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Prosper! Dear Prudence, Won't You Open Up Your Eyes...
Investment Insights from Louis Boulanger

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louisboulanger now
Freethinking Investment Strategies

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[The Audacity of Hope](#)
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The Audacity of Hope

I know; I know... It's been a long time since the last issue of this e-letter. What can I say? I tried my damndest not to be a 'prophet of doom' again (as some of my readers are calling me now) and so I waited, waited and waited some more... hoping that some good news or encouraging development would change the dismal outlook we were left with as 2008 ended. But wishful thinking never gets you anywhere. It's always better to be prepared for the worst, if you dare to hope for the best...



Meet the New Boss; Same As the Old Boss?



Exactly what were people thinking when they placed so much hope in someone they hardly knew in the first place? Sure, Obama seemed like a better choice than McCain, but that's no reason to go ballistic or hysterical on what the man can do! And it's not just Americans, but people all over the world who got hypnotised or bamboozled by nothing more than trickery.

"Political language is designed to make lies sound truthful and murder respectable, and to give an appearance of solidity to pure wind."

- George Orwell

(1903 – 1950)

English author; best known for 'Animal Farm' (1945) and 'Nineteen Eighty-Four' (1949); above is a quote taken from 'Politics and the English Language', an essay he wrote in 1946

Unfortunately, Barack Obama has indulged in letting not only Americans but the whole world believe he was some kind of Messiah and that there was virtually nothing he could not do. That's what I call a setup; a humongous setup. But bullshit cuts both ways, as he is no doubt quickly finding out...



I think there is one fundamental difference between George W Bush and Barack Obama and it's a subtle one for sure, but a difference nevertheless. And I'm not referring to the colour of their skin. I read about that difference recently when reading a curious little book by a renowned moral philosopher, Harry G Frankfurt, Professor Emeritus at Princeton University (no less), entitled 'On Bullshit'. Here's the revealing passage:

"It is impossible for someone to lie unless he thinks he knows the truth. Producing bullshit requires no such conviction. A person who lies is thereby responding to the truth, and he is to that extent respectful of it. When an honest man speaks, he says only what he believes to be true; and for the liar, it is correspondingly indispensable that he considers his statements to be false. For the bullshitter, however, all these bets are off; he is neither on the side of the true nor on the side of the false. His eye is not on the facts at all, as eyes of the honest man and of the liar are, except insofar as they may be pertinent to his interest in getting away with what he says. He does not care whether the things he says describe reality correctly. He just picks them out, or makes them up, to suit his purpose."

Bush was/is a liar; Obama is a bullshitter. Which is worse? Personally, I'm not sure. Both types represent themselves falsely as endeavouring to communicate the truth. The success of each depends upon deceiving us about that. The technique is different, but the result is the same. We are being deceived. So, we're back full circle (going back to the first issue in September 2006...), it seems, to what I argued back then was the root cause of our

increasingly dysfunctional society/system: deceit.

To uphold and defend the *what?!...*



"There's a rumour going around that states cannot go bankrupt. This rumour is not true."

- German Chancellor Angela Merkel, [Spiegel Online](#), 30 January 2009

Please note that all past issues of *Prosper!* are available [Here](#) for your convenience.

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Making Money in Troubled Times

Are You 'All In'? Most people are. I'm not.

What do I mean by 'all in'? Well, it's an expression that's part of the gambling lingo and to be 'all in' means to bet all the money you've got. But, I hear you say, "I'm not a gambler and I'm not betting my money; I'm investing it in financial assets like shares and fixed interest securities that are traded publicly in regulated financial markets, so what's the relevance of your question?"

Hey, it's not you; it's the system. Financial markets have become rigged casinos with all the market interventions going on. It's no longer sufficient to know how to or know someone who knows how to do fundamental financial analysis and/or technical analysis of markets and securities in order to make good investment decisions.

You also have to consider the unprecedented level of and monumentally reckless government and central bank interventions going on. Socialism for the rich is alive and well and so is unchecked fraud, with regulators acting like Schultz in the TV series of the 1960s, Hogan's Heroes... *"I see nothing, I hear nothing, I know nothing!"* [This video says it all!](#)

You see, financial markets are not free markets anymore. The global banking and financial system now seems riddled with fraud and market manipulation. US officials in particular are panicking in the face of their ongoing inability to stop the haemorrhaging of their esteemed Wall Street icons caused by the beast of malinvestment created by years of misallocation of capital and greed.

In fact, there is such a lack of transparency – even secrecy – about the market interventions going on at the highest levels that I'm afraid if you're not part of the cabal, you can't know for sure where all the new money is going and what effect it will have on the value and eventual market price of those very same financial assets you normally consider for inclusion in your investment portfolio.

And that's how, I'm afraid, you end up in my view being a gambler these days if all you do is simply continue to invest as per usual only in financial securities. A lot of people have a gambling problem without knowing it. Don't be one of them. Wake up and take at least some of your money off the table. In other words, don't put all your eggs in the same basket of troubled financial markets.

It's time to fold and change at least some of your chips for real money – and I don't mean cash.

2008 Was Not a Bad Year for Everyone

2008 was certainly a turbulent year for investors. Not only did good assets sell off with bad, but the very integrity of the US financial markets was brought into question. You probably had and still have a better chance of being treated fairly in a casino in Las Vegas!

So, how can you invest if you can't trust the system? How does one do 'interventional' analysis? I have no idea! So, in these troubled times, I chose to fold. I took most of my money off the table as it became obvious to me that what we faced was serious systemic risk. Those able to create money from thin air have been doing so with increasing impunity. To put it bluntly: money is dying!

Don't be a victim of panicked central bankers' currently insane behaviour. Protect yourself and buy some insurance. Consider doing as I did and exchanging some of your increasingly worthless paper money for increasingly valuable gold.

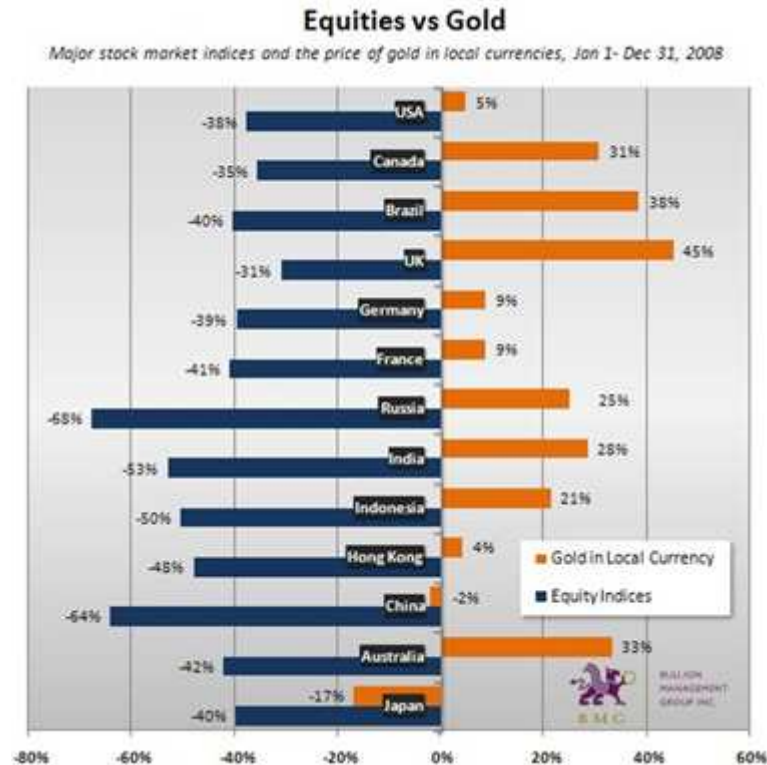
Why gold? Because gold is fast becoming money once again! Unlike any of the world's fiat currencies or paper money of today (of no intrinsic value), gold can't be created out of thin air. Unlike paper money, gold is nobody's liability.

If nothing else, 2008 allowed gold to prove its worth and natural purpose. Indeed, there can no longer be any doubt that, in the midst of the 2008 global financial crisis, gold has done exactly what it was supposed to do. Namely, protect investment portfolios against the carnage that was experienced in almost all financial assets around the globe. Gold has proven itself to be one of the very few safe harbour assets in 2008.

The price of gold went up 39% in NZ dollar terms in 2008. Compare that to a share market that's lost 32% and you get a difference of no less than 71%! In

other words, last year, if you had put 50% of your money in the share market and 50% of it in gold, you'd still have made money.

Did gold do so well only here in New Zealand? Not at all; the same thing happened in just about any country – in other words, just about any currency – you care to compare gold to. Don't believe me? Here's a table of how well gold did relative to equities in most major markets worldwide:



Source: [BMG Bullion Buzz newsletter](#) of 6th January 2009

2008 proved to me at least that we are indeed in a monetary crisis, with all currencies in a race to the bottom at various speeds and stages of descent. As someone else once famously said, "currencies do not float, they sink at different rates"!

I expect 2009 will simply be a continuation of the same, most likely at an increased speed of monetary devaluation and increased currency and financial market volatility, as the world comes to terms with the accelerating debasement of many important fiat currencies like the US dollar and the British Pound. In 2009, gold may well be the only safe harbour asset lasting the distance and duration of this crisis.

Gold's Performance in the 21st Century

Last year was not the beginning of gold's resurgence as a safe harbour. Indeed, gold has been doing well for most of this decade/century/millennium, so far – see table below – in whatever currency you wish to pick. In fact, no other asset has performed quite as well as gold during this period, except maybe New Zealand residential property – but that too is about to crash, in my view.

The table below presents gold's annual price change for each year since 2000, in various currencies. As you can see, gold has appreciated in value in any fiat currency you care to value it in:

Gold Price % Annual Change										
	USD	AUD	CAD	CNY	EUR	INR	JPY	NZD	CHF	GBP
2000	-5.66%	10.56%	-2.19%	-5.80%	-0.68%	1.24%	5.61%	11.64%	-4.88%	2.04%
2001	2.50%	11.30%	8.80%	2.50%	8.10%	5.80%	17.40%	9.10%	5.00%	5.40%
2002	24.70%	13.50%	23.70%	24.80%	5.90%	24.00%	13.00%	-0.96%	3.90%	12.70%
2003	19.60%	-10.50%	-2.20%	19.50%	-0.20%	13.50%	7.90%	-4.50%	7.00%	7.90%
2004	3.20%	1.40%	-2.90%	3.20%	-2.30%	0.00%	0.90%	-4.07%	-3.00%	-2.00%
2005	16.20%	25.60%	14.50%	15.20%	35.10%	22.80%	35.70%	24.45%	36.20%	31.80%
2006	22.80%	14.40%	22.80%	18.80%	10.20%	20.50%	24.00%	19.39%	13.90%	7.80%
2007	31.40%	18.60%	10.40%	23.00%	17.90%	17.50%	24.70%	20.53%	21.50%	29.20%
2008	5.80%	32.50%	32.40%	-1.10%	11.90%	30.40%	-14.80%	39.27%	0.20%	44.30%
Average	13.84%	13.04%	11.80%	11.34%	9.69%	15.68%	12.70%	12.76%	8.89%	16.46%

Source: <http://goldmoney.com/en/commentary.php#current> for all the above except the NZD % changes.

To view a larger version of this table, please [click here](#).

What I find most interesting from the above is that gold's average annual price change does not vary a lot between the dollar currencies (USD, AUD, CAD and NZD). Over the past nine years, gold has in fact appreciated against all state issued money or national fiat currencies. In other words, gold did better as a store of value than any existing man-made paper money.

Gold has not only been a good asset to own for protection against the wealth destruction caused by the current financial crisis; it's also been an excellent alternative form of money to own. In other words, next time you think about your investment portfolio's foreign currency exposure, don't just think of buying or selling forward exchange contracts. Think of buying some gold bullion as well.

It has to be said that the appreciation gold has already achieved this decade so far is nothing short of remarkable. But why is that the case and what does it mean? Why is gold doing so well relative to fiat currencies? Well, as mentioned earlier, I think it's because money as we know it today is dying; it's in the process of losing what's left of its integrity and people everywhere are beginning to lose confidence in paper money based banking system.

Oddly, however, gold continues to be ignored by most investors. Worse, gold does not even seem to be on the radar screen of those who should know better and have a fiduciary duty to invest other people's money prudently. I'm referring, for example, to trustees and fund managers. I expect this inattention to change in the year ahead.

The Monetary Tragedy of the 20th Century

Over the past 2-3yrs, I have written extensively about what I saw as the inevitable consequences of what I called 'The Monetary Tragedy of the 20th Century' and described in September 2006 in the very first issue of *Prosper!*

So, what exactly happened (for those of you who still don't know)? Well, to make a long story short, the global post World War II monetary system that was devised in Bretton Woods came to an abrupt end in 1971 when US President Nixon defaulted on his country's obligation to keep the US dollar redeemable in gold. The rest, as they say, is history.

At the time of Bretton Woods, in 1944, gold constituted 90% of consolidated world central bank reserve assets and the US owned 90% of all central bank gold. So it was appropriate then for the US dollar to become the key currency in our new post WW II international monetary system.

But that 'system' died in 1971, when US President Nixon unilaterally decided to cease to exchange US dollars for gold.

This is euphemistically known as and casually referred to as 'the closure of the gold window'. In actual fact, it represents a default of the US government on its most important agreement and obligation to the rest of the world under the agreed global monetary system of the time: to redeem, on demand, by any non-US central bank, their US dollars for gold at the then agreed fixed price of US\$35 an ounce.

Despite this, the US dollar remains to this day the global reserve currency and US Treasuries appear to be considered by most as the 'go to' safe harbour asset during this crisis. But, I ask you, for how much longer can this last?

After all, the US is no longer the richest nation in the world (as it once was, like back in 1944). It's now the biggest debtor nation on the face of the Earth, with the world now holding as much as US\$16.7 trillion of US financial paper!

Given that the US government has already defaulted once, what's stopping them to default once more? This time, I expect, it'll be on its debt that the US government will default and probably even have to do so this year. It's either that or a devaluation of the US dollar (which, incidentally, we will only find out about one day when we wake up, after it's already been done).

Don't let the US dollar's status as the world's reserve currency lull you into believing that it couldn't happen. Any fiat currency is only as good as the faith people have in its central bank.

The US central bank, the Federal Reserve, has been pumping so much money into the financial system lately, with little to no positive effect I might add, and debauching its balance sheet to such an extent in the process, that this faith will I expect be severely tested in 2009.

Gold's Great Comeback as Money

There is strong anecdotal evidence that the global monetary system has evolved today into a new stage, where gold is now much closer to returning as money than even just a few months ago. Why now? Well, one needs to remember what money once was and what it has now become or, better still, *understand* what money actually is.

Basically, money is very simple to understand -- it is a commodity that

facilitates the indirect exchange of goods and services in society. One person exchanges his or her goods or services for 'money' that is accepted as a form of payment and which will later be used to purchase some other goods or services. This is an indirect exchange that has been facilitated by something everyone accepts as payment; this intermediate good is technically known as a "medium of exchange", and widely known simply as money.

Money's shape or form is not important. There has certainly been a lot of variety over the ages. But even for paper money today, whether you have a brand-new, nice-smelling \$100 bill hot from the printing press or five crumpled, old, ugly, twenty dollar bills, it is still all the same, just 100 dollars.

So it is with gold – when gold functions as money, whether you have new bars, old coins, gold dust, whatever, the only thing that counts is the quantity of pure gold; just like in paper dollars, where the only thing that counts is the quantity of dollars.

Under the current financial order we use paper tickets that are currently printed in the trillions by central banks. Those tickets have had no backing for many decades, so there has been no restraint in their printing. Up until recently, there has been a modicum of self-restraint in the printing process. However, since the summer of 2008, all restraint has been thrown out of the window by not only the US Fed, but all central banks, who have indulged in a historic multi-trillion dollar print fest.

In response, common sense people are beginning to rush into gold as a store of value. It matters no more that gold does not pay any interest. After all, interest rates are on a free fall to 0% everywhere around the world.

So, why don't you do like me and trade at least some of your dollars for gold? Think of it as money, good money. You can later use your gold to buy whatever you like for very likely a lot less money than it would take if you left it all on the table, i.e. in the troubled banking and financial system.

Start thinking of gold as just another form of money, but one which can't be created out of thin air by the banking system like all the fiat currencies. Buying and holding gold is like a protest vote, if you like. It's like saying you are losing faith in the global banking and financial system and you want to protect yourself from the ongoing capital destruction until the system is fixed.

Start Pricing Things in Gold

What I have found most useful over the past few years is to start pricing things in terms of their cost in gold grams or ounces of gold. It's pretty interesting how soon things that appear to be doing well in US dollars or NZ dollars or whatever currency, do not do so well when measured in weights of pure gold or, if you like, in gold terms as opposed to dollar terms. This is because currencies are sinking and gold is rising.

Here's an example of what I mean. Let's take the US share market, as measured by the Dow Jones Industrial Average Index (Dow). That index is, of course, calculated in US dollars – just like the NZX 50 Index is calculated in NZ dollars. It's just normal to do so, since those are the local currencies. But what would the Dow look like if it were to be measured in gold terms? Well,

that's exactly what the following chart presents.



Source: www.sharelynx.com for the chart (the comments added are my own).
To view a larger version of this chart, please [click here](#).

The chart shows how many ounces of gold were needed over time to buy the Dow. In other words, if the Dow is at 7,000 (it's almost there...) and an ounce of gold costs US\$1,000 (as it did a week ago), then it would take 7 ounces of gold to buy the Dow. Got it? The Dow having closed just above 7,000 and the spot future Comex Gold price closed at US\$942.50 for the week, the Dow/Gold Ratio stood at 7.43 last Friday.

Ok, so we can see from the chart that the long term trend for the cost of the Dow in gold has risen on average over the past 200 years, from less than one ounce to 15 ounces (the thick green line being the trend line). That makes sense since there has been much economic growth over the past two centuries and our productive capacity has also improved greatly.

But what you'll also notice I'm sure is the great volatility in the price of the Dow in gold terms, especially since the 1920s or soon after the US Federal Reserve System was born. The cost of the Dow has gone from one extreme low to an extreme high three times (we are currently still in the third secular drop to a low point). At the lowest point, it took only one ounce of gold to buy the Dow. That was in 1980, when gold last reached its peak performance.

The big question we should all ask ourselves is the one highlighted in the golden box on the chart, i.e. could it once again cost as little as one ounce of gold to buy the Dow? If so, how much further would the Dow have to fall? Well, that entirely depends on what the gold price does. Here are three possible scenarios:

1. The Dow stays at 7,000 but the price of gold goes up to US\$7,000 an ounce;
2. The Dow drops to 1,000 and the price of gold rises only slightly to US\$1,000; or
3. The Dow drops to 4,000 and the price of gold rises to US\$4,000.

In all three cases, the Dow/Gold Ratio would be equal to 1. In all three cases, it would then only cost one ounce of gold to buy the Dow, as opposed to the 40 or so it took in 2000 or the 7 or so it now takes. Could it happen? Yes it could, in my view.

- **Scenario 1** would represent a 1973-1980 like scenario, when the gold price increased from US\$85 to US\$850 an ounce;
- **Scenario 2** would represent a 1929-1932 like scenario, when the Dow dropped by as much as 90% or thereabouts from its peak to its lowest point – see chart;
- **Scenario 3**, which has both the Dow drop considerably still (by about 40% or so from where it is now) and the price of gold increase around fourfold from its current price, would represent in my view a more likely scenario given the economic depression coming and the ongoing ruthless debasement of the US dollar by the US central bank and government/Treasury.

Of course, a similar logic can be applied to any share market and its local currency. But what's most important in my view is to lift the veil of deceit on the strength of the US dollar. Why? Because the US dollar is still the global reserve currency and the so-called 'US Strong Dollar Policy' is nothing more than an elaborate and surreptitious manipulation of the gold price – the canary in the coal mine. In other words, the unofficial policy is 'shoot the messenger'!

And so I conclude, for the time being, that to make money in these troubled times... what you need to do is to buy and hold gold until this crisis is over and we once again have sound money and honest financial market regulation. Hey, even the Swiss want to repatriate their gold back from the US!

"Great bear markets have tended to end when the dividend yield on the Dow reaches around 6%. At today's 3.6%, the Dow is currently far away from 6%. Assuming that current dividends hold (which they won't), the Dow would have to descend into the 5000s to produce a dividend yield of 6%."

- Richard Russell, editor-publisher [Dow Theory Letters](#)
Russell began publishing Dow Theory Letters in 1958, and he has been writing the Letters ever since (never once having skipped a Letter).

...

"We witnessed the collapse of the financial system... It was placed on life support, and it's still on life support. There's no sign that we are anywhere near a bottom."

- George Soros, at a Columbia University dinner recently ([see the article here](#))

...

And for those of you who live in the Antipodes and remember Paul Keating (Prime Minister of Australia from 1991 to 1996 and before that Treasurer) fondly, you may also want to [view this interview](#) he gave about a month ago. He too, of all people, sees gold as a safe haven in the years ahead, relative to US dollars and US government debt securities:

“And you'll start to see in the price of gold, if this goes on for a couple more years, the real serious question of an American default, a default by the United States Treasury.”

Your freethinking investment strategist, now not only a happy owner of gold and silver bullion but also a sales representative for BMG BullionBars – see www.bullionbars.ca – should you wish to buy gold, silver or platinum bullion bars that meet London, Comex or Zurich Good Delivery Standards

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Disclosure and Disclaimer Statement:

I am not a disinterested party. I personally own gold and silver bullion and invest in a commodity index fund. I also began in February 2009 as a sales representative for BMG BullionBars. One of my objectives in writing articles such as this is to interest potential investors in the subject of monetary reform to the point where you may be encouraged to conduct your own further diligent research. Neither the information nor the opinions expressed should be construed as a solicitation to buy or sell any security, currency or commodity. Investors are recommended to obtain the advice of a qualified investment advisor before entering into any transactions. I have neither been paid nor received any other inducement to write this article.

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