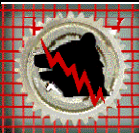




## THE BOOM - BUST ALERT



“There is always a bull market raging somewhere on this planet” - Byron King

### Scary Times.

By Joe Average,  
February 2009.

#### The “Perfect Storm” Hits.

Anyone who doesn't by now understand just how bad the present global financial situation is, or that it is on the verge of rapidly deteriorating catastrophically further into a serious global recession or even a depression, is either in denial or “away with the birds”.

I have now reached the stage where I am very careful about expressing my pessimistic assessment of where we're at unless I'm asked. Even then, I don't fully disclose just how pessimistic I am unless I feel the other party really wants to know my true feelings, and I feel that they can deal with such a gloomy scenario.

I've come to this position because I've come across too many people who either don't want to know or listen, and too many who are ready to (sometimes angrily) “shoot the messenger” instead. I've been reprimanded for expressing such views and been told “if people like you didn't talk like that and if the media stopped carrying all those negative news stories then all this trouble wouldn't happen”. It's strange that these same naive types don't blame all the eternal optimists and the cheer-leading media for hyping things up and fuelling greed and irresponsible investment when things were booming and bubbles were forming.

Anyhow, the fact is that “The Perfect Storm” that some prescient analysts had been warning of over the past couple of years has already hit and has caused massive financial devastation.

By the end of 2008 world stock markets had seen some \$22 trillion (approximately 50%) destroyed according to the MSCI index. The world's leading financial institutions have so far lost upward of a further \$10 trillion with Citigroup alone accounting for \$1 trillion of that. Added to that are the untold trillions that have been and continue to be wiped out in residential real estate all around the world, not to mention the global commercial property crisis that is just beginning to unfold.

The scary thing is, as bad as things look now, they are set to get a whole lot worse very soon.

Robert Guy (Financial Review Jan 23-26, 2009) warns us to beware of **“THE SECOND MELTDOWN... Get ready for ‘ARMageddon’...fears abound over Alt-A “liar loans” and option-ARMs (adjustable rate mortgages)...which start resetting at higher rates this year and will continue doing so well into 2010...The potential threat these loans pose to an already weakened (by the sub-prime fiasco) financial sector has prompted some to issue an apocalyptic warning of an “option ARMageddon”.**

Global industrial production has collapsed some 40 per cent since September 2008, the largest drop since the 1930's. Unemployment rates are starting to escalate rapidly while many workers who are fortunate enough to retain their jobs are having hours cut as business is hit by the economic downturn. In the United States unemployment has shot up rapidly to 7 per cent (according to government stats), while some analysts claim the true figure is more like 13-17 percent when those that are underemployed or have given up looking for a job are factored in.

Professor Nouriel Roubini, who has so far been uncannily accurate with his predictions warns of **“GRIM TIDINGS; THE WORST IS YET TO COME”....Deflation is dangerous as it leads to a liquidity trap; nominal policy rates cannot fall below zero, so monetary policy becomes ineffective...As a result, the biggest asset and credit bubble in human history is now going bust...2009 will be a painful year of global recession and financial stresses, losses and bankruptcies”.** (Financial Review Jan. 13, 2009).

## The Dead-Cat Bounce.

There is a good chance we will soon see some respite from the recent carnage inflicted on stock markets in the form of a tradeable rally. While some optimists are declaring we've hit rock bottom and that it's time to plunge back into the market, more cautious analysts also believe we could see a **sustained bear-market-rally** that lasts several months and sees stock markets claw back from 20 to 40 per cent of past losses. However, the rally will probably roll over suddenly as markets break down into the next **deeper and more savage leg down** of a continuing meltdown as the bear market reasserts itself in a devastating Elliott 3rd wave down.

Investors who are confident enough to trade this rally should stay alert and stand ready to quickly exit the market when things turn ugly again. Robert McHugh, Ph.D. ([www.technicalindicatorindex.com](http://www.technicalindicatorindex.com)) advises to **"use any rallies to raise cash, and prepare for the coming Depression and cataclysmic market collapse"**. Conservative investors meanwhile should stay safely in cash deposits secure in the knowledge their cash will allow them to pick up bargains of the century down the track.

Anyone betting their life savings, house or superannuation on the global financial crisis ending any time soon is taking a huge gamble. They are more likely to "crash" rather than "crash through", especially when an increasing number of analysts are warning the world may slide into a depression that may inflict economic devastation for the next two to five years at the very least. Rather than counting on any quick fix we must all be prepared for the long haul.

Once the Dow breaks down through its low of 7,870 then the next critical support level is around 5,900.

## Desperately Seeking Safety.

If even a few of these doom and gloom predictions come to pass then it looks like tough times ahead for many people. So what can we do? Going into denial won't cut it. What we have to do is knuckle down, start playing things safe and conservative, and get back to basics.

The reality is that some who got in way over their heads by borrowing too much to buy too many investment properties, shares, etc are going to find it difficult to extricate themselves from their predicament. Time is quickly running out... the escape exits are shutting off fast.

But common sense tells us there *are* things we can do to try and protect ourselves and our families;

- **Pay off credit card debt** and switch to a debit card (like the majority of Europeans do). That way you're not tempted to buy things you can't really afford or don't need.
- It goes without saying that **business owners** who see their sales dropping and incomes falling will have to undertake **cost cutting measures to survive**. That might range from cutting staff hours to the more unpalatable cutting of jobs, cutting inventory, renegotiating rents, increasing advertising (if financially viable), etc.
- Employees should **hold on to your job** and be thankful they have one. Don't give up a job now unless you have a definite new position to go to, and you've done a risk assessment on your new job to ensure it is safe in a financial downturn. You don't want to find if there's a slowdown in your new job that "the last one on is the first one laid off". Even if you're not totally happy in your work, now is not the time to arbitrarily give up that job. You might be much more unhappy in the ranks of the unemployed.
- Build up a **cash nest egg** to fall back on in an emergency. Have access to enough to tide you over any economic rough spots.
- Make sure your **savings and superannuation are invested safely**, preferably with a government guarantee. Don't sacrifice safety in an attempt to get a slightly better yield.
- **If invested and leveraged or geared too heavily in residential or commercial property try to liquidate** your holdings as quickly as you can to minimize onerous debt obligations.

- **Cut back discretionary spending** as much as possible and concentrate on you and your family's needs and not your wants.
- Don't splash out on a fancy new car if you don't really need to just yet. Some people might be better off **servicing and maintaining their current car** and keeping spare money in the bank rather than signing up for loan repayments on a new car. The same may apply to upgrading to a bigger, newer plasma TV or computer right this minute.
- Rediscover what is really important in life. Life's not only about collecting more things than the guy next door, nor about spending big time on exotic wines, expensive meals, first class travel and five star accommodation.
- **Factor in further price falls in residential and commercial property** when making investment decisions. In the U.S. the Case-Shiller home index has confirmed average falls of around 25 per cent so far (with reports of falls of up to 50 per cent in parts of hard-hit California). Over 3 million homes were foreclosed in 2008 with as many again foreclosures projected for 2009.
- Finally, Joseph Stiglitz (Columbia University economist and Nobel Prize winner, speaking at the Davos World Economic Forum) reminds us not to forget that ***"Many in the financial industry are ethically challenged and that has to be realized."***

All the best, Joe.

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