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Investment Insights from Louis Boulanger



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louisboulanger now
Freethinking Investment Strategies

Issue 34 - 22nd December 2009:

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The Kiss of Debt

"I am terribly conflicted. This is the most uncertain time that I can remember. Things are violating the laws that I learned. The whole world is experiencing an upsurge but I don't know what to make of it."

- Robert Shiller

Yale professor and co-creator of the S&P Case-Shiller Home Price Index, in an interview with Fox Business in early November; he is also the author of 'Irrational Exuberance' (2000 & 2005)

[Source: Fox Business](#)

He also said: *“Things seem to be working right now but we’re in a GRAND experiment.”* He is also not alone among leading economists to say openly that they are somewhat puzzled by the recent behaviour of markets. As reporter Alexis Glick quite correctly remarked, *“When the best admit they don’t know, there is reason to believe we are in uncharted territory”*.

Indeed. These are unprecedented times, a time of great uncertainty and great volatility in all things monetary. Because we want to continue to believe that everything is fine, which is also what those who have the power to create money out of thin air want us to do. That way, they buy time to defer the inevitable consequences of their actions and to prepare themselves to be well positioned for what must eventually come: monetary reform.

But at what cost?! The cost of all the so-called stimuli to keep the music playing is unimaginable levels of debt foisted upon incredulous and not yet born taxpayers. To believe that we are now so clever that we are able to avoid the consequences of our actions by simply pretending all is fine and ignoring the truth about money, is the ultimate deception. Deceit and confusion reigns supreme. Ignorance now passes for bliss!

“All the perplexities, confusion and distress in America arise, not from defects in the Constitution or confederation, not from want of honour or virtue, so much as from downright ignorance of the nature of coin, credit and circulation”

*- John Adams
(1735 – 1826)
Second President of the United States*

Technically speaking, last week, for a brief moment, the US government became illegitimate... What??! The US national debt, as reported by the US Treasury, reached above the Congressional debt ceiling of US\$12.104 Trillion (see [US Debt Clock](#) for the up to date situation). Why is that worth mentioning here? Well, because normally that debt ceiling simply gets raised well in advance, whenever necessary.

But not this time! On 17 December, after the debt ceiling had already been breached, the US House of Representatives – **by a very narrow 218 to 214 margin** – increased the Treasury’s debt limit by US\$290 Billion to US\$12.394 Trillion. The original plan favoured by the Democratic leaders in the Congress was to increase the limit by between US\$1.8 and 1.9 Trillion as an "attachment" to the defence bill. Almost US\$2 Trillion!!! That’s US\$2,000 Billion, not US\$200 Billion...

The bigger increase would have clearly given the US government time to get through the mid-term elections next November without having any more embarrassing debates about extending the US Treasury’s "credit card" in the meantime... In the event, an increase of this magnitude was deemed impossible. Even the \$US 290 Billion compromise only just scraped through.

This is clearly different to what has happened in the past. After all, you see, the US Congress and Senate have over the past 69 years raised that US official debt ceiling as many as 90 times... That’s 90 times, dear readers! So what was stopping the US Congress from doing it one more time?? Are they finally beginning to feel responsible and see the consequences of their foolish actions? We wish...

Buying Time with Paper

Our ruling elite are buying time with paper money (debt). More and more debt, they seem to think or want us to believe, will solve the problem. But since when has a problem ever been solved with more of the same? The problem (too much debt) can’t also be the solution! To believe so, I would argue, is to be caught in the domain of the insane!

The purchasing power of paper money is falling. That means buying time with it is more and more expensive. Sure, they can pretend it costs nothing by creating it out of thin air or by engaging in the euphemistically called ‘quantitative easing’ of buying their own debt if there are no buyers or if the price demanded by creditors is too high. But that sort of game can only be played for so long. At some point, it must end.

In the meantime, the Great Delusion continues in all its glorious propaganda. Ben Shalom Bernanke is named TIME’s Person of the Year for 2009 because, they write:

“He is the most important player guiding the world’s most important economy. His creative leadership helped ensure that 2009 was a period of weak recovery rather

than catastrophic depression, and he still wields unrivalled power over our money, our jobs, our savings and our national future. The decisions he has made, and those he has yet to make, will shape the path of our prosperity, the direction of our politics and our relationship to the world.”

Hummm... I stopped believing in Santa Claus a long time ago... I'm afraid that the powers of even this highly praised and latest master illusionist are only as great as our own willingness to be deceived and, at the end of the day, it comes down to that and the printing presses of the paper mill on the Potomac.



Carrying On Regardless

It has, once again, been far too long since my last Issue of *Prosper!* But I've not remained idle... Quite the contrary, it seems there is far more interest now in my views than there ever was over the past four years or so. Of course, I welcome that. But it also means I cannot write this e-letter as regularly as before.

Mind you, it's all there, already. I encourage you to reread some of the past issues, especially the very first one, written and issued in September 2006. Nothing going on right now should surprise you, if you've been with me all this time. The simple truth of the matter is that money is dying. Money as we have come to know it, that is. But not real money; that, dear readers, is alive and kicking butt!

I have a new presentation since the end of August entitled 'Gold Is Money and Nothing Else', which happens to be a direct quote from J P Morgan himself and represents his full answer when he was asked about the role of gold in the financial system by a US Senate committee in 1913.

The popularity of this new presentation is beyond my wildest dreams! I've already been invited to speak in Asia three times since I wrote (back in August...) the last Issue of *Prosper!* So far, I've presented in six different countries and I've already been invited to speak early next year in Malaysia and again in Singapore, as well as in Canada.

It's obviously a message that people want to hear. They sense something is not quite right with our financial system, but they don't know what it is. It's actually our money that's suffering from a terminal disease! Of course, the mind is repelled when first confronted with this possibility. But it's becoming more and more important to continue living courageously, as speaking the truth requires during these times of great collusion and consequential deep confusion concerning real economic activity and financial matters.

Buying Gold with Paper

Now, there's a good idea if I ever thought of one! In fact, I'm less and less isolated in thinking so, it would seem. For instance, you know gold is in fashion when the fanciest London store starts selling bullion, of all things, for the first time ever! You see, in mid October, Harrods in London started selling gold bullion bars and coins over the counter...



Well, that was an interesting development for sure. But to see more recently even the central bank of India buy 200 tonnes of gold was even better! Wow!! The culturally most sensitive country in the world about the price of gold buys the most ever in a single transaction and at the highest nominal price per ounce ever as well!!!

Better still; central banks as a whole have now for the first time in at least ten years become net buyers of gold instead of sellers. Many central banks around the world are now realising the importance of diversifying away from fiat currencies, including the global reserve currency (the US dollar), and their first choice seems to be to own more and more gold!

Meanwhile... **Yeswecanistan!**

Here it comes at last, not the change we all hoped for, as we were very ably led to believe by propaganda, but change we now need to believe in: War Is Peace... Stay tuned!



“Two qualities are indispensable: first, an intellect that, even in the darkest hour, retains some glimmerings of the inner light which leads to truth; and second, the courage to follow this faint light wherever it may lead.”

- Carl von Clausewitz

(1780 – 1831)

Major-General of the Prussian army during the French Revolution and the Napoleonic Wars

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Fiat Abuse Is Running Its Course

“Two powerful forces – paper money and gold – are now locked in mortal combat. The combatants however, are proxies for far more fundamental forces. Paper money is a proxy for private banking and government power – and gold is a proxy for freedom.”

- Darryl Robert Schoon

*Moving Through the Maelstrom monthly commentary, November 2009
Author of [How To Survive The Crisis And Prosper In The Process](#), 2007*

Remember the game of musical chairs? Well, it seems to me as if central planners have been playing this game among them for quite some time now. When the music stops, who'll still be standing? The important thing to realise is that, fortunately, each and every one of us can still choose not to be playing this game or be affected by its outcome.

Sure, the music is still playing and everyone it seems is still dancing, for the time being. But make no mistake: this crisis is real and it ain't over yet. Recent events strongly suggest that more and more key players no longer want to play... What you decide to do and who you choose to believe, as this crisis continues to evolve, will not only affect what happens to you, but also determine when the music stops.

“As we move into a new financial era, we believe that gold will play a central role in the investment portfolios of those seeking to preserve wealth and mitigate risk and that central banks will continue to diversify their foreign exchange exposure in favour of gold.”

- Ian Telfer

*On his appointment as the new Chairman of the World Gold Council, 10
December 2009
[Source:Gold Org](#)*

The truth is that we are about to come out of the eye of the financial storm... that caused such extreme price patterns last year. The eerie calm is about to end. But that won't be until next year, so let's all be merry and enjoy the festive season! What could possibly go wrong between now and the New Year? Are there any more bubbles to burst, imminently? Or will the wave of optimism not carry us through to next year, regardless of whatever manifests in the money markets?

Well... here's a thought: the market rally we've had since March this year was all debt generated and so, it happens to have been by far the most costly in history. To understand how costly it has been for sovereign governments everywhere, all that is required is to look at the blowout of their deficits and debts.

Dubai has already buckled under the pressure. And now, the speculation is rife all over the world as to who will be next: Greece? What does that say about the Euro? I guess the US dollar will be considered a safe haven once again, temporarily, relatively speaking, regardless of fundamentals... After all, what choice is there? All fiat currencies are irredeemable and investors the helpless victims of fiat abuse...



Wow! This is what it took to prick the global real estate bubble...

Now, **there's** a pin (see picture at left) to prick the biggest of bubbles... if I ever saw one! And... sure enough, the biggest asset bubble (in commercial real estate) has now burst in Dubai!! What did they expect? They were kind of like asking for it, don't you think? Just look at that thing... It's as if they're saying: "What's to worry? What's a bubble? Hey, what's gravity? Over here, in the desert, we have the oil and so we can do whatever we like!"

To be officially inaugurated on the 4th of January 2010, which so happens to be my 55th birthday (thank you); this is now the tallest building on the face of this planet!

Proudly stating on its website that: *"Burj Dubai lifts the world's head proudly skywards, surpassing limits and expectations. Rising gracefully from the desert and honouring Dubai with a new glow. Burj Dubai is at the heart of Dubai and its people; the centre for the world's finest shopping, dining and entertainment and home for the world's elite."*

Really?! Not so fast, Sheik Mohammed... First, you need to pay your bills! Can't pay? Oops... I guess that means back to Earth for you!

Not to be defeated so easily, the oil producing countries of the region have already (see [here](#)) announced that they will from next year be pricing their oil in their own regional currency. So, say goodbye to the petrodollar and hello to the Golfo!

Hey, you didn't expect them to just lie down and take this defeat without striking back, did you?

Unrelenting Currency Warfare

Get ready for an escalation of the 'war of words' between States around the globe, as their economic problems become unbearable. What's happening in the Middle-East is just one manifestation of this now unrelenting warfare that will ultimately lead us to a much needed global monetary reform.

The Arabs are quite simply driving another nail into the US economy with their recent announcement. The Gulf States are effectively ditching the famed petrodollar. The price of oil has fluctuated between US\$30 and US\$150 during the past three years (see chart below)... You simply can't run a business based on that kind of fluctuation in the pricing of your main product, let alone a country!



Currencies are where the problem lies. It's not the economy... It's the MONEY we use, stupid! That's the tragedy. All currencies are in a race to the bottom and the name of the game is to pretend it's not happening, while they each seemingly take their turn to be in front in this Great Relay Race to Zero! Currency exchange rates are becoming more and more volatile, as the baton becomes more and more like a ticking bomb...

Speaking of currencies, have you noticed what happened at the beginning of this month in North Korea? Well... The government of Kim Jong IL devalued their Won by a whopping 99%! That's right: 99%! In other words, what was one day worth \$100 became overnight worth only \$1... How would that make you feel?? Life savings there became worthless overnight while sleeping and there was nothing they could do about it! ([Source: Washington Post](#)).

The intrinsic value of any fiat currency, whether it is the North Korean won or the US dollar, is zero. Yet, its perceived value emanates from the perceived quality of its issuing authorities (i.e. central bank and sovereign government). Over time, this value fluctuates and depends on how these authorities act with respect to the great responsibility that comes with the power of issuing fiat money. The illusion is real.

Ultimately, however, the value of fiat money rests not with the money masters, but with the people. Why? Without the ability to redeem fiat money (i.e. any paper currency today) at fixed weights in gold, paper money as a result is only as good as, firstly, the ability of the issuing State to pay its debts and secondly, the belief that holders of that money (or, for that matter, any financial asset denominated in that currency!) have in its value being preserved by the State.

Sovereign Debt Defaults

For the last few years (actually, my entire lifetime!) the West has piled up more and more debt at lower and lower interest rates. As interest rates rise eventually (I mean, inevitably!), along with the debt itself continuing its exponential ascent, we will reach a point when even sovereign debt will begin to default 'en masse'... Enjoy the current "recovery" while it lasts; because the next phase will no longer be just about the financial system, it will be about the solvency and future of various governments.

One of the many sources of research I subscribe to, in order to keep up to date on what's going on in the world of finance and politics, is the GlobalEurope Anticipation Bulletin or GEAB ([click here](#)). In their latest bulletin, GEAB N°40, they state quite unequivocally that the global systemic crisis will experience a new tipping point in the Spring of 2010 (Northern Hemisphere's Spring, obviously).

At that time, they believe the public finances of the major Western countries to become unmanageable, as it will simultaneously become clear that new support measures for their economy are needed because of the failure of the various stimuli in 2009, and that the size of their budget deficits will preclude any significant new expenditures...

Dubai, they quite correctly state in my view, is a clear example of what banks currently qualify as a 'riskless asset'. Accordingly, in their view, 2010 will show that the banks (and not just the British banks that hold half of the Dubai debt) still hold a lot of so-called 'risk-free assets' of this kind on their balance sheets...

What do they say about the situation in Greece? Their view is interesting, if not only because it is independent and from Europe. They believe that the Greek case is rather the same as when they argued earlier this year that the press gave widespread publicity to the idea that Eastern Europe was going to lead the European banking system and the Euro into a major crisis.

Not that there isn't a crisis in Greek public finances (that is the reality), but the supposed consequences for the Eurozone are overestimated, in their view. Instead, they argue this indicates increasing tensions surrounding sovereign debt, the Achilles heel of the US and the UK (and Japan, to a lesser extent).

For example, if California defaulted on its debt, it would have a much greater destabilisation effect of the US dollar than a Greek default would ever have of the Euro. Why? Because California is 12% of the US economy and Greece is 2% of the EU! California has been teetering on the edge of the abyss for months now and, besides, it's not just California but ALL the states of the US that are afraid of defaulting on their debt in 2010 or 2011! (See [here](#))

The undisputable fact, that everyone seems to ignore for the time being, is that Government bonds are the latest and biggest financial bubble and it's on the verge of exploding. It's reached the insane level of US\$50 Trillion worldwide; up 45% from just two years ago!! Sovereign debt and currencies will suffer direct and brutal consequences in 2010, according to GEAB.

The bankruptcy of an increasing number of States and other authorities (regions, provinces, etc) will entail, again according to GEAB, a double paradoxical event of increasing interest rates and the flight out of currencies towards gold:

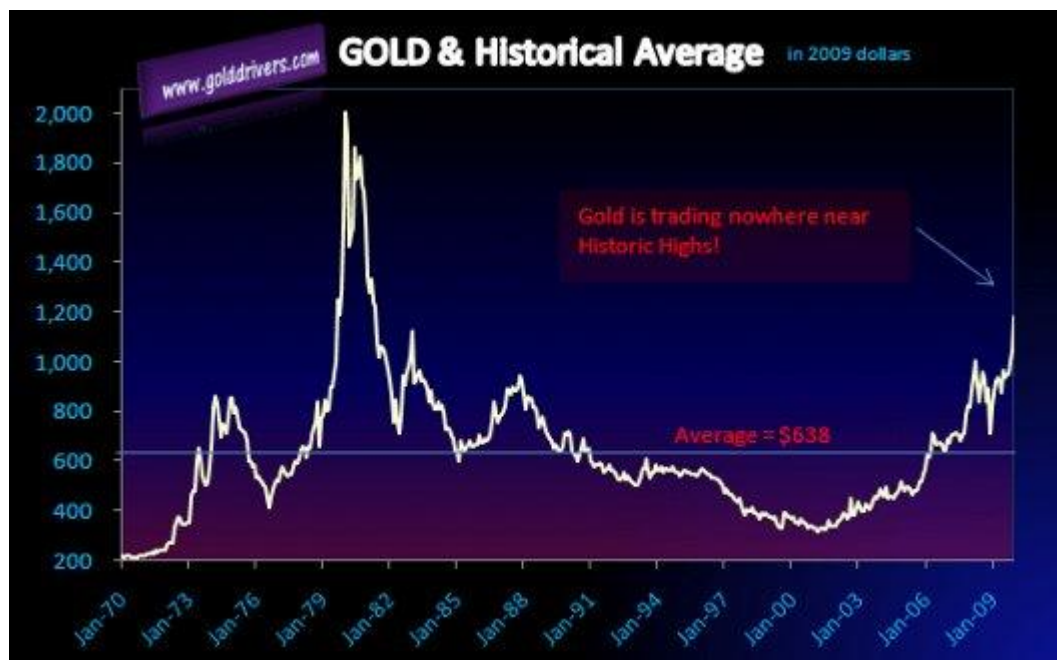
"In the absence of an organised alternative to a weakening US dollar and in order to find an alternative to the loss in value of treasury bonds (in particular US ones) all central banks will have, in part, to 'reconvert to gold', the old enemy of the US Federal Reserve, without being able to state the fact officially."

Hummm... Over the past few months, we've seen European central banks become net buyers of gold, after being net sellers for the past 10 or more years... We saw the central bank of India surprise the whole world and buy 200 tonnes (!) of IMF's gold in one fell swoop... We know Russia, China and many other countries are steadily increasing their official gold holdings or reserves...

Got gold yet? No? What are you waiting for?!!

The Gold Bubble Myth

On the presumed bubble in the gold price, all I'll say is: bullocks! The following chart should suffice to dismiss the argument altogether and put such deceitful propaganda to rest, in its proper place: the bin!



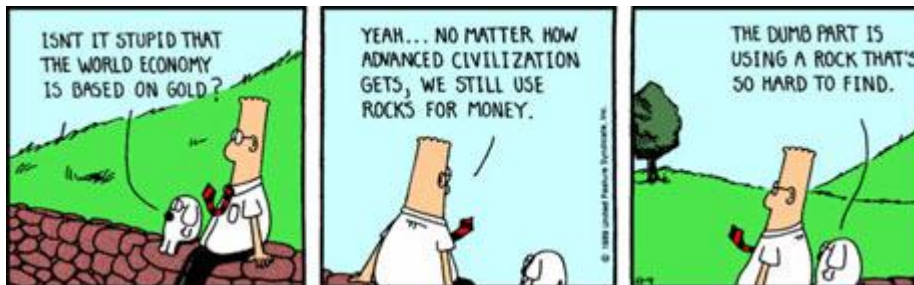
Source: Gold Drivers

The last time there was a bubble in the gold price was in the 1970s. That may well happen again. But to suggest the bubble already exists is not only incorrect but such a deceptive lie, clearly aimed at those who do not know or want to remember what inflation is!

And now, I leave you with these morsels of food for thought, as we approach the end of the first decade of third millennium since the birth of the person whose birthday is about to, yet again, bring many people together all over the world. Enjoy the spirit of the season and take care, 'till we meet again... in 2010!

"I wish someone would give me one shred of neutral evidence that financial innovation has led to economic growth — one shred of evidence!"

- Paul Volcker, former Federal Reserve Board Chairman (1979-1987), current Chairman of US President Obama's Economic Recovery Advisory Board, finally speaking out earlier this month... (Source: [Business Times](#)).



Your freethinking investment strategist, thanking you for reading and wishing you and your loved ones lots of Joy during the Festive Season and a Prosperous & Peaceful New Year!

Louis Boulanger, CFA
Louis Boulanger Now Ltd.

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