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

Avoiding a Bubble Bath.

by Joe Average.
March, 2006.
www.lifetoday.com

“I’m forever blowing bubbles,
Pretty bubbles in the air,
They fly so high,
Nearly touch the sky,
Then like my dreams
They fade and die.”

Lyrics by John William Kellette, 1919.

(Apologies to those who thought it was written by Alan Greenspan.)

Running with the Herd.

Stocks look overpriced, the real estate market is showing signs of faltering, commodities and emerging markets have had a stellar run, and the public may be showing signs of consumer-fatigue… **it may be time for cautious investors to remove themselves from the comfort of the herd and assume a more lonely, contrarian position. Perhaps it’s time to move to the sidelines and build up cash reserves.**

Endless articles have been written about the bubble-mania that has engulfed the world over the past decade…the NASDAQ bubble, the stock market bubble, the real estate bubble, the debt bubble, the commodities bubble, the emerging markets bubble, etc, etc. Many economists believe the blame for so many bubbles developing can be sheeted home to the loose-money practices of central banks as they tried to interfere in the normal business cycles of the past.

A **world awash with unprecedented liquidity** (loose-money supply) has seen **world stocks, property markets and other asset classes all rising in tandem in a form of hyperinflation**. Too much money chasing too few goods, artificially low interest rates and lax lending practices have allowed and encouraged consumers to borrow recklessly. **The legacy of “ Maesto” Alan Greespan is that there is now no other alternative but to inject ever increasing amounts of money into the economy so this tidal wave of money keeps “lifting all boats”. The problem is…some of the biggest boats (like GE, GM and Microsoft) *aren’t* rising anymore…margin growth rates look to have stalled.** In spite of all this liquidity, the moment investors and consumers begin to baulk at taking on further debt, the party will be over. That’s when the Fed will be “pushing on a string”.

Robert McHugh, Ph. D. (www.technicalindicatorindex.com) worries ***“Turnover continues at the top posts of the Federal Reserve, and the inexperience we find leading this situation is alarming at a crucial time when U.S. monetary policy is going where no man has gone before. Fed Vice Chairman Roger Ferguson unexpectedly announced …he was stepping down*** (only weeks after Ben Bernanke’s appointment as Fed Chairman)***…which comes on the heels of the resignation of the Philadelphia Regional Bank President Anthony Santomero, which followed resignations of two of the seven Fed***

Governor spots (which Bush finally filled this week), and six of the twelve Fed Regional Bank President posts over the preceding two years…Could it be, they disagree with the new policy – for the first time in the history of the Fed – to no longer be transparent with the best measure of money (M3)…?"

Roger Ferguson's departure means that all of the current Federal Reserve governors are now appointees of President Bush.

The Gold Rush Begins.

"EVERYONE IS CATCHING THE GOLD BUG"

FINANCIAL REVIEW 18-19 Feb. 2006.

Contrarians get a little nervous when they see headlines such as these appearing on the front page of newspapers.

With central banks running their printing presses around the clock and the runaway inflation of asset prices, investors and gold bugs alike have turned to the **safe haven of precious metals**. **After bottoming at $US 255 an ounce in 2000, gold soared to hit $US575 in February 2006**, whereupon it promptly dropped $US40 as profit takers moved in.

Gold bugs are adamant that this recent pullback is merely a short term technical correction in the early stages of a bull market. They point out that even at $US575 gold is a screaming buy, and that adjusted for inflation, the 1980 historic high of $US850 would translate to $US 2,200 or more in today's prices.

Some of the fundamentals cited for fuelling the surge in gold include the growing fear of a collapse in the U.S. dollar; the increasing distrust of the U.S. Fed and the risk of a financial collapse in the U.S. and global economies; the threat of ongoing terrorist attacks, growing instability in the Middle East; the prospect of more wealthy Chinese and Indians stockpiling gold and silver; rising oil prices; and the likelihood of imminent conflict with Iran over its uranium enrichment program and its move to exchange oil only for Euros as of March 20th, 2006 (thus undermining the U.S.D. as world reserve currency).

Seemingly, more than enough reasons for gold bulls to be excitedly predicting that gold's price is headed "to the moon". And there is certainly no shortage of bold predictions.

Chris Waltzek (www.silverinvestor.blogspot.com) has begun running a regular segment…**"The Golden Guru of the Week Award"** listing some of the bolder predictions as to where gold is headed. These include;

- **Paul walker(GFMS Ltd)… $850 an ounce.**
- **Jim Puplava……………….. $1,000 an ounce.**
- **Ned Schmidt……………… $1,500 an ounce.**
- **Puru Saxena……………… $2,000 to $2,500 an ounce.**
- **Ed Bugos………………….. $2,000 to $3,000 an ounce.**
- **Marc Faber……………….. $3,000 an ounce.** (* Also Richard Russell's prediction).
- **Bill Murphy (GATA)……… $3,000 to $4,000 an ounce.**
- **James Turk………………. $8,000 an ounce.**
- **Jason Hommel……………. $36,000 an ounce.**

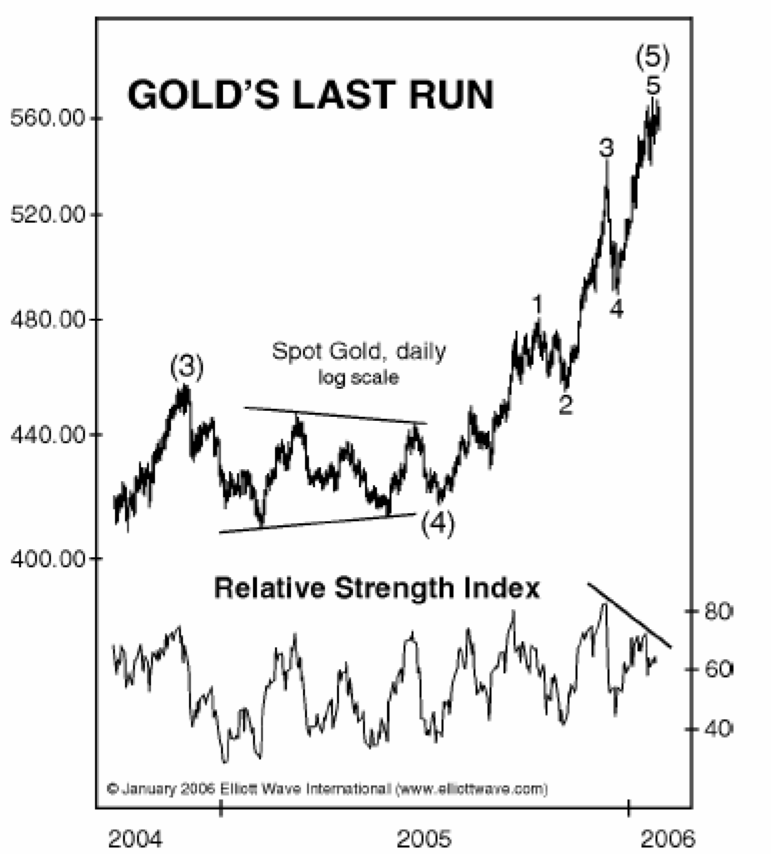
Profit takers and gold sceptics, however, are concerned that a large part of gold's surge is due to the recent influx of **giant investment index-funds** who today have around $US200 billion invested in the commodities markets (up from $US10 billion a decade ago). They fear these funds are **largely momentum players** rather than long term accumulators of gold and worry they will unceremoniously dump gold if the momentum turns down. The problem is, these funds can create their own momentum and may over ride fundamentals when they move aggressively into markets that are too small to easily absorb them (e.g. silver and gold).

Stephen Wyatt writes (Financial Review Weekly 18-19 Feb. 2006):
"At a minimum, the recent gold price slide "suggests that the flow of buying that had driven the market to 25-year highs has been exhausted and that a perpetual (upward) trend should not be taken for granted," a senior analyst at IFR Markets, Tim Evans, says." A significant top has been established."

Barclays Capital analysts argue the still strong gold market is simply a sustained bout of market exuberance with funds acting as drivers in a momentum play. They don't believe it demonstrates solid demand and supply fundamentals."

(Financial Review 9 Feb.2006) ***"Gerald Holden, managing director of mining and metals at Barclays Capital…forecast that gold prices could …move back to around $US350-$US375 in the medium term."***

This view will undoubtedly give some comfort to Elliott Wave International's Robert Prechter who believes ***"Gold is in the final stages of a speculative surge…technical factors, in conjunction with a complete wave pattern and sentiment, point directly to a decline to at least $460 and probably close to $400."***



Graph courtesy Elliott Wave Financial Forecast www.elliottwave.com

Robert Prechter ***does*** believe that ultimately gold ***will*** take soar to great heights… but perhaps not just yet. His conviction is that it will suffer one more major correction that will coincide with a Grand Supercycle that is about to top out and which will then collapse into an imminent deflationary recession and depression.

Michael Nystrom (www.bullnotbull.com) comments that ***"A final theme that I have noticed in the blog comments as well in the private emails to me was Robert Prechter bashing…As a long time subscriber to Prechter's reports, I can say that his primary flaw is not in being wrong, but simply in being early…Prechter does stand out as a true independent thinker, right or wrong."***

Many prominent analysts such as Marc Faber and Jim Puplava would also seem to agree with that last sentence, and respect Prechter's opinion even though they may agree to disagree about where gold is headed in the immediate future.

Suffice to say, there *is* another side to the gold story. Firstly, the physical gold market moved back into supply surplus in 2005 thanks to a 40% increase in central bank sales. Secondly, demand in India (the world's biggest gold market) dropped 30% in the second half of 2005 compared to 2004 "simply because they can't afford it" (Simon Guzowski… www.wise-owl.com). And thirdly, as Steve Saville points out (www.speculative-investor.com)… ***"large-scale official-sector buying on the part of China would change everything. Bond yields would soar, stock prices would tank, and the US economy would plunge into recession. Knock-***

on effects would include a large reduction in the amount of Chinese goods purchased by US consumers, a recession and burgeoning unemployment in China, and quite possibly, enough social unrest in China to threaten the survival of the current leadership.
The bottom line is that there are many good reasons to expect the gold price to move much higher over the next few years, but the buying of gold by China's Government is not one of them."

Generation "X"and "Y"'s take on the Real Estate Bubble.

I've recently come across a couple of articles that remind me that not everyone has shared equally in the massive boom in assets that has engulfed the world over the past decade… particularly the real estate boom.

Anyone who didn't own property before it skyrocketed in value would have been horrified to see the heights to which property values would soar. It was arguably, after all, the greatest property boom of all time.

Those most disenfranchised were the younger generations… generations "X" and "Y"… these are the groups that saw McMansion springing up around them… McMansions whose value increased month upon month. McMansions these younger generations could not hope to own themselves (because wages haven't risen accordingly) unless helped financially by the generosity of their now much richer parents, by eventual inheritance, or by putting their necks into the noose of massive mortgage debt.

Little wonder that some of them are now beginning to speak out.

"Talking about my generation"

"The 1960s ended 35 years ago. It's time to get over it writes author Ryan Heath, 25, in an edited opening to his provocative new book (**please just F* Off It's Our Turn Now – Holding Baby Boomers to Account…Pluto Press, Australia…www.ryanheath.com.au).**

The Boomers might see themselves as permanently young and cool, but their cadre has entered its cranky conservative phase. It's time to dump these Baby Bleaters and their ceaseless cries for more milk, and their figureheads who have all the originality and sophistication of bratty two-year-olds.

Refusing to recognise that reality will see "generational change" become "generational conflict" in our time. Boomers can hobble away from these facts but they can't hide.

We ("X"ers and "Y"s) are income rich and asset poor, immersed in a culture of debt and victims of "property apartheid".

The Courier-Mail, February 13, 2006.

This theme continues in a follow up article.

"A generation selling out to greed"

"Baby boomers have it all and they're not going to leave any of it behind, writes **John McCarthy.**

As a group they have proved to be the most powerful consumers in our history and are unlikely to want to give up their café lattes as the first of them approach the end of their working life.

It was all about them having a perfect life and forget everything else.
The hippies who defined the generation that promised so much went corporate, bought a BMW and are now closely plotting a retirement in which they can continue to give nothing back.

Now there is the SKI phenomenon (Spend the Kids Inheritance), which seems to be a bit of a joke, a kind of laugh at the generation behind that's struggling with blown-out…bills, staggering property prices, ballooning trade deficits, collapsing social infrastructure and a government determined to make sure the next generation doesn't do the same.

Everything has gone right for the boomers and every time I see another story about them spending up big in their golden years I want to take an axe to their caravans and shiny new four-wheel-drives.

…(baby boomers) can retire in your mid-50s…spend the lot (of your superannuation) and then take out a reverse mortgage and suck the capital out of your house…that lasts right up until the last boomer falls off the twig.

They're also refusing to grow old gracefully and don't be surprised if you see some old codger manoeuvring their walking frame into the bus queue for a beer-soaked Contiki tour of Europe sometime soon.

That's it. If I see one boomer with a baseball cap on backwards I'll scream."

The Courier-Mail, February 22, 2006.

Joe thinks… this may just be a topic we hear a lot more about going forward,

All the best, Joe.
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