Quote of the week : "It all looks too familiar. The dance continues until the music ... stops. Markets will not be liquid when that liquidity is needed most. And yet the illusion of permanent liquidity is just as prevalent now as in the past" - Claudio Borio, Chief Economist of the Basle, Switzerland-based BIS (Bank of International Settlements), commenting on the Asian debt issue referred to below.

Quote of the week 2 : "A great many speculators are simultaneously imagining some clear exit signal ... now that the primary psychological driver of speculation ... quantitative easing ... is coming to a close ... (*But*) history teaches that the market doesn't offer executable opportunities for an entire speculative crowd to exit with paper profits intact ... you can only get out if you panic before anyone else does." - John P. Hussman - *once a professor of economics & international finance at the University of Michigan, he turned to money management & now controls mutual funds with AUM of US$2BN. He predicted the 2008-2009 & outperformed the market by 8½ % during the first decade of this century, in part due to his funds suffering only minor losses during the 2008 market meltdown. But being a "bear market manager", his more recent performance has been dismal & the AUM of his flagship Strategic Growth Fund have almost halved in the past year.*

October 1st may have been a watershed moment in the world of global finance, & not just because that day the Dow Jones joined the S&P 500-, the NASDAQ Composite-, & the Russell 2000 indices in slipping through its 50-day moving average or because JPMorgan disclosed that last summer's cybersecurity attack, the occurrence of which it had disclosed in late August, had compromised personal information of 76MM households & 7MM small businesses, but because on that day :

- Up Energy Development Corp., a coking coal producer based in Fukang, in China's Xinjiang Autonomous Uygur Autonomous Region, announced it had signed Memoranda of Understanding with Hongkong-based Winsway Development Holdings & Tokyo-based Marubeni Corp to purchase, for just $2, most of their 100% ownership of Calgary-based coal producer Grande Cache Coal Corp. for which the two had paid $1.1BN just three years ago (*when coking coal was bringing almost 3x today's US$120/tonne*);
- Toronto-based Brookfield US Holdings LLC paid, in a bankruptcy sale, US$110MM for the Revel Casino in Atlantic City that had cost US$2.4BN to build two years ago; and
- Oslo, Norway became the fourth city [after Stockholm (Sweden), Krakow (Poland) & Lvov (Ukraine)] to pull its bid to host the 2022 Olympic Winter Games[1], leaving only Almaty, Kazakhstan & Beijing, China in the running, *for both of whom the cost of running the 16-day event, & risk of being stuck thereafter with 'white elephant' infrastructure, is irrelevant given the global spotlight time they expect from it.*

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[1] While the main reasons for Oslo bowing out were a lack of popular support & government unwillingness to spend the money the IOC required, the icing was said to have been put on the cake by a 7,000 page document listing the IOC's expectations that included a) the King was to officiate at the opening ceremonies & pay for the cocktail reception afterwards, b) dedicated lanes on all roads used by Olympic officials, c) hotels to have extended bar hours & stock only Coke products in their minibars, d) a ceremonial welcome for the IOC President upon his arrival in Oslo, and dedicated entrances & exits for Olympic officials at the airport, e) hotel restaurants to have regular menu changes (*so that IOC officials would have some variety during their stay*), and f) all hotel furniture to "be OL-shaped and have an Olympic appearance". And the IOC did itself no good when its press release following the Oslo decision said in part that " ... senior politicians appear not to have been properly briefed on the process and were left to take their decisions on the basis of half truths and factual inaccuracies."

In Foreign Affairs former Fed Chairman Alan Greenspan in Golden Rule - Why Beijing is buying points out that, even if Beijing were to convert only a small portion of its US$4TR FX reserves into gold, its currency could take on "unexpected strength in today's international financial system. For it would make it the world's largest holder of monetary gold" [as of this spring the US' (*supposed?*) *gold* holdings were US$328BN]. And he goes on to say that obviously even central banks have reservations about a wholly "fiat money-based" system; for why else would those of 26 of the 30 economically advanced countries still hold gold in their FX reserves? - *China may well be further along in building up its official gold holdings than generally appreciated. The last time it reported them was in 2009 when it reported 1,054 tonnes (US$38BN-worth at the current US$1,200 price). Since then it has been mining it domestically at an average 400 tonne/US$15BN annual clip, none of which appears to have found its way into the market (and last year alone it also imported 1,158 tonnes via Hongkong & further unknown quantities through Shanghai, most, if not all, of it, however, destined for private hands); so it may have augmented its official gold holdings to US$98BN. And last year some 500 tonnes of gold flowing into China were unaccounted for (which the market believes reflected the PBOC taking advantage of the lower gold prices to boost its official gold holdings; if so, they may now be as high as US$117BN) - This may be part of a long-term Beijing strategy to gain global financial mega power status (the achievement of which would be facilitated if, as commonly believed, US gold holdings are overstated - a belief reinforced by Germany's problems in repatriating 300 tonnes of its gold held in the vaults of the New York Fed).*

In 1999, when gold was < US$300 Switzerland held 2,600 tonnes of gold in its FX reserves. Over the next several years it sold 1,560 tonnes thereof at prices in the US$300-US$500 range. Today 70% of its remaining 1,040 tonnes is held in Switzerland, and 20% & 10% in the vaults of the Bank of England & the Bank of Canada respectively. In Switzerland, even if Parliament is against the idea, citizens can force a referendum on a change in the constitution through "a popular initiative", provided 100,000 citizens sign a petition calling for such a referendum. Last year a conservative member of parliament started a petition calling for a referendum to force the Swiss National Bank to a) no longer sell gold, b) hold a minimum 20% of its reserves in gold, & c) require all its gold to be held on Swiss soil. In April the threshold number of signatures required on the petition calling for a "Save our Swiss Gold" referendum was reached & on November 30th it will be held (despite the Swiss National Bank opposing-, & Parliament, within days of the threshold signature level having been achieved, voting 125-20 with 25 abstentions against-, the idea). If the referendum were to pass, which is by no means inconceivable, this could put the cat among the pigeons if, as is generally believed part of its current gold holdings have been 'leased' to third parties & the SNB would have to start buying potentially significant amounts of gold to meet the 20% target).

Russia is the world's fourth largest importer of skim milk powder (after China, Indonesia & Mexico). With China out of the market & expected to remain so for another year, Russia's ban on imports from the EU has caused European dairy producers to seek markets elsewhere, driving down dairy product prices worldwide, incl. a 32% drop in the price of skim milk powder in the two months ended September 2nd & prompting Rabobank to warn dairy prices may be in for a "protracted bear market". Elsewhere on the food front, while recent rains have improved soil conditions in the US Southern Plains' winter wheat-growing belt, 69% of Oklahoma, 52% of Texas & 46% of Kansas (the US top wheat growing state) remain in drought, too much rain in Europe & Ukraine has lowered the quality of their wheat crop (while the civil war has also interfered with the harvest in the latter country), the Canadian Wheat Board has voiced "major concern" about the quality of the wheat crop now being harvested in Western Canada, quoting "poor weather conditions" (excessive moisture and an early frost & "untimely" snowfall in Alberta), while officials in the US too have warned of potential quality problems with this year's wheat crop - *one possible upside of this is that more low quality wheat will lower feed grain-, & moderate meat-, prices.*

In the US the September Conference Board's Index of Consumer Confidence number was a surprise. Whereas the August reading had been 93.4, revised upward from an initial 92.4 & a post-October 2007 high, and the consensus forecast had been 92.8, it came in at just 86.0. Much of that hit came in the future (*i.e. six months hence*) expectations sub-index which dropped almost ten points to 83.7, whereas the current situation sub-index was just down 4.5 points to 89.4. While the Conference Board attributed this to people's less positive assessment of the job situation (the number of those expecting jobs to be more plentiful six months hence slipped from 17.8% to 15.2% of those surveyed, while the exact opposite was true for those who expected fewer jobs to be available six months hence), others felt that the ISIS issue & concerns about a need for greater US military involvement in the Middle East were also factors. A similar month-to-month downtrend was evident in car sales that eased from last month's torrid 17.53MM annualized pace to 16.43MM (still up 6.5%YoY), & it is worrisome in this context that a recent survey revealed fewer people are planning to buy a new car (or home) in the next six months. The only good news was that, after dropping 0.1% in July, consumer spending in August rose 0.5% (*some, much, or all of it attributable to higher food prices*).

The Huffington Post in an item entitled ISIS in America reported that, & gave specific examples of, dozens of ISIS supporters are "hiding in plain sight" in America.

Marseilles, France is a city of 900,000 (one-third of whom are Muslim), the second largest in France & expected to become, in due course, the first-ever majority Muslim city in Europe. Last spring Stéphane Ravier of the far-rightFront National (FN) was elected mayor (& on September 30th, along with one other FN candidate, was elected to the French Senate, making this is the first time ever that Marine LePen far-right FN party has had representation in the country's upper chamber[2]). As mayor he has been consolidating his right-of-centre power base, in the context of Mme. LePen's strategy to grow her party's national following, by doing things like ordering city officials to speak only French in their day-to-day dealings with the public, having bacon-laden quiche at city hall functions & halting a marriage ceremony because the bride had her face covered. Seated on a sofa in his office, he explained "My predecessor would not have been brave enough to do any of these things" &, as to his intervention in the wedding ceremony, "The husband had a beard to his knees. He accused me of being anti-Islam. I said, 'No, it's you who will not make an effort. I am just imposing the law. We are in France" - *meanwhile, Marine LePen herself has moved out of her house on her father's estate after one of his Dobermans killed one of her cats.*

There has been much media coverage of the speed with which any newly-opened Ebola treatment centre in West Africa is overwhelmed by new arrivals; but according to local officials one hopeful aspect thereof is that it means the hoi polloi have stopped denying the existence of an Ebola epidemic & become sensitized to its symptoms, and are starting to seek help earlier.

GLEANINGS II - 582
Thursday October 2nd, 2014

MORGAN STANLEY WARNS ON ASIAN DEBT SHOCK AS DOLLAR SOARS

[2] It is not uncommon, & quite legal under French law, for politicians to simultaneously hold both municipal & national elected offices.

(The Telegraph, Ambrose Pritchard-Evans)

- In the past decade foreign debt in Asia has multiplied eight-fold to US$2.5TR, creating a risk of currency shock as the dollar has surged to a four-year high & looks likely to go higher still. The bank warned its clients local lenders in Asia have, like Northern Rock in the UK in 2007, come to rely increasingly on wholesale capital markets *for their funding* (to allow them to grow their asset base faster that their deposit growth made possible).
- The credit-to-GDP growth rate measures the extent to which loan growth outstrips that of the underlying economy. In 1997, prior to the Asian currency crisis, *also prompted by a massive credit expansion from both domestic & foreign sources*, it peaked at 10%. But now the flood of cheap money from Western central bank-, & Chinese -, sources has driven it to 15% (as productivity is stalling & the region's economic model losing steam).
- The bank says the region could be hit with a double whammy from a credit squeeze cum higher borrowing costs (as US interest rates rise) & an exchange rate squeeze on "short" dollar positions. Last week the ADB (Asian Development Bank) in its Bond Monitor Report said that in the Second Quarter Emerging Asia had issued a record US$1.1TR of local currency bonds, bringing the total outstanding to US$7.9TR-equivalent and that, with most of it maturing within 3 years, this creates a significant 'roll-over' risk (this doesn't include the US$1.5TR of cross border bank loans which, according to the BIS, in China's case in the year ended March 31st had increased 49% to US$1TR).

In 2000 the Dollar Index stood at 120. Then it declined in fits & starts to 70 in 2008 (at the nadir of the financial crisis). But in recent weeks it bounced off its 50-day Moving Average Line to 85.7. While still below its 200-day Moving Average of 90.0, the market now expects it to test, & possibly, if not likely, go through, resistance levels in that range (as it had previous failed to do in early 2009 & again in mid-2010). The one positive aspect of this situation is that most Asian governments have been borrowing mostly in their own currency, and have little foreign debt & healthy FX reserves - this is just one situation that could bring on another financial crisis; for the kind of "hot money" tends to be quite irrational & liable to flee at the first hint of trouble.

ANALYST CASTS DOUBT ON AIR STRIKE STRATEGY (G&M, Mark MacKinnon)

- As the UK Parliament on September 26th voted overwhelmingly to authorize strikes against ISIS targets inside Iraq, Eliot Higgins, author of the Brown Moses blog that has tracked the civil war in Syria for its three years, believes "badly-informed' U.S.-led military action against ISIS targets will exacerbate the situation on the ground in Syria; for "They're bombing ... without thinking about the consequences it's going to have for the Syrian opposition." He is particularly perplexed at the decision to attack targets in the Syrian Islamist Jabhat al-Nusra group as well as in ISIS (on the grounds that it's linked to al-Qaeda & hijacked the cause of the moderate Syrian rebels fighting the regime of Bashar al-Assad), saying the airstrikes against al-Nusra will drive it, one of the most effective anti-Assad forces, into the arms of ISIS[3], thereby further marginalizing the "moderate" Free Syrian Army; so "The only person who's really happy so far is Assad."

The British Parliament only authorized strikes within Iraq (which has 'requested' help in dealing with ISIS, in contrast to the situation in Syria, where the US is bombing Islamist targets without formal government approval, with Assad seemingly content to let it do its dirty work for it).

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3 Some of its members earlier already have gone over to ISIS..

<u>INSIDE THE NEW YORK FED</u> (ProPublica, Jake Bernstein)

- After the 2008 financial crisis, New York Fed President Bill Dudley realized the too-big-to-fail banks had proven they were a risk to the entire financial system & that he had failed in not foreseeing the crisis & fallen short in dealing with its aftermath. With Congress wanting reform & new safeguards to avoid a repeat performance, and with the New York Fed being the logical choice to implement their wishes, he hired a Columbia University Finance professor (who had worked at Bankers' Trust in the 80's & acted for him in a not dissimilar manner in the late 90's) to tell him why it had failed to foresee the crisis & how to keep this from happening again, giving him carte blanche in doing so. The resultant *27-page* report concluded the fault lay in a Fed culture too deferential to the banks it was supposed to supervise[4] & examiners too subservient to bosses who engaged in group-think & arrived at consensuses that watered down the examiners' findings, and recommended hiring as examiners outside experts unafraid to speak up, & encouraged to do so.
- Among those the Fed then hired (*albeit not until 2011*) as an examiner to be inserted within a too-big-to-fail bank was Carmen Segarra, a lawyer educated at Ivy League schools & the Sorbonne with 13 years experience in compliance (ensuring banks comply with all rules & regulations), whom it inserted in Goldman Sachs. But she was fired after just seven months, causing her to sue the New York Fed, on the grounds she had been fired for refusing to back off from a negative finding on Goldman, a suit thrown out earlier this year, without ruling on its merits, by a judge (*whose husband acts for Goldman*) on the grounds that, in her opinion, the facts didn't fit the statute under which she had sued (*which would seem an unbelievably stupid thing to do for a supposedly smart lawyer*).
- But unbeknownst to all, Segarra, *soon after being hired* & out of concern about what she was witnessing, had bought a tiny recorder & recorded 46 hours of meetings & conversations, much of it those leading up to her being fired. They substantiate that the New York Fed's culture hadn't really changed, that it was still reluctant to go against Goldman & that it hadn't figured out how to integrate outside examiners into a new bank supervisory system. One recording covered a tense 40-minute meeting Segarra had with her boss a week before being fired in which he failed to persuade her to change a finding that Goldman had no policy in place to handle conflicts of interest[5] [6], with him at one point exclaiming *in frustration* : "Why do you have to say there's no policy?"

While Sens. Elizabeth Warren (D.-Mass) & Sherrod Brown (D.- Ohio) have called for a Congressional investigation & in a best of all possible world this would lead to heads (of those

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4 Not altogether surprising for an institution where the boss' salary is paid for, & a majority of the members of its Board selected by, the very banks it is supposed to supervise.

5 Rather interestingly, in 2012 the GAO reported that in 2008, at the height of the financial crisis, & the year after Bill Dudley had joined the Fed from Goldman to run its government bond trading operation, he had owned shares in GE & AIG at a time both were being bailed out by the US government (& when the New York Times revealed that Dudley's net worth of over US$8.5+MM was the second highest among Fed Presidents, although its exact magnitude was unclear since the value of some of his assets, as allowed by the rules, was merely given as "in excess of $1MM")

6 According to Julian Fox, Executive Editor of the <u>Harvard Business Review</u> Group & a former bank regulation reporter for the <u>American Banker</u> "not having a substantive conflict of interest policy had been Goldman's business model ... betting alongside and against clients and exploiting its informational edge wherever possible is simply how the firm makes it money. Forcing it to sharply reduce these conflicts would be potentially devastating" (to its bottom line).

*responsible) rolling, in the world we live in those involved will put the wagons in a circle, hunker down & turn the spinmeisters loose and, if any heads are to roll, they will be those of sacrificial lambs. For more anecdotal evidence, google www.prorepublica.org/article/carmen-segarras-secret-recordings-from-inside-new-york-fed, and, for further insight as to how the system **really** works, google Wall Street on Parade : Carmen Segarra : Wall Street's Spy vs. Spy (which also contains links to other articles on the subject).*

FLAWS ... IN RESEARCH ON FOREIGN WORKER PROGRAM (G&M, Joe Friesen)

- The Government of Canada has proposed sweeping changes to its Temporary Foreign Workers (TFW) program (incl. limiting the number of foreign workers to 10% of an employer's staff). While this was based on a report that over 2,500 companies had a work force made up of at least one-third TFWs, a survey by the Globe & Mail of a dozen of the employers involved (whose names it obtained under the Freedom of Information legislation), found they had nowhere near as many TFWs as the report had alleged : one Burger King outlet in Nova Scotia listed as employing a large number of TFWs had never employed a single one, while a Montreal health centre listed as having 2,000 only had 15. The Minister responsible was unavailable for an interview while his department's email response to the Globe's questions said the proposed changes were intended to restore the program to its original purpose, that of a short-term, last resort measure for employers, and avoided all questions about the quality of the report's research.
- This is not the first time in the recent past the government has had data problems. StatsCan had to make a major correction to its initial job creation number last July after it initially had vastly under-reported it. And last March Finance Canada, after its job vacancy number differed *significantly* from that reported by StatsCan, was forced to concede it had based its number on job postings on Kijiji, a popular online ad site.

In government policy decision-making "garbage in, garbage out" affects far more people than private sector business decisions. And, while once such mistakes would have caused heads to roll, today, if any heads do roll, they are those of sacrificial lambs rather than those responsible. Being that as it may, history shows that voters will forgive politicians many things but not when they prove themselves inept at the business of politics.

FOR CHINA, LIMITED TOOLS TO QUELL UNREST IN HONGKONG (NYT, Edward Wong)

- Beijing deals with unrest & calls for political change on the mainland with censorship, arrests, armed force &, increasingly, money. But the demonstrations in Hongkong for more democracy presents President Xi with a challenge he may be ill-equipped to deal with; for according to Xiao Shu, a mainlander & Visiting Scholar at Taiwan's National Chengchi University, "On the mainland ... you can control the streets with enough soldiers and guns, you can kill a protest, because everything else is already controlled : the press, the Internet, the schools, every neighbourhood and every community ... (*but*) in Hongkong the streets are not the only battlefield, like on the mainland."

The issue that has demonstrators worked up is that, while the 1997 transfer arrangements provided for Hongkong's chief executive to be selected for a five year term by a selection committee of 800 (later increased to 1,200) local 'prominenti' (in practice mainly Beijing sympathizers), & Beijing had undertaken that in 2017 this would be replaced by a system of popular voting, it recently ordained that the selection committee would remain in place to vet possible candidates for the post & select the three of them the hoi polloi would be given the opportunity to choose from. The problem facing XI is that even small concessions in Hongkong, *unlikely to placate the protesters, risk sending a signal to the mainland that mass protests can produce results, while a mainland-like crackdown in Hongkong (whose citizens grew up under the British tradition of freedom & liberty) under the glare of international attention could produce a global backlash. And what may concern Beijing possibly most is that many demonstrators, & some of their leaders, were born and/or grew up after the British handover in 1997. One of the latter is 17 year-old Joshua Wong (who recently after being arrested was set free after just two days when a judge granted a habeas corpus petition for his release), who at age 14 already played a leading role in a movement that fought Hongkong CEO Leung Chun-ying's 2011 "patriotic education plan" for Hongkong schools that he was forced to withdraw in 2012 after big street protests. Beijing, as seemingly suggested by the People's Daily October 1st editorial (that can be accessed by googling "Cherish positive growth"), now seems to have taken a leaf out of Wong's book (who told the NYT last July that "electoral reform is a generational war") by taking a 'divide & conquer' approach that appeals to the older generation's pocket book concerns.*

<u>RUSSIA'S LAVROV SAYS TIES WITH WASHINGTON NEED 'RESET 2.0'</u> (Reuters)

- After President Obama said last week that the sanctions could be lifted if Russia were to choose the path of peace & diplomacy, in a TV interview on September 28th Foreign Minister Sergei Lavrov said it was time to repeat the "reset" (the term Hilary Clinton, when Obama's Secretary of State coined, early in his Presidency, to describe her boss' efforts to improve relations with Moscow) & that this had been made possible by the Kremlin's peace initiatives in Ukraine, and that "we are absolutely interested in bringing ties to normal but it was not us who destroyed them." But he also repeated criticism of the US-led air campaign against Islamist fighters in Syria, accusing Washington of having a "double standard" for not cooperating with Bashar al-Assad, a Russian ally.

There is little doubt the sanctions are no longer just affecting the oligarchs, but the economy, & thus the population at large, heightening the risk of social unrest. And this declaration may have something to do with the fact that the EU was meeting this week to discuss easing its sanctions against Russia (because of their adverse affect on their own economies), although it is unlikely it will decide to do so; for that would require unanimity & there are some EU member countries whose governments are still principled enough and/or the effect on whose economies is still small enough, for them to blackball such a move. Meanwhile it is hard to take Lavrov seriously when there is serious fighting in Eastern Ukraine over control of the Donetsk airport.

<u>THE RUSSIAN MIRROR HAS BROKEN</u>
(European Council on Foreign Relations, José Ignacio Torreblanca*)*

- In the past decade Europe perceived Russia as a modernizing & democratizing country. And for years this was plausible since President Dmitry Medvedev seemed determined to modernize its economy, with the assistance of willing strategic partners in Europe, first & foremost Germany, by shifting it from a resource exploitation-, to a knowledge-, based growth model. That dream *for all intents & purposes* ended in 2009 when Putin said he would run *again* for the Presidency in 2012, a move that Gorbachev, who once had praised him as a modernizer, urged him to reconsider, saying his re-election would deepen the impasse in which the process of modernization had fallen *by then* & mean the loss of five crucial years. And soon the blogoshere became replete with a photo of Putin circa 2025 in a military uniform crusted with medals & the French magazine <u>Courier International</u> carried a cover entitled "Back in the USSR?". Putin may become like Brezhnev, the General Secretary of the Communist Party from 1964 to 1982, who presided over the slide of the Russian economy that led to the Soviet Union's demise.

- To understand Putin, one must understand the thinking process of KGB agents. Unlike the Soviet military & apparatchiki they weren't interested in hierarchical structures as instruments of control; instead they focused on people's motivations & aspirations. So Putin ensured that those who wanted money were well paid & that those who longed for identity had their lost sense of self-esteem restored. In the process he became like a double agent, appearing to serve the Russian people but in reality maintaining power, & control over the state apparatus. Gorbachev's prediction may well not have gone far enough : a Putin bound to avenge past humiliations suffered by Russia, won't stand for being humiliated himself.

Putin has not just one, but two, Achilles heels. The Russian economy is tanking &, if oil prices were to move lower, will only tank further faster and, if the oligarchs were to become disenchanted, he may suffer the same fate as Messrs, Gorbachev & Yeltsin. And his two-pronged strategy of giving money to those who want it applies to a very small number of upper echelon people, & that of restoring their self-esteem to a shrinking number of Soviet era survivors, but it doesn't put bread on the table for the hoi polloi, nor provide scope for a tech-savvy younger generation to fulfill its aspirations (while this brief summary cannot do justice to the source article, it can fortunately be googled).

<u>BOKO HARAM SENDS HOME TRAUMATIZED 'CHIBOK' GIRL</u> (AP)

- The daughter of a Chadian carpenter who had moved to the town of Chibok years ago, she was one of 276 girls kidnapped from a girls' school in that town last April (57 of whom managed to escape in the first twenty-four hours). On September 19th she was left by them in the bush & stumbled through it for four days until she came across a village where she found refuge & from where she eventually was returned home. While her release gives hope to the parents of the other missing girls, she was so traumatized she spent her first night back home tossing & turning, and screaming "They will kill me! They will kill me!"

While in the past year Boko Haram has kidnapped hundreds more girls & boys, the Chibok incident somehow grabbed people's attention, & inspired a campaign for their freedom, worldwide.

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The bond market was surprised last week when 70 year-old Bill Gross, aka the "Bond King" & one of the most powerful man in the US bond market, resigned from Newport Beach, Cal.-based, since 2000 Allianz-owned, PIMCO, a firm he founded four decades ago that, among others, manages the world's largest bond fund, to join Janus Capital, a firm with less than one-tenth the US$2+TR AUM of PIMCO that Bloomberg referred to as a "struggling" stock fund manager, to manage a newly created bond fund with AUM of just US$13MM, 0.007% of the asset base of the US$200+BN Total Return Fund (TRF) he had managed at PIMCO. This came after four years of sub-par performance by, & 16 consecutive months of client money withdrawals from, that fund, nine months after the departure of Mohamed El-Erian, the CEO & Co-CIO of the firm (who was quickly retained by Allianz as its Chief Economic Adviser), & not long after an SEC announcement it was investigating PIMCO for possible fraud in valuing the TRF's assets. Janus was a logical choice for Gross; for its CEO, Dick Weil, had been PIMCO's COO from 1996 to 2010 (when he left to take the top job at Janus). This is a bet by Weil that

Gross' clients (& their money) will follow him into Janus' new fund[7] & give it critical mass in a hurry (in fact, clients have been pulling tens of billions of dollars out of the TRF, although it is by no means clear what part thereof did, or will, follow Gross to Janus) & by Gross that in the sunset days of his career running a small fund will give him an opportunity to get results that will burnish a reputation that in recent years was tarnished by the substandard performance of the TRF (*in money management smaller size asset pools give adroit managers greater opportunity to opportunistically take advantage of market anomalies*). As El-Erian's departure suggested earlier, all hadn't been well at PIMCO for some time as Gross became more imperious despite the TRF's less-than-stellar performance (as witnessed by him telling El-Erian at one point "I have a 41-year track record of investing excellence. What do you have?"[8], & by the fact that, while El-Erian in his final memo to his staff said "The significance of the 'I' pales when compared to the 'we' and 'you' ", PIMCO's new CIO told Reuters this week "you will see a lot less self-promotion ... a lot more emphasis on performance ... (*and*) a lot more 'We' and a lot less 'I' ").

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7 Which there so far doesn't seem any evidence yet.

8 El-Erian has a better than average-, & a more multi-faceted than Gross'-, track record, among others at the Harvard Endowment Fund during a two-year absence from PIMCO &, if he hadn't, why would Gross have hired him back after his Harvard episode?).