

# Prosper!

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



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**louisboulanger** now  
Freethinking Investment Strategies

**Issue 33 - 4th August 2009:**  
[Meltdown of an Era's Beliefs](#)  
[Green Shoots and Leprechauns](#)

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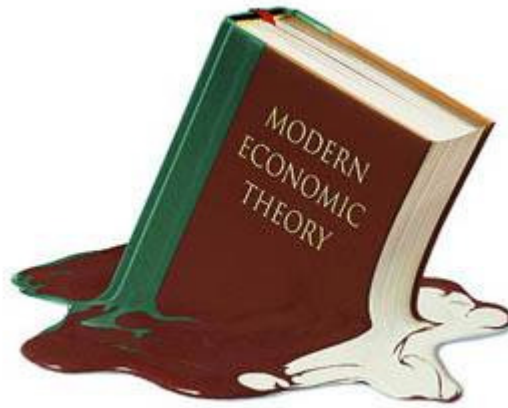
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## Meltdown of an Era's Beliefs



Source: [The Economist](#)

*“A democracy cannot exist as a permanent form of government. It can only exist until the voters discover that they can vote themselves largesse from the Public Treasury. From that moment on, the majority always votes for the candidate promising the most benefits from the Public Treasury with the result that a democracy always collapses over loose fiscal policy always to be followed by dictatorship.*

*The average age of the world's greatest civilizations has been 200 years. Those nations always progress through the following sequence:*

*From bondage to spiritual faith,  
from spiritual faith to great courage,  
from great courage to liberty,  
from liberty to abundance,  
from abundance to selfishness,  
from selfishness to complacency,  
from complacency to dependency,  
from dependency back into bondage.”*

*- Alexander Fraser Tytler (Lord Woodhouselee)  
(1747 - 1813)  
Scottish historian at Edinburgh University*

US President Barack Obama unveiled some super-sized systemic financial regulations... likely the biggest shakeup of the fiscal bureaucracy in decades. *“We're going to make sure that we have got a systemic regulator (emphasis is mine), somebody who can oversee the entire system,”* he hinted last month. For a transcript of the interview he gave to Bloomberg News's AI Hunt TV, please go [here](#). Hummm...



Source: [Global Research](#)

And who is being proposed as this ideal so-called 'systemic regulator'? The Fed! That ultra secretive, non-accountable to anyone in the public domain, creator of the global reserve currency nobody wants anymore!! That is just unbelievable coming from a so-called pillar of democracy. Unfortunately, this is likely to happen, thanks to the prevailing delusion that the Fed has any integrity left and is independent.

Remember Eliot Spitzer? He was New York State Attorney General from 1999 to 2006 and the Governor of New York until March 2008, when he was 'conveniently found out' to be with a prostitute. Well, he's back and he's not mincing his words. Speaking to MSNBC, the disgraced crime-fighter described last week the Fed as a "Ponzi scheme".

What? The Fed – that very institution that Obama and his Wall Street supporters and financiers want to put in charge of regulating the whole financial system – is a "Ponzi scheme"?! Wasn't it Bernie Madoff who was recently convicted for running a Ponzi scheme and sentenced to 150 years in prison? Yep. So if Spitzer is right, where would that leave Ben Bernanke??

Actually, if you want to see a great MSNBC interview, which succinctly and with humour sums up brilliantly how we got into this mess in the first place and what the role of the Fed was, please [watch](#). Here is what Spitzer said about the Fed:

*"You look at the governing structure of the New York [Federal Reserve], it was run by the very banks that got the money. This is a Ponzi scheme, an inside job. It is outrageous; it is time for Congress to say enough of this. And to give them more power now is crazy. The Fed needs to be examined carefully."*

*The former NY Attorney General then had this to say about the proposed mega regulatory reform: "Regulatory agencies already had the power to do everything they needed to do," he said; "They just affirmatively chose not to do it."*

I couldn't agree more!

Poor Eliot had to resign as governor of New York in March 2008. At the time, he had already started warning about sub-prime mortgage loans. Some think the feds found a way to silence him - by revealing that he had a bad habit... \$1,000-an-hour hookers! Investigative reporters maintain that federal enforcement officials had the option of leaving Spitzer out of the news. Instead, the Bush Administration Justice Department decided to out Spitzer. Now he's back. Will he be silenced again?

## Ben Bernanke in Panic Mode

Poor Ben... he's not looking too serene these days. In fact, he's downright worried about Congressman Ron Paul's Bill to audit the Fed. You don't believe me? Watch this [video](#) (the first one of two on this webpage) and see for yourself if he does not look disturbed. Of course, Gary North's comments and material on that page are also well worth reading.

Bernanke and others are under fire as US lawmakers call for an audit of the Fed. This is definitely, in my opinion, one of the biggest stories of the first part of the 21st century, though it is of course going almost unnoticed by the mainstream media. But central banks are the glue of the modern money world and their gradual undoing because of the Internet is fascinating to watch.

For the truth on the Bill that the Fed and its constituents are so afraid of, and its progress through the corridors of power in Washington DC, I encourage you to visit this [page](#) on Ron Paul's website regularly.

Here's real reason for hope: the end could be near for the ongoing secrecy under which central banks like the Fed operate. It all depends on how much Americans will insist on getting their full audit of the Fed done. But the good news is that taxpayers are finally starting to wake up to what's going on. They've had enough of bailing out bad bankers. They want to know where their money has gone. Take this recent survey's results, for example:

*"A new Rasmussen Reports national telephone survey finds that 75% of Americans favor auditing the Federal Reserve and making the results available to the public. Just nine percent (9%) of adults think that's a bad idea and oppose it. Fifteen percent (15%) aren't sure. Over half the members of the House now support a bill giving the Government Accounting Office, Congress' investigative agency, the authorization to audit the books of the Federal Reserve Board."*  
Source: [Rasmussen Reports](#)

Here's another interesting development, in so far as public opinion is concerned in the US, that can give us all real hope: President Obama no longer enjoys the same deluded popularity as he did when he was inaugurated and he is losing his magical powers over the people as 'the one' who will save the world: Please see [here](#).

## The US Dollar Is Dying

The global reserve currency status enjoyed by the US dollar since the end of WW II (at that time French President Charles De Gaulle was sufficiently outraged to call it an 'exorbitant privilege' for the US) has "corrupted America", said [Peter Schiff on CNBC](#) (you'll find him saying that at the very end of this clip). It's a pretty outrageous comment alright. But should we be surprised?

After all, if you could have all your debt denominated in a paper currency you can create out of thin air, would you not also have ended up corrupted? We're all human. But for the US, it's really been as De Gaulle said: an exorbitant privilege. Why? Because not only was the US debt denominated in US dollars, but also the debt of poor countries that receive loans (in US dollars) from the World Bank and/or the IMF! Those poor countries don't have the luxury of being able to borrow in their own currency...

That brings us full circle, once again, to the real cause, in my view, of all the systemic failures we are now seeing and, I believe, we will continue to see for some time to come, at least until we have once again a monetary regime in place that has measure and integrity. That real cause is none other than the Death of Money, itself a consequence of the gradual corruption of our global monetary system.

You see, today all we have are fiat currencies. These are only as good as the ability of the issuing authorities to pay their debts and a fiat currency remains valued only as long as confidence in its issuing authorities to pay their debt remains high. That's because today, not a single fiat or paper currency is backed by gold; not even the US dollar (which once was). That's never happened before in all history!

*“We should hold our gold. Gold still represents the ultimate form of payment in the world. Germany in 1944 could buy materials during the war only with gold. Fiat money in extremis is accepted by nobody. Gold is always accepted.”*

*- Alan Greenspan  
(1926 - )*

*Chairman of the US Federal Reserve (Fed) from 1987 to 2006*

*Above quote taken from comments he made when speaking to the House banking committee in Washington on 20 May 1999 – no doubt because he well understood that any government must trust in another's long-term survival when accepting its fiat paper money as payment...*

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

## **Green Shoots and Leprechauns**

*“Throughout all my years of investing, I've found that the big money was never made in the buying or the selling...the big money was made in the waiting.”*

*- Jesse Livermore  
(1877 – 1940)*

*Early 20th century stock trader; famed for making and losing several multi-million dollar fortunes and short selling during the stock market crashes of 1907 and 1929*

It has been, once again, far too long since my last Issue of *Prosper!* But look, nothing's really changed. It's all still smokes and mirrors and deceitful promises that 'good times are here again'... This time, the expression they use to describe the fabricated and cosmetically enhanced so-called economic recovery indicators, is 'green shoots'.

Well, what are green shoots, exactly? According to Wikipedia:

*“Green shoots is a term used colloquially to indicate signs of economic recovery during an economic downturn. It was first used in this sense by Norman Lamont, the then Chancellor of the Exchequer of the United Kingdom, during the 1991 Recession. At the time, Chancellor Lamont was criticized for "insensitivity". The phrase was used again by Baroness Vadera, the then Business Minister of the UK in January, 2009 to refer to signs of economic recovery during the late-2000s recession, again to criticism from the media and opposition politicians. The U.S. media started to use the phrase to describe domestic economic conditions in February 2009 when the New York Times quoted Bruce Kasman, chief economist at JPMorgan Chase as saying, "It's too early to get excited, but I think there are a couple of green shoots that say we're not going down as heavily in the first quarter [of 2009] as we were in the fourth quarter [of 2008]." The Federal Reserve Chairman, Ben Bernanke, made the first public use of the phrase by a Fed official in a March 15, 2009 interview with CBS 60 Minutes. Since February and March, it has been used increasingly in the media and by a number of commentators to refer to positive economic data and statistics during the late-2000s recession.”*

Right; that's what I thought. It's just a very clever and politically correct expression to convey to the public at large confidence that things are getting better and that there is new life in the economy. Never mind that the current economic downturn is the worst since the Great Depression. Never mind that business contraction triggered the systemic solvency crisis and it was not the other way around.

I don't believe in Leprechauns; do you? This crisis is far from over. The recession may well be over soon. But that's because it'll morph into a full blown depression, in my view, and not because the worse will be over. The US is in its worst economic contraction since the Great Depression and that's a fact.

I believe the current economic downturn will increasingly be referred to as a depression and so, it is far from over. There will be intermittent blips of new activity, such as the current and so typically American 'cash-for-clunkers' automobile giveaway program that appears to be generating a one-time spike in US auto sales.

Look, we're in a secular bear market for equities and have been since 2000, if you look at prices in real gold terms or inflation adjusted terms. Secular bear markets last a long time and can have many rallies. Here's what happened with the Dow between 1968 and 1982, as an example of what can happen again:



Source: [www.financialsense.com](http://www.financialsense.com)

Note that the above is not inflation adjusted. It simply shows that the US share market, using the Dow index as a proxy, went sideways for 14 years, but also that during that nil return period prices went sometimes up by as much as 75% and sometimes down by as much as 45%! In other words, plenty of green shoots, but also just as many mowers of green shoots... Now, what about inflation?

Well, inflation adjusted, that picture was so bad, that it generated one of the still to this day most famous cover stories in business journalism: *BusinessWeek's* August 1979 piece "[The Death of Equities](#)." Of course, what in fact happened after that, was not the death of equities but the birth of the greatest ever bull market in equities that lasted all the way to 2000 when the bubble burst! So, what's the lesson here? Remember who owns the media you decide to believe or rely on.

BTW, what the share market does and what the economy does are really two different things. Shares could actually skyrocket because of all the fiat paper money that governments and central banks all over the world are creating. One can understand people for wanting to buy shares because they actually are equity; they represent real wealth.

But, like Doug Casey, "I suspect that in this depression, the stock market isn't going to bottom until we're looking at dividends in the ten percent range across the board, after being cut from present levels, which implies a much lower stock market. But do I want to make a bet that way? Not particularly. All that money creation could drive the stock market up in spite of much lower earnings and a bad economic situation." Thanks Doug for reminding us of the invisible enemy: inflation.

## Back to Bare Necessities

Those of you who know me and live here in New Zealand know that I've been bullish on commodities as an important asset class to have exposure to if one wants to have a truly diversified investment portfolio. And you probably also know that I've been using a firm based in Switzerland, Diapason Commodities Management, to gain smart yet prudent exposure to that space for my wealthy clients.

Well, last month, Diapason principals came here to New Zealand and we met a number of institutional investors, as well as financial advisors and wealthy individuals. I have to say that I was surprised to find that very few knew of Diapason, yet they were all more or less already convinced they needed exposure to commodities and looking for ways to invest in that asset class. Most of them simply still did not know how best to go about it.

Now, you'll remember that commodities do well when inflation is rising, as I explained back in July 2007 in Issue 13 of *Prosper!* So, if you too believe that all this money pumping going on is bound to cause inflation to rise again in due course, you would do well to invest in commodities. I would even argue that if you were already investing in commodities you'd be doing better than if you're not.

After all, commodities are up around 12% year to date, in US dollars, whereas shares, bonds, property and cash are all either up less or still down... Gold itself is up 8% as I write, its price now being US\$953 an ounce compared to US\$884 at the beginning of the year. But I digress... because gold is not a commodity, it is money. It's real money, money that is not being devalued like the entire range of fiat currencies in which all financial assets are now denominated. But I digress again...

Let's get back to the bare necessities of real economic activity: commodities. The latest person in the industry, whom I already admire for his talent in the art of investing, to sing the praises of commodities as an investment for the foreseeable future, is Jeremy Grantham, chairman of GMO LLC. In the second part of his latest quarterly letter to investors, is entitled 'Initial Report: Running Out Of Resources'. In it, he writes:

*"It should be obvious from simple arithmetic that population growth is on a direct collision course with increasingly scarce resources. For millennia, food constraints held the world's population nearly constant. About 12,000 years ago, these constraints were altered significantly with the start of organized agriculture. Then, around 200 years ago, the so-called Agricultural Revolution – the introduction of science to farming – allowed for another doubling in output. All of this was dwarfed, however, by the harnessing of hydrocarbons – the sun's energy stored over hundreds of millions of years. This remarkable patrimony is now about half gone, and sometime in the next 10 to 40 years, half of all of our resources will have been used or, stated another way, one last doubling will remain. We are looking at the last of 14 doublings in the past 250 years. We are, if you prefer, 13/14ths of the way through the game in exponential terms! At 1% growth in hydrocarbon consumption, which would be a dramatic reduction in the growth rates of the last 30 years, our reserves would last for merely one more generation. As we move through our remarkable and irreplaceable hydrocarbon reserves, the price will, of course, rise remorselessly to ration supplies. Hydrocarbons will increasingly be limited to their highest and best uses: (probably) petrochemical feed stocks and aviation fuels. The price rise, which for a while is quite likely to be parabolic – rising at an increasing rate rather than a steady rate – will have an immediate effect on the price of all agricultural products. Also affected will be the price of all metals, which too have become extremely energy-intensive, as has hydrocarbon production itself."*

Source: [www.gmo.com](http://www.gmo.com)

Yet, few people, it seems, already know or are aware of the fact that in May alone this year, commodity prices had one of their greatest monthly advances ever: commodity prices overall rose by 16% in US dollars, in that month alone! I find it truly amazing how this sort of price increase hardly gets any media attention, while everyone seems to get excited about a 6% rise in share prices or only a 1% drop in property prices... The mind boggles!

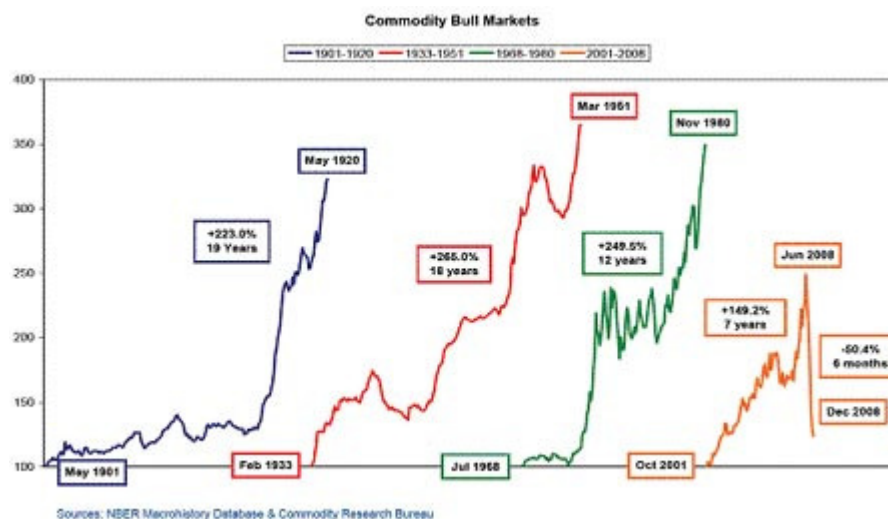
No, most pundits still believe that commodity prices were in a bubble and that it burst last year. Actually, part of the reasons why commodity prices collapsed in the second half of last year was the massive global deleveraging that went on. All asset prices plunged, as investors sold whatever they could to get liquidity and deleverage their positions.

In fact, I happen to believe, as many others do, that much of the so-called speculation in commodities, causing prices to both rise more than they should as well as drop more than they would otherwise all other things being equal, is actually the result of the overproduction of fiat money by governments and central banks everywhere. After all, that money has to go somewhere!

Mark J. Lundeen wrote last week an open letter to the chairman of the US Commodity Futures Trading Commission (CFTC), Gary Gensler, making that point. The CFTC is the regulator of US commodities markets. You can find his letter [here](#). In it, he concludes:

*"There is tremendous pent-up demand for commodities, because there are so many dollars currently stored in dollar-denominated financial assets held by global central banks, insurance companies, and other international financial houses. At present prices, I fear that there are more dollars in existence than things for these dollars to purchase. Prices must be allowed to rise to their own natural levels, or the US dollar is in danger of becoming a currency that can't purchase anything. What happens then?"*

Good question! The reality is that commodity prices have already turned and are already up 30% or so from their trough and are well and truly back on the zigzagged path of a long secular bull market that began in 2001. Here's how this current bull market in commodities compares to date to the previous three that occurred over the last 100 years (the chart below unfortunately stops in December 2008 and does not show the upturn since, but it is still quite revealing I think in putting things in perspective):



For your information, I am currently looking with other parties to establish a local investment product here in New Zealand, which will tap into the unique expertise of Diapason Commodities Management, so that everyone here can soon start to invest easily and prudently in commodities as part of their overall investment strategy.

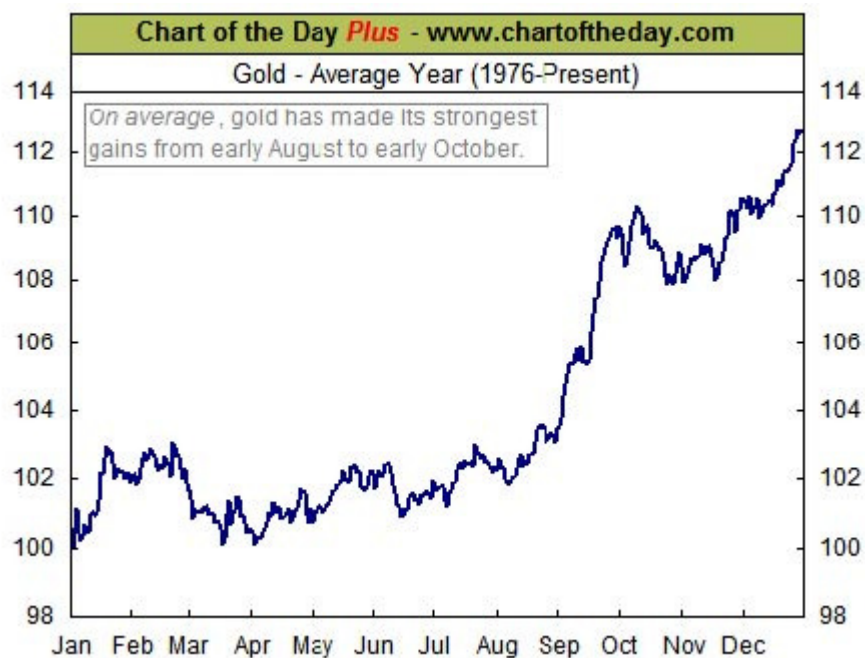
In the meantime, if you want to gain some idea of Diapason's capabilities, please visit their website, [www.diapasoncm.com](http://www.diapasoncm.com), and I encourage you to register to access their research, which is exclusively focused on the commodities markets.

## About the Gold Price...

In closing, I can't help myself but make a brief passing comment on the vagaries of the gold price as, it seems, so many of you still attribute some importance to this noisy distraction.

Well, so far, for much of this year, the gold price has been trading water in a relatively choppy manner. Never mind that the stock markets are still down significantly from their October 2007 peak and that the gold price is still up some 30% over the same period... Many, for some reason, still seem to be put off more by the choppiness of the gold price than the wobbliness of share prices.

The chart below, which illustrates the annual cycle in the gold price, suggests that this choppiness is not out of character for gold. Looking forward from now, one can see that gold has tended to put in its strongest annual gains from early August to early October. So now would seem to be a good time to buy if you haven't yet done so...don't you think?



Source: [www.chartoftheday.com](http://www.chartoftheday.com)

I leave you with this piece of wisdom from another leader of the movement that became the American Revolution, for inspiration in taking action, rather than slumbering into deluded wishful thinking...

*"It is impossible to calculate the moral mischief, if I may so express it, that mental lying has produced in society. When a man has so far corrupted and prostituted the chastity of his mind as to subscribe his professional belief to things he does not believe he has prepared himself for the commission of every other crime."*

*- Thomas Paine  
(1737 – 1809)*

*Author, pamphleteer, intellectual and one of the Founding Fathers of the United States; Paine also greatly influenced the French Revolution; he wrote the Rights of Man (1791), a guide to Enlightenment ideas, and is best known for his pamphlet 'Common Sense', published in 1776*

Your freethinking investment strategist, looking for green shoots but only finding weeds and so, patiently waiting for the inevitable and buying real stuff in the meantime,

Louis Boulanger, CFA  
Louis Boulanger Now Ltd.

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