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

Time to Bunker Down.

By Joe Average,
November 2008.

Global Panic Spreads.

The largest debt bubble in the history of mankind is on the verge of deflating and collapsing as world leaders and central bankers fly around the globe to one crisis meeting after another. No sooner is one panic quelled or some hasty band-aid fix slapped into place to stop a financial collapse than another breaks out somewhere else. The bad news just keeps on coming;

- **ICELAND...Bankrupt...Oct.2008** nationalises banks; turns to International Monetary Fund for help.
- **BALTIC DRY INDEX...Down 90%...** a leading indicator of shipping rates & global trade.
- **JAPAN (NIKKEI)**...**Down 81%...** from all time high of 38,957 on December 29th 1989.
- **RUSSIA (RTS & MICEX)**...**Down 77%...** exchanges shut down several days to stem panic.
- **CHINA (SSE)...Down 72%...** from all time high of 6,029 0n October 16th 2007.
- **KOREA (KSE)...Down 68%...** from high in May 2007.
- **ARGENTINA (MERVAL)...Down 64%...** moves to take over $30 billion in private pension funds.
- **INDIA (BSE)...Down 60%...** since January 2008.
- **TURKEY (ISE)...Down 59%...** from high in November 2007.
- **HONG KONG (HANG SENG)...Down 55%...** past 12 months.
- **ITALY...Down 53%...** past 12 months.
- **BRAZIL (BOVESPA)...Down 52%...** from May 2008 peak. Trading suspended 5 times in 3 weeks.
- **FRANCE (CAC)...Down 50%...** from June 2007.
- **GERMANY (DAX)...Down 50%...** year to date.
- **GREAT BRITAIN (FTSE)...Down 47%...**from all time high of 6,930; now "officially" in recession.
- **MEXICO (IPC)...Down 47%...**since June this year.
- **AUSTRALIA (ASX)...Down 45%...** from all time high of 6,829 on November 1st 2007.
- **U.S.A (DJIA)... Down 46%...** to 8,154 on Oct.10th 2008 from 14,198 on Oct.11th 2007. Interesting that the American market (where this crisis all began) is down less than so many others...but not surprising really with the U.S. Fed prepared to monetise as much debt as necessary to avert a Financial Armageddon.
- **OIL...Down 54%...** after peaking at $139 in June 2008. OPEC Nations hastily cut supply.
- **COPPER...Down 50%** from July 2008 high.
- **NICKEL...Down 62%** year to date.
- **GOLD...Down 26% +...** from high of $1,010 on March 17th 2008.

The statistics speak for themselves. The world is undoubtedly experiencing what Alan ***"I made a mistake"*** Greenspan described as a ***"once in a century event"***... thanks for that Mr. Greenspan.

The only question now is <u>how long might it last?</u>

Most observers have now resigned themselves to the realisation that we are most unlikely to have a **"V" shaped recovery** (i.e. a short, sharp recession lasting only six months or so). Many believe the extent of damage that has been inflicted on world markets ensures that we will have to endure at least a **"U shaped recovery"** that will not see an end to hard times for at least two years (i.e. a recovery sometime in 2010). Some arch-bears (like NYU Professor Nouriel Roubini) are warning that what may be coming our way is an **"L shaped recovery"** meaning we will flat-line along the bottom in a recession/depression for many years to come before we emerge out the other end.

A Dash to Cash...and Unintended Consequences.

Following the lead of other world banks, the Australian Government acted quickly to guarantee the savings deposited in its banks (even though **the top four Australian banks are included in the top safest 20 banks world-wide with a AA+ rating)**.

Rather than ensuring calm among nervous investors it **triggered a mad scramble for the safety of government-guaranteed deposits** that resulted in a deluge of withdrawal requests from investors outside this safety umbrella. The **unintended consequence** of this was that **mortgage trusts and other non-bank funds were swamped with withdrawal requests and were forced to freeze all withdrawals**.

So this nation of just under 22 million found itself with more than 250,000 Australians with their funds frozen in accounts valued at $25 billion.

Many of these investors are retirees. One distressed elderly gent, in tears, was featured on the T.V. news complaining that he didn't even have enough cash at hand to take his wife out to lunch at the local seniors club. Another retiree described how he couldn't sleep nights and kept waking at three in the morning worrying about how he and his wife would manage in the future.

The only consolation and advice forthcoming from Australia's Treasurer was for them to head down to their local welfare office to find out if they might be eligible for a government handout until this problem was sorted out... not exactly what they had planned for and counted on in their retirement!

Similar concerns have been raised by Martin Weiss Ph.D. of Weiss Research Inc who goes so far as to suggest that massive, erratic flows of "Hot Money" from deposits around the globe may result in some kind of **international bank holiday** having to be declared. Meanwhile, Prof. Roubini predicts **hundreds of hedge funds will go bust** and that many more **stock markets will be forced to shut**...perhaps for up to a week. Also, Charles Wendel (Financial Institutions Consulting) fears that of the 8,000 plus banks in America's fragmented banking system...up to 1,000 will disappear within two years.

The message seems to be... **have some cash on hand...ideally enough to cover your living expenses for a couple of months or three if possible.**

Australians certainly seem to be doing so according to Alexander Symonds (Australian Financial Review October 29th 2008)... ***" CASH IS BACK UNDER BEDS...There's a run on $100 notes but the Reserve Bank of Australia's message is...don't panic. Armaguard had advised small businesses it was short of $100 bills and expected to be for some time...wealthy people*** *(are blamed for)* ***walking into bank branches and withdrawing all their cash 'to the point where we now have a $100 note shortage in Australia".***

Killed by Debt.

As the world economies stumble from one crisis to another, it is sobering to hear how horribly the global debt bubble is destroying the lives of some poor, naive, unsophisticated individuals in emerging countries. The credit implosion in India, where the masses were recently introduced to freely-handed-out-money and a new-found consumerism, has resulted in a recent tragedy that is sickening.

Indian police were this month called to a suburban apartment where they discovered four bodies. The father (70 years of age) and his wife (60 years old) had committed suicide by swallowing poison. Nearby, their middle aged daughter and son had hanged themselves. **73 credit cards were found in the apartment** as well as evidence of the overwhelming debts they had gotten themselves into. Not understanding how the interest charges would compound, the family had dug themselves so deep into a hole that in the end shame and despair led them to kill themselves. No walking away from their obligations and declaring bankruptcy for them.

Greed is NOT Good!

"We've seen the triumph of greed over integrity... The triumph of speculation over value creation... The triumph of the short term over long-term sustainable growth. It is perhaps time now to admit that we did not learn the full lessons of the greed-is-good ideology. And today we are still cleaning up the mess of the 21st-century children of Gordon Gekko."

Kevin Rudd, Prime Minister Australia.

Adding another slant to the recent behaviour of "The Masters of the Universe" on Wall Street and their outrageous remuneration packages.

"I am old enough to have known both the CEO's of 20 years ago and those today. I can assure you that we CEO's of today are NOT 10 times better than those 20 years ago."

William McDonough, Former New York Federal Reserve Governor.

Simple the New "Chic".

The times for conspicuous consumption, trying to overtake the Joneses, piling on more debt, leveraging up, and big risk taking are over.

Simple is the new "chic". Frugal is good...greed and overindulgence is bad. Working to rebuild savings is good. Paying down credit card debt is good. Entering into new credit arrangements, especially for expensive discretionary items you don't really need...is unwise.

Savings deposits should be with banks that are rated A+ and preferably have government guarantees. Real estate investments where mortgage repayments might prove crippling if tenants move out, interest rates rise or your income is reduced (Heaven forbid you lose your job) should be disposed of where possible. Down-size if necessary.

Baby Boomers should be prepared to help their kids out if they're able (some kids might even have to move back in with the old folks to save rent). If Boomers have suffered serious losses to retirement nest eggs they may need to consider working longer before retiring, going back to work if already retired (at least part-time), and not get spooked into taking risky gambles to try and "get it all back".

Being in denial won't cut it. Nor will the old clichés about "it's not a real loss if you don't sell...it's only a loss on paper...it'll come back...it always does", "I'm in for the long haul...I'll dollar-cost-average-down", etc. Good financial advice is essential...preferably from someone who has been through tough times before and can come up with a sound survival strategy.

Personal safety for you and your family may become more of an issue in the turbulent, uncertain times that lie ahead because unemployment looks certain to rise as will unruly behaviour.

The tough times *will* pass...but in the mean time it's time to bunker down.

All the best, Joe.

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