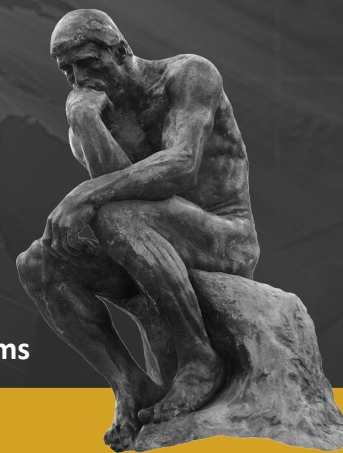


THINGS THAT MAKE YOU GO *Hmmm...*

A walk around the fringes of finance

By Grant Williams



To learn more about Grant's new investment newsletter,
Bull's Eye Investor, [click here »](#)

6 NOVEMBER 2012

Signal 2 Noyz

“I have long held the opinion that the amount of noise that anyone can bear undisturbed stands in inverse proportion to his mental capacity and may therefore be regarded as a pretty fair measure of it.”

— Arthur Schopenhauer

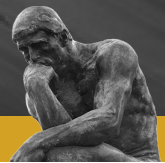
“One person's data is another person's noise.”

— K.C. Cole

“..all the while the world is turning to noise
oh the more that it's surrounding us
the more that it destroys
turn up the signal
wipe out the noise”

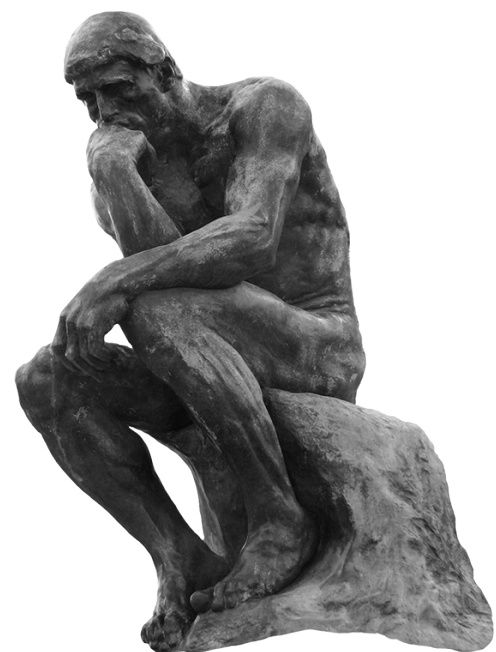
— Peter Gabriel, *Signal to Noise*

Irreversible: ir·re·vers·i·ble: [ir-i-vur-suh-buhl] (adjective) not reversible; incapable of being changed



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Things That Make You Go *Hmmm...*

Meet Claude Shannon.



I'm pretty sure the vast majority of you have never heard of Claude Shannon, and, frankly, there's no real reason why the vast majority of you *should* have.

Shannon was born in Petoskey, Michigan, on April 30, 1916, to Claude Shannon, Sr. and his wife, Mabel Wolf Shannon, and attended Gaylord High School in Gaylord, Michigan, where his mother was the principal. As a child, he gravitated towards mathematics and science, and would spend hours building radio-controlled model boats, and even constructed a wireless telegraph system that enabled him to talk to a friend who lived half a mile away.

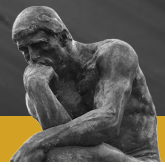
As one would perhaps expect, Shannon's childhood idol was Thomas Edison, but, unlike most childhood idols, in an ironic twist, he was to find out later in life that Edison was, in fact, a distant cousin of his. This fills me with hope because George Clooney DEFINITELY has similar ears to me... just sayin'.

Anyway, after graduating Gaylord HS, Shannon entered the University of Michigan and took two simultaneous bachelor's degrees in—you guessed it—mathematics and electrical engineering. It was these studies that introduced him to the work of George Boole, the inventor of Boolean Logic, which underpins the operating systems of modern-day computers. Boole's work would fascinate and inspire Shannon, putting him on a course to become one of the most important people you've never heard of.

After graduation, Shannon entered the famed Massachusetts Institute of Technology (MIT), and it was here that his work led to him publishing what has been called "the most important master's thesis of all time." High praise indeed.

The thesis in question was Shannon's "*A Symbolic Analysis of Relay and Switching Circuits*," and whilst I have been meaning to get around to reading it for, oh, about thirty years now, I am prepared to rely on the opinion of professor Howard Gardner of Harvard University, who believed that Shannon's work was "possibly the most important, and also the most famous, master's thesis of the century."

Personally, I was delighted when the July 20, 2011 edition of *Things That Make You Go Hmmm...* was dubbed "One of Several Things I Read This Week" by none other than my father, but I realize that Shannon and I operate at differing intellectual altitudes.



During WWII Shannon, then working for Bell Labs, became one of America's finest cryptographers, and his code-breaking skills became the stuff of legend, while in his spare time, he spent hours indulging his love of, amongst other eclectic hobbies, juggling, unicycling, and chess, and invented scores of devices including rocket-powered flying discs, a motorized pogo stick, and something Shannon deliciously called "the Ultimate Machine":

(Wikipedia): Otherwise featureless, the box possessed a single switch on its side. When the switch was flipped, the lid of the box opened and a mechanical hand reached out, flipped off the switch, then retracted back inside the box.

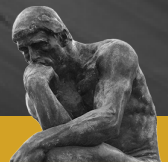
Shannon's wicked brilliance led him to the development of "Information Theory" (he was dubbed the "Father of Information Theory"), which, in partnership with the renowned physicist John L. Kelly, Jr., he advanced into a series of methods that have broad application in both the gambling and investment worlds to this day and have been followed by such luminaries as Warren Buffett, Bill Gross, and Jim Simons, as well as the MIT Blackjack Team who famously brought down the house in Las Vegas (as chronicled in Ben Mezrich's book of the same name).

(Wikipedia): Shannon and his wife Betty also used to go on weekends to Las Vegas with MIT mathematician Ed Thorp, and made very successful forays in blackjack using game-theory-type methods co-developed with fellow Bell Labs associate, physicist John L. Kelly Jr. based on principles of *information theory*. They made a fortune, as detailed in the book *Fortune's Formula* by William Poundstone and corroborated by the writings of Elwyn Berlekamp, Kelly's research assistant in 1960 and 1962. Shannon and Thorp also applied the same theory, later known as the Kelly criterion, to the stock market with even better results. Over the decades, Kelly's scientific formula has become a part of mainstream investment theory and the most prominent users, well-known and successful billionaire investors Warren Buffett, Bill Gross, and Jim Simons use Kelly's methods.

The theory was also exploited by the famous MIT Blackjack Team, which was a group of students and ex-students from the Massachusetts Institute of Technology, Harvard Business School, Harvard University, and other leading colleges who used card-counting techniques and other sophisticated strategies to beat casinos at blackjack worldwide. The team and its successors operated successfully from 1979 through the beginning of the 21st century. Many other blackjack teams have been formed around the world with the goal of beating the casinos.

Claude Shannon's card-counting techniques were explained in *Bringing Down the House*, the best-selling book published in 2003 about the MIT Blackjack Team by Ben Mezrich.

Part of Information Theory is something called the Shannon-Hartley Theorem, which Shannon developed with the help of Ralph Hartley, a colleague at Bell Labs. This theorem tells the maximum rate at which information can be transmitted over a communications channel of a specified bandwidth in the presence of noise.



It has become known popularly as the Signal-to-Noise Ratio.

$$SNR = \frac{P_{\text{signal}}}{P_{\text{noise}}}$$

In layman's terms, it's a way of determining how much of what you are hearing is actually important and how much is just interference that could possibly deter you from understanding the true message.

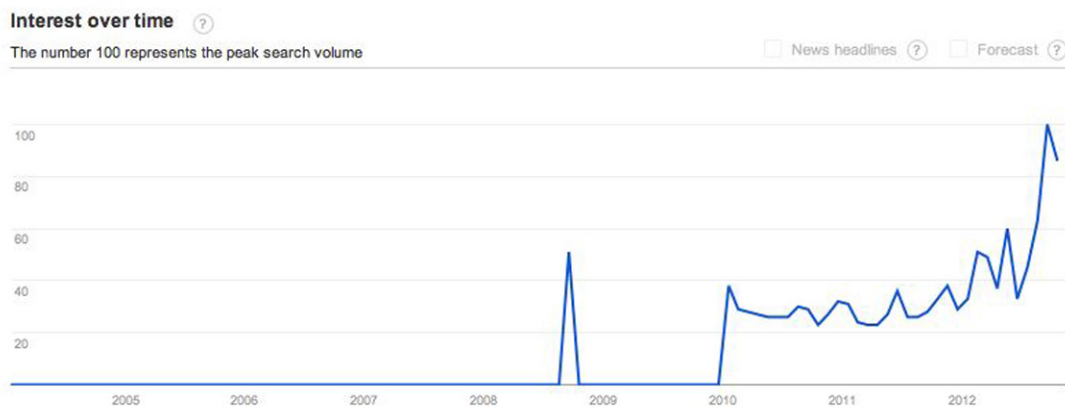
Take, for example, the economic "recovery" in the United States.

Every "signal" that gets released by the BLS (to pick one government bureau at random) is accompanied by a wealth of "noise" from both sides of the data. It begins before the figures are released with a thousand predictions of what the number will be. Those arbitrary estimates collectively become the benchmark for expectations, and then, once the world gets a look at the official statistic, the post-mortem begins and the noise level really ratchets up.

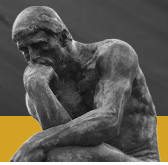
Case in point: the non-farm payrolls number.

This is one of the most-watched of all economic statistics and can be a genuine "market-mover." The most recent number, released on Friday—four days before what will no doubt be an incredibly closely fought US election—provides the perfect example of just how much "noise" can surround a given "signal," and, just to add a little more static crackle to the mix, we had to deal with the massive variable that was Hurricane Sandy.

A search on Google News for "BLS Jobs" demonstrates just how much this noise has ratcheted up since 2008 and how increasingly important it has become as we near the 2012 presidential election in the US:

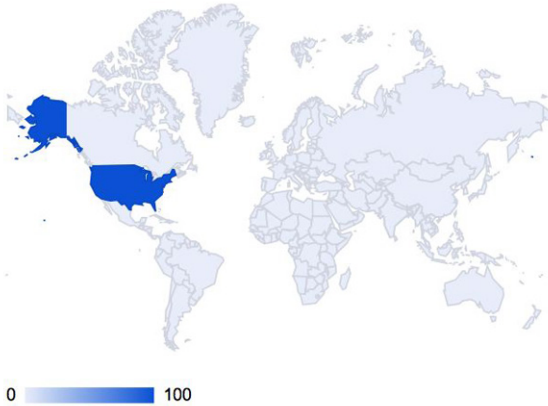


Source: Google Trends



It also demonstrates how regional the interest really is amongst the world's population to the number that "everybody" cares about so much.

Regional interest ?



The simple fact is, anyone involved in the financial sector has their own "Signal-to-Noise" issues that we have to deal with in that we focus obsessively on every number, every release, every tiny hint of what may make a difference—and we assume everybody else does the same thing.

What we are actually trying to do is not to work out what the ramifications of a particular number or a particular set of results will actually *be*, but what form the *reaction* to those numbers by our peers will take. It is a peculiar paradigm in which to operate.

(UPI.com): The U.S. Labor Department said

Wednesday it will release the October jobs report on schedule Friday despite Hurricane Sandy.

"The Employment Situation will be released at 8:30 a.m. on Friday, Nov. 2, as scheduled," BLS spokesman Gary Steinberg said.

There had been speculation the Bureau of Labor Statistics might be unable to compile and release the report on schedule due to complications from the massive storm in the mid-Atlantic and New England, and the department had said it would assess how to handle data releases this week after the storm "weather emergency" was over.

Department spokesman Carl Fillichio said late Tuesday BLS employees were "working hard to ensure the timely release of employment data on Friday."

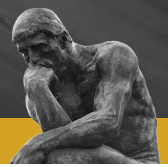
The department is also scheduled to release its third-quarter employment cost index detailing the changes in the costs of labor Wednesday and the third-quarter productivity and weekly jobless claims reports Thursday.

Friday's employment report will be the last on the nation's unemployment rate and labor market before the Nov. 6 elections.

Initial reports of a possible delay fueled speculation the jobs data—good or bad—might not be released until after the elections, The Wall Street Journal reported.

The jobs report is widely seen as a wild card, potentially giving a boost to the campaign of President Barack Obama or Republican presidential nominee Mitt Romney, depending on what the report says.

And there you have it. "The jobs report is widely seen as a wild card," which could affect the outcome of the election. Hold that thought for a moment.



In this event, the jobs number came in "better than expected" as 171,000 new jobs were added, but the unemployment rate ticked up to 7.9%. Mixed signals.

Naturally, the noise began immediately:

(ABC): Jobs report: Good for US, bad for Romney

(Wapo): October jobs report: The economy is doing better than we thought

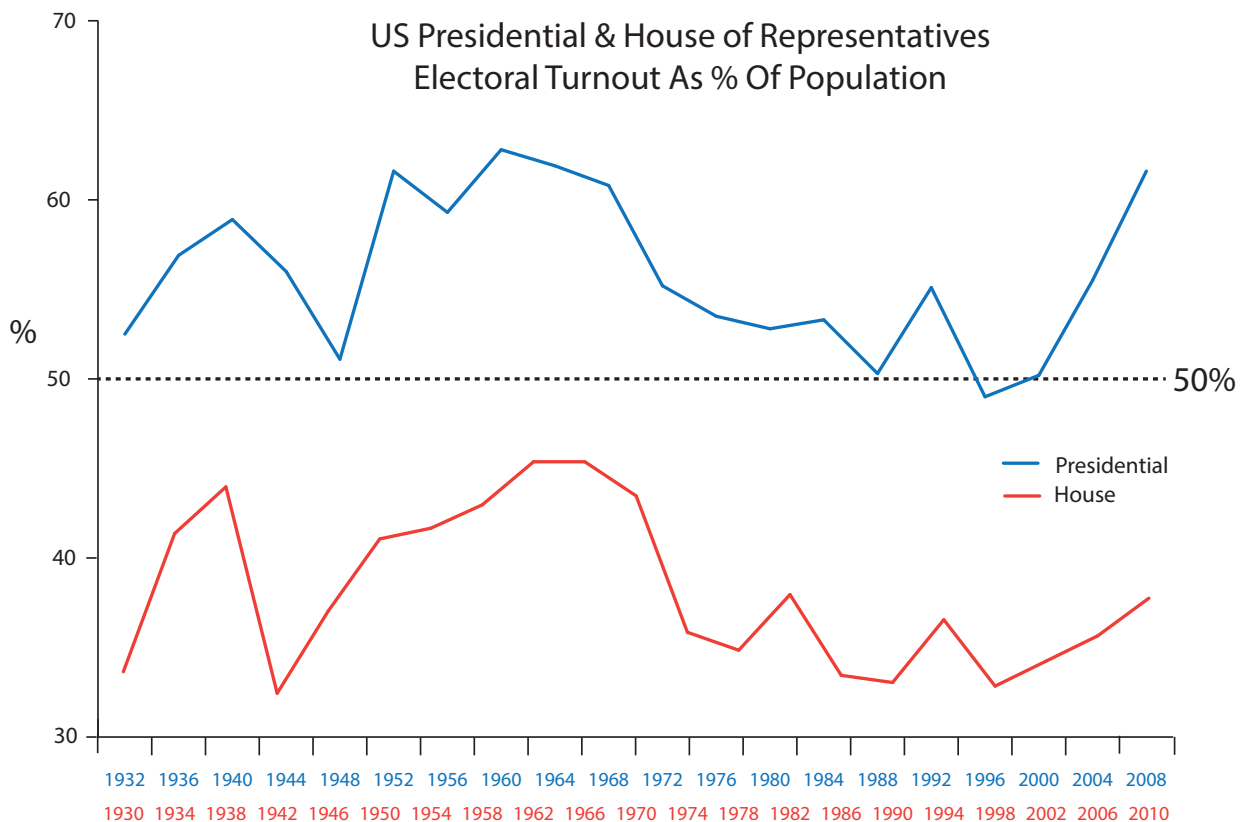
(Reuters): The unequal reality of Friday's jobs report

(Market Oracle): Manipulated US Jobs Report Good for Obama

A search on Google news after the data was released showed 11,688 results to a search for "US Jobs Report" as the noise grew rapidly and the signal became harder to decipher.

But back to the idea that "the jobs report is widely seen as a wild card," which could affect the outcome of the election. Let's think about that for a second on a real basis—not through the prism of the finance industry, which tries to slice and dice every data point in the search for an edge over everybody else engaged in the same practice.

The jobs number was released on Friday, and four days later the country will go to the polls. The turnout for US elections over the past 80 years is illustrative in what to expect:



Source: Statistical Abstract of the United States and Federal Election Commission



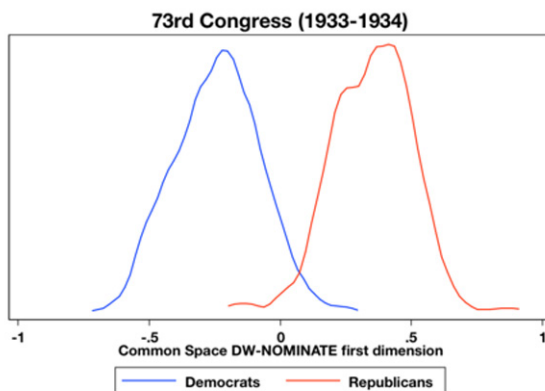
Even in the depths of the Great Depression, voter turnout for House elections failed to reach 50% whilst Franklin D. Roosevelt was elected as the 32nd president in the middle of the worst economic crisis ever to face the country by a hardly resounding 52.5% of Americans.

The spike in voting at the last two presidential elections is testament more to the growing divide between left and right than any great engagement on the part of the voting public, and we head into this week's main event with a huge problem facing us; Republicans and Democrats *really* don't like each other and *really* don't have *any* common ground.

Either way, it hardly seems reasonable to predict that a statistic such as the jobless number will have a *major* influence on an election that habitually only 1 in 2 people turn out for. We shall see.

Way back in 1932, when the Great Depression was ravaging the country, the battle between Herbert Hoover and FDR was a pitched one between two men with very different ideologies, but with the clear need for major policy shifts in order to combat the dire economic situation, the ideological state of the house was at least conducive to finding some common ground from which to begin to figure out how best to tackle the country's problems.

As you can see from the chart (below) there was a degree of consensus upon which the foundations of The New Deal could be built.

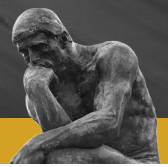


Over time, however, that consensus middle ground between Republicans and Democrats has withered away as the slow-motion polarization of the United States has continued to gather pace.

Perhaps the culmination of this process was the failure last August of the two sides to reach a compromise over the raising of the debt ceiling, which plunged the financial world into crisis (albeit temporarily) but lost amidst the noise leading up to August 1, 2011, was a signal that many heard but few heeded.

(Egan-Jones, July 18, 2011): Real GDP increased at an annualized rate of 4.0% in Q1 2011, following an increase of 3.5% rise in the prior quarter. Personal consumption expenditures, exports, and nonresidential fixed investment contributed positively to growth during the quarter. Meanwhile, imports rose sharply. In the March 2011 quarter, trade in goods and services resulted in a deficit of \$562B, many because of the high price of petroleum. However, the major factor driving credit quality is the relatively high level of debt and the difficulty in significantly cutting spending. We are taking a negative action not based on the delay in raising the debt ceiling but rather our concern about the high level of debt to GDP in excess of 100% compared to Canada's 35%. Nonetheless, since the US's debt is denominated in dollars, a hard default is unlikely.

The reaction to the signal was immediate... but was overwhelmed by the noise, and the effect was short-lived.



Source: Bloomberg

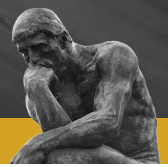
Hidden at the end of press release, though, was the kicker:

(Egan-Jones, July 18, 2011): Nota Bene: History has proven that defaults on domestic public debt do occur. In fact, seventy out of three hundred twenty defaults since 1800 have been on domestic public debt. Egan-Jones does not view a country's ability to print its own currency as a guarantee against default. Additionally, Egan-Jones generally views cases of excessive currency devaluation as a de facto default.

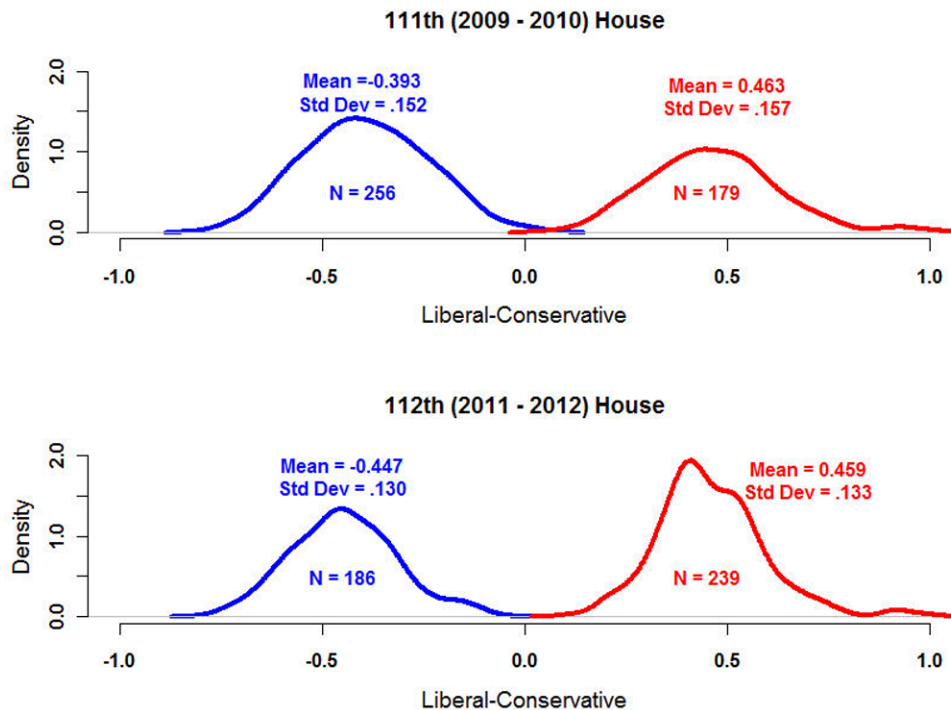
A pretty clear signal, but due to the noise surrounding it, the markets took a while to filter it. When they did, however, the clarity of the signal was enough.



Source: Bloomberg



The foolhardy actions of politicians on both sides of the aisle in letting the debt ceiling deadline come and go last August without resolution is indicative of where the two sides stand currently on an ideological basis, and the slide away from the centre over the last two Houses has been such that we have reached the stage where there really is no common ground remaining.



Source: Voteview

This, folks, is another signal—a signal that is bound to be obscured by the noise surrounding the election, but it is an important signal nonetheless, and it will become extremely important as the noise subsides and the Fiscal Cliff begins to make signals of its own.

Whatever happens on Tuesday, America will be saddled with a deeply divided political landscape as potentially a returned Democrat president faces a hostile and bitter Republican House, or a Republican president squares off against a hostile and bitter Democrat Senate (which is the lesser of the two evils in terms of getting anything done). Either way, there will be a *lot* of noise for us to try and filter away in order to reach the signals, which will be incredibly important in the run-up to December 31.

Want another signal? Well, how about this in the aftermath of the much-anticipated announcement of QE3:

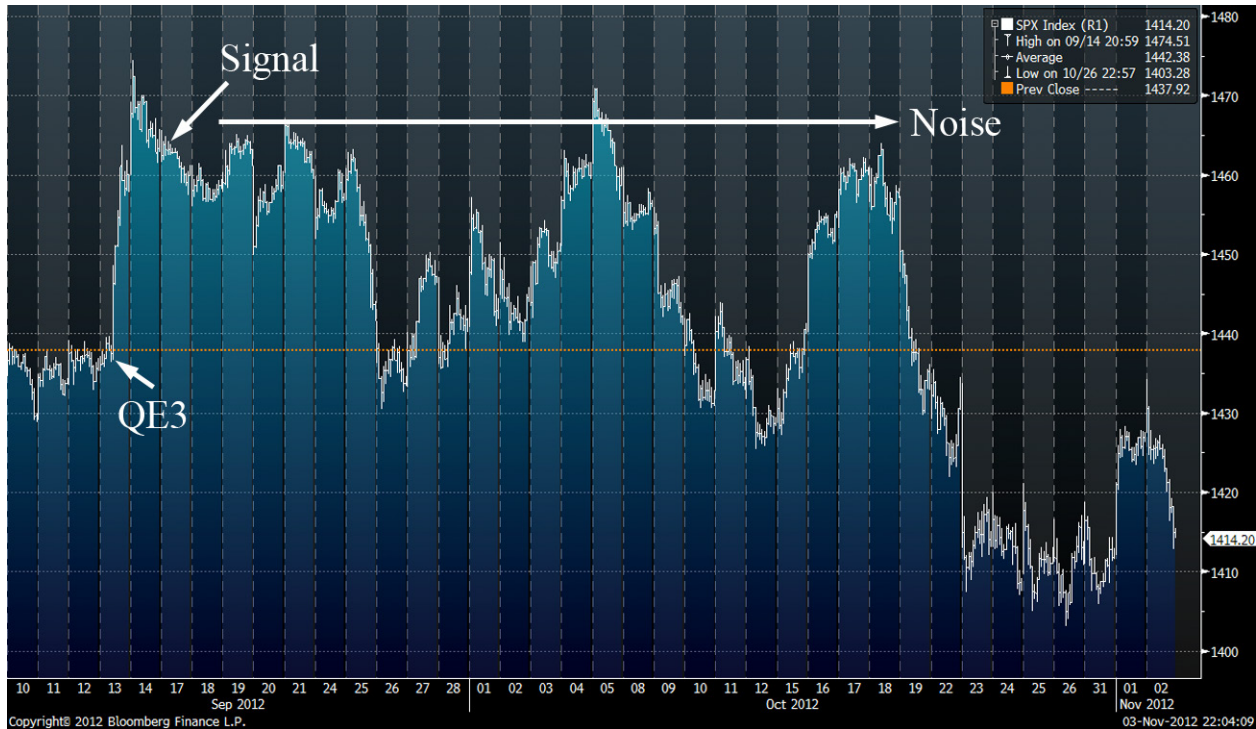
(CNBC, September 12, 2012): Ratings firm Egan-Jones cut its credit rating on the U.S. government to "AA-" from "AA," citing its opinion that quantitative easing from the Federal Reserve would hurt the U.S. economy and the country's credit quality.



The Fed on Thursday said it would pump \$40 billion into the U.S. economy each month until it saw a sustained upturn in the weak jobs market.

In its downgrade, the firm said that issuing more currency and depressing interest rates through purchasing mortgage-backed securities does little to raise the U.S.'s real gross domestic product, but reduces the value of the dollar.

Looks familiar, huh?

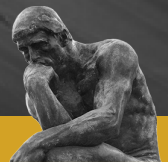


Source: Bloomberg

The last time a US downgrade signal asserted itself through the noise, the S&P 500 fell a little under 20%.

The US election is a whole lotta noise, and I have a feeling that the level of that noise may well become deafening in the wake of what looks likely to be a closely fought election (no doubt, the legal challenges from both sides are already written so they can be lodged immediately in the event of a repeat of Bush/Gore in 2000), but amidst the noise will be signals aplenty.

Of course, the US isn't the only place where these problems face investors. Ground Zero for Signal-to-Noise issues for the last few years has been—and will continue to be—Europe, where the level of noise generated by the Eurocrats has been absolutely overwhelming and the many important signals being generated have been completely lost in the static that accompanies every one of the failed "Last-Chance Summits" as well as the incessant babbling that these fools engage in whenever a reporter shoves a microphone in front of them.



A perfect example of this came this morning when Greece's PM, Antonis Samaras, once again made the kind of definitive statement that would ordinarily be a signal, but has become so much more noise as events have unfurled.

(Reuters): Talk of Greece exiting the euro will end after critical votes in parliament this week on new austerity measures, labor reforms and the 2013 budget, Greek Prime Minister Antonis Samaras said on Sunday.

The three-party government will submit the package of measures to parliament on Monday and must approve both it and the 2013 budget to receive aid from the IMF and European Union that it needs to avoid bankruptcy.

The junior ruling Democratic Left Party has refused to back the mix of tax hikes, spending reductions worth 13.5 billion euros because they are tied to measures that will cut wages and severance payments and scrap automatic wage hikes.

But Samaras's New Democracy Party and most of the deputies of its coalition Socialist partners are expected to push the package through in a slim majority in a vote expected on Wednesday.

Lawmakers should then approve the 2013 budget in another crucial vote on November 11, leading to the release of 31.5 billion euros in aid funds and putting to rest any talk of Greece exiting the euro, Samaras said.

"As soon as the new measures are passed and we get the critical aid tranche, liquidity will start again to feed businesses and households, uncertainty will end, sentiment will change and the fear of a return to the drachma will disappear," he told New Democracy lawmakers at a party meeting.

"All this (talk of Greece exiting the euro) will end irreversibly."

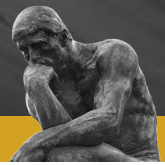
The word "irreversible" (and its derivatives) has become something of a favourite in European political circles in recent months:

(UK Daily Telegraph): The euro is "irreversible" and the beleaguered currency union is not in danger of collapsing, according to European Central Bank President Mario Draghi, who also argued that eurozone nations will eventually be bound even closer together.

(Sapa): France and Spain's leaders said Thursday they had agreed in Madrid talks that the euro is "irreversible".

"We want the European Union to go forward, neither the euro, nor the single market, nor the union will give a step backwards," Prime Minister Mariano Rajoy told a joint news conference.

Hollande added: "Rajoy and I are committed to the irreversibility of the euro."



(Paulineseconomicsforum.com): "...when I (Draghi) said irreversible, it means Europe can never go back to lira or drachma, it is here to stay forever!"

(Reuters): Regling conceded that the debt crisis had caused political tensions within the EU, but that a 'majority' were still in favour of European integration and the euro. He was confident that the crisis and its accompanying tensions would be overcome. The devaluation of the euro was not the answer, regardless of that fact that it would not be possible in a monetary union. Recovery would instead come through structural reforms and government-level legislation, as outlined in the EU's Fiscal Compact.

He described the euro as 'irreversible', suggesting that it should not be seen merely as an economic project, but as 'one of the defining pillars of today's European Union'.

(WSJ): Asked about Greece and its future as a member, Mr. Rehn said the euro "is irreversible and it is essential that we will maintain the unity of the euro." Greece, so far, he said, "has already been able to take quite substantial action in fiscal policy and structural reform." A "rebalancing" is taking place there as evident in lower labor costs and inflation, he said.

Mr. Rehn said he has "full trust in the German people and political leaders that they are fully committed to the euro," and called on Italy to continue with "its stable fiscal path" and press ahead with structural reforms.

All this noise from the likes of Draghi, Rehn, Hollande, Rajoy, and Regling is specifically designed to obscure the signals that are being continuously broadcast loud and clear by the economies of that teetering bloc.

(UK Daily Telegraph): Eurozone manufacturing shrank for the 15th month running in October as output and new orders fell, a survey showed on Friday... Manufacturers were the driving force behind the bloc's recovery from the last recession, but the downturn in factory activity that began in smaller periphery countries has now engulfed core members Germany and France.

Noise

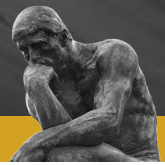
(Pimco): "It's extremely difficult to see any way, any possibility how the country pays back its debt without receiving assistance in the form of debt relief.

"Greece is insolvent and it's going to default. It's just a question of how and when that is realized."

Signal.

How do you tell? Simple. The first statements were all made by politicians who are forced by the situation to say one thing and one thing only. The last one was made by someone willing to countenance all possibilities.

That was fun. Let's do another one.



(Ambrose Evans-Pritchard): German finance minister Wolfgang Schauble said over the weekend that taxpayer "haircuts" were unthinkable. "The question has very little to do with the reality in eurozone member states," he said.

Noise

(Ambrose Evans-Pritchard): A draft version of the Troika report obtained by Spiegel magazine said EMU governments and the European Central Bank must accept their share of losses in order to bring Greece's public debt back to 120pc of GDP by 2020, deemed the sustainable level.

Greece must carry out a further 150 reforms, some involving a drastic loss of sovereignty. Troika payments will be held frozen in a special account under creditor control.

The Troika will have power to raise taxes automatically. There must be new laws to make it easier to fire workers and adjust the minimum wage.

Signal.

Oh, and remember our friend Antonis Samaras—you know, the Greek PM who said that talk about a Greek exit from the euro would "end"?

(UK Daily Telegraph): Greece's prime minister has urged the country's politicians to unite behind new austerity measures in an attempt to secure bail-out money for the country or risk an exit from the euro.

Antonis Samaras said Greece would run out of money next month if parliament did not vote through the latest set of cuts and reforms he has agreed with the country's international creditors.

And on and on it goes...

The only way to figure out the likely landscape of the next year or two is to ignore the noise and focus on the signal. That means ignoring ANYTHING that a politician says and focusing squarely on the reality provided by economic statistics and hard numbers (although the government-disseminated variety bring with them far more noise than signal). That's not easy during a presidential campaign in the USA and a fevered attempt to maintain a currency union in Europe, but here are a few hard numbers that may make it easier to tune out the noise:

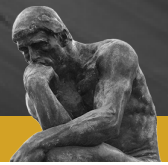
Number of Americans on the SNAP program (food stamps): 46.68 million

Ratio of growth in food stamp recipients to job creation (2009-present): 75x (see chart)

US public debt (October 31): \$16,221,685,381,838.28

Unemployment rate in Greece: 25.8%

Increase in Greek unemployment rate since July 2011: +8%



Unemployment rate amongst Greeks aged 15-24: 54.2%

Unemployment rate in Spain: 25.8%

Unemployment rate in Spain amongst under-25s: 52%

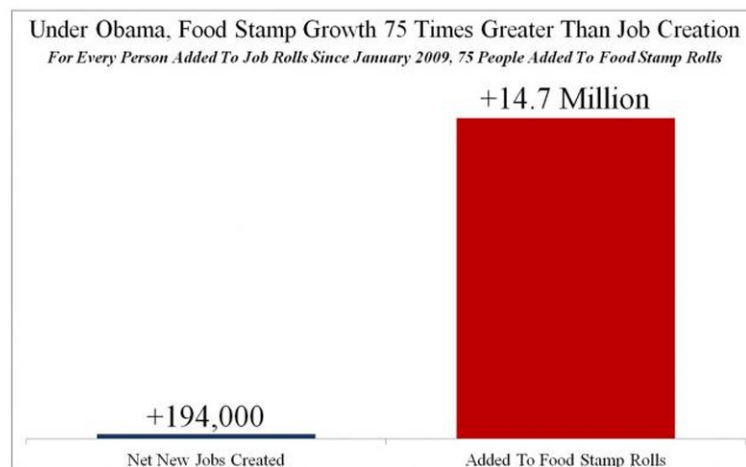
Percentage of Spanish bank deposits lost in July 2012 alone: 5% (€74 billion)

German unemployment rate: 6.9%

Last time German unemployment rate rose: Three years ago

Performance of S&P 500 since the announcement of QE3: -1.56%

All signal. No noise.

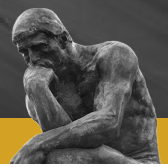


Source: Weekly Standard/BLS/USDA/FNS

While this is obviously by no means an exhaustive list, it is at least a start, and the idea of ignoring the noise and focusing on the signal is perhaps the most important concept to grasp in the search for understanding of what the future holds for the world.

When Claude Shannon wrote *A Symbolic Analysis of Relay and Switching Circuits*, he had no idea of the effect it would have on the world. When he and Ralph Hartley formulated the Signal-to-Noise Ratio, they had no idea how ubiquitous it would become. When we as investors listen to the sheer volume of noise we encounter every day, we sometimes have no idea just what the signal is that is buried within.

Concentrate, folks. Tune out the noise and focus on the signal.



The forces of reaction and economic folly threaten to prevail in China. The long political arm of Jiang Zemin has reached out from the shadows to thwart reform, with huge implications for Asia and the world.

If reports from the Hong Kong press and China's blogosphere are correct, a remarkable upset has occurred on the eve of the ten-year power shift next week—the greatest turn-over of top cadres since Mao's revolution.

The South China Morning Post says the new line-up of the Politburo's Standing Committee is "packed with conservatives." The succession deal agreed over the summer has been scuppered.

The 86-year-old Mr Jiang—who rose to supreme leader on the bones of Muxidi and Tiananmen in 1989—has placed his acolytes in charge of the economy, propaganda, as well as the Shanghai party machine.

The hardliners seem poised to snatch control of the seven-man committee, tying the hands of incoming President Xi Jinping and Premier Li Keqiang. If confirmed, long-term investors may have to rethink their core assumption about the future course of China.

This power struggle going into the 18th Party Congress matters more in the sweep of history than the run-off two days earlier between a centrist Barack Obama or the centrist Mitt Romney, though the stage drama is less compelling.

Mr Jiang's rear-guard coup should give pause to thought. It was he who instituted the Patriotic Education movement in schools in the 1990s, whipping up nationalist fervour to replace the lost mystique of Maoism. The effect was to nurture revanchist hatred against Japan, creating a monster that now requires feeding.

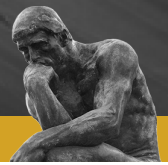
His eerie return comes at a time when China and Japan are "one error away" from outright war over the Diaoyu/Senkaku islands, to cite the findings of four American diplomats in a report to US Secretary of State Hillary Clinton.

Stewart Patrick from the US Council of Foreign Relations likens East Asia to Europe just before the First World War. It was then that Sir Norman Angel famously argued that the great European powers were so intertwined by trade and investment that conflict had become unthinkable. Nationalist emotions decided otherwise.

Any conflict over the Diaoyu/Senkaku islands would put the US in an impossible position since it is obliged by treaty to uphold Japanese control over the islands—and to go to war under Article V if Japan is attacked. The Noda government in Tokyo seems determined to hold America to that pledge.

Mr Patrick said that blank cheques to headstrong allies in the region could "set disaster in motion," proving as dangerous as Germany's blank cheque to the Austro-Hungarian Empire in 1914.

*** AMBROSE EVANS-PRITCHARD / [LINK](#)

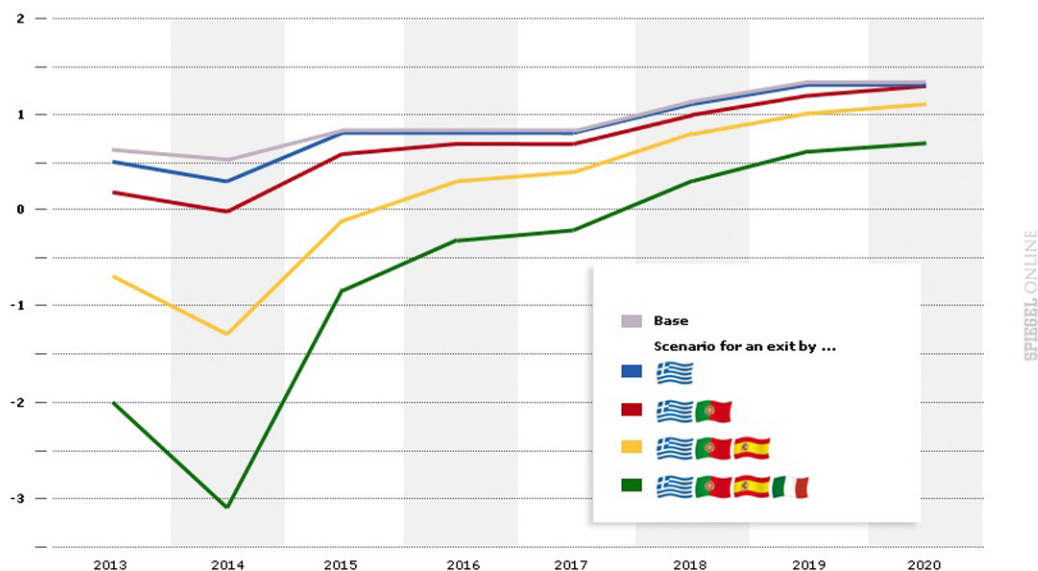


Average Greeks are reeling under the strict austerity measures passed in order to balance the country's budget. Top earners, on the other hand, continue to evade the tax man. Most of the self-employed in Greece significantly underreport their earnings, whereas shipping magnates enjoy generous exemptions.

The principle of tax justice may be enshrined into the Greek constitution, but it has become increasingly obvious that not all Greek taxpayers are created equal. Currently, the government in Athens is preparing yet another round of harsh austerity measures, severely testing the cohesion of both the coalition and society. Already, such measures in combination with tax hikes have slashed average household income in Greece by half since the beginning of the crisis. Measures now planned will see pensions sink by 25 percent.

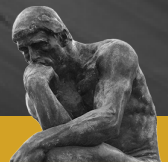
At the same time, though, a small elite of wealthy Greek ship owners is fighting to defend its tax-free status—also, ironically enough, enshrined in the constitution. Meanwhile, other moneyed Greeks, including doctors, lawyers and engineers, continue to systematically avoid taxes. According to a recent study, seven out of 10 self-employed Greeks significantly underreport their earnings. Indeed, though the crisis has been raging for five years now, many wealthy Greeks are under no more pressure to pay taxes than they were before.

Growth Forecasts for Germany
Data for 2013-2020, as a percent of GDP



Source: Prognos AG

Source: Prognos/Der Spiegel



The study's authors use data from a large Greek bank, which uses several factors in addition to income reports to measure a client's creditworthiness. The result: Undeclared income from self-employed Greeks amounted to €28 billion in 2009, more than 10 percent of the country's gross domestic product that year. The state lost €11.2 billion in tax revenues as a result.

Doctors lead the way: Their real income is almost 2.5 times higher than the amount they declare. Lawyers are not far behind, with economists, journalists, and those in the entertainment business rounding out the top slots on the list. "Tax evasion is not limited to the wealthy," the study finds. "But tax evasion does increase in wealth, substantially."

How, though, given Greece's attempts in recent years to shore up tax revenue, is this still possible? A lawyer in Thessaloniki who wished to remain anonymous says it is really quite simple to cheat on taxes. "Until recently, there was a minimum fee of €300 for presenting a case in court. Big-shot lawyers would charge their clients thousands of euros, yet would only give a receipt for €300. I know of wealthy lawyers who have been in the business for 30 years who do not pay a single euro in taxes. Some of them even boast of getting tax returns."

As such, it is perhaps not surprising that the number of Greeks declaring incomes of over €500,000 is a mere 200 people. Even if the government moves ahead with the application of a 50 percent tax rate on those incomes, the move would be largely symbolic.

Meanwhile, following five years of recession, many average earners in the country are angry. Iordanis Iordanidis, a 37-year-old father of two who has been unemployed since losing his job at a multi-national pharmaceutical company in October 2011, says he despairs when trying to figure out a way to cope with new taxes. "It seems their inventiveness in imposing new burdens to the same people is unlimited," he says bitterly.

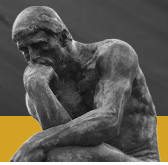
*** DER SPIEGEL / [LINK](#)

Estimates of economic damage from Hurricane Sandy are now ranging between \$30bn and \$50bn. This is clearly a large number.

LA Times: - Estimates of the economic losses caused by Hurricane Sandy earlier this week reached \$50 billion as experts assessed the costs of severe property damage, shut-down subways and power outages.

On Thursday, Egecat Inc. said it expects storm-related losses to fall between \$30 billion and \$50 billion. Of that, \$10 billion to \$20 billion will be insured, according to the firm, which calculates estimates for insurers.

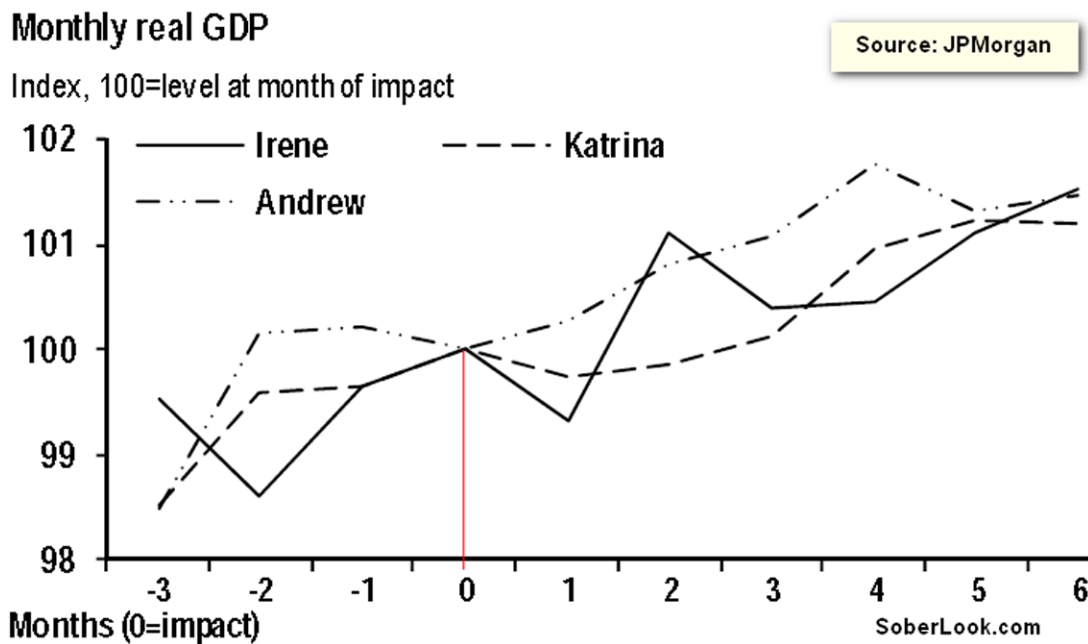
Earlier this week, Egecat had said that damages could reach \$20 billion, with up to \$10 billion in insured losses.



But as terrible as this event was, in terms of economic damage it is still expected to be considerably below that of Katrina, which adjusted for inflation came in at \$145 bn. The question now is: what will be Sandy's impact on the US economy? Based on historical experiences, the answer is not entirely obvious.

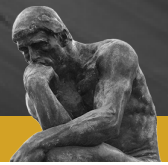
JPMorgan's recent report attempts to answer it. Their view is that "Hurricane Sandy may initially depress economic activity, then support it over time as rebuilding commences." In the near term, the hurricane-impacted high-frequency data and seasonal adjustments may be off for a couple of months. Longer-term, however, the impact on the overall economy should be minimal.

The chart below shows the monthly GDP after three major hurricane events. Although we may see some weakness within the first month or two, the economy seems to be stable six months out.

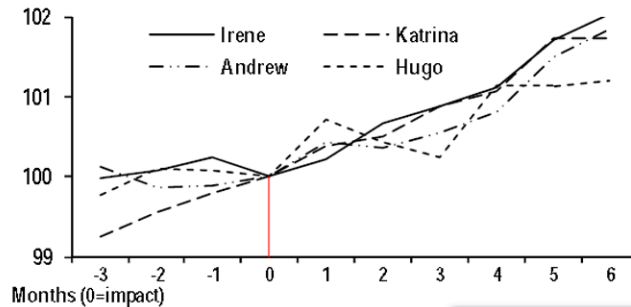


Source: Soberlook/JPMorgan

A similar analysis was performed with private-sector hours worked as well as retail sales. The results are quite similar, as economic trends seem to pick up a positive trend out to six months from each event.



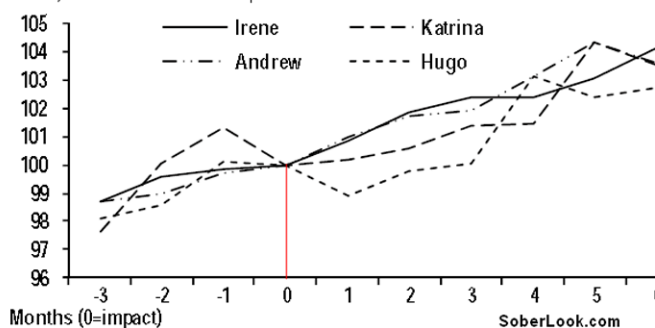
Aggregate weekly hours (private prod. and nonsupervisory workers)
Index, 100=level at month of impact



Source: JPMorgan

Retail sales

Index, 100=level at month of impact

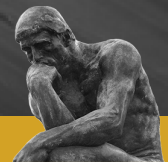


Source: Soberlook/JPMorgan

The biggest impact will be on housing, construction, and retail sales (particularly given that unlike during Katrina, major energy infrastructure was not heavily impacted by Sandy). The initial decline in these areas will be followed by a boost in building materials purchases, added construction, and some home sales, as families who lost homes enter the market (although the Northeast typically accounts for a relatively small portion of US housing sales). If historical data is at all representative, by the end of Q1 2013 the US economy should be following the trajectory it would have followed without Sandy—and possibly an even better one.

*** SOBER LOOK / [LINK](#)

Is the economy at an inflection point, or are we simply in the calm before the storm? Though economic reports have been relatively muted on balance, they have also come in somewhat above expectations in recent weeks—particularly the advance estimate of third-quarter GDP at 2%, and October non-farm payrolls at 171,000. The lack of clear deterioration in recent reports begs the question of whether this is enough to dispose of any concern about recession, and instead look forward to continued positive—if slow—economic progress.



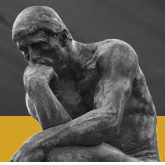
The answer to that question largely depends on how one draws inferences from economic data. The consensus of Wall Street economists, as well as the broader economic consensus, has never successfully identified a U.S. recession until well after it has begun. I believe that much of the reason is that economists tend to interpret reports one-by-one as what I've called a "stream of anecdotes." From that perspective, a series of positive anecdotes, such as the reports we've recently seen on GDP and non-farm payrolls, encourages views that the economic landscape is all clear.

The problem is that the stream of anecdotes approach places no structure on the data—there is no analysis of leading/lagging or upstream/downstream relationships, no examination of the frequency and size of revisions to the data—particularly around economic turning points—and no attempt to place the data points into a larger "gestalt" that captures relationships between dozens of other economic reports. Moreover, it's natural for analysts to gauge "trends" by comparing recent reports to past data, with a look-back horizon somewhere in the range of 13-26 weeks. If analysts then form expectations by extrapolating recent surprises, it then becomes very easy to produce regular "cycles" of economic surprises. We've been able to generate that phenomenon even using randomly generated data. In practice, the cycle of economic "surprises" tends to run about 44 weeks in U.S. data (see The Data Generating Process). As it happens, much to the chagrin of conspiracy theorists, we would expect the present cycle to peak out roughly the week of the election.

In any event, a series of positive economic surprises can easily be interpreted as an important inflection point. Looking deeper into the data, however, we really don't see the sort of broad, persistent strength in economic reports or leading indicators that would indicate a significant shift in economic fundamentals. To the contrary, we continue to believe that the U.S. entered a recession last quarter and that some of the more prominent data points (GDP, non-farm payrolls) will be revised downward within several quarters, as we've regularly seen around economic turning points throughout history. The regular pattern of revisions around economic turning points has also been emphasized by ECRI, which uses much different methods than we do, but shares our concerns about recession risk. We could hardly choose better company on this particular deserted island.

To recap this pattern of data revisions around recession turning points, note that in the originally reported data for May through August 1990, as a new recession was emerging, the Bureau of Labor Statistics reported that 480,000 total jobs were created (see the October 1990 vintage in Archival Federal Reserve Economic Data). But in the revised data as it stands today, those figures have been revised to a loss of 81,000 jobs for the same period.

Consider early 2001. A U.S. recession had already started months earlier, but first-quarter GDP growth was initially reported at 1.2%. Based on final revision, that same quarter's GDP growth is now reported at -1.3%. The vintage data shows that non-farm payrolls were initially reported with a gain of 105,000 jobs during January-April 2001, while the revised data now shows a loss of 262,000 jobs.



Likewise, by early 2008, the U.S. was also already in recession, but first-quarter GDP growth was initially reported at 1% growth. That figure was only later revised to -1.8%. The non-farm payroll reports were already deteriorating, with a cumulative job loss from February-May of 2008 of 248,000 jobs. Still, those initial reports pale in comparison to the revised figures, which presently show a loss of 577,000 jobs for the same period.

As for the latest employment figure, my impression is that we will ultimately see revisions that put non-farm payroll growth at negative figures from about September 2012 onward. That said, I should emphasize that this tendency for data revisions around economic turning points should not be viewed as evidence of any kind of manipulation. In my view, the October payroll report doesn't support the notion that the numbers are rigged in any way. It's just that all of this data is based on limited surveys, and is heavily smoothed with algorithms that adjust the data by enormous amounts compared with the actual monthly changes that are reported.

*** JOHN HUSSMAN / [LINK](#)

Major Chinese heavy machinery makers are lowering accounting standards, a move analysts say allows them to post higher paper profits under rules that are less strict.

In an announcement on October 21, Sany Group Co. Ltd. said it had reduced the ratios of provisioning for bad loans in some receivables, including those that had been overdue for less than three years. The change affected more than 96 percent of the firm's receivables.

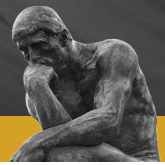
After the adjustment, Sany would post an extra 470 million yuan in net profit for the first three quarters of this year.

The move "was purposefully designed to ensure that the company can remain as the most profitable heavy machinery manufacturer in the domestic market," Huabao Securities' analyst Wang Hexu wrote in a report.

Sany was on track to be outperformed in terms of profit by its major rival, Zoomlion Heavy Industry Science & Technology Development Co. Ltd. this year. According to the companies' interim reports, Sany's net profit in the first half was nearly 5.2 billion yuan, down 13.1 percent from the first half of 2011. Zoomlion had net profit of 5.6 billion yuan in the first six months, an increase of 21.5 percent.

Most securities analysts praised Zoomlion and questioned Sany's ability to check its decline.

Some others said Zoomlion had pulled off an accounting trick. In October 2011, Zoomlion modified its accounting rules, increasing the provisioning ratio for receivables that had been past due for three years or more while significantly decreasing the ratio for those that were less than two years old.



The change significantly reduced the average provisioning ratio of all receivables, said Hou Anyang, investment director of Shenzhen-based Shangshanruoshui Investment Management Co., because receivables less than two years old accounted for more than 95 percent of Zoomlion's total receivables.

When last year ended, Sany's net profit exceeded Zoomlion's by only 7 percent, which narrowed from 22 percent for the first half of that year and was also down from 2011's 17 percent.

Without taking a similar move, Wang wrote, it was very likely that Sany would lose first place to Zoomlion in terms of net profit and even market value. This would have heavy negative impacts on Sany's marketing and financing costs, he wrote.

Sany's president, Xiang Wenbo, said his firm's recent change in accounting standards "simply went from being the most prudent to being normal."

This is perhaps true. XCMG Group, another competitor of Sany, does not make provisioning at all for receivables that are less than one year overdue. This type of receivables makes up around 90 percent of its total receivables.

*** SHEN HU AND ZHANG BOLING / [LINK](#)

On the 24 September at Israel's National Institute of Security Studies, an obdurately dull building off a main road in Tel Aviv, three dozen men and women drawn from the top echelons of Israel's political and military elite met to play a war-game, the outcome of which could help decide whether Israel goes to war with Iran.

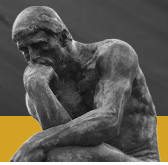
I was in Israel with film director, Kevin Sim, who was making a documentary on the war game for 'Dispatches' on Channel 4.

The notional starting point of the game was 9 November 2012, just after the American presidential elections. Participants were divided into ten groups each representing likely key players in the conflict—Israel, Iran, the US, Russia, Hezbollah, Egypt, Syria, Turkey, Russia and the UN. All the teams were made up of Israelis.

The war game is what it says it is—a game. Despite its seriousness, inside the Institute there was an air of make-believe.

The "Netanyahu" who led the Israeli team was an imposter—a former Deputy Foreign Minister of Israel. Two former government ministers took turns to play Obama. Putin was a former Israeli ambassador to Moscow.

The war game was designed to explore the likely outcome of an Israeli pre-emptive attack on Iran; it didn't examine the legal or moral arguments for or against any such strike but rather focused on how the Iranians might retaliate and what the wider fallout would be.



The game began when the players were told that just after midnight, in a surprise air raid, Israeli bombers had attacked nuclear installations deep inside Iran. First reports indicated that Israel had acted alone without consent or help from the Americans.

The Iranians responded quickly to the Israeli strike, launching a barrage of Shahab-3 ballistic missiles (based on the North Korean Nodong-1 missile) at Israeli targets, including the country's largest city, Tel Aviv. Then they discussed their political goals.

The most immediate of these was the desire to rebuild the nuclear programme, preferably to a level "beyond what it was on the eve of the strike." Given their newfound status as victims of an attack, another priority was to have the sanctions on Iran lifted; and to have sanctions placed on Israel for its "unprovoked act."

They also decided to offer Jordan and Egypt extensive aid packages to cancel their peace treaties with Israel, before debating a key dilemma: whether or not to attack US targets. With Iran's considerable influence in Iraq and Afghanistan, not to mention its huge presence in the Gulf, the Iranians could cause huge problems for Washington.

In the end, though, the decision was taken to refrain; Washington was one more complication they didn't need. Russia (which has been building the Bushehr nuclear power plant) was also approached for immediate help to rebuild the devastated facilities, as well as delivery of S-300 surface-to-air missiles and a consignment of Sukhoi 24 aircraft.

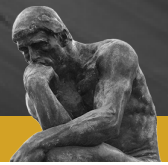
Militarily, Iran tried to get its allies—namely, its proxy militia groups Hezbollah in Lebanon and Hamas in Gaza—to enter the conflict on its behalf.

"All our help to you over the years," the Israeli playing Ahmadinejad (a former colonel in military intelligence) declared in a meeting with Hezbollah, "has been for the purpose of this moment."

"There's no such thing as a free lunch," his assistant added. The Lebanese declared they were only too happy to help—in any way that would not bring massive Israeli retaliation down on Lebanon. There was tension in the room.

*** DAVID PATRIKARAKOS / [LINK](#)

Given emerging data in 2012, it's becoming increasingly clear that the post-war automobile era in the United States is now in well-articulated decline. Accordingly, it makes sense to note the beginning of a long-term supertrend that is just getting started: the resurrection of America's rail system.



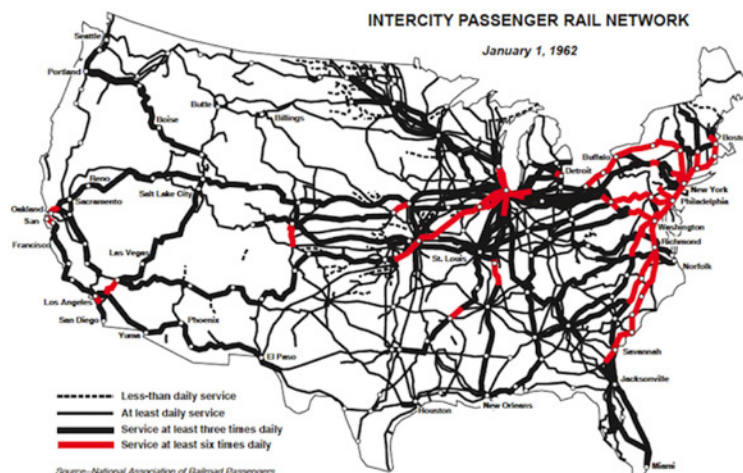
At Seattle's historic King Street Station (a classic example of early 20th Century railroad architecture), a nasty-looking dropped-tile ceiling—which hung above travellers for decades—was removed late last year to reveal ornate plasterwork as the building undergoes extensive renovation. These cosmetic (and structural) alterations are part of a wide-ranging upgrade to the entire Cascades passenger rail service that runs from Vancouver, British Columbia, to Eugene, Oregon.

In Tacoma, for example, a new station will either be built or renovated, and part of the Cascades line will be re-routed from its current shoreline path more directly through that city. Elsewhere, bridges are being rebuilt, track is being upgraded, and other infrastructure improvements are underway as part of the \$500 million program to resurrect more efficient, faster intercity rail in the 466-mile Amtrak route through this part of the Pacific Northwest.

These changes will not bring European-style high-speed rail to the United States. Indeed, in many similar projects across the country, top speeds of 125 mph will characterize new system capability, rather than the average speed actually maintained from city to city. However, the incremental improvements now underway will become the platform for the next phase of investment, as Americans are increasingly persuaded to limit their car ownership and make rail transport part of their lives once again.

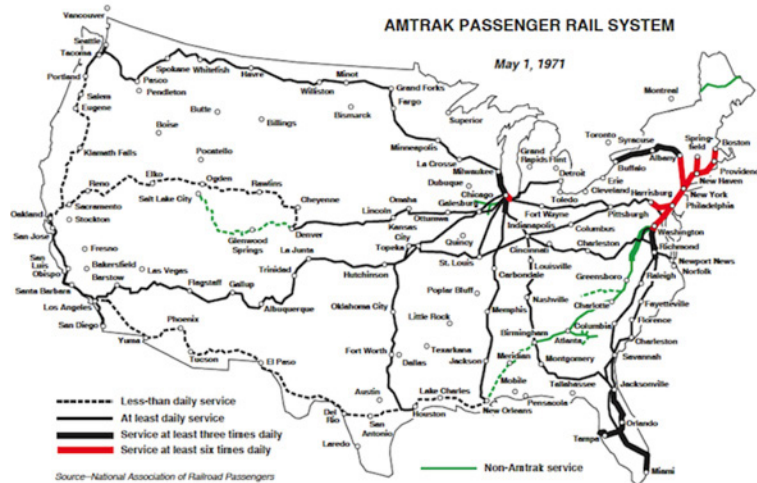
Up until World War II, rail transport of all kinds—intercity, light rail, and commuter rail—dominated transportation in America. Los Angeles had the largest light-rail system in the entire world, connecting the San Fernando Valley to Long Beach, and San Bernardino County to central L.A. and the northern reaches of Orange County. As the old saying goes, however, the car killed America. And the following 40 years from 1945-1985 saw a relentless decline of all forms of rail in the United States.

To get a sense of what the country lost as it eagerly built out a vast highway infrastructure and foolishly stopped investing in rail, let's look at two historical maps showing a veritable collapse of passenger route miles over just a ten-year period. The first map shows that in 1962 intercity passenger rail network still covered 88,710 route miles.





Just ten years later, however, with intrusive highways bisecting American cities and ruining the integrity of their downtowns, the number of passenger route miles had collapsed by over 75%(!), to just 19,366 miles.

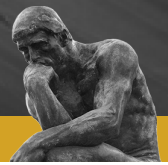


*** GREGOR MACDONALD / [LINK](#)

The Mexican military is trying to dismantle an extensive network of radio antennas built and operated by the notorious Zeta drug cartel. But the authorities haven't had much luck shutting Radio Zeta down. Not only is much of the equipment super-easy to replace. But the cartel has also apparently found some unwilling—and alarming—assistance by kidnapping and enslaving technicians to help build it.

At least 36 engineers and technicians have been kidnapped in the past four years, according to a report from Mexican news site Animal Politico, with an English translation published by organized-crime monitoring group InSight. Worse, none of the engineers have been held for ransom — they've just disappeared. Among them include at least one IBM employee and several communications technicians from a firm owned by Mexico's largest construction company. "The fact that skilled workers have been disappearing in these areas is no accident," Felipe Gonzalez, head of Mexico's Senate Security Committee, told the website.

"None of the systems engineers who disappeared have been found," Gonzalez said. Unlike Colombia, where drug traffickers control large amounts of territory and can keep hostages for many years, Mexico's drug territory is more in flux. "When they need specialists they catch them, use them, and discard them," said the father of one kidnapped engineer.



For at least six years, Mexico's cartels have relied in part on a sophisticated radio network to handle their communications. The Zetas hide radio antennas and signal relay stations deep inside remote and hard-to-reach terrain, connect them to solar panels, and then link the facilities to radio-receiving cellphones and Nextel devices. While the kingpins stay off the network—they use the internet to send messages—the radio network acts as a shadow communication system for the cartels' lower-level players and lookouts, and a tool to hijack military radios.

One network spread across northeastern Mexico and dismantled last year included 167 radio antennas alone. As recently as September, Mexican marines found a 295-foot-high transmission tower in Veracruz state. And while the founding leadership of the Zetas originated in the Mexican special forces—and who might have had the know-how to set up a radio system—relatively few of the ex-commando types are still active today.

One engineer, named Jose Antonio, was kidnapped in January 2009 while talking on the phone with his girlfriend outside a mechanics shop. He worked for ICA Fluor Daniel, a construction company jointly owned by U.S.-based Fluor Corporation and ICA, Mexico's largest construction firm. Antonio's family contacted the authorities, but were instead visited by a man claiming to be an ICA employee along with two Zetas. "They said they were going to help us, and that our contact would be ICA's security chief," said the kidnapped engineer's mother. But the group's message was implicit: Don't pursue this, or else. The cartel members were later arrested, but Antonio never returned.

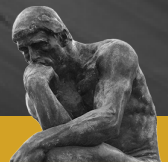
Alejandro Moreno, an IBM engineer kidnapped in January 2011 while traveling from Monterrey to the Texas border city of Laredo, hasn't been heard from since. In 2009, nine contractors hired to build radio antennas in the border city of Nuevo Laredo—a Zetas stronghold—were kidnapped from a rented apartment by masked gunmen. They were taken with their vehicles and equipment.

Aside from the radios, the cartel's extensive weaponry alone caused GlobalPost's loan Grillo to note "whether [the Zetas] should continue to be labeled as drug traffickers—or need a more martial description." Now add a military-grade communication system built with slave labor.

It'd also be one thing if jamming the radio network or tracking down and dismantling the equipment were enough to stop it. But that might not be enough.

*** WIRED.COM / [LINK](#)

Jacob Lew isn't the most obvious figure to be charged with securing the Obama legacy. The purposefully low-key White House operative is content to work behind the scenes, and he always takes care to speak strictly on behalf of the president. Yet this Jewish son of middle-class parents from Queens, a stranger to President Obama's Chicago-centric universe, could help cement the way the first African-American president is remembered if Lew can cut a sweeping budget deal in the coming months.



To do that, however, he might have to give ground and trigger what critics may see as the first steps in the dismantling of the modern social-welfare state by allowing Republicans to chip away at the very ideal that has inspired and informed Lew's public service since the days he learned Washington's mores at Tip O'Neill's side.

It's a lot to ask. But that will be Lew's job as Obama's chief of staff, a position that could expire in two months and, with it, his leverage. Should Obama win, Lew is seen as a top contender for Treasury secretary, with the biggest mark against him that he is so highly valued in his current post, Obama might prefer to keep him at the White House. Either way, the task of cutting a "grand bargain" doesn't grow any easier. If Lew can close a lame-duck compact that somehow chops the deficit, avoids the hated sequester, and largely leaves Medicare, Medicaid, and Social Security intact, Obama would be ranked with Presidents Reagan and Clinton, who cut large-scale budget deals that preserved costly entitlements. If he blows it, Lew becomes just another in a long list of aides who couldn't break the stranglehold of dysfunction that has seized the capital.

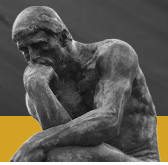
With the president's backing, Lew is determined to not let that happen. And he has no interest in repeating the mistakes of the debt-ceiling standoff. This time, there will be no chats on the Truman Balcony or glasses of Merlot for John Boehner, as took place in 2011 when the GOP House speaker and Obama tried to strike a grand bargain on the budget.

Instead, the administration plans to play hardball in the six weeks after the election. And the White House is looking not just to House Republicans for the contours of the compromise. Under Lew's direction, the administration instead will reach out to the Senate and to House Democrats to try to build a consensus before dealing too much with the tea party portion of the Republican Party.

At the center of this push will be Lew, a 30-year veteran of budget battles under Presidents Reagan and Clinton. Tall and thin, with Harry Potter-like glasses and salt-and-pepper hair, he looks like a typical Washington technocrat, an image that belies his talent for combat. "He's like a labor-union negotiator. He's not going to give you an inch if he doesn't have to," says Judd Gregg, the Republican former senator and Budget Committee chairman. "He's a true believer in the causes."

By causes, Gregg means Medicare and the rest of the social-safety net. These are the progressive ideals close to Lew's heart, friends and former colleagues say—and programs he will cut or change only in exchange for an equally big prize: in this case, the Republicans agreeing to more revenue, as Obama has called for from the campaign trail.

Lew has long been mindful of the tension inherent in his task. He has spoken publicly for years about the importance of deficit reduction. Yet he believes that budget cuts must be made with care, using a scalpel rather than a butcher's knife. "That is the only way to do it," he said in 2011 in a speech at a conference for a Jewish nonprofit organization. "I describe budgets as a tapestry: When it's woven together, the picture amounts to our hopes and dreams of a nation."



Lew's power has grown over less than a year as Obama's chief of staff—and he already has Republicans dreading a budget confrontation with him. Even as they praise Lew for his command of the facts and deep knowledge of the budget, they complain that he's too liberal. "The biggest challenge is that the drivers of a lot of the spending are income-support programs and health care programs," one House GOP staffer says. "Those are the most difficult for him to look at."

Another aide spelled it out more bluntly, saying he doesn't appreciate Lew's negotiating style; as then-director of the Office of Management and Budget, Lew often acted behind closed doors in the summer of 2011 as if he knew what the Republicans wanted out of the conversation. The budget chief came across as presumptuous, unlike other top administration officials, this aide said.

People close to the White House dismiss these complaints as sour grapes. "You don't have to like someone to be able to cut a deal with him. I suspect that most people in the White House don't like the Republicans, too," says John Podesta, former chief of staff to President Clinton, who led the Obama and Biden transition team in 2008. "I think it's not actually that relevant."

*** NATIONAL JOURNAL / [LINK](#)

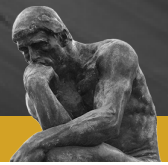
The U.S. presidential contest, marked by two dozen lawsuits in the past six months over voter rules including photo ID requirements and limited poll hours, may see a new wave of litigation starting tomorrow over who gets to vote and which ballots will be counted.

Voter rights advocates and lawyers for the candidates may initially head to court to keep polls open longer because of machine breakdowns, to make up for Hurricane Sandy's aftermath, or to bar partisan poll-watchers challenging the rights of some to vote, said Edward Foley, a law professor at Ohio State University. Democrats in Florida yesterday sought to extend early voting hours there, and in Ohio they are challenging last-minute provisional ballot restrictions.

The biggest battles, however, may come after Election Day, and could lead to a replay of 2000 where courts determine the next U.S. president. Disputes over the counting of such provisional ballots in swing states including Virginia, Ohio and Florida would dominate such a scenario, said Jocelyn Benson, a law professor at Wayne State University in Detroit and director of the Michigan Center for Law and Administration.

"Provisional ballots could very likely be the hanging chads of 2012," Benson said. "The battle over provisional ballots will take center stage where any election is close and a significant number of such ballots have been cast."

Litigation over such ballots, usually cast when a voter's credentials are challenged or inadequate, and counted after the polls close, may at the very least push resolution of the race between President Barack Obama and ex-Massachusetts Governor Mitt Romney past Nov. 6. Challenges have already begun, with voter advocates in Ohio Nov. 2 suing over what they said is an attempt by Republican officials there to undermine court rulings on provisional ballots with new identification rules that may confuse voters.



The dispute over which votes to count in Florida in 2000 was resolved by the U.S. Supreme Court, which in a 5-4 vote rejected a recount sought by then-Vice President Al Gore, the Democrat, handing the presidency to Republican George W. Bush. Bush won Florida by 537 votes. If provisional ballots come in to play this year, a delay in determining a winner is likely.

"You can't have a recount until you do a canvass and you can't do a canvass until you verify the provisional ballots," Foley said in an interview. "An election might be too close to call until they go through the process."

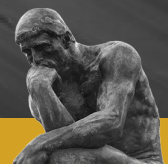
A canvass is the official state tally of the votes cast in each precinct. Provisional ballots are counted if the voter is verified as eligible. In states where ID is required, rules allow voters to provide this identification after Election Day, validating the provisional ballot. Voters not on election rolls because of clerical or other errors will also cast provisional ballots; the votes will be counted if election officials verify a voter is eligible.

The fallout from Hurricane Sandy may spur multiple lawsuits, said Steven Huefner, also a law professor at Ohio State. Voters and their advocates could sue to extend voting hours in states where loss of power or other issues limit access to the polls, he said.

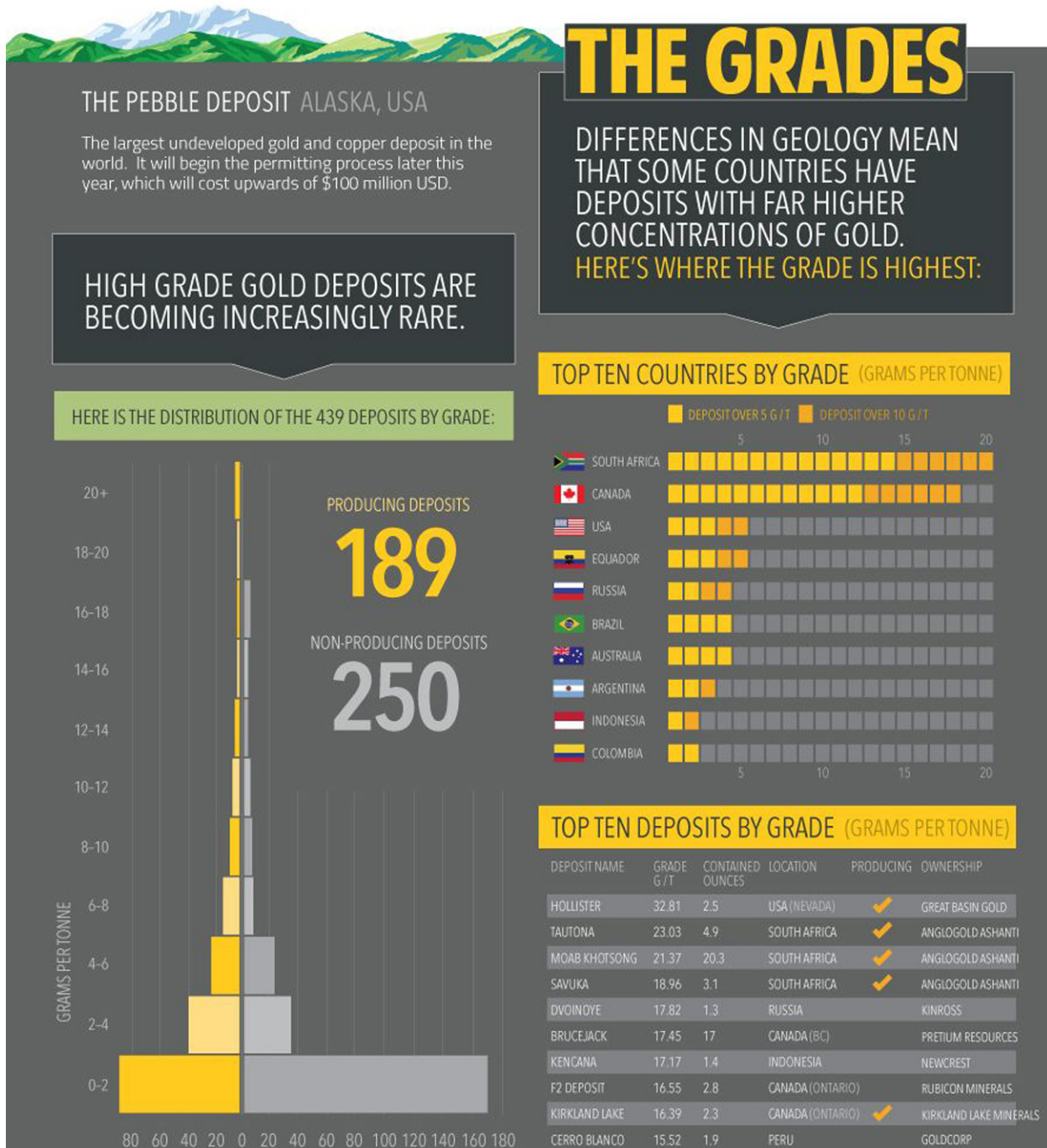
Under federal law, votes cast after the normal hours are considered provisional ballots, he said. If the election is close, litigation may follow challenging the extension, he said.

If a court decides the extension wasn't appropriate, "these provisional votes won't be counted," said Huefner, who along with Foley is part of their law school's election law research program, which tracks election administration and litigation.

*** BLOOMBERG / [LINK](#)

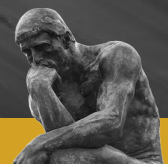


Charts That Make You Go *Hmmm...*



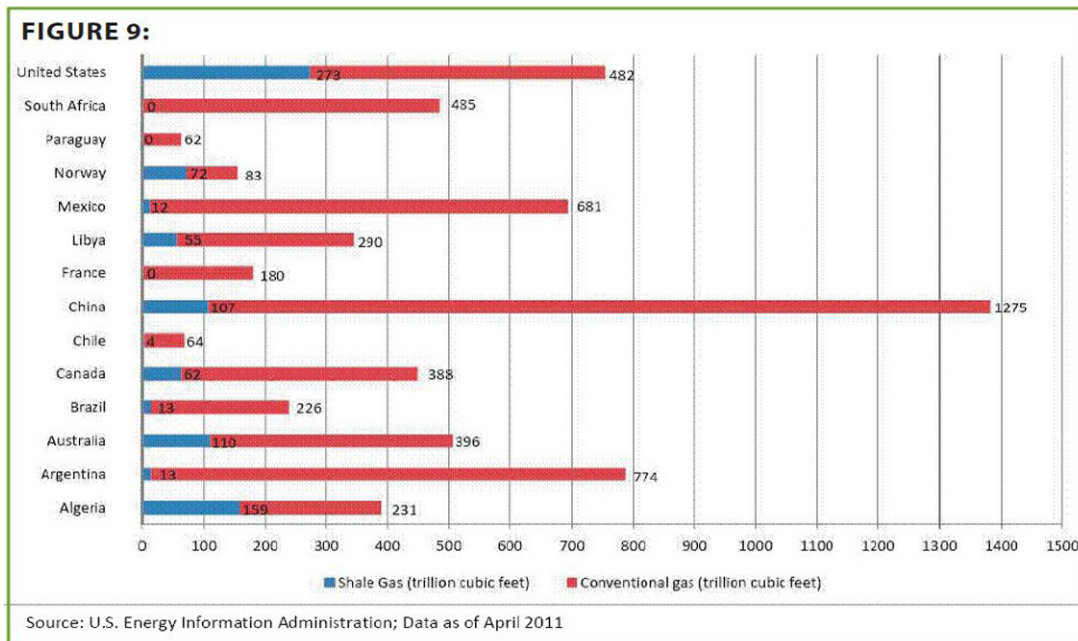
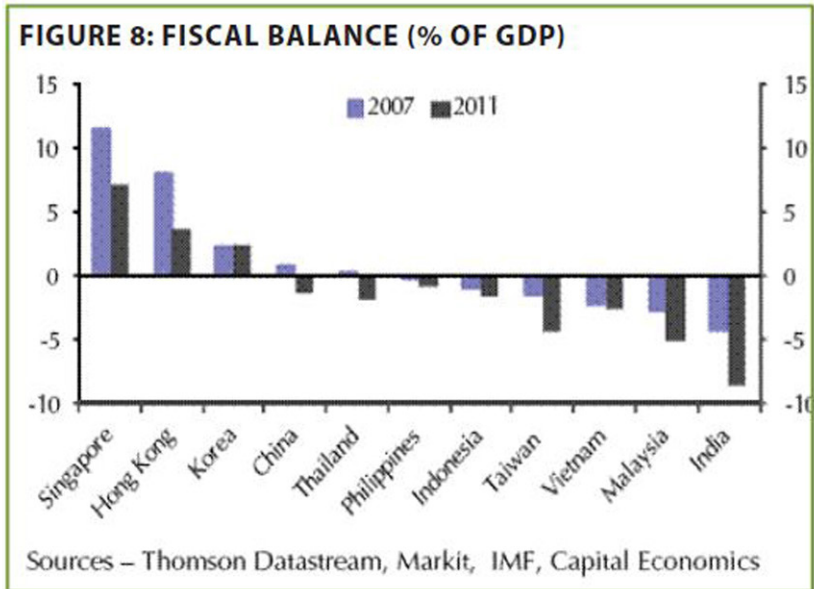
Source: Visualcapitalist.com

A great graphic that covers every facet of the gold industry from Visual Capitalist. Click [HERE](#) to view the full graphical series.



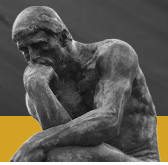
This week's Evergreen Virtual Advisor included a couple of charts that caught my eye. The first demonstrates the benefits of the Asian Crisis of 1997-8. The shakeout caused many of the countries in my home region to enter this most recent downturn in much better fiscal shape than their Western counterparts.

A key reason US bond investors might want to have some participation in Asian debt markets is the much superior fiscal status of Pacific Rim governments.



Source: Evergreen Virtual Advisor

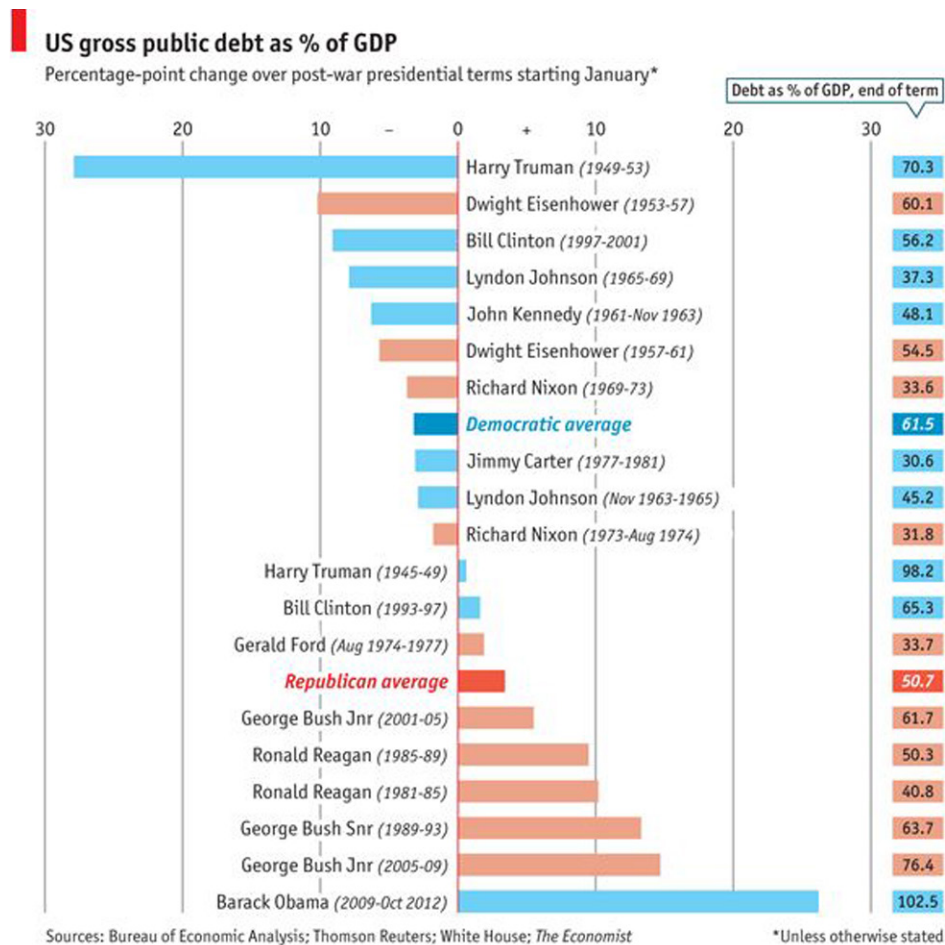
The second illustrates China's enormous reliance on coal. As Evergreen's CIO, David Hay, points out:



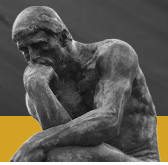
"If China sincerely desires to narrow its trade surplus with the US, it might want to invest the tens of billions needed to develop its enormous shale gas resources with American oil and gas service companies. These firms have demonstrated their exceptional skills at producing energy from unconventional formations, a capability China clearly needs access to as quickly as possible to reduce its dependence on highly polluting coal."

Incidentally, readers can subscribe to the weekly Evergreen Virtual Advisor and get the benefit of the thoughts of David Hay and his team FREE by emailing whay@evergreencapital.net

Lastly, a fascinating look at the changes in US public debt by president, beginning with Harry Truman and ending with the man whose job is up for grabs on Tuesday, Barack Obama.



Source: Economist (via The Big Picture)



Words That Make You Go *Hmmm...*



Don Coxe is an investment titan, and here he talks to Eric King about the commodities supercycle and a couple of subjects dear to my own heart, namely the gold bull market and the bursting of the bond bubble...

[CLICK TO LISTEN](#)

Jim Puplava welcomes renowned technician Louise Yamada from New York City into the studio. Louise advises caution until the significant macro-issues such as the US presidential election and the fiscal cliff are resolved and there is more clarity looking out to 2013. Wise words indeed from a great mind...

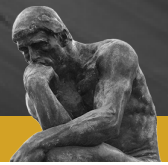


[CLICK TO LISTEN](#)



Earlier this week I had the great pleasure of chatting with the wonderful Lauren Lyster of Capital Account about the US elections, financial repression, ZIRP and where to hide in a world where governments are trying to force investors out of their comfort zone in the search for returns.

[CLICK TO WATCH](#)



And finally...



**American
Red Cross**

[CLICK HERE TO DONATE](#)

Normally this page is reserved for a little frivolity to provide a counterpoint to what is, I'll admit, usually a pretty sobering read, but after the events of last week when Hurricane Sandy caused devastation across New York, New Jersey, and Connecticut (a part of the world that has come to be, over the years, something of a spiritual home for me), it felt only right to try to help with the aftermath, so above is a link to the Red Cross page at which you can make a donation towards Disaster Relief in the Tri-State area.

I was in NYC last week, but thankfully out of harm's way, and thankfully all my friends in the area are safe and well apart from a generator humming here and a tree down there, but many weren't so lucky.

If you haven't given already and can spare a few dollars, please do what you can. The chaos and devastation truly have to be seen to be believed.

Hmmm...



Grant Williams

Grant Williams is a portfolio and strategy advisor to Vulpes Investment Management in Singapore—a hedge fund running over \$250 million of largely partners' capital across multiple strategies.

The high level of capital committed by the Vulpes partners ensures the strongest possible alignment between us and our investors.

In Q4 2012, we will be launching the Vulpes Agricultural Land Investment Company (VALIC), a globally diversified agricultural land vehicle that will provide truly diversified exposure to the agricultural sector through a global portfolio of physical farmland assets.

Grant has 26 years of experience in finance on the Asian, Australian, European and US markets and has held senior positions at several international investment houses.

Grant has been writing *Things That Make You Go Hmmm...* since 2009.

For more information on Vulpes, please visit www.vulpesinvest.com

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