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International complacency contest

Huge short sales in the slackest portion of the Monday trading session sent the gold price down a fast $40 per ounce. It was double the value at which an ounce of bullion was fixed under law from the dawn of the American Republic until the early 1930s. Whither gold, whither the pure paper monetary system, and whither the gold stocks that this publication has been so unprofitably boosting are the subjects at hand.

"The Golden Constant" was the title the scholar Roy Jastram affixed to his history of the uncanny long-term stability of prices under the gold standard. For the next edition of that seminal work, his publishers may wish to consider a repositioning along the lines of, say, "The Golden Football." In the age of QE, you buy the precious metals for the rise, and sell them for the fall. You read about them in the commodity section of your daily paper. Seemingly, the legacy monetary assets have no greater monetary relevance than copper (which itself was recently the object of a wee hours bear raid).

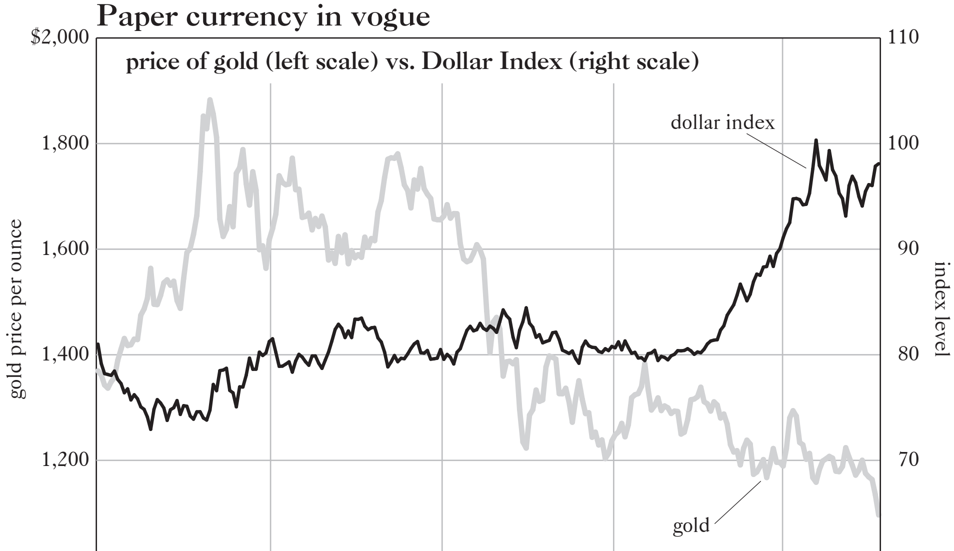
The bears—right as rain since 2011—observe that whatever else gold may have to offer, it's denominated in dollars and pays no interest, which qualities make it doubly vulnerable to the start of a now seemingly imminent Federal Reserve tightening cycle. They contend that yesteryear's credit problems are well and truly history. What's in prospect, they say, is the continued liquidation of ETF investments that seemed to make sense only as long as the price of bullion was going up or—at least—not being kicked down flights of stairs in the middle of the night by mysterious short sellers in distant time zones.

The bears don't explicitly extol the policy-making competence of the world's central bank chiefs. They do praise it by implication. Necessarily, to be bearish on gold is to be bullish on the former tenured economics faculty members who guide the world's monetary destiny. It's to cast your financial ballot against the price mechanism, which the mandarins have been overriding. It's to vote for the proposition that this greatest of all experiments in money conjuring will end happily and profitably for the holders of financial assets.

The optimistic view of things (optimistic, that is, for gold) is that disillusionment with the theory and practice of 21st century central-bank management still lies in the future. For now, most investment professionals are prepared to lodge their trust (and their clients' net worth) in the powers and judgment of the central bankers. Wall Street loves the Fed, Japanese equity ETF investors love the Bank of Japan and the big European banks—especially the slow learners who stuffed themselves with Greek sovereign debt—love the ECB. A knowledgeable gold watcher estimates that all but a sliver of worldwide demand for physical metal emanates from Asia. "We will see real gold prices when G-7 investors wake up and decide they need to own real gold," our friend remarks. "All confidence games end in a loss of confidence, and so will this one. The preconditions have been in place, we are just waiting for a precipitant."

Observing that China is wobbling

Paper currency in vogue



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and commodity prices are sinking, you may ask: Is gold not depreciating against the dollar because deflation is knocking at the door? If deflation were defined as falling prices induced by desperate debts (a crack-up in the speculative-grade bond market, for instance), we would reply that, yes, deflation could be knocking. The comprehensive mispricing of credit under a regime of zero-percent interest rates suggests how rich are the possibilities for turmoil.

Which prompts another question: If a proper debt deflation ever really did get under way, what would the central banks do about it? Still more QE? Negative nominal interest rates? The printing up of a new kind of date-stamped currency that expires worthless unless promptly spent? Dollar bills dropped from helicopters or posted directly to the people, bypassing the banks? In any case, not nothing.

"It is time to call owning gold what it is: an act of faith," writes our friend Jason Zweig in the past weekend's *Wall Street Journal*. "As the Epistle to the Hebrews defined it forevermore, 'Faith is the substance of things hoped for, the evidence of things not seen.' Own gold if you feel you must, but admit honestly that you are relying on hope and imagination."

Hope and imagination are states of temperament in evidence on both sides of the monetary debate (therefore on both sides of the gold question). That $10 bill in your wallet, the one that—for the moment—bears the likeness of the author of the Coinage Act of 1792, which established the nation's gold and silver monetary standard—does it not owe its value to faith? There's little behind it except the judgment of the central bankers who sometimes turn up on CNBC to say that, depending on the data, they will or won't vote to attempt to lift the funds rate in September or December or, then again, maybe some time in 2017.

Gold pays no interest; that is the property of money. Biotech stocks, most of them, pay no dividends, though that is not the property of common equity. Biotech investors own options on events that, though unlikely to materialize, would pay off handsomely if they did. So, too, we submit, with gold stocks, and the more so the further they fall. Mining shares are leveraged claims on gold bullion. Gold bullion is an investment in monetary and financial disorder. We say that disorder is manifest in exchange rates and in the distortion of interest rates and asset values. That is the minority view. Maybe it will gain adherents. It deserves to.

Paying no interest, earning no profits, gold tends to bring out the faux forecaster in its friends and foes alike. "It's just a price," remarks a long-suffering bull we know—"and we don't like it." Your editor cringes to re-read the 2012 essay he wrote to preview the monetary policy regime of Janet Yellen (*Grant's* Nov. 16, 2012). "Gold bulls should light a candle on her birthday, Aug. 13, and pray that she rises to lead the Fed when it's time for the chairman to go. If Bernanke is good for, let us say, $3,000 an ounce in the bullion price, Yellen is a force for $4,000." Maybe *Grant's* was the hubristic force for $1,100 an ounce.

There's a saying, "gold drives men mad." It certainly loosens their tongues, especially when the price trend is, from the speaker's point of view, propitious. Back on Dec. 13, 1997, with gold quoted at $282.85, the *Financial Times* actually wrote its obituary. "The Death of Gold," was the headline. The price was less than $5 higher in 1999 when *The New York Times* weighed in with a piece of commentary under the headline, "Who Needs Gold When We Have Greenspan?" (The world will become ever more dollarized, the argument went, because the Greenspan Fed had at long last solved the mystery of money.) People get carried away at the upside extremes, too. A *Wall Street Journal* columnist wrote a bullish story on the gold-mining stocks on Sept. 19, 2011, just two weeks after gold put in its—for now—high price of $1,900. His name was Jason Zweig.

After Monday's wipeout, Bianco Research noticed that, according to new Commitments of Traders data, money managers in the aggregate hold a net short position in gold futures for the first time since the start of reporting of disaggregated CoT figures in mid-2006. To us it seems as if most everyone were on one side of the monetary boat—the Ph.D. standard side.

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Vacation delectation

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Sincerely yours,

James Grant, Editor
August 19, 2015

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Not such a lock

(February 6, 2015) A wave of identity theft and computer-borne financial fraud has hoisted LifeLock—LOCK on the New York Stock Exchange—into the elite ranks of American growth stocks. "Elite" is no part of the LifeLock corporate story, *Grant's* is about to contend. On the company whose CEO famously paraded his own Social Security number in front of the TV cameras just to dare bad actors to steal it (which the taunted thieves actually proceeded to do), this publication is bearish.

Anxiety is LifeLock's stock in trade. If North Korea (let us say) can hack Sony Pictures Entertainment, and if JP Morgan Chase, Home Depot and Target are likewise vulnerable to digital intruders, which ordinary citizen is safe? Some 3.5 million Americans, deciding that they, at least, are unsafe, have signed on. In the 12 months through Sept. 30, LifeLock's revenues jumped by 30% from the year- earlier period. From 2007 through 2013, compound annual growth in the LifeLock top line amounted to no less than 64%; results for the final quarter and full-year 2014 are due on Feb. 10.

Between five and 15 million Americans are annually hacked, according to estimates by Forrester Research and the Department of Justice. "Let's assume," Richard Davis Jr., analyst with Canaccord Genuity, muses with colleague Evan Lorenz, "the only people who have any interest in this product is someone who actually had their identity hacked. So, that's seven million people per year. With LifeLock's churn, which is about 18%, they have to land about 1.2 million of that seven million, so they have to get 17% of those people in that narrowly defined universe of people who had their identities hacked. If that's all they won, a 17% win rate is not that bad. It's not like they need 50% to 60%."

The argument appears to have carried the day with all but one of the nine analysts who follow the company. The shares are valued at 28.9 times trailing net income and 22.7 times the 2015 estimate. Cash per share works out to $2.55; the balance sheet is debt-free. Not since going public in October 2012 has management produced a disappointing quarter. Boldface names—Goldman Sachs, Bessemer Venture Partners, Kleiner Perkins Caufield & Byers—furnished venture capital. Tom Ridge, former head of the Department of Homeland Security, sits on the board of directors.

What, exactly, does LifeLock deliver? Less than the "comprehensive identity theft protection" that it claims. The standard LifeLock protection plan,

"Fiat, boys! I found fiat!"

which sells for $9.99 a month, buys you notification if a credit card account (or mortgage or mobile phone application) is opened in your name. It promises assistance in canceling lost or stolen credit cards. It guards against attempts to tamper with your address. It scans Web sites for signs that someone is filching your vital data, and it blocks pre-approved credit card offers and offers a $1 million service guarantee in case of fraud. For the customer who wants to know if a registered sex offender has moved into his neighborhood or who demands instant notification of major corporate data breaches, higher and costlier levels of service are available. Except for a small enterprise division that verifies customer bona fides for corporate clients, consumer protection is LifeLock's beating heart.

You might suppose that the anti-identity theft industry is thriving. In fact, annual average top-line growth over the past five years amounted to just 0.5%, according to Sarah Kahn, analyst at IBISWorld. Revenue at the only other public company focused on identity-theft protection—Intersections Inc. (INTX on the Nasdaq)—slipped to $262 million in the 12 months ended Sept. 30, 2014, from $373 million in calendar 2011. Intersections markets through banks, where it has collided with the Consumer Financial Protection Bureau. LifeLock has had no such difficulty issuing ads to the hack-wary public.

Many a business in the Internet age has foundered in failing to compete with services that someone, somewhere can deliver for free. Perhaps such a fateful encounter awaits LifeLock. "Consumers can request their credit reports once

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