



THE BOOM - BUST ALERT



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

Rotten to the Core.

By Joe Average,
January 2009.

The Madoff “Ponzi” Scam...Con of the Century.

When I read that 70 year old Bernard Madoff... variously called the **“Wizard of Wall Street”**, **“the man with the Midas touch”**, and **“the Jewish bond”** ... was arrested on December 11th 2008 by FBI agents in relation to a **US\$50 billion dollar fraud** I was astounded.

The shocks and scandals just keep on coming out of Wall Street.

How was it possible that this former chairman of the Nasdaq stock exchange and pillar of U.S. financial high society was able to carry out what may end up the biggest fraud in Wall Street's history through what appears to be another **“systemic failure”** of U.S. regulators.

On his own admission his investment business was **“just one big lie... basically, a giant Ponzi scheme”** that had been insolvent for years. Not only had he defrauded notable members and charities of the Jewish community, but also other high profile **“sophisticated investors”** including some of the largest banks and institutions around the world.

My astonishment turned to anger soon afterwards when an email popped up on my screen from my son who works in London. I was dismayed to learn that the investment firm my son works for had just discovered that their investors had almost certainly lost U.S.\$1 billion in the Madoff scam. He described how the shock waves had reverberated through the entire office with some fellow workers breaking down in tears.

He explained that following on the heels of the defection of some key sales people some months earlier, and the recent loss of twenty five per cent of funds under management when investors pulled out and fled to the safety of cash, this final blow would almost certainly cost him his job and possibly result in the entire office being shut down.

When I asked about his chances of finding another job in financial services he pointed out that London recruitment agencies had already been inundated by more than 200,000 workers who had recently been fired. Jobs were scarce. People more experienced and qualified than him were taking huge pay cuts in lesser positions just to secure a job... any job. Others were turning to retraining as plumbers or trades people in the hope of picking up work in the building and renovation industry (even as house prices continue to slump). Besides, some employment agencies are themselves in trouble and shedding staff as they report a drop in income of up to seventy percent in their struggle to find placements for the newly unemployed.

My disgust grew more intense as the various media ran article after article about all the ordinary people around the globe whose lives had been ruined and their savings wiped out....aged grandparents who had lost everything; husbands and wives who'd been fired and lost their retirement entitlements; charitable institutions that have been devastated. The magnitude of this financial disaster is mind-numbing. Hundreds of thousands of investors will have been hurt or had their lives ruined by this fiasco.

“It's flabbergasting that nobody can nail the bums in the SEC who turn their backs on and/or aid and abet people who defraud investors.”

Peter Scannell (former whistle blower against mutual fund giant Putnam).

The Regulators Have Failed Us.

Steven Roach (Morgan Stanley) once described how **“Alan Greenspan was the pied piper of the New Paradigm and the equity bubble it spawned.”** Greenspan embarked on a bold economic experiment of *laissez-faire* where deregulation promised to usher in a **“new American economy”**. Instead, it resulted in a

series of asset bubbles that are now in various stages of bursting or deflating and brought the world to the edge of the financial abyss.

Now Ben Bernanke is conducting his own experiment as this self-proclaimed **“expert on the Great Depression”** tries to avert an American and global financial meltdown.

“Given his middle name is Shalom (Hebrew for “hello” and “goodbye”), it seems appropriate that Bernanke is the one that waved goodbye to 95 years of traditional interest rate-only monetary policy and welcomed in a new era of “unconventional”, yet potentially high-risk policy. Americans will be hoping it delivers a much needed economic recovery rather than serve as a real-time experiment aimed at proving – or disproving – an academic theory.”

Robert Guy, Australian Financial Review, December 20-21, 2008.

“By cutting interest rates from 1 per cent to zero, the Fed opened the door to a completely new world of possibilities where many traditional rules vanish or go into reverse – a sort of economic wonderland in which money can be distributed free to citizens and where governments can spend and borrow at will, without any increase in borrowing costs. Now that the Fed has blazed the trail, other central banks are likely to follow. The sooner they do this... the greater the chances of averting a depression.”

Anatole Kaletsky, The Times, 18th December 2008.

And just how are all those Trillions of taxpayers' money that is being splashed around so lavishly to prop up failing U.S. institutions being spent?

Not too well according to Hugh Son (Bloomberg Dec.13, 2008);

“American International Group Inc., the insurer under fire for paying 168 executives not to quit after a government takeover, is giving retention awards to at least 2,000 more employees... The “retention bonus” equals as much as a year’s salary and recipients were ordered to keep the payment secret...because the plan was labelled confidential. ...a government package that now totals \$152.5 billion... with some (executives) getting as much as \$4 million. Representative Elijah Cummings, a Maryland Democrat...has criticized the retention pay, saying AIG misled taxpayers who now own most of the company and that it’s unnecessary to give so much cash to retain people when job markets are weak.”

Associated Press estimates that the amount spent on these bonuses, perks and lurks (like corporate jets, club memberships, lavish conferences, etc) have so far totalled some \$1.6 billion of the taxpayer's bail-out money. House Speaker Nancy Pelosi called it **“outrageous that those institutions cannot – or will not – provide information on how they are spending billions of taxpayer dollars.”**

Little wonder then that the mood on Main Street is getting meaner by the day as struggling middle and lower classes see big rewards still going to many “fat-cats” (their snouts still in the trough) when in many cases these so called “masters of the universe” caused much of this mess in the first place.

The lyrics to a song (Tobacco Road - 1960) written by John Loudermilk spring into mind when pondering on the state of affairs in today’s American Capitalism;

***Bring dynamite, and a crane,
Blow it up start all over again.
Build a town, be proud to show.
Give the name of Tobacco Road.***

“I’m sorry” Doesn’t Cut It.

Anatole Kaletsky (economics editor in the influential London Times) has a confession to make;

“I hereby confess that on or about January 14, 2008, acting on my own free will, not under the influence of any drug (attempt at humour)...I wrote the following statements in The Times: “The global credit crisis, far from taking a turn for the worse, is now almost over” and “There will be no US recession” and “Stock markets will rise in 2008”.

Regarding his ***“basic misjudgement”*** he then goes on to say ***“I must apologise to anyone misled by my analysis”.***

I'm sorry but ***“I'm sorry”*** doesn't cut it. Anyone misled by that analysis has most likely seen his or her savings decimated and some had lives ruined.

Kaletsky then tries to excuse his blunder by rationalising that ***“Almost everyone underestimated this year's disasters – apart from the Jehovah's Witness economists (what religion is he?) who had been predicting the end of the world every year for the past decade”.***

He is wrong of course. Quite a few more astute analysts could see the writing on the wall.

Kaletsky says ***“There are two kinds of economists – those who don't know and those who don't know they don't know”.*** I suggest he is the latter. Most people get fired for doing a lousy job and replaced by someone who can do better. Apparently not in this case.



Hammer Hank: “Did you see George W. dodge that Iraqi's shoes? I knew he was good at dodging issues but was his reaction brilliant or what?”

Helicopter Ben: “What really scares me though is just how angry that guy was ... to an arab that's the greatest insult ... even called G.W. a mangy dog.”

Hammer Hank: “Yeh... now that arab's become some kinda hero... some Saudi business type is said to be offering a cool \$10 million bucks just for one of those shoes!”

Helicopter Ben: “I only hope all those lower and middle-class Americans feeling the pain out on Main Street don't end up turning their anger on us like that... just 'cos we're spending all their money to bail out our buddies on Wall Street and U.S.A. Inc.”

Hammer Hank: “What if they do? We'd better keep a sharp lookout... I don't wanna get taken out by no flying shoe!”



All the best, Joe.

www.lifetoday.com.au

Disclaimer: *This newsletter is written for educational purposes only. It should not be construed as advice to buy, hold or sell any financial instrument whatsoever. The author is merely expressing his own personal opinion and will not assume any responsibility whatsoever for the actions of the reader. Always consult a licensed investment professional before making any investment decision.*

Favourite Links:

www.financialsense.com
www.gold-eagle.com
www.freebuck.com
www.fiendbear.com
www.elliottwave.com
www.technicalindicatorindex.com
www.dailyreckoning.com
www.prudentbear.com W

Archives:

Nowhere to Hide

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-DECEMBER-2008.pdf>

Time to Bunker Down

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-NOVEMBER-2008.pdf>

Gonna Buy a Hat...a Big One.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-SEPTEMBER-2008.pdf>

Crunch Time for Debt.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-JULY-2008.pdf>

In Search of Clarity.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-JUNE-2008.pdf>

Vultures & Delusional Investors.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-MAY-2008.pdf>

Insolvency Vets Un-mothballed

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-APRIL-2008.pdf>

Resources...A Safe Haven?

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-MARCH-2008.pdf>

Scared? You Should Be.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-FEBRUARY-2008.pdf>

Spin Doctors in Overdrive.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-JANUARY-2008.pdf>

2008...“Deeper, Darker, Scarier.”

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-DECEMBER-2007.pdf>

The Credit Cycle Peaks

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-NOVEMBER-2007.pdf>

Collateral Damage.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-OCTOBER-2007.pdf>

Gonna Buy a Hat... a Big One.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-SEPTEMBER-2007.pdf>

Holding the (Toxic Debt) Bag.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-AUGUST-2007.pdf>

Lonely in the Bear Camp.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-JULY-2007.pdf>

The China Syndrome.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-JUNE-2007.pdf>

Welcome to Ponzi World.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-MAY-2007.pdf>

Itchy Trigger Fingers.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-APRIL-2007.pdf>

Beware the Ides of March.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-MARCH-2007.pdf>

Party on...but near an exit.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-FEBRUARY-2007.pdf>

Low-Doc Lenders Beware!

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-JANUARY-2007.pdf>

New Masters of the Universe?

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-DECEMBER-2006.pdf>

Chasing Cash-Poor Consumers.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-NOVEMBER-2006.pdf>

America...Please Keep Spending.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-OCTOBER-2006.pdf>

New Blue-Collar Rich. (Cashed –Up Bogans).

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-SEPTEMBER-2006.pdf>

The Devil's Advocate.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-AUGUST-2006.pdf>

Living on the Edge.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-JULY-2006.pdf>

Did They Really Say That?

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-JUNE-2006.pdf>

A Pact with the Devil.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-MAY-2006.pdf>

Cassandra's Curse.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-APRIL-2006.pdf>

Avoiding a Bubble Bath.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-MARCH-2006.pdf>

HIGH NOON High-Stakes Showdown, Part 2.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-FEBRUARY-2006.pdf>

HIGH NOON High-Stakes Showdown, Part 1.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-JANUARY-2006.pdf>

A "Cauldron of Anxiety".

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-DECEMBER-2005.pdf>

The Six Horsemen of the Apocalypse.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-NOVEMBER-2005.pdf>

Back to The Future?

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-OCTOBER-2005.pdf>

Each Other's Underwear, Paper Shuffling, & McMansions.

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-JULY-2005.pdf>

The Biggest Global Real Estate Boom of All Time...Thanks All!

<http://www.lifetoday.com.au/Documents/BOOM-BUST-ALERT-JUNE-2005.pdf>

The Biggest Global Real Estate Boom of All Time...Thanks All!