on a 2012 deal, whereby Ukraine received $3 billion in a financing facility in order to provide grain supplies to China. The allegation is that the Ukrainian government has instead sent some of these grain supplies to other countries, and is otherwise not delivering on its end of the bargain. The *appearance* is one of an admittedly corrupt Ukrainian federal/central government; one that has now been overthrown and replaced by a "puppet" government of the West. Will the new, de facto government even deem itself bound by any of this? It will be interesting to see whether this China-Ukraine spat becomes a bigger issue or not; suffice it to say, *food* and *land* are bigger elements of this whole equation than has been described.

2. ***Energy* is front-and-center where economic/investment issues are concerned, though; and may become much more so.** Ahead of European elections scheduled for May, sides are being drawn more sharply still between the European establishment in Brussels and the many citizens in still-sort-of-sovereign nations who are likewise wondering aloud what *their* governments were doing with *their* money in Ukraine to muck things up worse. Suffice it to say that--in its nascent economic warfare it wants to engage in with Russia (largely at the behest of those running the U.S.)--E.U. officials' actions will most likely result in higher energy prices for the average European citizen. And this issue is already bolstering the electoral prospects of Europe's various euro skeptic parties, who see this whole thing as yet one more example of how the actions of the plutocrats in Brussels will do more harm than good for them and their pocket books.

Cooler heads are still trying to prevail (chiefly among industrialists in Germany, who are pressuring Chancellor Merkel to take it easy on trade restrictions and the like.) Germany is heavily invested in Russia. The E.U. overall gets about one third of its oil, natural gas and even coal from Russia (much of it through Ukraine.) The concern on the part of sane people is that the unfolding dispute with Russia will turn into a no-win situation for everyone.

And that would even include each of you reading this here in the good old U.S. of A., if self-appointed generals in a would-be economic war--like "General" Thomas Friedman of the *New York Times*--have their way! Earlier this month in an editorial in his home newspaper, General Friedman issued an economic call to arms, and gave his idea on how each and every one of you can sacrifice to put the "new Hitler" back in his cage over in Moscow. In part, here is what he had to say:

....

"...I don't want to go to war with Putin, but it is time we expose his real weakness and our real strength. That, though, requires a long-term strategy — not just fulminating on 'Meet the Press.' It requires going after the twin pillars of his regime: oil and gas. Just as the oil glut of the 1980s, partly engineered by the Saudis, brought down global oil prices to a level that helped collapse Soviet Communism, we could do the same today to Putinism by putting the right long-term policies in place. That is by investing in the facilities to liquefy and export our natural gas bounty (provided it is extracted at the highest environmental standards) and making Europe, which gets 30 percent of its gas from Russia, more dependent on us instead. I'd also raise our gasoline tax, put in place a carbon tax and a national renewable energy portfolio standard — all of which would also help lower the global oil price (and make us stronger, with cleaner air, less oil dependence and more innovation)..."

....

So, the first thing you need to be willing to do to play your part in "the international community's" efforts to defeat Putin in this new war is **pay much more for a gallon of gas**. Perhaps Friedman's campaign will include some consolation prizes; a way for you to feel good about making such a sacrifice. Maybe you'll be given a miniature American flag to put on your car's aerial with a fill-up, so you can proudly show your friends and neighbors that you have done your fair share.

May I have a flag to wave with my other hand?

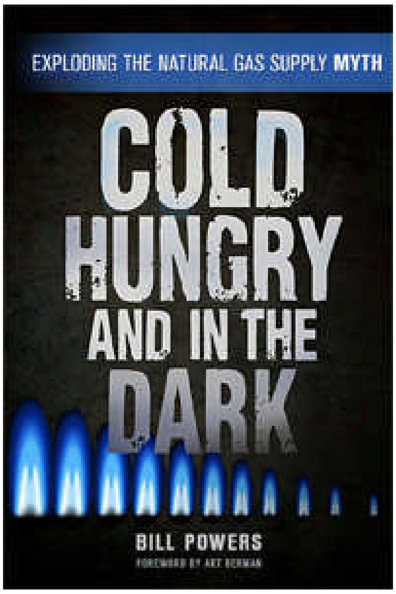
OK, maybe the surge in the gas tax itself wouldn't fly; at least not now, with mid-term elections coming up. But another of Friedman's ideas has astonishingly been embraced both on Capitol Hill and on Wall Street. And that is to craft an aggressive, almost Marshall Plan-like (I actually heard someone use this exact term a few days ago in pitching this idea) program to, as Friedman put it, **"liquefy and export our natural gas bounty" to Europe.**

Aside from this most recent winter's damage to our wallets from all the cold, and the resulting spikes in natural gas and related prices, Americans and Canadians have been blessed with about the most abundant and cheapest reserves of natural gas *anywhere.* After coming off their winter spike (caused, in part, by speculators driving up the price for a while for short-term gain) natural gas prices are back down to around $4.40/mcf or so right now; still well off their $2.00 low of a couple years back (a level I seriously doubt we'll see again) but a *fraction* of the price paid by just about everyone else. This past Friday, CNBC had a discussion with Gary Evans, the C.E.O. of Magnum Hunter Resources (NYSE-MHR.) Evans pointed out that America is truly in the cat bird seat these days in relative terms, due to the low gas price. What we pay $4.40/mcf for costs $10-12/mcf throughout Europe, and about $18/mcf in Asia (hence, where the last of those is concerned, Canada's opportunity to ship some of its gas to Asia.)

If you are selfish and unpatriotic--or maybe worried about how you'll make ends meet next winter when your heating bill doubles, or more--your first reaction might be to say, "HEY, wait a minute!" over the notion that the U.S. would surrender its energy advantage. Obviously, if the Friedmans of the world have their way, it will mean a lot to you as a consumer; none of it good. As an investor, though, consider that a number of already-attractive concepts may start to look more so; and areas left for dead might come back to life.

Indeed, the whole energy universe may benefit. Crude oil's price has stayed stubbornly around the $100 per barrel area despite less-than-stellar growth in the world. Recently, C.E.O. John Watson of Chevron (NYSE-CVX) explained a big part of the reason why, telling a Houston audience that with costs having risen so much as well, $100 per barrel "is the new $20." So by all appearances, there is little downside for prices from here, barring a global depression.

And there may be a great deal of up side. Not only is there risk of continued upward pressure thanks to all the geopolitical risks and intrigues, Russia included. In addition, more fundamental issues of supply could play a role as well. While the whole "peak oil" theory of years back has at least been postponed thanks to the more recent shale-borne discoveries and the ever-increasing methods of enhanced recovery, the fact that the economics of *cost* might be catching up a bit more with us all could put some more marginal oil fields back out of reach. It's interesting to contemplate, too, that the current $100 per barrel area, more or less, reflects *expectations* of still-generous supplies in the future. Recently, the I.E.A. (International Energy Administration) warned that the world is becoming a bit too complacent about the



belief that North America particularly, due to its own reserves, will have abundant, relatively cheap oil for as far ahead as the eye can see. Among other things, this has resulted in a throttling back of new investment elsewhere, especially in the Middle East. The global body warned that oil markets risk being caught with their pants down at some point, if anything were to go wrong.

Where natural gas is concerned, many claim that we have especially become complacent. Among others, energy analyst Pill Powers, author among other things of *Cold, Hungry and in the Dark*, has been warning that the breakneck pace of the recent production of natural gas through the process of hydraulic fracturing ("fracking") cannot continue at such a pace for both geological and economic reasons. *At the least*, even if Powers' prediction of a soon-coming supply crunch doesn't happen as quickly as he envisions, economics alone are going to dictate a considerably higher price level than what we enjoyed at natural gas' lows.

Add the two of these together and you have arguably *wildly* bullish outlooks for both coal and nuclear energy. Coal and uranium have been in the dumps for quite a while now for various reasons, largely--especially in the case of coal--since abundant and dirt-cheap natural gas has made old, dirty coal both uneconomic in comparison and less attractive otherwise. If present trends continue *even without* any "accidents" or hair-brained ideas such as those of Friedman and his ilk, it's looking ever more as if we are going to see broader, across-the-board price increases for virtually every form of energy; oil and, then, natural gas as reality over longer-term supplies and costs comes back in. Later, it will be coal and uranium joining the party in a bigger way, as those unloved commodities are thus made to look not so bad after all. And if those pushing for the U.S. to ramp up its infrastructure in order to supply energy *to Europe* get their way, *investors* in different parts of the energy space might really clean up, even as all of us are hosed *as consumers*.

Next issue--or perhaps even sooner--you'll be learning of even more new recommendations along these lines beyond those further along in *this* issue.

FINANCIAL AND MARKET POTPOURRI

ITEM: India takes a major step toward easing curbs on gold imports.

Gold is on the defensive as I write this, having shed quite a bit of its most recent gains and in some danger of coming all the way back down to its 50 and 200-day moving averages, which are pretty much converging around the $1,300 per ounce level. Less worry at the moment over the whole Ukraine thing together with the latest Fed meeting's dampening effect have been chiefly responsible for the selling.

But the yellow metal may be about to get some added help from what has traditionally been one of its biggest customers: India. You likely remember that India had been aggressively raising taxes and import duties on gold for well over a year, as a means to raise revenue, cut back on its surging trade and current account deficits and shore up the sinking rupee. These have been measures that have been hugely unpopular with the Indian people and businesses alike; and it's been interesting to see the extent to which demand has stayed strong there *despite* these impediments.

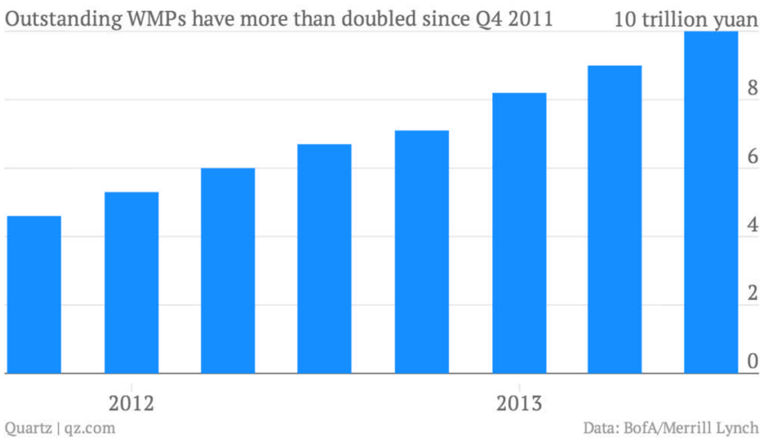
India may be in the process of rolling all this back, however. Recently, the Reserve Bank of India relaxed some rules over the import of gold by the country's banks. But the biggest move might lie ahead, following the upcoming national elections (which will commence April 7, and run in stages for several weeks.) Indications are that the center-right Bhartiya Janata Party (BJP) stands the best chance of forming the next government. The BJP has opposed the gold import curbs.

The general financial press has had little to say about this, focused on gold's recent rally and, now, its present correction more in the context of the Fed and those geopolitical worries. But those within and closer to the gold industry itself are suggesting that the Indian election could mean a great deal to gold's future, strengthening anew one of the market's traditional anchors.

ITEM: China tries to manage a "controlled explosion"

The recent past has given us the sharpest decline in the value of the Chinese yuan in 20 years. Economic growth is slowing, if not contracting. Non-performing loans have increased and, recently, some parties have been allowed to default on obligations. "Fire sales" of assets have been increasing. In an attempt to counter all this, Chinese officials are talking of *new* stimulus measures they may be rolling out to, in part, add even more to the nation's housing stock, commercial property and infrastructure (never mind that much of what they already have built in recent years remains unused/uninhabited.)

Add this all together and you have what David Pilling, *Financial Times* Asia Editor, recently described as a fairly deliberate and necessary "controlled explosion." China's leadership knows it needs to take some of the steam out of what has been a runaway credit-creation binge, especially on the part of its shadow banking system. That, in turn, has been inflated due to demand from the country's various wealth management products, or WMP's. They are part retail product for the wealthier Chinese, part hedge fund, and part shadow bank themselves. Much in the same way that similar funds here in the U.S. to a great extent created and then fed the runaway mortgage/housing boom here, these WMP's have driven the increasingly risky bubbles in China.



Already, though, allowing just a couple entities to go belly up has others scrambling to get liquid, or otherwise at least a bit less leveraged and vulnerable. As Ambrose Evans-Pritchard reported a few days ago in London's *Telegraph*, there have been reports of "fire sales" of property by Chinese investors; one example had prices in Hong Kong being slashed by 20% almost overnight to bring about quick sales. Now--on top of the solar company that defaulted a couple weeks ago--there has been the report of a real estate-related entity going bust: the collapse of Zhejiang Xingrun, with $570m of outstanding debts.

Pilling's analogy of China trying to manage a "controlled explosion" is quite apt. No doubt most of you have seen videos in the past of controlled demolitions of buildings. If the engineers and explosive experts know what they are doing, the building they *want* to destroy comes down without affecting any buildings nearby. Sure, there's a mess to clean up; but not such a big one as would happen if other buildings are damaged by the falling debris.

China clearly knows it must rein in the shadow banks and WMP's, and has started to do so. It also knows that allowing some of the more reckless of these "buildings" to fall must be orchestrated in such a way as to limit the damage. To that end, the government is making noise anew about *more* new stimulus and spending on infrastructure and residential property. With the weakening of the yuan, this will theoretically cushion the blows and reduce the chances that finally letting some air out of *existing* bubbles will spread to a broader, full-blown credit crisis/debt implosion.

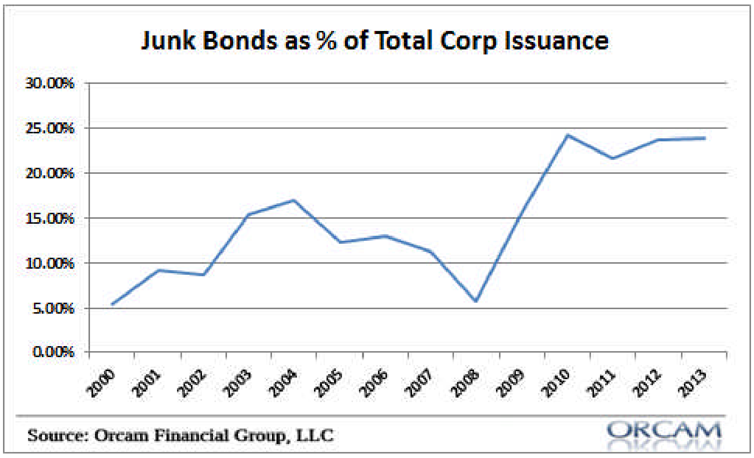
I have pointed out many times--and should do so again here--that China *does* have one big advantage in its favor that could make all this work out without triggering a financial disaster. Unlike in the U.S. and most everywhere else, where the central banks are chiefly in charge and the governments are pretty much owned by and respond to *them*, it's the opposite in China. There, the People's Bank of China is an arm of the government, *and instructed by it.* So among other things, it really is easier for Chinese officials in their "command economy" to manage things, including when it comes to this latest attempt at the so-called "controlled explosion."

None the less, as I have also said, this doesn't mean that China is immune to the simple laws of mathematics. This remains a risky proposition which, properly, has recalibrated expectations over Chinese-driven global growth. And, Chinese leaders' belated good intentions aside, it keeps ever before us the possibility that any one of these "weak links" could end up breaking the whole *global* leveraged chain of burdensome, unsustainable debt.

ITEM: Low-yielding junk bonds riskier than ever

On March 12, *Barron's* reported that the quality of so-called covenants related to the issuance of the lowest-rated corporate debt has sunk to its lowest level ever; this according to the rating service Moody's. As Michael Aneiro's article explained, these bond covenants "...typically govern things like how much additional debt a company can incur or how a company is allowed to distribute available cash. Weakening covenants are a sign that investors, in their hunt for yield, are more willing to sacrifice some common safeguards." Citing Moody's numbers, he said that the average credit-quality score for high yield bonds in North America sank to 4.36 last month, on a scale of 1 (highest quality of covenants and safety) to 5 (lowest.)

This reckless search for yield anywhere it can be found regardless of the risks is not unique to this continent. The *Financial Times* reports that there has been insatiable demand for increasingly risky "covenant-light" paper in Europe as well, running the gamut of junk financing, leveraged buyouts and more (to include, as I discussed a bit last issue, even sovereign debt previously left for dead.)



During the housing boom, it was said that lenders would extend credit to anyone with a pulse. *Now, it seems that all you need for cheap, easy financing is a certificate of incorporation.* Things have been great for many a company that has been able to raise money in a world awash in liquidity. But as notable bond market experts such as Doubleline Capital's Jeff Gundlach are now warning more loudly, the party may be about over. "They've squeezed all the toothpaste out of the tube," Gundlach told *Bloomberg* in a March 19 interview. **This, too, will end badly**.

COMPANY UPDATES

As you'll see on the back page, I have moved **Claude Resources** back out of the "speculative" category, now that the near-term solvency danger has been removed. In order to build a stronger financial bridge for itself out into the future--and hopefully to a point where greater ore from the Seabee satellites and a better gold price will help--the company just entered into a royalty arrangement that will give it C$12 million in immediate funding in return for a 3% net smelter royalty it will have to pay to Orion Mine Finance Fund for this money.

Right after the news was released, I spoke by phone with Claude's Marc Lepage, who pointed out that this funding will now get Claude safely into 2015, all else being equal. Proceeds will be used to pay down part of the company's existing credit line, the bills for Seabee's winter resupply and for further development work, especially where getting the new Santoy Gap reserves to the mill. Unlike my initial reaction of disappointment to the Madsen sale and what Claude was able to get out of it, the royalty news/Orion deal was a *very* pleasant surprise in that the terms were better than what I was expecting to hear. And to boot, it was done without diluting shares, or adding to the debt burden.

As Lepage explained it to me, the financial cost for Claude, in the end, is the equivalent of the gold grade being reduced by 3% at the mill. So we'll all be watching, as well, to see if the company can now--with the financial pressures back off--reverse the recent trend of mining lower-grade ore than in the past, and turn those numbers higher, to overcome the cost of getting this needed money.

Good news in the financing department also just came from **Cornerstone Capital Resources**, which announced on March 14 that it will, via a non-brokered private placement, be raising C$4 million (gross) via the sale of units of its common shares, with warrants. The units are expected to be priced at C15 cents each. Sprott, Inc. will be handling the transaction.

Notably, Eric Sprott met with some representatives of the Ecuadorian state mining industry and related entities during the recent Prospectors and Developers Association meeting in Toronto (it's *the* major trade show and forum for the mining industry in North America.) Cornerstone President and C.E.O. Brooke Macdonald and the company's geologist/V.P. of Exploration Yvan Crepeau also met with these officials, at Ecuador's Trade Ministry office in Toronto. The country has become increasingly interested to, it seems, prove to the international mining community that Ecuador is open for reasonable business and development; in fact, I have learned that the government has engaged several international consulting firms to conduct an analysis of the mining sector. The goal will be to make recommendations to President Correa's government to make the country more competitive as a destination for foreign investment.

Not long ago, I said that a welcome scenario for Cornerstone would be 1. Great drilling results from Cascabel, 2. A much higher share price as a result and 3. The ability, thus, to raise some funds not only to "keep the doors open," but to do additional exploration work on other of its promising prospects in Ecuador and Chile. So far, so good! As Macdonald pointed out in the announcement of the financing, "We are very pleased to be working with Sprott in completing this private placement (Ed. note: It was Sprott's Rick Rule who arranged the company's last significant financing a few years back.) It will provide us with funds to advance our 100% owned Ecuadorean gold properties, Vetas Grandes, Bella Maria, and Caña Brava, and the Miocene project in Chile where we are targeting epithermal gold-silver and porphyry gold-copper deposits along the interpreted northern extension of the Maricunga magmatic belt which hosts several world-class gold deposits, as well as expanding our generative exploration activities in other parts of Ecuador and Chile. We continue to seek partners for those projects."

Cornerstone's decision to pretty much go "all-in" in Ecuador may be starting to pay off. Spirits are especially high following the recent meeting in Toronto mentioned above where, taking part, were (left to right) CGP's Crepeau and Macdonald; Carmita Calderon, Advisor to the Ministry of Strategic Sectors (MICSE); Santiago Yepez, President of State Mining Company ENAMI; Cesar Zummaraga, partner at Tobar & Bustamante (Cornerstone lawyers in Quito); Mauricio Silva, Pro Ecuador Trade Commissioner in Toronto; and Hernan Moreno, Advisor to the President of ENAMI.

New Recommendations

As I am finishing up this issue, we see the major market averages struggling to get back to their recent highs. They may do so, or they may not. What matters more right now is that a larger number of market pundits is beginning to recognize that there is indeed a "Great Rotation" going on *within the market*; and that it is looking ever more that--rather than exiting stocks entirely--those money managers who have started to unload companies with the silliest "valuations" (and I use the term loosely!) are deciding it's time to shop for *companies* again.

Though I still want to proceed cautiously because of my concern about the level of the broad market, I nevertheless continue to believe it is wise to incrementally add such opportunities from time to time. Below are two; one more "oldie but goodie" and one new to these pages (and, quite by coincidence rather than design, *both* based in Louisiana):

Tidewater, Inc. (NYSE-TDW); Recent price--$47.46; P.E.--13.41; Div. yield--2.1%

It's been many moons since this solid company has been among my recommendations. Nevertheless, I keep my eye on it fairly regularly, as is the case with all of my past recommendations. Some- times this leads to a reaction of "Nice going, dummy...it's a *lot* higher these days!" Otherwise, it's, "Good thing we're out of that one!"

Tidewater has come back on my radar screen lately for a few reasons. First, it is the world's leading company serving the offshore energy industry with what it simply calls "work boats." Its world-leading fleet of offshore vessels primarily works with oil and gas companies; TDW provides marine services of such natures as transporting crews and supplies to offshore platforms, towing and anchoring mobile rigs, assisting in offshore construction projects and more. By all appearances, the energy industry is getting ready to focus more of its attention on offshore projects once more; especially elsewhere in the world, but even here.

As you see via the accompanying chart, TDW shares got hammered several weeks ago. The company reported revenues and earnings for its fiscal third quarter ended December, 2013 that was a bit below analysts' estimates. For the full fiscal year ending on March 31, full-year earnings are expected to be in the range of $3.55 per share, rendering TDW reasonably priced at current levels, and made attractive by its always-strong cash flows, stellar balance sheet and respectable 2+% dividend yield.

When I see such big moves on the part of companies I have previously covered, I get curious. A closer look shows that analysts following the company expect a big move higher in per-share earnings for the next fiscal year starting April 1; *to near $5.00 per share*. **Further, after the recent swoon, Tidewater is trading for less than its book value**. As you might imagine, this has resurrected past scuttlebutt that the company could end up being a takeover target of one or more big players in the energy industry, that would rather own such a "Cadillac" of a needed service company--especially one that is so cheap right now--rather than have to contract with it. Among others, Morgan Stanley just put out a report tagging Tidewater as an attractive acquisition candidate.

As far as I am concerned, we have been given a gift by the beating some traders gave this solid company's shares back in February. Tidewater is started as a "BUY" among our growth stock recommendations. You can learn more about the New Orleans, Louisiana-based company by visiting www.tdw.com.

CenturyLink, Inc. (NYSE-CTL); Recent price--$31.91; P.E.--12.46; Div. yield--6.8%

As with Tidewater, though CenturyLink has not previously been on my recommended list (though I have followed it) I take notice and investigate when a stock makes a big move one way or another (usually, when it's *down*, in case there is an opportunity to buy!) After a strong run which I regret missing, sentiment where CenturyLink is concerned went in the toilet early last year, when a horrid 2012 and severe earnings downgrades hammered shares. There was talk of everything from the dividend being completely eliminated to the company going the way of other failing telecoms.

Fast forward to today. The dividend indeed was reduced; but at $2.16 annualized, it provides a hugely attractive yield near 7% at its current price. I can't tell you that it won't be cut further but, with earnings expected to rebound significantly in 2014-2016 time frame, it looks a whole lot safer than at this time last year. Further, as you see nearby, the recent rally in CTL shares has decisively moved them above a nearly year-long down trend line, helping bring this attractive-looking equity to the attention of even more money managers looking for something to do with chips they are starting to cash in on the Netflix's of the world.

The telecommunications industry is, of course, one that has been a relative laggard for a while for good reason. Unlike most others, competitive and pricing pressures have been brutal. Most carriers such as CTL have seen erosion over time in their traditional, chiefly landline, "legacy businesses"; indeed, one worrisome thing for CenturyLink last year was a roughly 7% drop in such revenue for the company. Yet, the company has been showing increasing signs of being able to overcome this by improving its services--and thus customer loyalty--in other areas. Rather than reinvent the wheel and explain a lot of this myself, I'd encourage you to take the time to read an excellent, thorough analysis of all this recently put out by an entity called Equity Watch on *Seeking Alpha*; you can find it at: http://seekingalpha.com/article/2075893-expected-stability-in-revenues-key-factor-in-bullish-thesis-on-centurylink

Further, Zack's Investment Research--www.zacks.com--which rates CTL as a "Hold" itself presently, nevertheless seems fairly warm to the company's progress in rebuilding revenues (and, As Equity Watch, has applauded its ability to keep its dividend fairly high and repurchase shares at the same time.) It points out that CTL, through its subsidiary Savvis, is making greater inroads into enterprise, cloud and managed hosting services for businesses. Further, the company recently bolstered all of these efforts by acquiring a Platform-as-a-Service (PaaS) provider, AppFog. As Zack's said, "This acquired unit – which extends custom-made PaaS capabilities to software developers and public cloud services through www.appfog.com – will augment the product portfolio of Savvis. We view this acquisition as a growth driver as AppFog's high-quality Platform-as-a-Service offerings along with Savvis' industry-leading infrastructure base will likely create a secure and reliable network for developing applications in the cloud."

This third-largest of America's big three telecom companies (the other two, of course, being Verizon and AT&T) is by far and away the best-looking on a risk-reward basis. It is started as one of our Income/Growth stock recommendations as an "Accumulate." For more about Monroe, Louisiana-based CenturyLink, visit www.centurylink.com.

Some closing thoughts...

* It has been quite a while since I advocated any kind of positions in **shorting stock indices**. Clearly, the momentum behind this bullish run of the last few years has been the ruin of a great many short sellers. It's been frustrating to see--until more recently--that trying to *invest* in stocks has not been rewarded all that much with the new momentum names, nosebleed level-priced biotech and tech stocks and others getting all the attention. That is starting to change somewhat; and will afford us greater opportunities to take long positions in worthy *companies*.

Having said that, I'm *this close* to advocating that you take small positions betting against the markets' most vulnerable major indices: The Russell 2000 Index (via getting back into the **Direxion**

Daily Small Cap Bear 3X Shares, NYSE Arca-TZA) and the Nasdaq, via the **ProShares UltraPro Short QQQ (NYSE Arca-SQQQ.**) Though the broad market itself as measured by either the Wilshire 5000 or the S&P 500 is not nearly as overpriced relative to revenues and earnings as we saw in 1999-early 2000, these areas are vulnerable. To the extent it can be calculated, the P.E. ratio of the Russell 2000 small cap index was *roughly 85*. As for the Nasdaq--while maybe not as vulnerable in a longer, grinding correction/rotation, it will suffer as more air comes out of biotechs, 3-D stocks and the like.

I'm watching two technical things primarily. First, the Nasdaq has been flirting this week with breaking back below its 50-day moving average; this had some traders chattering yesterday. Unlike in the past, they seem a bit more nervous now about the Nasdaq being vulnerable; and a break of the 50-dma now would probably carry on a while, unlike what happened in January-February when everything snapped back. Second, whether the S&P 500 is able to make new highs sooner rather than later will affect this sentiment. As one pundit put it yesterday, the market finally looks sufficiently "tired." Perhaps "Wepner" is finally about to keel over; we'll see.

UPDATED ALLOCATION RECOMMENDATIONS / PORTFOLIO COMMENTS

CONSERVATIVE/INCOME-ORIENTED ACCOUNTS
Cash – 56%
iShares 7-10 yr. Treasury Long ETF --5%
iShares 20+ yr. Treasury Long ETF -- 10%
Power Shares DB Gold Double Long -- 8%
Conservative/Income-paying stocks - 6%
Growth/Speculative stocks -- 15%

AGGRESSIVE/GROWTH ACCOUNTS
Cash -- 45%
iShares 7-10 yr. Treasury Long ETF --5%
iShares 20+ yr. Treasury Long ETF -- 10%
Power Shares DB Gold Double Long -- 12%
Conservative/Income-paying stocks - 8%
Growth/Speculative stocks -- 20%

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INDIVIDUAL INVESTMENT RECOMMENDATIONS

	Purch. Date (1)	Price * (2)	PE	Yield %	Status
1.) EXCHANGE-TRADED FUNDS:					
PowerShares DB Gold Double Long ETN (DGP)	2/8/11	29.62	--	--	Accum.
iShares 7-10 yr. Treasury Long ETF (IEF)	12/2/13	101.55	--	1.7	Accum.
iShares 20+ year Treasury Long ETF (TLT)	3/12/14	108.59	--	3.1	Accum.
2.) INCOME/GROWTH STOCKS:					
Ingles Markets (NASD-IMKTA)	5/10/10	24.18	12.40	2.7	BUY
Annaly Capital Management (NYSE-NLY)	7/16/13	11.18	9.32	10.5	Accum.
Universal Health Realty Income Trust (NYSE-UHT)	8/9/13	42.11	15.51	5.9	Accum.
Potash Corp. of Saskatchewan (NYSE-POT)	12/2/13	34.91	17.11	4.0	Accum.
Plum Creek Timber REIT (NYSE-PCL)	12/2/13	41.38	31.83	4.2	Accum.
CenturyLink, Inc. (NYSE-CTL)	**3/26/14**	**31.91**	**12.46**	**6.8**	**Accum.**
3.) GROWTH STOCKS:					
Claude Resources (TSE-CRJ; OTC-CLGRF)	8/2/96	C0.215	--	--	Accum.
49 North Resource, Inc. (TSXV-FNR; OTC-FNINF)	3/15/10	C0.29	--	--	BUY
Omega Protein Corp. (NYSE-OME)	2/8/11	12.11	8.35	--	Accum.
Seabridge Gold (TSE-SEA; NYSE-SA)	2/2/12	7.66	--	--	Accum.
Sandstorm Gold, (TSE-SSL; NYSE MKT-SAND)	8/31/12	5.81	--	--	Accum.
Adecoagro S.A. (NYSE-AGRO)	1/17/13	8.05	--	--	Accum.
Nuance Communications, Inc. (NASD-NUAN)	12/12/13	16.58	13.82	--	BUY
Salem Communications Corp. (NASD-SALM)	3/14/14	10.04	13.39	2.3	Accum.
Enterprise Group, Inc. (TSE-E; OTC-ETOLF)	3/14/14	C0.99	9.50	--	Accum.
Tidewater, Inc. (NYSE-TDW)	**3/26/14**	**47.46**	**13.41**	**2.1**	**BUY**
4.) SPECULATIVE STOCKS:					
Shore Gold (TSE-SGF; OTC-SHGDF)	6/25/97	C0.315	--	--	Accum.
Cornerstone Cap. Res. (TSE-CGP; OTC-CTNXF)	2/9/00	C0.145	--	--	BUY
Orsu Metals Corp. (TSE-OSU; OTC-ORSUF)	3/5/04	C0.05	--	--	Accum.
BSD Medical (NASD-BSDM)	12/22/10	1.31	--	--	Accum.
Kivalliq Energy (TSXV-KIV; OTC-KVLQF)	2/27/12	C0.23	--	--	BUY
Encanto Potash (TSXV-EPO; OTC-ENCTF)	10/8/13	C0.17	--	--	BUY
TerraX Minerals (TSXV-TXR; OTC-TRXXF)	1/23/14	C0.75	--	--	Accum.
Dolly Varden Silver (TSXV-DV;OTC-DOLLF)	1/23/14	C0.15	--	--	Accum.

(1) Represents ***date of initial recommendation***; does not reflect any subsequent status/weighting changes and trading
(2) Prices/other info. as of March 25, 2014; pricing information in U.S. currency unless otherwise noted.

EXPLANATORY NOTES: The purchase dates given for each of the stocks recommended above follows the criteria used by the *Hulbert Financial Digest*, one of the leading publications which tracks the performance of investment newsletters. According to *HFD*, the purchase date is the date on which a subscriber actually has his/her first opportunity to act on a recommendation. Thus, for our purposes, the purchase (and, where appropriate, recommended sell) date is determined as falling on the same day said recommendations are given via the e-mail updates or, in the alternative, three business days following the publication of same in the newsletter. In addition, we determine these dates based on any *specific instructions* given subscribers, such as target prices for buying/selling, stop loss orders, etc.
DEFINITIONS: Categories of stocks are compiled above based on our assessment of a variety of factors. Those individual stocks labeled "Income/Growth Stocks" are deemed the most conservative, as well as providing current returns via dividend income. "Growth" and "Speculative" stocks are so labeled based on our assessment of current health of the underlying company, business prospects and more, with those classified as "speculative" carrying the higher relative risk. Subscribers are encouraged to regularly read updates given by the Editor on these companies to help in determining the proper portfolio exposure to these stocks, and are reminded to invest based on the Editor's asset allocation recommendations as well.
STATUS: Recommended stocks are rated as "Buy," "Accumulate," or "Hold" based on the Editor's current assessment of each based on valuation, changing business prospects and other factors. Stocks rated a "Buy" should be purchased at currently published or even higher prices. Stocks rated an "Accumulate" should purchased at current or, preferably, lower prices, on any short-term weakness. Stocks rated a "Hold" should be retained, but no new purchases are recommended.
Changes from the last published list are in **bold print** above as a reminder, **as are new recommendations**.