

## Tedbits Newsletter

The Financial & Economic No-Spin Zone

Learn more about Tedbits philosophy here.

March 22, 2010

### 2010 Outlook: When Hope Turns to Fear, Part V 2010 Outlook Conclusions.

As we near the APEX of the countertrend rallies in many markets and economies, the air is full of HIGHLY-COMBUSTIBLE situations just waiting for someone to light the MATCH. The full debacle of the next leg down in developed world economies is at the doorstep. What event will act as catalyst is unknowable, and the list of candidates is mountainous. Corruption and criminality within the public sectors, crony capitalists and banksters set the stage for an explosive cocktail, are set to immolate the private sectors that still produce wealth and the public at large.

***The greatest transfer of wealth from those that hold it in paper to those that don't is UNDER WAY! A Crack-up Boom is on the horizon....***

As the downturn in developed-world economies once again accelerates to the downside, volatility will expand just as it did in 2007 and 2008; volatility is opportunity to the prepared investor. Markets will zoom up and down as the NEW NORMAL unfolds, thus creating HUGE opportunity's for those who embrace absolute return investments with the potential to thrive in these markets. Buy and hold is DEAD, absolute return investing strategies need to be a part of any diversified portfolio as the global financial crisis continues to unfold. [This is what I do](#). The competitive devaluation raceway is UNDERWAY to substitute for the policies of growth.

***"Currencies don't float; they just sink at different rates."***

***-Clyde Harrison***

What is the new normal? It is rising inflation and slow or no-growth economies where the public sectors, banksters and crony capitalists CONFISCATE, through taxes or regulatory favors, the remaining wealth in the private sector and transfer it to themselves. Governments pick winners and losers, misallocate increasingly-scarce capital and place their economies into regulatory STRAIGHTJACKETS, thus enshrining into law poor decisions and mandating politically-correct and practically-incorrect solutions and pro-

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#### TEDBITS PODCAST NEWS

I have been appearing with Jim Willie in a podcast on the unfolding economic scene at [www.ContraryInvestorsCafe.com](http://www.ContraryInvestorsCafe.com), it is a gas and I will be appearing monthly in a podcast on Jim Willie & Friends, discussing recent Tedbits commentary and unfolding events and how to get into the markets in an orderly manner. [Access it by clicking here](#). It's going to be fun, thought provoking and VERY informative. Don't miss it.

hibiting superior ones. As a consequence, competitiveness, economic recovery and common sense recede further and further and are substituted with money PRINTED OUT OF THIN AIR. Take a look at this quote from the grand old sage Richard Russell ([www.dowtheoryletters.com](http://www.dowtheoryletters.com) -- I urge you to subscribe):

“It's truly remarkable. Within the space of three or four generations Americans no longer even recognize Constitutional money! I've said before that gold is imbedded in the DNA of mankind. ***We're closing in on the time when, like a light bulb turning on, Americans will finally realize that they've been hoodwinked by one of the greatest swindles in the history of civilized man. They've been working and saving printed paper with the firm conviction that the paper they worked so hard for was money (emphasis mine).*** Wait, why is that printed paper worth anything at all? It's worth something simply because the government has pronounced by fiat that dollars are "legal tender for all debts, public and private." So the "dollars" that we work our whole lives for, is backed by nothing but the "full faith and credit of the United States." And how good is that credit? Two credit agencies are now threatening to lower the rating of US bonds. If that happens, it will be a monumental shocker? And yes, all sovereign money is now being judged and classified as to its worth. Did anyone ever gauge or debate the value of gold? As I see it, we're watching the very beginning of the end of fiat money.” - Richard Russell

Money printed out of thin air IS NOT Capital; it is not money; it is an IOU of morally- and fiscally-bankrupt public serpents, central bankers and the bankster cartels. CREDIT IS NOT MONEY. When people WAKE UP to this fact there will be riots in the streets.

One need look no further than Washington DC PURPOSELY steering the economy off a cliff using the Cloward-piven strategy or Saul Alinsky's: Rules for Radicals; these playbooks are being fully implemented at the quickest speed possible.

At the moment, we see the government spending excessively and making promises to spend that cannot be kept. This is already a major problem in states like California and countries like Greece, but the federal government will soon join them. At all levels of government, promises to pay state and local pensions and to provide health care far outstrip its capacity to pay. The Congressional Budget Office and many others have been warning for years about the \$50 or \$60 trillion of unfunded liability. Washington's answer on health care? Offer an expensive drug benefit followed by a more expensive "reform" that increases the unfunded Medicare-Medicaid liability. Dissemble about the real costs. -Allan Meltzer

That is Cloward-piven in action -- expand government and make impossible promises until the collapse occurs and they nationalize EVERYTHING to make essential payments. It is the recipe for collapsing a market economy into a socialist one.

In Congress we see Queen Nancy declaring “we must pass the healthcare legislation so we can all see what's in it”, as if this is some present sent to us by Santa Claus and we are just breathlessly waiting to unwrap the goodies. Now she is going to pass it without a vote in the House of Reps, saying she “likes it as it means they don't have to vote on it.” Yesterday she crowed about the numbers out of the Congressional Budget Office (CBO), stating she loves hard numbers; unfortunately, they are based on assumptions which are FAIRY tales; in other words: lying with numbers. The media reports them as facts, to cover corruption. What breathtaking statements, and evidence of absolute moral bankruptcy and corruption at the highest level of government SWORN to uphold the constitution.

Talk about transparency, this is not it; it is 2,700 pages of criminality and corruption which NO ONE HAS SEEN OR READ, but about to pass into law under the harsh grip of our masters in the beltway. Make no mistake, the healthcare bill is a TAX BILL, first and foremost, to cover up general revenue shortfalls and the

ballooning deficits as Social Security and Medicare trust funds have already been squandered and have DISAPPEARED down the government rat hole of GENERAL expenses.

The treasury report just released acknowledges the budget deficit is not the \$1.6 trillion advertised by the administration and the main stream press in 2009; it was actually \$4.5 trillion in GAAP (generally accepted accounting principles) adjusted terms. The difference is unfunded entitlements and stolen money from trust fund accounts. Thieves and scoundrels, remember this next time they tell you budget fairy tales.

The Gang of 535 in the US, and the capitals of Europe have been selling the fruits of our labors to special interests for generations, unfortunately the parasites in Europe (public serpents, crony capitalists, elites, trade unionists, banksters) KILLED the host private sectors decades ago and in the US they are poised to do the same to the last vestiges of the private sectors. The recoveries are statistical lies courtesy of public serpents that REFUSE to reform themselves, curb and roll back years of overspending and the public sectors' policies of insolvency.

Socialists calling the prudent and responsible people in society criminals and putting a target on those who have to create the incomes and jobs to end the crisis. Insane, self destructive. Unions have destroyed every industry in Europe and the US and are now KILLING affordable government. Government workers literally make double that of workers in the private sector and produce less than half. There's a wing in the White House and labor department dedicated to union consultants, in support of their agendas with phones directly into the oval office. These bureaucrats and public serpents are your masters and enemies, not your servants.

Today Christine Legarde, the Finance Minister of France called on Germany to: quit producing more than you consume; quit saving, spend, spend, spend and never save for the future just as we do; quit driving socialist economies to their doom by competing vigorously, abandon the competitiveness you have carefully built up over the last decade by holding down wages in a gradual but effective manner; quit lowering corporate taxes so customers choose your corporations over other suppliers (the businesses don't pay the tax, they just pass it through to the customer); quit benefiting from the competitiveness you have built up in the global marketplace, producing trade surpluses as consumers choose you over your higher-priced, lower-quality competitors in the social welfare states.

Message to Christine from Mother Nature and Darwin: You are unfit -- mentally, morally and fiscally and the strong are going to send you to your doom. Sending future generations of your citizens to their doom as slaves to government, fiduciary irresponsibility and debt in order to maintain your CURRENT political power and reward something-for-nothing constituents is VILE. You are not God and cannot COMMAND others to embrace your weakness, contempt for history and inability to understand the laws of nature and man.

You and your country's economy (France) are increasingly "DEAD men walking," just as your banks and financial systems are as they die in your socialist embrace. Subsidize failure, rescue the imprudent, subsidize businesses that lose money, as you are and you will get more of it. **These are policies of INSOLVENCY.** It is an epidemic running throughout the developed world, a fatal virus that has sent every empire to its doom and is doing so again. History is repeating, but you would not know that as apparently you haven't studied it... Ditto Mr. President, Prime Minister of Greece, UK, Italy, Portugal, Spain and the rest of the developed world welfare states... Refuse to reform your governments and economic policies or fall to your doom... Game, set and match, as your economies die -- something inconceivable to you.

Along these same lines, we find the fellows who introduced national ID cards, aka branding of the public as government slaves, because in order to work you must have one; its government as GATEKEEPER to jobs. Do as we say and you can work, don't do so and YOUR PAPERS will be revoked. **Reminds me of HITLER'S Germany.**

The radical progressive public serpents have now slipped government control of the student loan market into the Healthcare Bill, so student loans will go to political supporters. Banks as issuers and service providers only look to financial qualifications, now this is being taken from non-partisan banks and transferred to the FEDERAL government which will ignore those considerations and substitute the POLITICALLY-correct for practically-correct criteria. I guess my son need not apply!

Last but not least, as the G7 economic collapse continues SCAPEGOATS must be FOUND to pin the tail on the donkey. Now a SMOOT HAWLEY resurrection of epic proportions is being introduced to pin the tail on china for a FAILING-US economy. The US economy is failing because of RUNAWAY taxes, mandates, government policies of high energy prices and regulatory straightjackets, so capital FLEES to where it can thrive.

If currency devaluation was the key to economic growth, Mexico, South America and Italy would be export powerhouses like China, and Asia. No, it takes government policies of growth and support of capital and manufacturing, which the developed world ended decades ago. They prefer policies that BENEFIT entrenched crony capitalists and politically-connected elites, such as big unions and banksters, instead of NEW growth from fierce new competitors. New entrants to challenge entrenched dinosaurs are regulatorily assassinated.

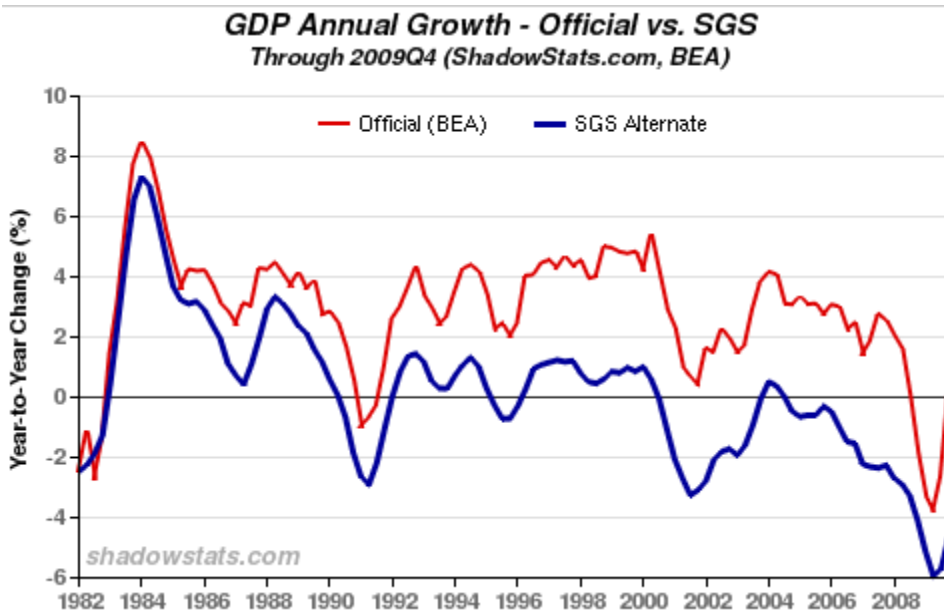
Of course who pays? You do. America no longer makes everyday items, and hasn't for decades. In a trade war, WE LOSE as there are NO domestic suppliers. DITTO for EUROPE. If the Yuan rises 20%, so will your prices on everyday items. The trade deficit has been trimmed over 20% since the global financial crisis began.

Just as China rises, so has Germany as they BOTH have embraced the laws of nature and created lean mean corporate production machines. They have lowered corporate taxes and made their citizens and companies MORE competitive in the global marketplace. They provide INCENTIVES for people to produce rather than PUNISH them for doing so, as does MOST of the developed world. They have realized that economies are no longer closed and they must compete or die at the hand of GLOBAL consumers who demand and choose superior goods and services for less money. It is the rational thing to do.

Both countries UNDERSTAND that economic and income growth is PRIORITY ONE before anything else, including expansion of government and FREE goodies. That is why they are winning the war to create prosperity and wealth. They are embracing, rather than running from, COMPETITION. It is not good public policy to embrace weakness and failure and penalize strength and virtue. In the thriving parts of the globe

strength and virtue are rewarded and something for nothing is an ABSURD idea. Hence their economies are GROWING and have expanding income and employment.

Conversely, if you remove government **statistical adjustments** (aka, politically correct), the economy is still comatose in the US, let's look at [www.shadowstats.com](http://www.shadowstats.com) unmasking of the cruel hoax public serpents are presenting to the public through their mainstream media lapdogs:

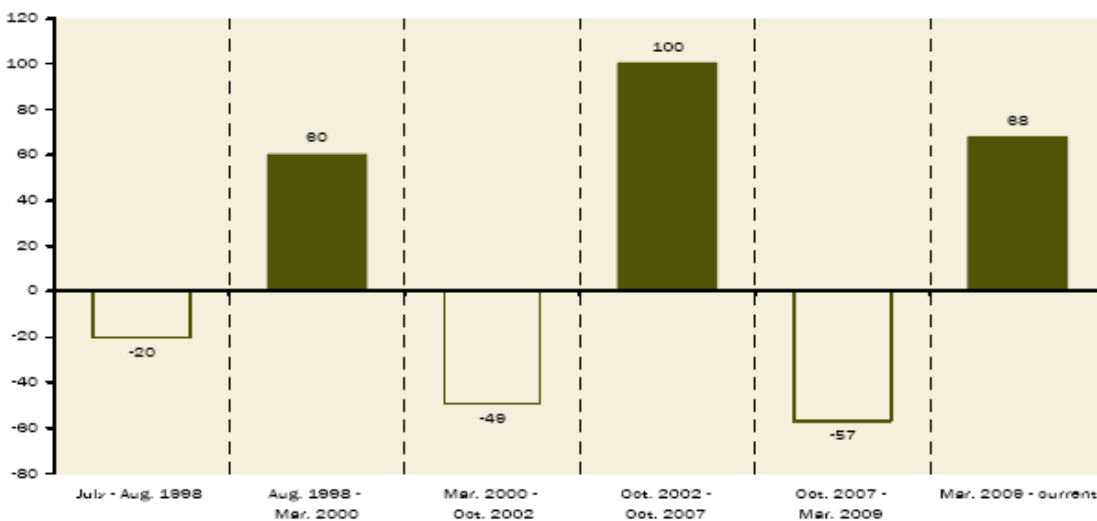


Wow, it actually shows how little REAL growth has occurred during the great debasement starting when Alan Greenspan sold out to be re-nominated as Fed Chairman when the Clintons were elected. This was when the easy money and debasement really accelerated to support the economy as Clinton PILED on the structural impediments (higher taxes, regulations, etc.). The official Bureau of Economic Analysis growth (top line) is courtesy of misstated inflation and government ADJUSTMENTS to the economic reports. The current gap between the top line and bottom line has rarely ever been wider.

Take a look at this chart (courtesy of David Rosenberg at [www.gluskinsheff.com](http://www.gluskinsheff.com)) and his comments showing the UPS and DOWNS in the S&P 500 since 2000; keep in mind that the S&P 500 is down approximately 26% from the 2000 highs.

### CHART 3: TWELVE-YEARS RACKED WITH VOLATILITY

United States: S&P 500  
(percent change)

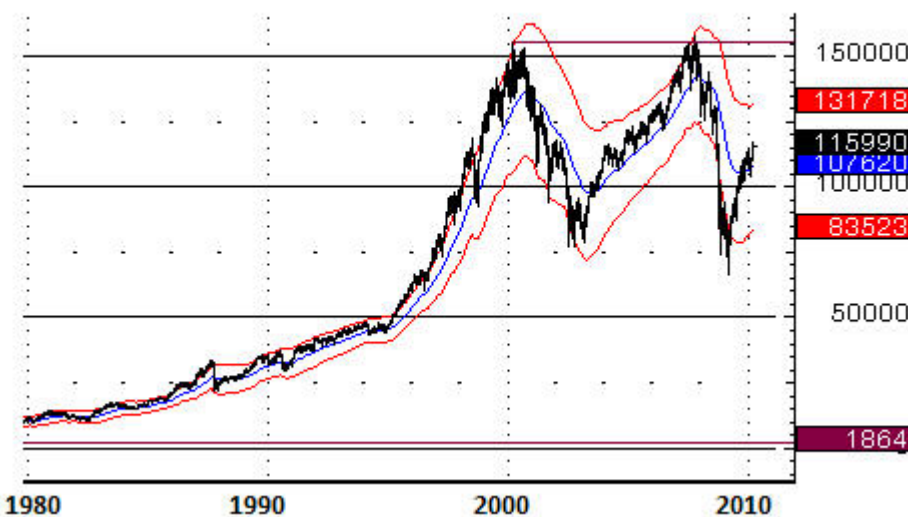


Source: Haver Analytics, Gluskin Sheff

“When we look at the last 12 years, dating back to LTCM and the bailout that ensued, we have endured a 60% rally, followed by a 50% selloff, followed by a 100% rally, followed by a 60% selloff, followed by a 70% rally. The whole way along, the equity market is basically flat for a buy-and-hold investor. **The point in all this is the intense volatility that has been and**

**continues to be nurtured by government stop-and-go policies. The really important lesson though is that this is a great case for active portfolio management,** also a lesson that investors will not lose out by going long after a 50% collapse from the high; nor are they likely to feel much pain from selling into a 70% rally from the low.” – David Rosenberg

### S&P 500 Cash Index in US Dollars

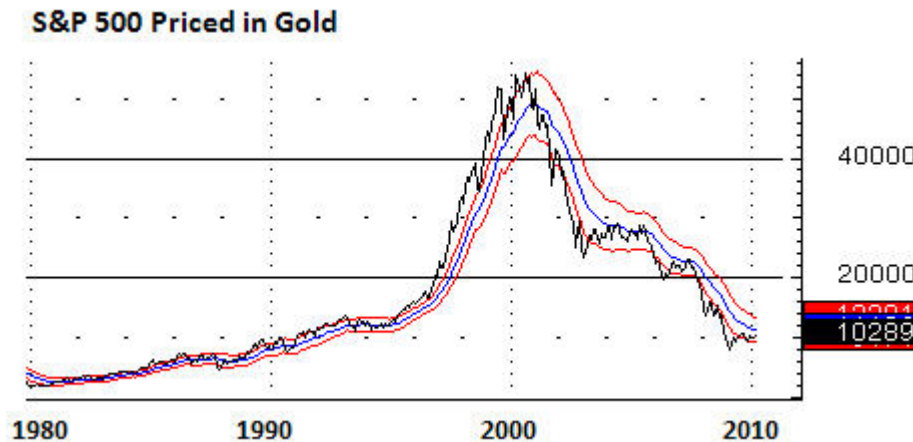


Lots of huffing and puffing from Wall Street, CNBCs, main street media and the banksters, but no gains for YOU. Here is a NOMINAL S&P 500 Chart (with a horizontal trend line drawn from the 2000 highs) denominated in FIAT currency, aka the dollar:

Not a pretty picture denominated in FIAT currency. Quiz: Now that the markets have run up 50 to 100% around the world since the March 2009 low, based on the chart above

how much risk are you taking for very little upside if you are long?

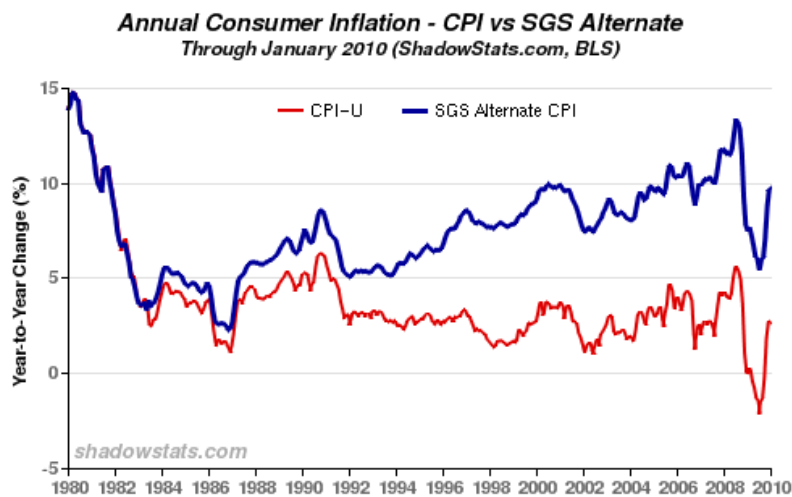
Nor is this a pretty picture measured in REAL money: Gold, it is down more than 75% in REAL purchasing power terms since 2000, additionally **measured in REAL money** the 2002 to 2007 rally and the whole rally since March 2009 disappears:



The Federal Reserve and Congress can blow as much hot air as the main stream media can distribute, but nothing changes the fact that they, and the economies they control, are BANKRUPT and MUST print the money. Credit spreads such as 2-year –vs- 10-year, 3-year –vs- 10-year, 5 –vs- 10 and 10 –vs- 30 are all near record wide, signaling huge supply and the debasement of which the long end of the market will be victims.

Interest Rates can never rise again, as by November 2010 the ON BALANCE SHEET debts of the United States will be \$14.5 trillion; a 3 percent rise in short-term yields is \$420 billion of additional interest expense per year, ON TOP OF the current \$1.6 trillion deficit, thus expanding it by 1/4<sup>th</sup>, to \$2 trillion a year.

Interest rates can never be normalized again, ever, and if measured accurately they are profoundly NEGATIVE. Take a look at this alternate measure of inflation from John Williams of [www.shadowstats.com](http://www.shadowstats.com):



Wow, after unwinding the ADJUSTMENTS (made by government to lie to you) inflation is at almost 10 percent on the items you use EVERY DAY; if interest rates were normal, overnight fed funds should be 10% RIGHT NOW! Notice how the GAP has widened over the last three DECADES? Just like Pinocchio's nose, the lies just keep getting bigger and bigger. Think of it, negative interest rates approaching 9% -- trillions of dollars of government spending throughout the developed world and NO GROWTH in incomes and economies. **An inflation MEGA trend is**

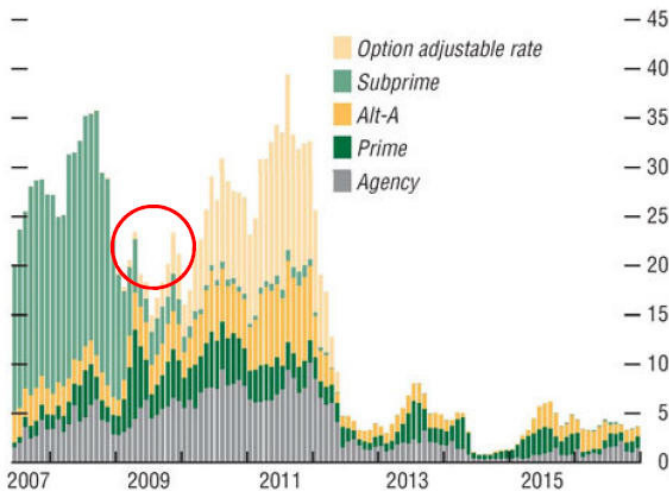
**firmly in place and will continue to unfold.**

There is no escape route except printing the money and they will do so, as there is NO APPETITE for doing the right thing, cutting spending and cutting government. A clear indication that the “something for nothings” are in the majority. Look no further than the United Kingdom where labor has climbed to parity in opinion polls as the something-for-nothing public refuses to realize the depth and enormity of the unfolding insolvency wrought by Gordon “sold the gold” Brown.

Housing is forming another BUBBLE; the bubble is in delinquencies and bank-owned foreclosures. After 2.9 million foreclosures in 2009, if the dam is allowed to BURST that figure will double this year. The longer

the government puts their finger in the dike the greater the next debacle downturn will be. High-end homes have a 5-year supply, and it is growing daily. Take a look at the reset TIDAL wave facing the banking and mortgage industry in addition to the current state of affairs:

**Figure 1.7. Monthly Mortgage Rate Resets**  
(First reset in billions of U.S. dollars)



Source: Credit Suisse.

commercial real estate loans are under water. Over the next three years, they will come due. These loans are balloon loans. The banks get to re-negotiate them. The problem is, the underwater loans cannot be rolled over at the face value of the original loan. That would violate accounting rules. Will the government allow the banks to violate accounting rules? Will banks be willing to do this?

If the loans are not rolled over, then the banks must take back the properties and seek buyers. Until there are buyers, the loans must be taken off the banks' balance sheets: dead assets. When they are officially buried by the accountants, the banks must find capital to replace the losses or else call in old loans to reduce the banks' liabilities. This is why banks are depositing money at the Federal Reserve Banks as excess reserves: to cover for the expected bad loans” - Gary North

First let's answer the question at the end of the first quoted paragraph: Yes, the government will let banks violate accounting rules (they already are; many are operating zombies that the FDIC cannot afford to close), as to the second question: They will have no choice. Bernanke in recent testimony has already said CASH flow is the measure of a good loan, not collateral values. This is setting the table for more BAD loans and rollovers via REGULATORY forbearance. The problem is set to grow rather than be resolved. EXTEND and PRETEND solvency.

The “too-big-to-fail” banks HAVE NOT disposed of their toxic assets. Accounting gimmicks have substituted for addressing the problems and they are more insolvent now than 2008, and a tsunami wave of commercial and residential write-offs and bankruptcies LOOM. The new financial regulation bill basically puts the Fed (Fox) in charge of the hen house, leaving the banks free to fleece consumers as they have in the past.

A seminal report on the Lehman Brothers' bankruptcy was released and, needless to say, it outlined potential criminality in management and cast light on the New York Federal Reserve's potential complicity in the cover up. Swap 105's which allowed Lehman to move problem assets off the books and claim 105% of the face value. When I read this report all I can think of is Dennis Gartman's COCKROACH rule. There is never just one, we are waiting to discover the rest. Where are the regulators? Bought and paid for by the BIG players.

Hundreds of billions of resets over the next two years; notice how the resets approach the levels of 2007 just before the economy collapsed in 2008? How many of those loans will be repaid? This is trillions in potential losses. In an explosive interview with Charlie Rose, Harvard Law School's Elisabeth Warren of the Tarp Oversight Committee confessed that her projections indicate OVER 2,800 community and regional banks face INSOLVENCY ([http://www.youtube.com/watch?v=ERIMxc84\\_EM&feature=player\\_embedded](http://www.youtube.com/watch?v=ERIMxc84_EM&feature=player_embedded)).

“The commission has been repeatedly stonewalled by the FED and the banks on who got how much money and under what terms. She says that about 3,000 of the nation's 8,000 banks will be in trouble over the next three years. At least half of

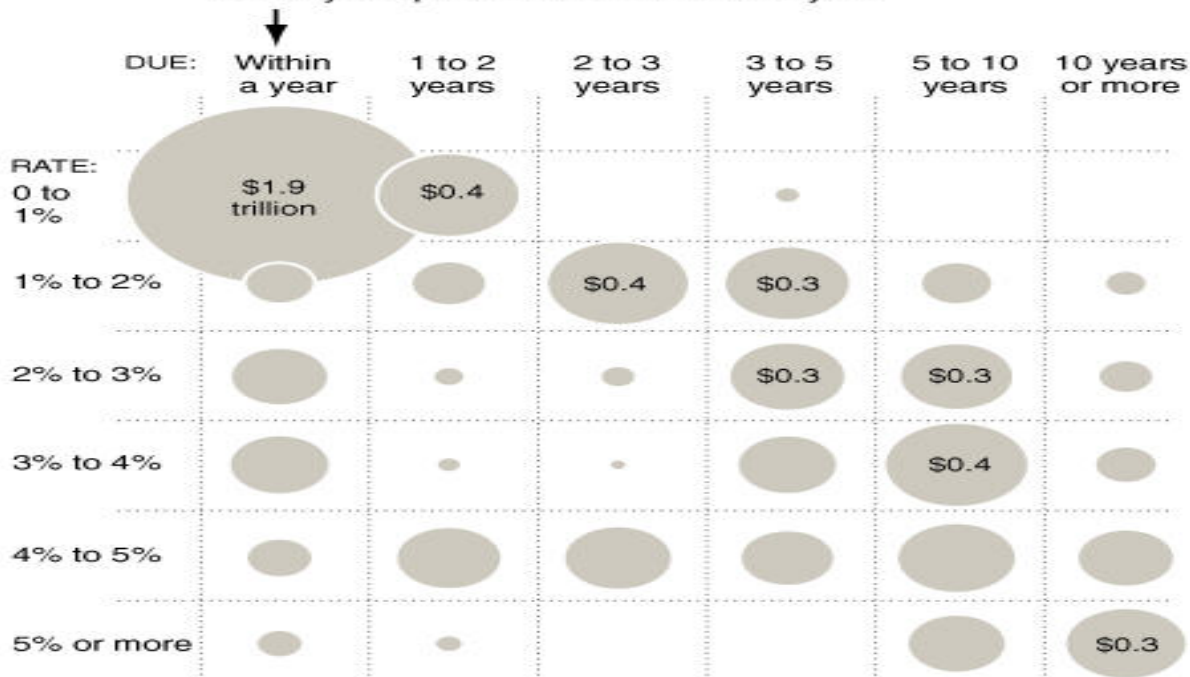
Chris Whalen of Institutional Risk Analytics has reported that many CDO's and MBS (collateralized debt obligations and mortgage-backed securities) did not contain mortgages equivalent to their sold-for value and many had loans equal to only 95% of selling price. The buyers were CHEATED by the seller and not given the full value of the loans underlying the securities. This is a TIME bomb for the big banks and brokers who sold them. Where are the regulators? Bought and paid for by the BIG players.

2010 will also be challenging for G7 Sovereigns as they TRY to rollover inconceivable sums of existing debt while borrowing NEW money to pay for the WELFARE states' spending. Trillions of dollars of borrowing challenges lie directly ahead; let's look at some illustrations of the rollover requirements for Germany, France, Portugal, Ireland, Italy, Spain and Greece from [www.newyorktimes.com](http://www.newyorktimes.com) and Reggie Middleton's Boom Bust blog;

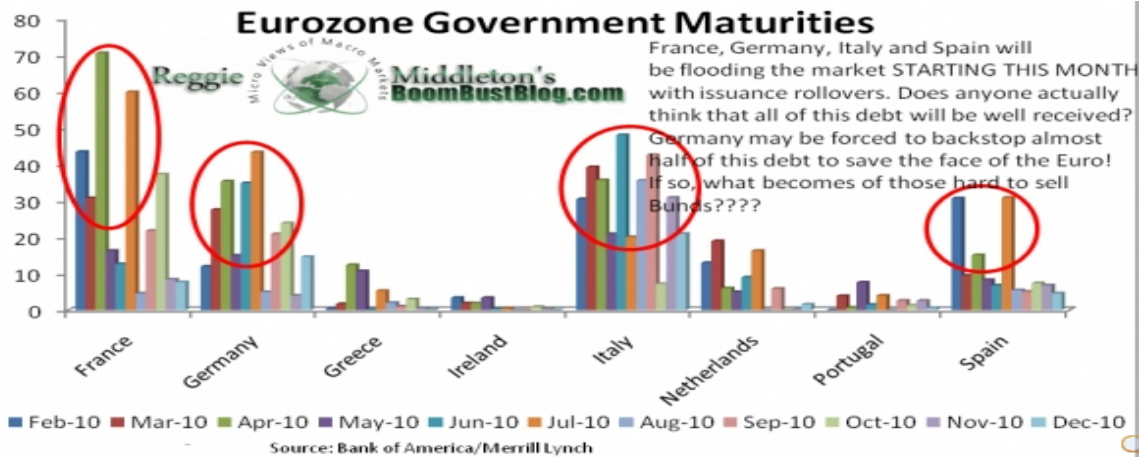
### A balloon of short-term i.o.u.'s coming due

Historically, the government has tried to limit its short-term debt — Treasury bills that are due from 30 days to one year — to less than 25 percent of its overall issuance. But the financial crisis created a sudden large need for cash, and short-term debt soared to 36 percent of the government's much-bigger portfolio. More than \$1.6 trillion is due by March 31 alone. Replacing any of that with longer-term bonds will require paying higher interest rates.

At the end of October, 36 percent of the debt held by the public was due within a year.



These are just the rollover requirements for the United States and do not include NEW BORROWING of \$1.6 TRILLION. So, a total of OVER \$3.5 Trillion is required, providing that the deficits are as projected by the CBO (are they ever accurate?). That's almost \$300 Billion a month, or \$10 Billion a day (10,000 million a day). Mind numbing numbers! Inconceivable sums. Now let's look at European rollovers from Reggie Middleton:

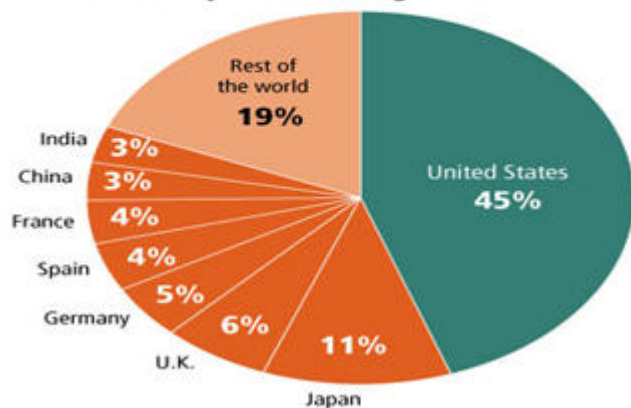


Think of the US issuance and add this to it. Where will the money come from? The printing press in one form or another. That's just the rollovers; now let's look at NEW issuance to cover 2010 DEFICITS from [www.forbes.com](http://www.forbes.com):

#### Uncharted Waters

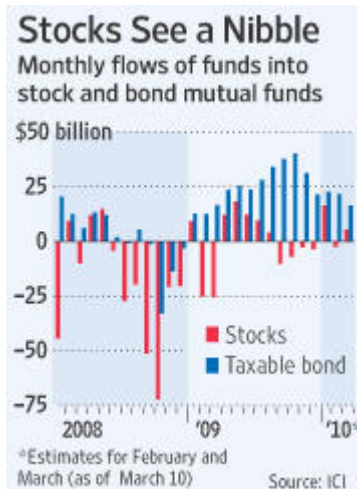
Governments around the world will issue an estimated \$4.5 trillion in debt this year, triple the five-year average for industrial countries.

#### 2010 Projected Sovereign Debt Issuance



Sources: IMF World Economic Outlook and other various public sources, including news media and respective government data; Hayman Advisors estimates.

saying they CAN'T afford the interest rates lenders are now demanding, intimidating that they need SUBSIDIES (think guarantees) to pay part of the interest. As a committed socialist, he must rely on capitalists to subsidize them. This is a gigantic game of chicken with the Euro currency as hostage. Can you say EXPLOSIVE? What is it he doesn't understand about being a broke, deadbeat socialist government and investors/lenders needing to be compensated for the risk? I predict they will, in one way or another, do as he says. It's called PRINTING the money, and it is how ALL problems are solved in the western world.



Bonds are bombs, and WE KNOW this because the public is PILING in with hundreds of billions of dollars into these investment vehicles since March of last year, while stock funds have seen barely a trickle of new investment:

THE PUBLIC ALWAYS gets their heads handed to them, because the bomb, er... bond market is the epicenter of the crisis, they will CRASH

before this global financial crisis is over, and many will just never be repaid. There will be far more failures than you can conceive today because the incomes and CASH FLOWS to service them is in freefall.

The public thinks bonds are safe because they have been told this for five decades by the main stream media, public serpents and now by the banks, brokers and governments who are borrowing the money and issuing the bonds. Maybe they were safe when economies, credit and incomes were growing, but now that the situation has reversed they are soon to be NUCLEAR waste. Huge borrowing and declining income to service it. **This is a CASH FLOW depression. NEVER forget this.** Trillions of Dollars, Euros, Swiss Francs, UK Pounds of bombs, er... bonds and not enough income to pay the interest, let alone the principle. They will print the money for some and let others fall to their doom....

Inextinguishable and unpayable debt is the core of the crisis. Remember that the bonds are IOU's, as are the currencies in which they are denominated; if one debtor doesn't get you the other one will. Government bonds, Muni's, Mortgages, CDO's, MBS, consumer lending, pension bonds, state bonds -- basically, everything in bondville -- is in crisis to one extent or another. Many corporate bonds are in extend-and-pretend mode. All levels of developed world societies are in death, er... debt spirals. Defaults have only just begun, and many multiples of the defaults which have occurred to date are on the horizon over the next several years. I would HATE to be Pimco right now. What are Bill Gross & Company thinking? They better be VERY selective. It's probably a good time to consider retirement before the going gets REALLY rough.

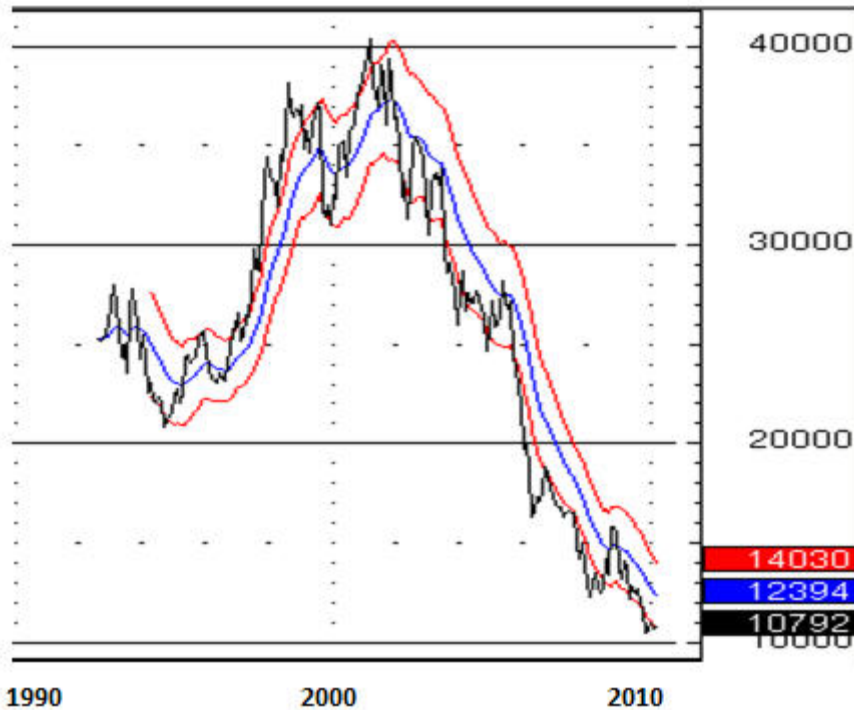
Quantitative easing in the United States can never end. Who will buy the gigantic issuance and finance the crashing housing market with mortgages (the US government is already over 90% of this market). Look at this breathtaking head-and-shoulders top in the 30-year bonds from a recent Richard Russell [www.dowtheoryletters.com](http://www.dowtheoryletters.com) :



Wow, a top built over a two-year period (an identical top can be seen in ten-year notes), gargantuan is the word for this and it signals the end of a bull market which began 28 years ago in 1982, when Paul Volker broke the back of inflation. This is also a sign of the inflationary mega trend we have now entered. Break that right shoulder and interest rates are headed higher than you can imagine. Bonds are toxic and capital destruction is dead ahead.

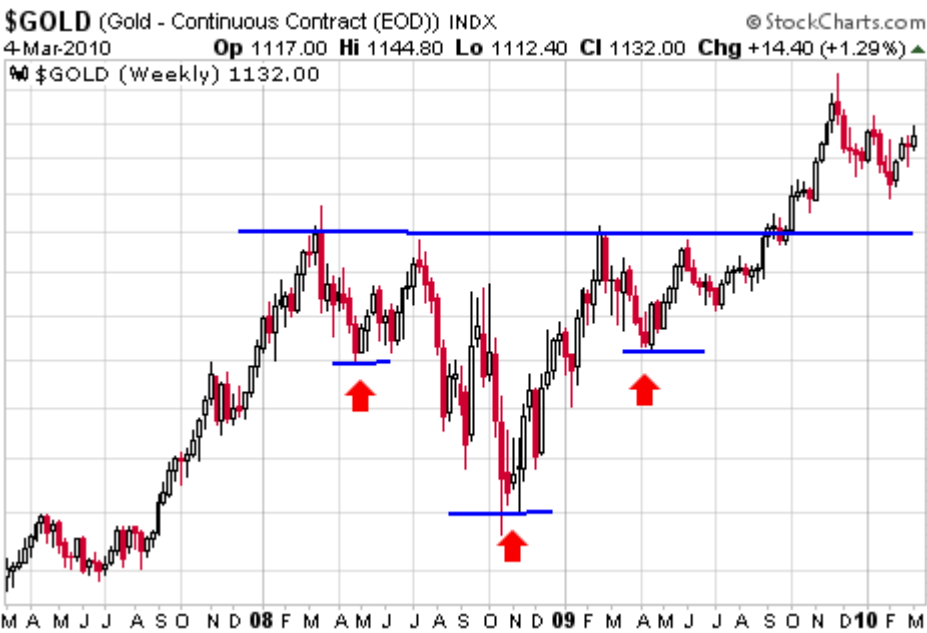
Please understand, the Federal Reserve can read charts too, and they will do EVERYTHING in their power to avoid this pattern becoming active, because when it does break, the money required to soften the blow will become exponentially LARGER. They will print whatever is required to buy and hold that neckline. They will fail. Mother Nature and the holders of bonds are bigger than they are, but the printed money will become many of the seeds of the coming hyperinflation. If you think this picture of bonds is bad, take a look at them priced in REAL money, Gold:

**30-Year Bonds Priced in REAL Money: GOLD**



Wow, 75% losses and the 10-year Note priced in gold is identical. Well, bonds have hardly been safe, even when the interest payments are arriving. This is just a glimpse of debacles to come, as borrower after borrower succumbs to bad cash flow and receding incomes.

Trillions of Dollars, Yen, Euros, Pounds and Swiss Franc's will be PRINTED to underpin the financial systems and governments in the coming year and near future. IT IS THE ONLY OPTION as developed world incomes continue their collapse. This is how ALL FIAT currencies fall to their demise, WITHOUT EXCEPTION. This episode in FIAT folly (unsound money) will be NO DIFFERENT.



Now let's look at a confirmation of the inflationary MEGA trend and the mirror image of the BOND top (from [www.dowtheoryletters.com](http://www.dowtheoryletters.com)), in only one of the true currencies in the world, GOLD (the other is SILVER):

This is a MASSIVE reverse head-and-shoulders BOTTOM, but unlike bonds, it is active and signaling a \$350 move (\$1,350) from the breakout area (another 20% loss of purchasing power from current levels). It was also formed over the last 2 years.

Gold is not a bubble, this is an orderly market and the public is barely aware of it. This is a picture of a well-supported BULL market and NO WAY can paper currencies gain against it over time. it is called a precious metal because there is limited supply, while FIAT currencies are, and will be, printed in UNLIMITED amounts. Bottom and top technical formations constructed over 2 years time are extremely significant MACRO signals and, once active, they RARELY fail, so the bond top (not active yet) and gold bottom (fully active) hold a lot of weight. The only people who believe fiat currencies can gain on gold I call PAPER boys, they either do not know history, or for them, history began in the last 50 years.

Stocks WORLDWIDE are hopelessly overvalued, representing a Zimbabweization of many of them. **These are the fingerprints of a Crack-up Boom. Cash chasing returns regardless of price or value.**

Cash fleeing the sidelines as they REPRICE to reflect the debasement of the currencies in which they are denominated. I don't care what the earnings are -- they are at the high end of historical P/E ratios and dividends are miniscule in relation to the risk. People say Shanghai is a bubble. Who cares? It is a punter's market and not a very good reflection of the Chinese economy, but you can say that about almost every market in the world.

Mutual fund cash levels are nearly at record lows, as most new investments that have gone into the bond markets send them to nosebleed levels, as well in terms of interest earning and price. Money leaving cash equivalents, aka money market funds, are heading mostly into bonds and, to a small degree, foreign stocks. Shanghai is about to move 30% when the triangle it is in breaks up or down. Let's take a look at Shanghai courtesy of [www.stocktiming.com](http://www.stocktiming.com) :



Doesn't look to bullish to me, and it is FAR OFF its highs from 2007. In fact, a test of the lows seems certain if the breakout of the triangle is lower. But the rising and falling of China's stock market offers little to glean for economists, as this recent quote from Jon Authers of the [www.ft.com](http://www.ft.com) correctly outlines:

“The Shanghai stock exchange is an inefficient market driven by retail investors, where the government maintains controlling

stakes in the largest players. The critical points are that investments in Shanghai stocks are not bought with borrowed money, generally, and do not account for a large chunk of the economy. It can continue its boom and bust cycle without causing great collateral damage elsewhere.”

-John Authers

John's comment on the Chinese property bubble is relevant also as people try to extrapolate developed-world banking practices to the emerging world and it is not so; the speculators in China put up almost 50% down, not zero as in the developed world. John goes on to say:

“As for property prices, nobody denies that there are bubbles in the big cities. But again, the argument is that these need not have big ripple effects on the broader economy. Much of the market is fuelled with cash, while mortgages have not been resold on capital markets. A fall in property prices could not, therefore, have the disastrous economic effects that the fall in US property prices had after 2006.

China's banks will take it hard, many believe. That is a problem for the banks' shareholders, including the government. But it need not necessarily be a problem for the broader economy.”

-John Authers

There may be empty cities and buildings in China, but they are half paid for and plenty of future inhabitants from the countryside just aching for a more modern and well-paid future.

The Financial Reform Bill is just an expansion of TOO-BIG-TO-FAIL and quasi government-sponsored enterprises (we've gone from two to over twenty in the last year: AIG, GMAC, GM, too big to fail banks, etc.). Let's look at a quote from Economics Professor Alan Meltzer of Carnegie Mellon University:

“Regulators talk a lot about systemic risk. They do not—and probably cannot—give a tight operational definition of what this means. So setting up an agency to prevent systemic risk, as Mr. Dodd has just proposed, is just another way to pick the public's purse. Systemic risk will forever remain in the eye of the beholder. Instead of shifting losses onto those that caused them, systemic risk regulation will continue to transfer cost to the taxpayers. The regulators protect the bankers. They continue to lose sight of their responsibility to protect the public.”  
—Alan Meltzer

Socialize the risks and privatize the profits for banksters, elites, crony capitalists and government, there is nothing new here. It is a description of all government actions since the crisis began and it is how BANANA republics go bankrupt and their currencies die, and it will be the demise of the US and Europe.

In closing, we are afloat on a sea of liquidity printed by central banks; the liquidity is not capital, it is credit and ever- DEFLATING IOU's, which the public thinks is money. It is not money; it is credit and credit is not money. NO ONE KNOWS the value of currencies because no one really knows how much has been printed out of thin air or created with a keystroke in the last few years by public serpents and their banker colleagues.

Everything is mispriced because there is no money as a standard of value other than gold and silver. Anything (stocks, bonds, homes, real estate, cars, anything) measured in those terms are in freefall, also known as DEFLATION. When measured in FIAT currencies, they are possibly UNDERPRICED, as the respective currencies are deflating in value at a pace that is hard to quantify. As a cross current to that, the bonds businesses and other businesses are also collapsing on the top-line revenue growth, thus causing downward pressure fundamentally, while currency debasement provides buoyancy as they reprice to reflect the lower purchasing power of the currency in which they are denominated. A devilish conundrum.

The inflationary depression continues to unfold. Governments cannot create economic recoveries and job and income growth; they can only destroy them, and in the developed world welfare states they are doing so in spades. Relentless destruction of incentives to invest and hire are being implemented regularly. **The current political leaders throughout the developed world are putting the final nails into the coffins they used to call economies.** Then we will be buried, as the next leg down in the developed world will make the last one look like a picnic.

*Never in history have the opportunities been greater as markets zoom all over the place to price in these unfolding new realities. Volatility is opportunity, embrace it. Buy and hold is dead, absolute return investments with the potential to thrive in up and down markets and restoring the functions of money to your IOU's, er... cash to preserve purchasing power is recommended diversification of your portfolio. [If you have an interest, contact me \(www.traderview.com/portfolio\\_analysis\\_analysis.cfm\)](http://www.traderview.com/portfolio_analysis_analysis.cfm).*

**The healthcare bill is not reform, it is a takeover and tax bill.** It is how Washington works: Take a problem, call for reform and build more government with political solutions rather than practical ones. The only thing it accomplishes is what government wants, which is more control over our economy, the money and you. This is how government grows. The energy department was created by Jimmy Carter to end our dependence on foreign oil, now it is a \$30 billion behemoth, with 16,000 employees and our dependence is greater than ever.

This is how Cloward Piven works, create a crisis and build government until it collapses creating the EXCUSE to seize more power to solve the NEXT emergency. That is what awaits us with the healthcare bill, lots of money spent and problems BIGGER than ever. Did I forget to mention it will be enforced at the point of a GUN: THE T@XMAN. This is how you know you live in an emerging dictatorship as all socialist governments become: The government DEFIES the will of the people... they KNOW better than the ignorant man on the street who cannot take care of himself, so the government needs to.

In order for economic and income growth to resume in the developed world, there must be **aggressive structural reforms** such as: *Removal of regulatory and institutional complexity, reduced taxes, government spending restraint, and restoration of incentives to produce.*

*Instead, the opposite is being implemented: Layers of new complexity and reams of new laws and regulations, mountains of new taxes, exploding government spending and destruction of the incentives to produce at all levels of the developed-world economies. Radical big government Marxists are in control and implementing the policies of insolvency creating new impediments to growth.*

So, the next leg down in the developed world can be expected to unfold soon. You need a microscope to see any improvements in growth or incomes in developed-world economies after trillions of Dollars, Yen, Euros and Pounds of stimulus have been spent to no avail. When they try to withdraw you can expect the next ECONOMIC FREEFALL... and that will be when HOPE turns to FEAR. It will happen this year..... Thank you for reading Tedbits. If you enjoyed it...

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