"All That Glitters"

I've received a lot of questions over the past few weeks about Russia and the Ukraine, and why I don't include this flashpoint in my list of greatest market risks. Sorry, but I just don't think it's that big of a deal from a markets perspective. Russia is going to control Sevastapol, and everyone – including Obama and Merkel and whoever is calling the shots in Kiev – knows it. Period. End of story. Owning a warm water port on the Black Sea has been a cornerstone of Russian political identity since Catherine the Great in the 18th century, and there's nothing that anyone can do (or really wants to do) to stop it. Does effective control of Sevastapol and the Crimea require annexation of Eastern Ukraine? Maybe. Southern Ukraine and Moldova? Seems like a stretch to me, but I hear that the Danube is beautiful this time of year, and if that's what Putin wants that's what he'll get. I'm sure we'll get the usual tsk-tsk'ing from the usual suspects, and maybe even the 2014 equivalent of Jimmy Carter's Moscow Olympics boycott, but that's as far as it goes.

In fact, as far as markets are concerned, the more *Sturm und Drang* over Ukraine, the better. Draghi needs an excuse to launch some form of European QE, and an ECB staff projection of the dire consequences of Gazprom shutting off the pipelines is just what the doctor ordered. A few days of media hand-wringing over Putin's intentions, perhaps accompanied by – gasp! – a 1% decline in markets, and even Janet Yellen can get into the act, promising to do "whatever it takes" to support our European brethren and overcome this horrific threat to global growth.

Ultimately this all further strengthens the Narrative of Central Bank Omnipotence – the market-controlling common knowledge that market outcomes are the result of central bank policy rather than anything that happens in the real economy. How can you know if this Narrative starts to waver or shift? If and when gold starts to work. This is what gold *means* in the modern age … not a store of value or some sort of protection against geopolitical instability … but an insurance policy against massive central bank error and loss of control. So long as the dominant narrative remains that central banks are large and in charge, so long as global investors hang on every throwaway line that Draghi utters … gold doesn't stand a chance.

Please feel free to forward this email to whomever you think might be interested, and all prior notes are available on the Epsilon Theory website. If you're receiving this note via forwarded email and you're not yet on the direct distribution list (and you find it a worthwhile read), I'd appreciate the opportunity to add you to the list. I'm building the Adaptive Investing framework in plain sight and in real time through these notes, and I'd welcome the widest possible participation, as well as your thoughts and comments. As always, if you're no longer interested in receiving these notes, please reply to this email to that effect.

All the best,
Ben

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