Total Meltdown and Civil Unrest

Wall Street's Manipulated Stock Market Rally

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The numbers that have been bandied about is beyond the comprehension of the average Joe Six-Packs. I cannot even figure out $500 billion, what more $500 trillion. Ninety per cent of government leaders are also unable to figure out the enormity of the global debt sink-hole.

So, I have accepted the fact that 97 per cent of Americans will just accept whatever explanations and excuses thrown at them by President Obama, Fed Bernanke and Treasury Geithner for bailing out the banks and failing to prevent the implosion of the economy by summer of 2009.

Obama inherited the mess created by war criminal Bush, aided and abetted by Alan Greenspan, Bernanke and Geithner, so he can be excused for there is nothing that he can do at this late hour to change the outcome. But the rest should be lynched!

In the last two years, in several articles, I drew your attention to the fraudulent securities that have been peddled by the global banks and how they have caused the present grid-lock in the global financial system. In essence, these securities – MBS, CDOs, CLOs, etc. were all fraudulent papers. Whatever mortgages underlying these papers, were over-valued and now they have shown to be worth at the most 10 to 20 cents on the dollar.

There have been suggestions that if all these papers were to be shredded and the debts written off, the global banks' balance sheet would be wiped clean of such toxic assets. In the result the economy would restart and the good old days of cheap credit and unrestrained consumption would usher another boom!

This is a fairy tale.

In the old days, when the hoodlums want to kill someone and have him disappear for good, they would tie his legs together and attach the rope to a heavy object or an anchor and throw the poor fellow into the bottom of the lake or sea, never to be seen again. A small weight, say 10 kg is more than enough to drag the body to the bottom!

The current financial system is not unlike the man who has been thrown overboard and being dragged down by the heavy object. The only chance for survival is if the man could somehow loosen the rope and detach the weight from his legs and swim to the surface, if he could hold his breath long enough.

What is this small weight that is dragging the financial system down? And why writing off ***this particular debt will not save the banks?***

Compared to the global derivative market which is valued in the hundreds of trillions, the global stock market by comparison is a midget. But it is this midget that will cause the financial implosion in America and Europe and reverberate across the world.

Let me explain in simple terms.

When the Dow collapsed from the stratospheric high of 14,000 to less than 7,000 recently (though recovered somewhat) and other stock markets also went south in tandem, it was estimated that at the minimum $30 trillion was wiped out.

What are the consequences of such a drastic collapse?

Let me explain in simple terms again.

Take the share price of Citigroup. At the height of the boom, its market capitalization was over $250 billion. Today, it is less than $10 billion.

Let us say that you bought the shares when it was trading at $150. You also borrowed from the bank to purchase the shares. These shares will have to be pledged to the bank as security for the loan. The shares are now trading a few dollars, say $5.

There is just no way that you can repay the loan and or to obtain additional security to "top-up" the value of the security pledged to the bank. Where are you going to get the cash to buy more shares? Shares of other companies that you may own have also collapsed, and their value may not be sufficient to cover the difference. You are dead meat!

The bank is also in deep trouble because there is no way that they can recover the loan from selling the shares, which is worth $5.

There is the added problem that companies, whose shares are traded in the stock exchange, are not worth even at current values because their core business and operations were premised on cheap credit and were therefore highly geared! These companies are in debt to their eyeballs!

They are insolvent, bankrupt!

Try as hard, the Fed and the Treasury will not be able to engineer a stock rally back to 14,000 points. And even if they could, it does not follow that the ***prices of the shares of specific companies*** would return to its previous high. In the case of Citigroup back to $200 per share!

There is no way in the next 3 to 5 years for companies whose businesses have collapsed to be able to recover fast enough and to be profitable enough to justify a market value of at least 50 per cent of its previous high. In the case of Citigroup, back up to $100.

That is an example in the financial sector.

In the manufacturing sector, an outfit like General Motors will take at least a decade to recover. Then there are those companies which have out-sourced and or re-located overseas. To restart local production again would take time and vast amount of credit. But would they be competitive, given cheaper cost of production elsewhere?

Corporate America is shutting down.

Stimulus and pump priming will not solve this huge problem.

Millions played at this casino using home equity. Pension funds risked your retirement benefits gambling at this casino and lost. Leveraging, 10, 20 or even 30 times was the norm. There is no money left in the kitty!

Quantity easing or printing money will not solve the problem, because a company's value and market capitalization can only be enhanced through actual production of goods and services. But the Western economies in the last twenty years were skewed towards consumption and the availability of cheap credit.

Applying common sense, what was missing was the creation of surplus value, which is the result of efficient production, and savings which in turn provide the essential capital for more production and savings.

Nothing illustrates this problem better than the case of a farmer who stops farming because he had so much cheap credit, that he stopped farming. He could now easily purchase all he needed, and earned five times more gambling in the stock market casino than he would earn from farming. He mortgaged his farm to secure the borrowings. He lived and consumed like the rich and famous!

When the casino collapsed, he could not maintain the lifestyle and had to resort to selling heirlooms to survive.

Until and unless the farmer starts farming and pays off his debts, he would not be able to accumulate sufficient capital to resume what was once a profitable business.

In short, the farmer like all the millions of gamblers who have been ensnared by the global casino, are now in the debt trap and being slowly dragged down to the bottom of the lake!

Therefore, pumping hundreds of billions to the banks will not solve the problem.

You can bet your last dollar that when millions are caught in the debt trap and there is no way out, and they see billions been given to the Wall Street fat cats, lynching parties will be the order of the day!

The Count Down has started.

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