THE BOOM - BUST ALERT
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"There is always a bull market raging somewhere on this planet" - *Byron King*

Living on the Edge.

by Joe Average,
July, 2006.
www.lifetoday.com.au

**"There's somethin' wrong with the world today
I don't know what it is
Something's wrong with our eyes
We're seeing things in a different way
And God knows it ain't His**

**We're livin' on the edge
We're livin' on the edge"
……**
Lyrics by Aerosmith.

Emerging Markets Falter.

Investors in emerging markets have taken a beating over the past few months with the biggest drops occurring in **Dubai (down 65%)** and **Saudi Arabia (down 54%).**

Growing Contagion
Countries in which the main stock index is down 10% or more from high

Country	% decline	date of peak
Dubai	64.7%	Nov-9
Saudi Arabia	54%	Feb-25
Egypt	36.8%	Jan-23
Colombia	33%	Jan-30
Russia	26.9%	May-10
Turkey	26.8%	Feb-28
Iceland	24.4%	Feb-16
India	22.4%	May-11
Argentina	21.3%	Apr-26
Hungry	19.8%	May-8
Czech Republic	19.4%	Feb-28
Austria	18.9%	May-8
Indonesia	18%	May-11
Brazil	17%	May-11
Pakistan	16.2%	Apr-18
Sweden	15.9%	Apr-3
Mexico	15.3%	May-10
Denmark	12%	May-10
South Korea	12%	May-11
Netherlands	10.9%	Apr-25
Germany	10.5%	May-11
England	10.1%	Apr-21

Data courtesty of Bloomberg

Chart courtesy Elliott Wave Financial Forecast-May 26,2006
www.elliottwave.com

Since then, market volatility rages unabated with **Germany, Japan, South Korea and Sweden recording falls of 17% ... and Indian and Colombian stock exchanges both shutting down when stocks shed more than 10% in one day.**

Gold and Silver Take a Dive.

Gold plunged US$56 to below $550 (June 14, 2006) suffering its **biggest one day loss in 15 years**, having fallen **some 25 %** from its May 12 peak of US$730.40. **Silver fared even worse and fell 44% in five weeks** from its peak of $15.20.

Gold bugs embraced the falls as a great buying opportunity while others were not so sure as prices of many commodities were also hit hard. Was this a temporary set back, or a sign **that hedge-fund-hot-money was rushing to the exits after the recent parabolic spikes upward in so many commodities?**

Jack Chan (www.traderscorporation.com) has produced convincing graphs showing that "*A parabolic rise is always followed by a parabolic plunge…The Nasdaq meltdown was only six years ago, and those who recognized the parabola escaped relatively unharmed, but many were caught and a great deal of fortune was transferred."* His work leads him **to fear that gold's parabolic rise may see it fall back at least to its starting point of $420, and silver may drop back to around $7.**

Even revered **Richard Russell** is apparently worried that *"**the first phase of the gold bull market is over"*** and is quoted as suggesting it may be ***"Best to 'go away' and not look at gold for another six months to a year."***

So it would appear that Robert Prechter (www.elliottwave.com) is no longer a lone voice in the wilderness after warning that the meteoric rise in the precious metals would not last. Prechter believes gold *will ultimately* have its day, but he believes that day is still some way off…and as for silver? Prechter is adamant that silver bugs are doomed to disappointment as ***"silver is an industrial metal, not a monetary metal".***

Real Estate…a National Pandemic?

Phillip Adams writes (Australian Magazine, June3-4 2006) ***"In truth, the whole real estate business is a psychiatric pandemic, a financial counterpart to bipolar disorder. When prices go up, wild elation. When interest rates go up, deep depression. When property prices go down, people start thinking about their cemetery plots, the most expensive real estate of all".***

With the likes of Robert Shiller (of "Irrational Exuberance" fame) confirming that the United States has just experienced its biggest housing boom ever (as have many other parts of the globe) it **must now cause some concern to see the Philadelphia Housing Index fall 23% in the past two months.**

Not to mention that **$2.7 trillion in adjustable-rate mortgages will need to be reset at higher interest rates over the next 18 months**, **foreclosures on home mortgages are on the way up**, and a National City study has found **homes to be overvalued by as much as 102% (Naples, Florida** and **Salinas, California) to 64% (Miami, Florida**). Actually, National City economists found that **Florida and California accounted for 17 out of the 20 most overvalued real estate markets.**

Barron's cover article **"The Big Glut-Trouble in Paradise"** didn't help rattled nerves when it outlined that **prices and sales have already slumped by up to 40% in some areas,** and that second home sales now made up 40% of the U.S. market. The article also told how while 10,000 condominium units were built over the past ten years in Miami-Dade County, 50,000 units are currently under construction or soon to commence with another 50,000 currently in the planning stages.

Drowning in Debt.

The extent to which households have embraced debt is highlighted in Robert Folsom's "Market Watch" (www.elliottwave.com).

"…disposable personal income totalled $6.7trillion in 1999…this figure had climbed to $9.3 trillion by Q1 of 2006, an increase of nearly 40%.
During the same period…total household debt climbed from $6.8 trillion to $12.2, an increase of 80%...yes, 80%.

…households have gone from spending ALL of their disposable income to OUTSPENDING it by nearly one-third."

It would appear that some **consumers are finally beginning to baulk at taking on further debt** and may actually be **thinking about cutting back spending and even reducing debt**. There is anecdotal evidence that some consumers are thinking of **downsizing homes in an effort to reduce uncomfortably high mortgage repayments, and <u>to sell up before a possible rush to liquidate property begins</u>.**

Unfortunately for some, time may already be running out.

The Wall Street Journal (www.realestatejournal.com), featured an article "***Slowing Sales, Baby Boomers Spur a Glut of McMansions"*** by June Fletcher. ***"The golden age of McMansions may be coming to an end…thanks to rising energy and mortgage costs, shrinking families and a growing number of retirement-age baby boomers set on downsizing, there are signs of an emerging glut.***
'We don't need this big a house anymore—if we ever did,' says (a seller), age 63.
'The young people coming up don't have the means to absorb these big houses,' says (a) New Jersey appraiser.
'Buyers tell us it's too big'… *(said a seller who)* ***recently shaved $200,000 off the $2.35 million price.***

Meanwhile, **on the retirement front**, **many baby boomers** are beginning to get nervous **about their pensions** as more and more struggling companies seek to escape their onerous pension obligations by filing for bankruptcy. Bethlehem Steel shocked 100,000 of its employees in 2002 when it announced it would no longer back their pensions. The **Pension Benefit Guaranty Corporation** (a federal agency charged with insuring private retirement packages) has been left holding the bag and has spent $3.7 billion to date in trying to make up the short fall. However**, many retirees will receive only a fraction of their entitlements, especially those at the top end of the salary scale**.

The recent bankruptcy of United Airlines has added a further $6.6 billion to PBGC's claims and US Airways another $3 billion. Let alone the other 150 companies that have followed suite. All in all, **the PBGC's current deficit is a staggering $23 billion** making it increasingly likely that American tax payers will be left to foot the bill.
Understandably, one of those retirees affected by this disastrous state of affairs complained ***"I feel really, really cheated and betrayed"*** (www.marketwatch.com article by Andrea Coombes June 20, 2006). A 59-year-old anguished that ***"I'll work until I die";*** while another fretted that he'd never ever ***"considered that his pension might be decimated".***

Looking forward, a former United flight attendant warns ***"I watch General Motors like a hawk. If they go belly-up they might bring the PBGC down."***

<u>"Greed is Good…Greed Works".</u>

"The point is ladies and gentlemen that greed, for lack of a better word, is good. Greed is right. Greed works. Greed clarifies, cuts through and captures the essence of the evolutionary spirit."

Gordon Gekko, "Wall Street" the movie 1987.

Michael Douglas' portrayal of Gordon Gekko in Oliver Stone's quintessential movie of the financial excesses of the 1980's was brilliant. Now, nearly twenty years later, with far greater excesses commonplace…**perhaps it's time for someone to do a remake entitled "Wall Street Mark II…You Ain't Seen Nothin' Yet."**

While the average Joe has been lucky to see his pay check rise at all (many have actually gone backwards when forced to find new lower paying jobs thanks to globalization and competition from cheap-labour countries), it seems that **the inequalities between rich and poor have never been greater**.

What is the average person to think when told that **the two top hedge fund managers earned $1.5 billion** (James Simons…Renaissance Technologies) **and $1.4 billion** (T. Boone Pickens) respectively? Or that the **top twenty-five hedge fund managers took home on average $363 million?**

What are we to make of the economic miracle underway **in China** that sees **the top 0.5% of households controlling 60% of the nation's wealth?**

European chief executives, envious of the huge pay packets they see being enjoyed by their American counterparts, are trying vigorously to catch up by winning large pay increases undreamed of a few years ago. This is causing more than a little angst in countries with socialistic traditions. Pierre-Henri LeRoy (French advisory firm Proxinvest) was quoted as saying ***"Here in France, greed has been legalised"*** (from The New York Times article **"Goodbye shame, hello US-style executive pay"** by Geraldine Fabrikant).

But there's an even stranger twist in all this money madness.

The London Times tells how ***"Sandy Weill, the former high-flying Citigroup chairman renowned for his love of private jets, has pledged to give away his $US1.4 billion fortune as part of a "deal with God".*** Acknowledging that "***Shrouds don't have pockets",*** Weill is apparently hoping that God will come to the party by extending his (Weill's) time on this earth substantially while he decides what to do with his fortune…it seems it could take a very long time for him to give his money away. Apparently philanthropy (i.e. the love of mankind) is not something that can be rushed.

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All the best, Joe.
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