



A Pact with the Devil.

By Joe Average.

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A Tale of Greed.

The tale of Dr. Faust dates back to the late 15th century. It tells of a scholarly German gentleman who was well versed in astrology, the Holy Scriptures, and the science of medicine, but who also dabbled in sorcery, prophesy and necromancy (predicting the future by communicating with the dead). Born of God-fearing parents, Faust led a good but ordinary life. In his latter years, driven by frustration, ambition and a burning desire to get more out of life, Faust called upon his sorcery and summoned the Devil to propose a pact.

In exchange for an opportunity to experience the very best that life had to offer...wealth, luxury, pleasure, knowledge and wisdom...**he was prepared to sell his soul.** The Devil, incarnate as Mephisto, was more than happy to oblige, subject to three conditions. Firstly, Faust had to renounce his Christian faith. Secondly, the pact had to be signed in Faust's own blood. Thirdly, at the expiration of twenty-four years, Faust had to deliver up his body and soul to the devil.

Faust agreed to these terms without hesitation, and began to live a life he had previously only been able to conjure up in his wildest dreams. Fame and fortune followed him everywhere as he travelled throughout Renaissance Europe. Stories circulated about his magical powers. Royal courts vied for his presence and the chance to hear his prophecies and horoscopes which were always true. An endless supply of beautiful women indulged him in every sensual pleasure and perversion. Faust's life wanted for nothing as he lived a life of excess.

And yet, the years slipped by too quickly. Faust began to sink into depression as the realization dawned that the agreed twenty-four years were almost up, and soon the Devil would be coming to claim his soul.

In the middle of the night on the last day of the twenty-fourth year, startled neighbours were awakened by the sounds of a ferocious storm. Fright gave way to terror as horrendous screams and hellish noises exploded from Faust's bedroom.

At daybreak, when terrified neighbours summoned up enough courage to venture into Faust's bedroom, they found a scene of horror and devastation. His unrecognizable remains were scattered all around the blood soaked room.

A Modern Day Faustian Pact?

**“Households leave door open to devilish risk.”
Ignorance won't be bliss if the financial system falters.**

“Have households in Australia and other advanced economies unwittingly entered into a Faustian pact with the financial sector? It takes a German brought up on Goethe (author of *Faust: Eine Tragodie*) to think of the evolution of the global financial system this way.

The German in question is Gerd Hausler, who knows a thing or two about financial markets. For the past five years he has been head of the International

Monetary Fund's international markets department...had stints at the Bundesbank and the Bank for International Settlements...on advisory panels for...German stock exchange and the New York Fed... (etc). You get the picture; Gerd has been around.

His interest is in the way financial risk is being increasingly shifted from banks, other financial institutions, companies and governments on to household balance sheets. He calls households "the shock absorber of last resort" for the financial system.

Banks, once thought of as institutions that made money from assuming risk, these days pass risk on to other financial institutions and households.

The problem, he explains, is that the generally low level of financial literacy of households means that they know very little about appropriate risk premiums...And this is where the Faustian pact comes in.

"The household sector is invited to participate in the search for yield, to enhance their returns in whatever way. But the 'dark side' of such a pact is to be included in the risk sharing as well; visible only when asset prices start to fall significantly and Mephisto asks for his side of the bargain to be fulfilled."

In Faust's case he was to surrender his soul to the Devil. In the case of households it is their wealth and retirement income prospects that might suddenly go to hell."

Alan Wood, The AUSTRALIAN, April 15-16,2006.

Other Unholy alliances.

Arthur Levitt, the longest serving Securities and Exchange Commission chairman in history, had this to say in his best-seller "Take on the Street" (Random House 2002):

"The web of dysfunctional relationships among analysts, brokers, and corporations would grow increasingly worse... supposedly independent accounting firms were working hand in glove with corporate clients to water down accounting standards...they were willing accomplices – helping companies disguise the true story behind the numbers.

This unholy alliance was producing revenue for the analyst's firm but hardly any benefits for most of their clients."

Doug Wakefield (www.bestmindsinc.com) believes Levitt speaks "plainly of the culture that surrounds Wall Street. In a word: GREED..." and agrees "with much of Levitt's assessment of the incestuous relationships that exist throughout much of Wall Street.

If you are concerned by the greed, lack of transparency, and lack of regard for retail investors in the stock market, you are likely to be troubled by the recklessness that exists in our banking system today."

Meanwhile, Eric Englund (www.lewrockwell.com), publisher of **The Hyperinflation Survival Guide** believes "central banking is at the centre of the boom-bust cycle... The hyperreality conjured up by the Federal Reserve's relentless inflation of the money supply is characterized by a populace which believes that a permanent plateau of prosperity has been attained... people have absolutely no fear of debt."

Seems that more than a few people in today's financial world may have entered into their own little pact with the devil.

“Cash is Trash” and “The Dash to Trash”.

“It is sad but true—cash is trash! If you want to protect your family’s wealth...you must get rid of your cash and invest in appropriate assets... commodities and equities of emerging markets will outperform...” writes Puru Saxena (Editor, Money Matters).

Saxena’s belief that we’re about to be swamped by a devastating hyperinflation is in accord with Jim Puplava (www.financialsense.com) who warns **“The Inflation Juggernaut: Be Prepared!”**

On the other hand, James Montier, Director of Global Strategy at Dresdner Kleinwort Wasserstein (an investment bank based in London & Frankfurt) is uneasy because **“Investors seem to be displaying signs of pure fearlessness...they seem more like Wile E. Coyote, running in thin air before looking down and realizing they have nothing to support them, and succumbing to the inevitable gravity check.”**

In his article **“The Dash to Trash”** Montier worries that investors are blindly pursuing junk in **“an obsession with return without any regard for risk...greed is good and junk is the best way to go.”**

The Dark Side.

The Federal Reserve Bank of Atlanta recently held a two day conference to discuss the recent stupendous growth of hedge funds and their increasing integration and influence on the world financial system. One of the guest speakers, Nigel Jenkinson (Bank of England director) had this to say:

“There is a dark side connected to financial integration. If shocks are large enough, the financial system becomes a risk-transmitter rather than a risk-disburser.”

Also voicing his concern was Bob Eisenbeis (Research Director Atlanta Fed) who expressed **“a need to be concerned about the appropriateness of such investments (hedge funds) for pension funds, which are aggregating funds for investors (retirees) who could not individually invest in such unregulated investments.”**

Meanwhile, the spring gathering in Washington of the International Monetary Fund and key world financial ministers came up with a few concerns of their own. Talking about the “global economic imbalances” that threatened to unleash a devastating meltdown if left unchecked, Raghuram Rajan (IMF Chief Economist) gave his gloomy assessment:

“Far too little is being done far too late.”

Mr Rajan went on to warn that while the permabulls of Wall Street and the financial world dismissed these fears and argued that the risks were overstated;

“...the optimists have to be right every day, while the pessimists need to be right only once.”

All the best, Joe.
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