# A financial system which has almost exclusively benefited the wealthy

Market Review

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The American journey that began on 8/15/71 is going to end over the next several years. The problems that have manifested themselves over the past few years signal the final stages of a destructive process that has stifled production and innovation and encouraged fraud in Wall Street and banking. The injection of money and credit into the financial system via the Fed and the Treasury has almost exclusively benefited the wealthy financial sector and has spread only crumbs to American citizens. The residential housing sector is dying, as now is the bubble in commercial real estate. It is now only a matter of time that the stock markets new bubble is broken. Insolvency in insurance, banking and on wall Street has been temporarily papered over. These are the culprits who created our problems along with their mentor the Federal Reserve. These are the same people who created fraudulent CDOs and MBSs, which caused the credit collapse. For that they have been rewarded.

Free trade, globalization, offshoring and outsourcing have ripped the heart out of our industrial base and now are shredding our service sector unabated. At the rate of our present decline we will be a second tier nation in five years. The loss of 8 million jobs over the last nine years is staggering. What has been done to our economy is criminal. Every month we hear of revelations of insider trading scams, Ponzi schemes, front running by 16 major market makers led by Goldman Sachs, naked shorting by major brokerage firms and market manipulation by the Treasury and the Fed and nothing is done to stop it. Billions of dollars are being stolen daily from American investors.

It is now quite obvious that the Elites have decreed that the dollar is to be abandoned as the world reserve currency and it is to be replaced by either a new international trading unit or a one-world currency. The US banking system and the dollar are being taken down slowly so that the public won't catch on to what is being done to them. Again, we return to 8/15/71. That is when the dollar demise began and the end of the American empire began. We have been delivered into the tentacles of corporatist fascism. Big business, Wall Street, banking and insurance are being merged with government. Both entities are controlled by the same personages. The charade of solvency continues until the designated moment when the elites have decided to pull the plug. The demise of the US is just another episode in the long history of this cabal that has brought us misery for more than 1,000 years, not to mention the continuous wars to cull world population and the greater concentration of wealth and power over the centuries. After the purge the new currency will have gold backing and the process will begin again anew. That is why gold and perhaps silver will be the only refuge from the changes in fiat currencies worldwide. The changes we are witnessing are going to be permanent-short of changes via revolution, which now is the only avenue left open to citizens of our country and many others. The time we see being borrowed is an artifice to fit a well laid out timetable. Remember your only salvation is gold and silver related assets. They are the only way to preserve your assets.

The second stimulus package has been a failure. The third package, as we predicted last January, will go to debate early next year. Our guess is a congressional package of $400 to $800 billion and a bank lending increase of some 14%. That is the amount they cut lending over the past year. More money will be thrown at the system. It won't work, and in 2010, we should see official inflation back at 5% and unofficial inflation at more than 14%. The housing credit will be extended, as will unemployment benefits and seniors will get another $250 check. Yes, we will also get another clunker Car program. This should send the economy sideways into mid-2011 or perhaps to 2012. Unemployment will reach a real U6 figure of 23% by the end of the year. Give or take two points unemployment should stay at this level for about two years. In 2011 inflation will pass 30%. We will have a better figure later. In other words, a delaying action, but no real recovery. Thousands of financial institutions will fail and that will lead to consolidation and nationalization. The minute stimulus increases in money and credit, monetization and low to zero interest rates end deflationary depression will begin having graduated from hyperinflation. There will be neither reform nor any real recovery, because the elitists are again destroying the system to obtain even greater power over the inhabitants of the world. We are on a difficult journey and you had best prepare yourself for it. This time there is no turning back.

In a victory for President Barack Obama, the Democratic-controlled House narrowly passed landmark health care legislation Saturday night to expand coverage to tens of millions who lack it and place tough new restrictions on the insurance industry. Republican opposition was nearly unanimous.

The 220-215 vote cleared the way for the Senate to begin debate on the issue that has come to overshadow all others in Congress.

Joseph Contorinis, a former money manager for the Jefferies Paragon Fund, was indicted by a federal grand jury on fraud charges in what prosecutors said was a $7.2 million insider-trading ring.

The indictment by the Manhattan grand jury follows Contorinis's February arrest. Another person charged with him, Nicos Stephanou, who was an associate director of mergers and acquisitions at UBS AG's London office, pleaded guilty in May to seven felony counts that he passed information about bids for Albertson's Inc., the Boise, Idaho-based grocery store chain. Stephanou's friend, George Paparrizos, also pleaded guilty.

"Stephanou had access to and learned material information about merger and acquisition transactions," the indictment says. "Stephanou provided Contorinis, and others known and unknown, with UBS insider information" from 2004 to 2006.

U.S. consumer credit fell in September for an eighth straight month, the longest series of declines on record, as thousands of Americans lost their jobs and banks tightened access to loans.

Borrowing fell more than economists predicted, declining by $14.8 billion, or 7.2 percent at an annual rate, to $2.46 trillion, according to a Federal Reserve report released today in Washington. Credit dropped by $9.86 billion in August, less than previously estimated. The consecutive declines were the most since records began in 1943.

There are two ways to look at the stimulus package after almost a year of operation. The first is what might unemployment have been without the package and what has it accomplished in increasing employment. There is no question we have seen massive fiscal and monetary stimulus not seen since the 1930s. As we pointed out six years ago the depth of structural impairment was very deep and it would take years to work out of the damage done to American infrastructure by the policies of the Federal Reserve and the debt created by the past three administrations, both on and off balance sheet.

New unemployment figures were just released and they show that U3 has risen from 9.8% to 10.25, but more importantly if you use U6 unemployment is 17.5%. This U6 includes: U1 those unemployed 15 weeks or longer; U2 those who completed temporary jobs; U3 total unemployed as a percentage of the civilian workforce; U4 discouraged workers as a percent of the labor force: U5 discouraged workers and U6 total unemployed. Embedded in U6 is the birth/death ratio and if you extract that and use the compilation criteria of 1980, officially U6 is 17.5%, but using the original formula real unemployment is 22.2%. These statistics point out how serious the situation is in view of the fact we are told unemployment was 25% during the Great Depression. They also point out the dismal results that have been obtained by the stimulus package, which is about 70% spent. All government and Wall Street have done is deceive the public and business by using U3, which is not at all representative of what is really going on.

All our problems credit-wise stem from 1989-1992 when we had a great opportunity to have a recession and purge the system. That didn’t happen even though 30-year T-bond rates rose to 8-3/16%. The Fed continued to heap abuse on the system for years to come to advance the greedy wealth accumulating goals of the elitists behind government.

This perpetuation of a broken system and a fiat monetary unit was accomplished by continual reflating. This time it was mortgage finance, both residential and commercial, securitizations of collateralized debt obligations, fraudulent bond ratings and spectacular leverage by banks, hedge funds, Wall Street, insurance companies, pension plans, and fiduciaries of all stripes. The banks are still hung out at 40 times deposits and they haven’t brought a large portion of their non-performing assets onto their balance sheets.

The Fed’s answer, similar to the 1930s, was to slash interest rates to zero, which again has promoted speculative leveraging and a dollar carry-trade.

As we wrote in 1971, the departure of the dollar from the gold standard on 8/15/71 was the beginning of the decent of imperial America, but, of course, few were listening. Now 38 years later the end is in sight. The collapse of the dollar and the financial and economic system, due to the interconnectivity every nation in the world will be affected in varying degrees. Some nations will suffer greatly, especially the US, UK and Japan. As a result there has been in process a flight into real assets such as gold and silver and commodities.

The falling dollar will require that Americans produce more, reduce credit and cut their standard of living. That means consumption as a percentage of GDP will fall from 72% to the long-term mean of 64.5%, which we predicted six years ago. The Fed has not as yet decided when to raise interest rates. We believe they have no intention of lowering rates for at least a year and perhaps they'll keep them at zero for a long time. That plan could be interrupted by official dollar devaluation and debt default in conjunction with other nations. That is in spite of unemployment that could be 35% two years from now. The elitists believe reflationary dynamics worldwide will provide the momentum to pull the US and the world out of depression. We have news for them; it is not going to work. This so-called new paradigm will only create more bubbles, which will soon appear in China, Brazil, Asia and India. China has spent $1.8 trillion and already has bubbles in their stock and property markets.

2010 will be a difficult year for the US. Toward the end of the year real inflation should be over 14% and 10-year should be ½% to 1% higher at 4% to 4-1/2%. As a result the dollar should be selling at 60 on the USDX and gold should be $2,500 to $3,000 and silver over $50. The second stimulus plan will have carried the economy for the year, but only just that. The problem cannot be solved by throwing money at it.

The administration in its quest to find solutions for a slow economy and ever-rising unemployment, the Cash for Clunkers, became a reality. It cleaned out a burdensome inventory and kept the assembly lines humming. That short productivity increase was almost 10%, which is ridiculous, but it also deprived dealers of future sales. We see this as a zero sum game where very little was accomplished. Now, as we predicted in January, the beltway is rife with talk of another stimulus package. These are not solutions; they are stopgap measures dreamed up by desperate people.

Washington and Wall Street now tell us there is recovery, but we fail to see it. Zero interest rates worldwide are close to that level and only two countries have revised rates; Australia and Norway, and they, due to their economies being resource based. This doesn't show strength; it reflects weakness. Zero interest rates and monetization, along with money and credit creation, continue unabated. It has become so obvious that gold hits new highs daily in spite of government manipulation. All the talk of an exit strategy is just that – talk. There cannot be such a strategy. If rates are raised and money and credit and monetization curtailed the entire system will collapse and deflation will assume command. As each passes the elitists try to use new strategies to extricate themselves from the problems that they deliberately created. As a result the dollar cannot establish any upside momentum and decends to new lows weakly. At each Treasury auction the Fed has to supply funds to foreign governments to make it appear foreigners are buyers when in fact in fact in good part it is monetization.

Banks continue to fail at a record pace and the FDIC is out of money. Some 120 banks have failed this year. Congress presently is in no condition to lend against the FDIC's $500 billion line of credit, especially with debt limits being approached. As a result of these policies we are in an interlude as inflation wells up in the bowels of the economy. In 2010 it will erupt in all its fury and those not invested in gold and silver assets stand to lose much of their purchasing power.

The basic challenge for the Fed is to solve the housing crisis, which is as bad as it has ever been. Suppressing interest rates and making subprime loans only extends the problem. Then we have the banks hidden inventory. Once FASB guidelines are met in 1-1/2 months, banking problems will be there for all to see. It won't be a pretty sight as the world finds out that foreclosed inventories are far higher than we have been led to believe.

Then we have the burgeoning commercial mortgage problem, which most of the public is completely unaware of. Most of these loans are interest only and the banks do not have the funds to renew them. Then, of course, is the underlying problem of ghost malls and other commercial real estate nationwide. These problems are going to cause many, many banks to fail.

The cause of what we see today is mainly the fault of the Fed and the quest to destroy the US and world economy. The banks, brokerage houses, hedge funds and pension funds were the conduits that allowed this to happen. They all knew what they were doing was preposterous -banks lending 40 and 50 to one of their deposit base, instead of 8 to 10 to one. These people are not dumb; they knew exactly what they were doing.

This said, the Fed, banks, Wall Street and insurance companies all have no solutions other than more of the same monetization and easy money and credit. This will go on until it can't go on any more and we collapse into deflationary depression. In the meantime the price of gold screams as inflation gets ready to roar again.

We ask how can taxpayers pay $15 trillion for US government debt over the next ten years? That does not count state, county and state debt. Then there is personal and corporate debt. The problem is that the debt cannot be paid. As a result the US will copy Argentina's policies of the late 1990s. That is to print money until you can't anymore, causing hyperinflation. This is the only way the debt can be dealt with. This approach, instead of purging the system and getting it over with in a few years, has already dragged on six years with five to ten years to go. Today's tactics by the Illuminists will guarantee 30% plus inflation in 2011 and 30 to 40 percent unemployment, before the dollar crashes and gold hits $6,700 an ounce. It shows you how desperate these people are to hold onto power and to loot American taxpayers. It should be noted that over and over again Keynesianism has been a failure. Anyone who does not advocate the Austrian school has to be blind or a total opportunist. Changes will only come to America and many other countries, when it is forced upon it, not because people do not want change, but those entrenched in power will have to be led away kicking and screaming in order for change to take place. There will be changes when it comes over the next few years; it will now be violent and those now in power will pay a terrible price.

Last week saw the Dow rise 3.2%; S&P 3.2%; the Russell 2000 3.1% and the Nasdaq 100, 3.8%. Cyclicals surged 5.8%; transports 6.6%; consumers 2.5%; utilities 1.7%; banks 1.4%; broker/dealers 2.6%; high tech 8.4% and biotechs 8.4%. Gold bullion rose $50.00, the HUI rose 13.1% and the CRB Index fell 0.3%. The USDX, the dollar index, fell 0.7% to 75.75.

Two-year T-bills fell 5 bps to 0.73%; the 10-year notes rose 10 bps to 3.50% and the 10-year German bund rose 13 bps to 3.36%.

Freddie Mac's 30-year fixed rate mortgage gained 3 bps to 5.03%. the 15's rose 3 bps to 4.46% and one-year ARMs rose 3 bps to 4.57%. the 30-year jumbos rose 6 bps to 6.10%.

Fed credit rose to $2.1 trillion, up 15% yoy. Fed foreign holdings of Treasury and Agency debt rose again and custody holdings rose at a ytd rate of 18% and up $41 billion yoy, or 16%.

M2, narrow, money supply leaped $35.8 billion to $8.394 trillion, up 3% ytd and 5.7% yoy.

Total money market fund assets dropped again $31.3 billion to $3.339 trillion, or 15.25 annualized. They declined 7.5%, or $2.69 billion you.

Total commercial paper fell $61.7 billion to $1.315 trillion. CP declined $366 billion ytd, or 26%, and $2.85 billion yoy or 18%. Asset backed CP fell 428 billion to $515 billion, or $217 billion, or 30% yoy.

In our investigations of what went on at Fort Hood, Texas we heard rumors of a large shipment of gold or dollars being shipped thru the post, for the Bush crime family. We have no proof as yet, so it has to be treated as rumors.

Stores, apartment buildings and warehouses in the U.S. will set new vacancy records before a recovery takes hold in the job and commercial property markets, according to a forecast by CB Richard Ellis. Vacancies at industrial properties will climb to almost 16% in 2011 and apartment vacancies will top out at 8.1% this quarter, CBRE chief economist Ray Torto said. The proportion of empty space at shopping centers and malls will increase to about 13% in 2010. U.S. commercial real estate prices have plunged almost 41% since October 2007, the Moody's/REAL Commercial Property Price Indices show.

U.S. mortgage lending for commercial property fell 54% in the third quarter from a year earlier, the Mortgage Bankers Association said. The dollar value of loans dropped 56% for office properties and 40% for apartment buildings. Loans for malls and shopping centers fell 62% and hotel loans declined 46%. The credit crisis has driven $138 billion worth of U.S. commercial properties into default, foreclosure or debt restructuring, according to Real Capital Analytics Inc.

As we reported earlier real U6 unemployment is 22.2%. The economy remains under pressure and the liquidity crisis continues, as the US experiences the worst economic downturn since the "Great Depression." Wall Street wants us to believe employment statistics are lagging indicators, but they are not, they are here and now. We see no recovery – just parallel movement. One stimulus after another won't work in the intermediate to long-term. It will be interesting to see what additional stimulus will be passed by Congress early in the new year and then how much banks will increase lending to augment the stimulus.

On Monday, the 3-year auction had a bid to cover of 3.33 to 1 (2 to 1 is normal.) In the past ten auctions the average was 2.63 to 1. Indirect participation by foreign central banks was 68.5%, up from an average of 45.2%. This is the Fed at work in conjunction with the funds they have lent to foreign governments.

The FDIC Friday Night Financial Follies saw 5 bank failures taking the total to 120 on the year.

Freddie Mac lost $6.3 billion the 3rd quarter. Wait until you see the losses in 2010 and 2011.

The entire banking system at the top is insolvent. They are falsifying and fraudulently overvaluing their assets. Often commercial real estate and securities are carried at say $100 million when in fact real market value is $30 million. Shareholder equity in Bank of America, Wells Fargo, Citigroup, Goldman Sachs and JP Morgan Chase and many others does not exist. Banks are carry loan loss reserves of 3.8% when charge-offs for residential mortgages and credit cards are 4.73%. Credit cards are 12.9%. many banks overstate equity by 50%. Banks such as BofA would have already collapsed were it not for the injection of funds by the Fed to be paid for by the taxpayer. BofA should be toast in 2010.

While these lies prevail firms such as Goldman Sachs, Morgan Stanley and JP Morgan Chase are paying out $30 billion in bonuses, up 60% from last year, and more than the 2007 number of $26.8 billion, as the average American experiences 22.2% unemployment. Obviously there is something dramatically wrong with this picture, as firms loot their own companies before they are allowed to collapse.

Abusive excesses abound throughout the system and will until the system collapses, which it will in the immediate future.

The 10-year note auction bid to cover was 2.81 to 1 versus the average for the last 10 auctions of 2.61 to 1. Indirect participation was 47.3% versus the average of 36.15%.

Investors Business Daily and TIPP said their economic optimism index fell to 47.9 in November from 48.7 in October.

The small business Optimism Index grew for a 3rd straight month, up 0.3 points to 89.1 in October.

Home prices fell in the third quarter yoy levels in about 80% of US metro areas. Prices fell in 123 of 153 metro areas, while 30 areas saw prices rise. YOY prices fell 11.2% to $177,900.

Adobe systems will cut 680 full time jobs.

US intelligence agencies were aware months ago that Army Major Nidal Malik Hasan was attempting to make contact with people associated with al Qaeda, two American officials briefed on classified material in the case told ABC News.

Rep. Pete Hoekstra (R-MI) said the CIA had, so far, refused to brief the intelligence committees on what, if any, knowledge they had about Hasan's efforts. Hoekstra said he is "absolutely furious" that the house intel committee has been refused an intelligence briefing by the DNI or CIA on Hasan's attempt to reach out to al Qaeda, as first reported by ABC News.

The Telegraph: British spies help prevent al Qaeda-inspired attack on New York subway British spies have foiled a terrorist plot by a suspected al Qaeda operative to blow up the New York subway. The plan, which reportedly would have been the biggest attack on America since 9/11, was uncovered after Scotland Yard intercepted an email.

The force alerted the FBI, who launched an operation which led to airport shuttle bus driver Najibullah Zazi, 24, being charged with conspiracy to use weapons of mass destruction.

http://www.telegraph.co.uk/news/worldnews/northamerica/usa/6529436/British-spies-help-prevent-al-Qaeda-inspired-attack-on-New-York-subway.html

NYSE Composite – volume has decreased on the recent rally; it increased on the recent decline

And the #1 reason to head to the sidelines for awhile, from The Telegraph: Barack Obama pledges to tackle Beijing on yuan – Barack Obama, the US President, will confront Chinese officials on the divisive subject of the yuan next week in a bold move which could anger America's largest creditor.

Earlier in the day, the Chinese premier, Wen Jiabao, urged the US to "effectively discharge its responsibilities" and "maintain an appropriate size" to its budget deficit.

Banks around the world face increases in funding costs that could cut profits and hit their customers as they look to refinance $7,000bn-plus in short-term debt expiring in the next three years with longer-dated bonds, according to research released on Tuesday.

Institutions seeking to reduce their reliance on short-term paper will have to pay up because interest rates are likely to rise and governments will stop supporting the financial system, the study by the credit rating agency Moody's concludes

The refunding pressure that banks face seems minor compared to the US Treasury, which according to estimates must 'roll over' $4 trillion of debt over the next 12 months.

Overall state tax collections in the April-June quarter of 2009, as reported by the Census Bureau, declined by 16.6 percent from the same quarter of the previous year. We have compiled historical data from the Census Bureau Web site going back to 1962. Both nominal and inflation adjusted figures indicate that the second quarter of 2009 marked the largest decline in state tax collections at least since 1963. The same is true for combined state and local tax collections, which declined by 12.2 percent in nominal terms.

[The conference was another non event, because they cannot set up a time table, because if they do markets will react negatively to the end of the expansion of money and credit and low interest rates. Incidentally, they almost called this conference off due to inclement weather, which didn't allow participants to play golf. Bob] The U.S. dollar may come under renewed pressure from emerging market currencies and the euro after a meeting of the world's top finance officials failed to take concrete action on rebalancing global money flows.

Finance ministers and central bank governors of the Group of 20 major countries, meeting in Scotland at the weekend, launched a "framework" in which they will discuss how to reduce trade and savings imbalances between nations.

But their communique talked only in general terms about rebalancing economies, and implied they might not agree on specific policies for individual countries to adopt before the end of next year at the earliest. OR BEFORE?????????

The result may be a continuation of heavy fund flows into emerging markets, boosting currencies there. And central banks intervening to slow currency appreciation may keep investing much of the money they obtain in the euro, pushing up that currency too.

"We're probably looking at fresh dollar weakness in the short term" in the wake of the G20 meeting, said Kenneth Broux, senior markets economist at Lloyds TSB.

## CHINA, BRAZIL

At the center of the currency issue is China’s reluctance to permit appreciation of its tightly controlled yuan, which it has kept flat against the dollar since mid-2008. China waiting for the US to deval first.

That has prompted additional fund flows into emerging market currencies that do trade freely, such as the Brazilian real, which has soared over 30 percent this year. Last month, Brazil slapped a 2 percent tax on foreign investments in fixed income and stocks in an effort to slow the real’s rise.

Last week, Brazilian officials said they would discuss this problem at the G20 meeting. But the G20 communique made no reference to the issue, and Brazil appeared to get little sympathy from a senior official of the International Monetary Fund, which is a key player in the global rebalancing campaign.

Youssef Boutros-Ghali, who chairs the International Monetary and Financial Committee, the IMF’s policy steering committee, told Reuters that Brazil’s tax was unlikely to work and that “we should not be fixated on currencies.

Officials from several countries, including Brazil, Japan and Indonesia, urged China on the sidelines of the meeting to let the yuan move more flexibly.

But as a group, the G20 did not press China on the sensitive issue, G20 sources said. British finance minister Alistair Darling told reporters: “We didn’t discuss the renminbi. I think that’s a question for China rather than us.”

In fact, China appeared in a combative mood. Finance Minister Xie Xuren and central bank governor Zhou Xiaochuan, speaking to the official Xinhua news agency after the meeting, made no mention of the yuan and instead warned developed countries to focus on the quality of their own policies.

Xie said countries with global reserve currencies should work to maintain the currencies’ value, to avoid destabilizing the global economy — implying it was up to Washington, not Beijing, to resolve the issue of the weak dollar.

The silence on the yuan in Scotland suggested countries accepted the G20 was not a forum in which to press China. The other main global economic forum, the Group of Seven nations, last met in October; it did mention the yuan, but only in the softest terms, “welcoming China’s continued commitment” to free up the yuan without referring to a timetable.

## REBALANCING

The G20 did publish a detailed, unprecedented timetable for countries to discuss the economic rebalancing that could eventually bring more stability to global currency markets.

In an appendix to the communique, G20 countries were asked to submit descriptions of their monetary, fiscal and other policies and plans to the IMF by the end of January 2010. The IMF would produce an analysis of the global economy by April.

G20 countries would then “develop a basket of policy options” in June, and G20 leaders would consider recommendations for policies at a summit in November 2010.

But this plan is clearly constrained by diplomatic sensitivities. For example, the appendix said that, in the first half of next year, the IMF would not recommend policies for specific countries but merely for “groups of countries facing similar circumstances” — apparently ruling out an explicit recommendation to appreciate the yuan.

So in the short term, currency market trends look as if they will be left to continue, said Simon Derrick, senior currency strategist at Bank of New York Mellon in London.

“It is hard to imagine a level playing field for currencies without resolving the issue of the yuan,” he said.

By a 220-215 vote, the US House passed a healthcare reform bill.  It will be a job-killing bill because it increases costs to small businesses.  If the increased costs to small business end up in a final bill – after a Senate bill and reconciliation – the odds of a full-blown depression developing will be high.

Bloomberg compares the differences as to small business costs between the passed House bill and the proposed Senate healthcare bill:  EMPLOYER MANDATE: The House requires that employers cover their workers or pay a penalty, with potential exemptions for some businesses because of size or hardship. The measure under consideration by Reid, tracking the Senate finance panel’s work, would instead require that employers with more than 50 full-time workers pay a fee for every lower-income employee who qualifies for a new tax credit to obtain care.

HOW TO PAY FOR IT: The House version would add a surtax on the wealthiest Americans, starting with couples who earn more than $1 million a year. The chamber also has other taxes including one designed to raise $20 billion over 10 years from medical device makers. The Senate version would tax insurers on the most generous, so-called Cadillac benefit plans. It also includes new annual fees on insurers, medical-device manufacturers, drug-makers and clinical laboratories beginning in 2010 and imposed based on market share. Because only the finance committee has jurisdiction over funding in the Senate, there’s no conflict between panels.

The House differentiates small and large business by payroll, with a $750k payroll as unfathomable line of demarcation.  The Senate uses numbers of employees, with 50 being the break points.

Considering that small businesses create 70%+ of job growth, you can forget about job growth but you can start worrying about significant job cuts by small and medium-sized businesses.

As usual the details of the October Employment Report are far uglier than the headline numbers. For October, the BLS household survey shows employment declined 589,000, versus a 190,000 jobs loss reported in the payroll survey.  The household survey for September shows 785k job losses…Full-time workers declined 596k…Part-time for economic reasons jumped 105k.

The average duration of unemployment rose from 26.2 weeks to a new record 26.9 weeks…The employment diffusion index fell from 37.5 to 33.8, which means more industries fired workers in October than in September….The employment-population ratio decline to 58.5%, the lowest level since 1983…Discouraged workers jumped to 808,000 from 484,000 a year earlier…The number of workers only able to find part time jobs is a record 9.284 million.

Health care employment continued to increase (29k). Since the start of the recession, health care has added 597,000 jobs.

If you add in unemployed people that have not looked for a job over the past 12 months (Clinton 'defined' them out of the data.) the unemployment rate would be about 22.1% according to John Williams. Our figure is 22.2%.

Once again the BLS increased the number of Net Birth/Death jobs. 86,000 fictional jobs were created in October versus 71k for October 2008. http://www.bls.gov/ces/cesbdhst.htm – http://www.bls.gov/web/cesbd.htm

And don't forget that October benefited from stimulus funds!

Trim Tabs estimates NFP job losses in October at 284k, based on income tax deposits. The firm estimates wages and salaries fell 5.3% in September y/y and 4.6% in October y/y.

David Rosenberg: All we can say is that if the overwhelming consensus is correct that the recession is behind us, then what we have on our hands is the mother of all jobless recoveries and whatever economic growth is being squeezed into the system comes courtesy of the most dramatic intervention by the government in recorded history, including the New Deal 1930s era. President Obama is now running fiscal deficits that would have made FDR blush…

While the -190,000 headline nonfarm payroll print was not that far off the consensus, and while there were upward revisions to the prior two months (of over 90,000), the major problem is that the Establishment Survey, at this time, is missing a very important part of the story, which is the strain that the small business sector continues to face. Small businesses have less cash on the balance sheet, less access to credit and less exposure to overseas growth dynamics compared to large companies.

Establishment Survey (nonfarm payrolls), has a "large company" bias that the companion Household Survey does not have. If you look at the historical record, you will find that at true turning points in the economic cycle, the Household Survey leads the Establishment Survey. This has always been the case heading into expansions and into recessions.

In all, more than one out of every six workers — 17.5 percent — were unemployed or underemployed in October. The previous recorded high was 17.1 percent, in December 1982…

A recent book by Carmen M. Reinhart and Kenneth S. Rogoff, two economists, found that over the last century the typical crisis had caused the jobless rate in the country where it occurred to rise for almost five years. By that standard, the jobless rate here would continue rising for two more years, through the end of 2011…Nearly 16 million people are now unemployed and more than seven million jobs have been lost since late 2007…

Even though some companies have cut the pay of workers, the average hourly wage has still risen 1.5 to 2.5 percent over the last year, depending on which government survey is examined. Average weekly pay has risen less — zero to 1 percent — because hours have been cut. But average prices have fallen. Altogether, the typical worker has received a 1 to 2 percent inflation-adjusted raise over the last year…

In the other two severe recessions in recent decades, workers with jobs fared considerably worse. At the same point in the mid-1970s downturn, real weekly pay had fallen 7 percent; in the early 1980s recession, it had fallen 4 percent. It is a strange combination: workers who still have a job are doing better than in other deep recessions, but the unemployment and underemployment have risen to their highest level since the Depression.

The Sacramento Bee: Many California jobs 'saved' by stimulus funds weren't in jeopardy.
Up to one-fourth of the 110,000 jobs reported as saved by federal stimulus money in California probably never were in danger, a Bee review has found.

California State University officials reported late last week that they saved more jobs with stimulus money than the number of jobs saved in Texas – and in 44 other states.

In a required state report to the federal government, the university system said the $268.5 million it received in stimulus funding through October allowed it to retain 26,156 employees.

That total represents more than half of CSU's statewide work force. However, university officials confirmed Thursday that half their workers were not going to be laid off without the stimulus dollars.

There are green benefits to the investment. One is the recently passed US Clean Energy and Security Act, which allows companies to trade carbon credits.

As Burlington Northern transports vastly more freight per emission than road or air hauliers, there is potential for it to trade millions if not billions of dollars of carbon credits in future years. Burlington Northern also offers vast fuel efficiencies – one train removes 280 freight trucks off US highways – and the coal it transports is largely from low-sulphur coal deposits, which will be increasingly in demand as legislators continue to clamp down on polluters.

These reasons might go some way to explain why Buffett apparently broke one of his golden rules of investing: never overpay. Matthew Carletti, at Fox-Pitt Kelton, points out that the purchase price – 2.8 times Burlington Northern's book value and 18 times future earnings – "does not imply 'value'".

Rasmussen: Consumer Confidence Falls to Lowest Level Since July The Rasmussen Consumer Index, which measures the economic confidence of consumers on a daily basis, dropped three points on Sunday and fell to its lowest level since July. At 72.3, the Consumer Index is down six points from a week ago,

down one point from a month ago, and down four from three months ago.

http://www.rasmussenreports.com/public_content/business/indexes/rasmussen_consumer_index2/rasmussen_consumer_index

The arrogance and gall of those that were bailed out and then enriched by crony capitalism is mind numbing and the stuff that seeds revolution.

An independent U.S. senator on Friday introduced a bill that would give the government the power to identify and break up financial firms that are “too big to fail,” an idea that is catching on.

“If an institution is too big to fail, it is too big to exist,” said Senator Bernie Sanders in a statement. “We should break them up so they are no longer in a position to bring down the entire economy,” he said.

Lt. Col. Ralph Peters (Ret.): On Thursday afternoon, a radicalized Muslim US Army officer shouting “Allahu Akbar!” committed the worst act of terror on American soil since 9/11. And no one wants to call it an act of terror or associate it with Islam.

What cowards we are. Political correctness killed those patriotic Americans at Ft. Hood as surely as the Islamist gunman did. And the media treat it like a case of non-denominational shoplifting.

This was a terrorist act. When an extremist plans and executes a murderous plot against our unarmed

soldiers to protest our efforts to counter Islamist fanatics, it’s an act of terror. Period.

When the terrorist posts anti-American hate-speech on the Web; apparently praises suicide bombers and uses his own name; loudly criticizes US policies; argues (as a psychiatrist, no less) with his military patients over the worth of their sacrifices; refuses, in the name of Islam, to be photographed with female colleagues; lists his nationality as “Palestinian” in a Muslim spouse-matching program, and parades around central Texas in a fundamentalist playsuit — well, it only seems fair to call this terrorist an

“Islamist terrorist.”

But the president won’t. Despite his promise to get to all the facts. Because there’s no such thing as “Islamist terrorism” in ObamaWorld.

And the Army won’t. Because its senior leaders are so sick with political correctness that pandering to America-haters is safer than calling terrorism “terrorism.”

And the media won’t. Because they have more interest in the shooter than in our troops — despite their crocodile tears…

But Hasan isn’t the sole guilty party. The US Army’s unforgivable political correctness is also to blame for the casualties at Ft. Hood.

Given the myriad warning signs, it’s appalling that no action was taken against a man apparently known to praise suicide bombers and openly damn US policy. But no officer in his chain of command, either at Walter Reed Army Medical Center or at Ft. Hood, had the guts to take meaningful action against a dysfunctional soldier and an incompetent doctor.

US lawyer job cuts worse for 30 years.

Global economic carnage has pushed US firms to make the deepest cuts in lawyer numbers for more than 30 years, according to The National Law Journal.It said America's top 250 law firms axed 5,259 lawyers in the last 12 months – a number equivalent to all lawyers at two firms the size of Jones Day losing their jobs. The four per cent decline in overall lawyer numbers to 126,669 is the first year on year fall since 1993 and only the third decline since 1978, when statistics began. The savage cuts this year have wiped away nearly one-third of the growth that firms made during the past five years and puts many of them back below 2005 levels. Of the top 75 law firms, 15 cut more than 100 lawyers and in the top 50, seven cut more than 200 lawyers. The firm with the largest percentage decrease was Fried, Frank, Harris, Shriver & Jacobson, which cut 26.4 per cent of lawyers to 468 from 636 in 2008.

Partner levels however, remained unscathed. The National Law Journal said number of partners in 2009 was 53,468, compared with 52,980 in 2008, an increase of 0.9 percent.

Goldman Sachs Group Inc., Morgan Stanley and JPMorgan Chase & Co.'s investment bank, survivors of the worst financial crisis since the Great Depression, are set to pay record bonuses this year.

The firms — the three biggest banks to exit the Troubled Asset Relief Program — will hand out $29.7 billion in bonuses, according to analysts' estimates. That's up 60 percent from last year and more than the previous high of $26.8 billion in 2007. The money, split among 119,000 employees, equals $250,400 each, almost five times the $50,303 median household income in the U.S. last year, data compiled by Bloomberg show.

The three will award more in stock and defer more cash payments under pressure from regulators to tie pay to long-term results, compensation experts said. They may still face public wrath over the size of bonuses after the government injected capital into all the major financial institutions following Lehman Brothers Holdings Inc.'s collapse in September 2008.

"Wall Street is beginning to resemble Clark Gable as Rhett Butler in the film 'Gone With the Wind': 'Quite frankly, my dear, I don't give a damn,'" Paul Hodgson, a senior research associate on compensation at the Portland, Maine-based Corporate Library, said in an e-mail. "It doesn't seem as if even political threat, disastrous PR, envy, rising unemployment rates and home repossessions is enough to get any of these people to refuse the bonuses they have 'earned.'"

THE head of the world's most powerful bank yesterday claimed he was doing "God's work".

Goldman Sachs boss Lloyd Blankfein said "everybody should be happy" about a return to big profits and bumper bonuses at banks because it meant the global economy was recovering.

Just months after taxpayers bailed out banks, Goldman Sachs could have £12billion to lavish on wages and bonuses this year.

Mr. Blankfein said: “We help companies to grow by helping them raise capital. Companies that grow create wealth. This, in turn, allows people to have jobs that create more wealth. We have a social purpose.”

His words will enrage critics, who blame reckless bankers for causing the worst recession since the Great Depression.

They will also anger religious leaders, who have long argued that bankers’ fat pay packets and bonuses are immoral.

But Mr. Blankfein said that limiting bankers’ pay would harm the financial system.

“I don’t want to put a cap on their ambition. The financial system may have led us into crisis but it will lead us out.”

Don’t look for the Senate to quickly follow the House on health care overhaul.

A government health insurance plan included in the House bill is unacceptable to a few Democratic moderates who hold the balance of power in the Senate. They’re locked in a battle with liberals, with the fate of President Obama’s signature issue at stake.

If a government plan is part of the deal, “as a matter of conscience, I will not allow this bill to come to a final vote,” said Sen. Joe Lieberman, the Connecticut independent whose vote Democrats need to overcome GOP filibusters.

“The House bill is dead on arrival in the Senate,” Sen. Lindsey Graham, R-S.C., said.

Democrats did not line up to challenge him. Senate Majority Leader Harry Reid, D-Nev., has yet to schedule floor debate and hinted last week that senators may not be able to finish health care this year.

Two Bear Stearns executives who ran hedge funds that collapsed after betting heavily on the shaky subprime mortgage market were acquitted yesterday of lying to investors – a defeat in the government’s bid to punish fraud exposed by the financial crisis.

A jury in federal court in Brooklyn deliberated about eight hours over two days before finding Ralph Cioffi and Matthew Tannin not guilty of conspiracy and other charges in an alleged scheme that cost 300 investors about $1.6 billion and nearly caused the demise of Bear Stearns itself.

The firm avoided bankruptcy in a rescue buyout by JPMorgan Chase & Co.

Both men had been charged with three counts of securities fraud and two counts of wire fraud. Cioffi was also charged with insider trading.

After the verdict, some jurors told reporters they concluded the evidence against Cioffi and Tannin was flimsy and contradictory. Others suggested the pair were being blamed for market forces beyond their control.

“How much can two men do?’’ said Aram Hong. Said Serphaine Stimpson: “They were scapegoats for Wall Street.''

CNBC's Diana Olick: Shadow Inventory Dwarfs Loan Mods [as we have been warning]. I'm back on the foreclosure bandwagon again, especially after getting the Treasury's Home Affordable Modification Program status report this morning, and its glaring omission of any information as to how many borrowers are actually keeping up with the payments on their trial modifications.

Good news that more than 650,000 borrowers have been put into trial mods, no news that we have no idea how successful those mods are now five months after the program really got cooking. It's coming, that's what the folks at Treasury say.

But even more distressing was a report I received today from Lender Processing Services, which is a huge mortgage data aggregate.

LPS' October Mortgage Monitor also cites large "shadow" foreclosure and REO inventories. The number of loans deteriorating further into delinquent status is now more than twice the number of foreclosure starts, indicating another major wave of troubled loans in an already clogged loan pipeline. Nearly one-third of foreclosures remain in pre-sale status after 12 months – twice as many as the year prior. The six-month average deterioration ratio has risen the past two months to 300 percent, showing that for every loan that improves in status, three more deteriorate further. http://www.cnbc.com/id/33834317

The Pragmatic Capitalist: WHO IS THE MYSTERY BUYER? I don't know if any characteristic of this massive 6-month rally has been more apparent than the huge futures run-ups we've seen at random points during the trading day. Without news, the S&P 500 futures get gunned on huge volume and surge higher. I've seen it at least every other day for 6 months. It tends to occur on low volume days such as the one we're currently experiencing. As you can see in the chart below, the futures are getting gunned on massive volume without any coinciding volume in SPY. This means an institution is jamming the futures higher knowing that they can drive the market higher on no volume. Effectively, they can take out every asking price with a large enough order and immediately create a 0.25% bump in the market in no time. If you've been wondering why we've seen huge surges on low volume days and conviction high volume selling on down days this explains much of it. I don't know if there is malfeasance behind this or if the buyer is simply too stupid to input trades at the bid (like most rational investors do as they try to achieve the best low price), but this is certainly an odd phenomenon that I cannot recall occurring so routinely over the course of my career. Who is the mystery institutional buyer that just needs to place their huge block orders with such urgency? http://pragcap.com/who-is-the-mystery-buyer



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