Collapse in the Wake of the Fed's Wall Street Bubble?

Market Review

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"History records that the money changers have used every form of abuse, intrigue, deceit, and violent means possible to maintain their control over governments by controlling money and it's issuance."
James Madison

The Fed's Wall Street bubble, as we forecast in January, will need at least $2 trillion more in 2010, if the economy is to just stay on an even keel. The massive debt liquidation particularly in banking, Wall Street and in insurance demands many more trillions of dollars. $23.4 trillion is not going to be enough. Presently the Fed is in the process of monetizing $2 trillion in Treasuries, Agency paper, such as Fannie Mae and Freddie Mac and collateralized debt obligations held by lenders. It is a secret what the Fed is paying for this almost worthless paper. Is it any wonder the public has lost trust and confidence in these players and our government?

In order to escape from this global expansion of debt from government, corporations, banking, Wall Street and even state indebtedness, the bubble has to be maintained. The longer it lasts the worse will be the collapse when it bursts. Does anyone really believe that this can continue indefinitely?

People talk about robust inflationary environments in China, Asia and emerging markets In America the Fed's game of lowering interest rates and increasing money and credit and monetizing paper will end over the next two years, maybe three. What is already in the system guarantees inflation.

Many believe American re-flation boosts real estate values. Not a chance. The recovery is not going anywhere. Americans are starting to save and pay down debt, and that means eventually consumption, as a percentage of GDP will fall to the long-term mean of 64.5%.

The stock market and major market players are again highly leveraged even after 50% gains. They do not seem to understand that the sustained injection of trillions of dollars in money and credit is not going to work. It is not creating anything. Wild speculation is fine; it's the leverage that kills. As a broker I never had a margin account. The market is not discounting a rosy future, but the players do not understand that. Prices are simply disconnected from reality. Short covering and the reversal of derivative positions cannot go on indefinitely. Market performance is led by second and third tier companies that are in serious positions, some on the edge of bankruptcy. This is a very frustrating but temporary phenomenon. You are short failing companies, and good companies languish. This is one of the unpredictable parts of the market. All we can say is that current stock market action is a reflection of the current dysfunctional financial chaos that we are trapped in. Mis-pricing is legion. All we can say is it is not going to work. Your only alternative is to back in the safety of gold and silver related assets.

The same elements that were responsible for the collapse of the market in 2000 are at work today. Incidentally we recommended selling in the second week of April, two weeks after the top. Only 2% of analysts accompanied us. Then again, we called the top at 14,100. That element was interest rate carry trades. The players are taking advantage of the ability to borrow cheap dollars, yen and euros to buy other higher yielding currencies, which in turn strengthens their currencies, making their exports uncompetitive. South Africa and Turkey are such examples. Thus, currency appreciation caused by differing interest rates is reigniting third world countries. Free trade and globalization are having some unintended consequences. The dollar is headed down and at the G-20 meeting in London on September 4-5; the US will ask China and others to cut it more slack, because they cannot now reverse the reversal of fortune.

When we called the top on the dollar at 89.5 on the USDX a few months ago we never expected its decent to be as sharp as it has been. As we write it is 79, up from 77.60 in a normal bear market rally assisted by a temporary manipulation by the US government that will be of no lasting consequences. You might call this a normalization process, as a result of the unwinding of dollar gains in the de-leveraging process. The speculators got out and the banks are still upside down. The unwinding process is only half complete and that means the dollar will test 71.18 on the USDX by yearend and probably by the end of October. The banks have to reduce leverage and that makes it a lock. They are still leveraged 40 to 50 times deposits. You talk about stupid. Even Mr. Bernanke tells us tightening by raising interest rates is a long way off. In addition, world central banks are dollar sellers, even if only in a minor way. As long as the US Congress refuses to enact tariffs on goods and services the dollar will remain chronically and perpetually weak. As an aside, the further the dollar weakens the more expensive it will be for the US to purchase foreign goods, which will lead to higher inflation. That will force further dollar selling. Thus, you can more clearly see how this combination of events, accompanied by others, will continue to suppress the dollars value.

The result has been that second and third world currencies are strengthening against G-20 currencies, a result of unintended consequences in the elitists grab for profits and power. What they have done via free trade and globalization, offshoring and outsourcing is to allow China, Brazil, India and Russia to take their places at the head of the table. The developed economies have dug their own graves as they experience staggering unemployment and dollar depreciation simultaneously. It may not be evident now but it is every man for himself sooner than you think. Already officially manipulating their currencies are Sweden, New Zealand, Australia and the Swiss. This does not create a fair playing field and it pulls the underpinnings out from under the WTO, the World Trade Organization, which is the major element in the destruction of the industrial power of Japan, Canada, the US and Europe. All it really was created for was a redistribution of wealth from the first to the second and third worlds in the early 1960s. We wrote about this in the American Mercury in 1967, but, of course, no one was listening. A massive socialization process, a leveling if you may, so that the inhabitants of the world, and particularly the citizens of the more powerful nations, would accept world government. This did not just happen. It was done deliberately by design. As a result of this plan currently these second and third tier nations are growing 50% faster than the G-20, or more specifically Canada, the US and Europe.

We are going to see strong resistance to currency appreciation in the future and increases in subsidies in many nations – first, second and third tier currencies. Perhaps even currency wars. The damage done via free trade and globalization is vastly underestimated when related to the first world, which brings us back to the dollar and other carry trades that are a result of this. It is not only the dollar that will be destroyed, but also all major currencies. That accomplished, the elitists will then attempt to implant world government. That is what this is all about and few have the foresight to listen. Most do not even recognize the enemy at the Council on Foreign relations or at the Bilderberger meetings, because he or she wears a $3,000 suit and they look like nice people. When are people going to wake up and stop allowing themselves to be propagandized? Is the fog so thick that they cannot see what is being done to them? Do they not understand why they are unemployed; have to take mandatory swine flu shots; why socialized medicine will destroy our medical system; why Cap and Trade is a scam by Goldman Sachs to increase their taxes 20% or that our privately owned Federal Reserve is totally corrupt? This is part of a major plan to destroy the major nations, as we now know them. The carry trade, derivatives and massive injections of money created out of thin air are but nails in our coffins and if we do not stop these evil people it will mean destruction.

Last March net wealth declined from a peak of $22 trillion to $12 trillion and due to a bear market rally it has moved back to about $15 trillion. During the past two years consumer debt is about the same, but the market has gotten hit hard. Household equity is off about 90%, and had it not been for the personal stimulus package it would have fallen much more.

What is surprising to most but not to us was that the money in money market funds increased as the market fell. That means that leverage via borrowed money was what has driven the market rally, along with short covering and government manipulation. The Fed was the biggest factor in rigging this bear rally. We have probably seen all the public investor buying we are going to see. The US and European banks were probably given the funds by the Fed with strict instructions to push the equity market higher and use as much leverage as possible. This rally has not enticed the public to spend more and in fact, retail sales are off 6% and still falling, thus, no recovery except in the minds of Wall Street and Washington.

Further to the unemployment figures, the birth/death ratio should have been 113,000 job losses higher or about 350,000. This year the B/D model has added 879,000 jobs and that figure should be 992,000, during the worst employment environment since the 'Great Depression", which is simply beyond belief. Then to have short-term unemployment fall from 9.5% to 9.4% is incredulous. You ask how did they do that? It was due to the fact 637,000 people were dropped from the labor force, not from an increase in employment, but they did end up on the U6, which officially is 16.8% unemployment, but if you extract the B/D ratio you end up with unemployment of 20.8%. What we have witnessed is more lies and propaganda, as the administration tries to use smoke and mirrors to regain public confidence to get them to increase spending. Barry and advisors, it isn't going to work. They are not that dumb.

Home prices continue to fall nationwide. Portland, OR is a good example. It reported a record decline in home values for the 17th straight month in May and month-on-month saw a 16.3% fall, the biggest decline in the index's 22-year history. Since the July 2007 peak prices have fallen 21% and that is the lowest level since May 2005.

We see the summer pause as natural and as unemployment rises, now by U6 at 20.8%, they'll be more foreclosures and lower prices. The depression is only pausing to catch its breath.