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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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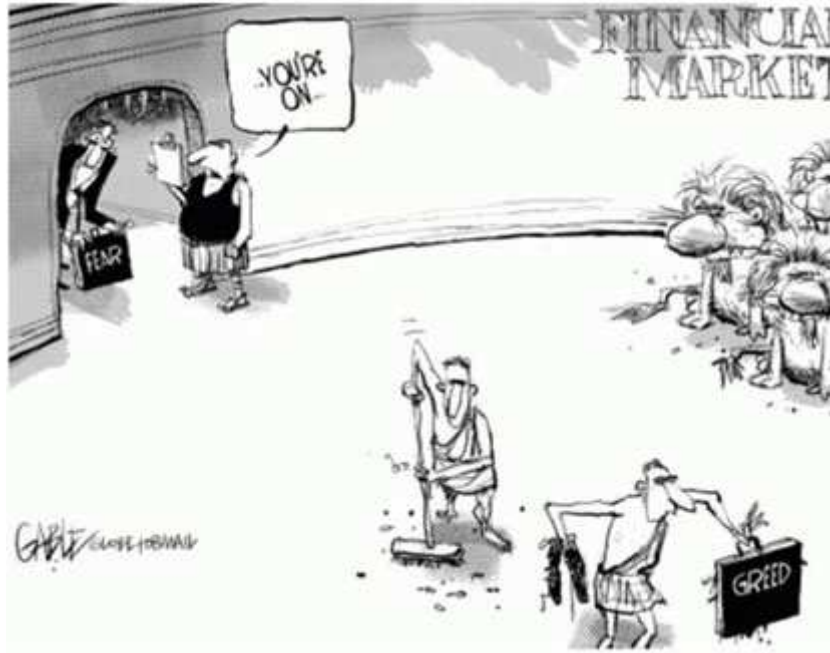
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Fear Is Back

"Shallow men believe in luck. Strong men believe in cause and effect."

- Ralph Waldo Emerson
(1803 – 1882)

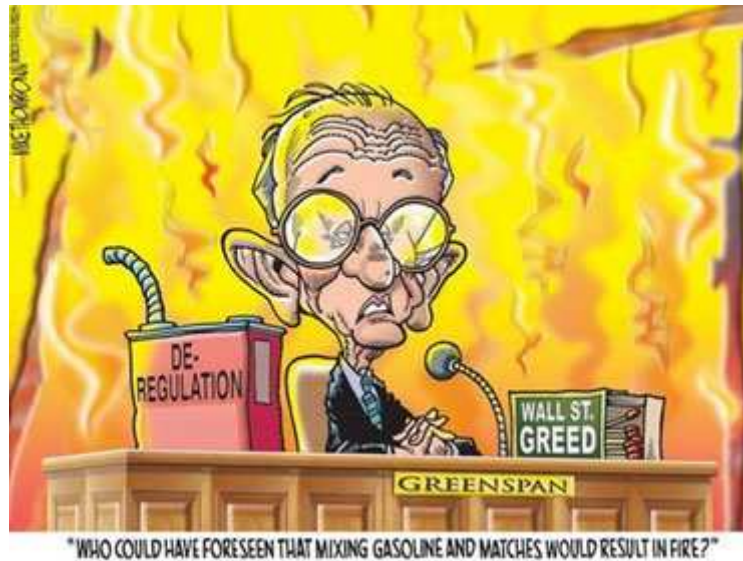
American essayist, philosopher, poet, and leader of the Transcendentalist movement in the early 19th century



Source: www.theglobeandmail.com

I was in Toronto the day that the above cartoon appeared in [The Globe and Mail](http://www.theglobeandmail.com), a Canadian newspaper. Thanks, once again, to the internet (actually, we tend to take the internet for granted, but without it very little of what I'm sharing with you in these e-letters would be possible) you can still access it today (which is how I can share it with you), as well as many other excellent cartoons from their editorial page. I think it captures the mood well... don't you?!

Now, which emotion, do you think, is the most prevalent these days *in the markets*: greed or fear? It seems pretty clear that greed is clearing the area (not voluntarily, of course, but as a result of its limited life expectancy, which is its inevitable nature) and the resulting picture is one which instils fear in all who are surprised and shocked by the failure of greed... Greenspan included, it seems!



Source: www.freep.com

Indeed, the Maestro himself came out of the closet last week and said he was in 'a state of shocked disbelief' (read 'fear' for all who believed in him). He said so as he testified on Capitol Hill last Friday – see www.independent.co.uk and 'Greenspan sees the light' (see the link for the source of the above cartoon).

Greed and fear are supposed, together with herd instinct, to be the three main emotional motivators of share markets and business behaviour and cause bull markets, bear markets and business cycles. Well, we've had plenty of greed. There is still heaps of herd instinct around. But fear has only just made its entry into the arena. What happens for the next little while will, I expect, be very much fear driven. How do you feel?

Take care. Fear is just as toxic as greed and just another emotional trap for investors. But it is a much more powerful emotion than greed. Researchers have found that humans gain the same emotional satisfaction from earning 2.5 units of currency as their dissatisfaction from losing 1 unit of currency. Essentially, our caveman brain is wired so that earning \$25,000 feels about as good as losing \$10,000 makes us feel bad.

Essentially, it seems the emotion of fear is 2.5 times stronger than the emotion of greed, and we've already seen how greed can negatively affect our investment results! So, controlling your emotions and not blindly following **market sentiment** is crucial to successful investing and maintaining your long-term strategy. But beware: never wavering from an investment strategy during times of high emotions *in the market* can also spell disaster.

It's a balancing act that requires you to keep your wits about you. And that's when true knowledge and understanding of what is going on right now is crucial in maintaining that required stillness which gives peace of mind.

Cause & Effect

What we see happening in the financial markets is, in simple terms, merely the manifestation of what philosophers call 'causality' or, in other words, the

necessary relationship between one event (called cause) and another event (called effect) which is the direct consequence (result) of the first.

If you've been reading *Prosper!* since the very beginning (September 2006), none of what is currently going on in the credit/banking/financial markets should surprise you. At the very least, you should not be experiencing 'shocked disbelief'... That is, unless you thought all I was writing about was bullshit!

I've said it many times before and will say it again: this is NOT a credit or banking or financial crisis. It's a MONETARY crisis. It will all be over only after we have returned to **sound money**. In the meantime, what we are necessarily going through and must inevitably go through is highly volatile and often unpredictable price movements of everything in the short term, as an unstoppable sucking force of global deleveraging is taking place and destroying a lot of paper wealth in its path.

The root cause of everything now in motion in the financial markets, in my view (as those of you who have read Issue 1 of *Prosper!* will know), was the totally irresponsible decision made by then US President Nixon to end Bretton Woods (the name given to the global monetary system that was devised in the aftermath of WWII) as it was intended, by unilaterally ceasing to meet its obligation (to redeem US dollars in gold on demand) but continuing to abuse its 'exorbitant privilege' (as Charles de Gaulle called it at the time) of insisting that all major commodities be bought and sold in only US dollars.

"We are, of course, witnessing the unravelling of the entire post-1973 fiat credit money structure. Governments and central banks are pushing on a string with unimaginable vehemence, as witness the literally \$US TRILLIONS they have force-fed into the system and markets. But not only is this not doing any good, it is working entirely contrary to their intended purpose. The money is being used to retire debt. And, since the entire system is "underpinned" by debt, the entire system is having its foundations pulled out from under it much faster than the "authorities" can pump it up."

- *The Privateer's Gold This Week internet column, 24 October 2008*

The United States of America is not dying of natural causes... it's dying of a self-inflicted wound that was administered on 15 August 1971. (See Issue 1 of *Prosper!*)

Hold On to Your Hats (& Bullion!)

Whatever you do, if you already own some gold and silver bullion, don't you panic and go selling your bullion now! The current price of the monetary metals have absolutely nothing to do with what their ultimate price will be once we have monetary reform, which is now inevitable at some stage (but nobody knows yet when that will happen, but it seems the Europeans and Asians want it sooner than later – more on that important development further below).

There is a huge gap between the prices of "paper gold" on the futures markets and the almost total unavailability of physical gold (i.e. bullion) in the retail markets. Gold of any nature, whether bar or bullion or numismatic coin, is all but unavailable at ANY price and has been so for nearly three months now.

And when it is available, the prices being asked by the sellers bear no resemblance to the prices being quoted in the futures markets. The same applies to silver.

The Privateer reminds us in his latest 'Gold This Week' commentary ([which you can find here](#), but may require a paid subscription) of an old depression era joke about the two butchers.

Mrs Jones stands aghast at the counter of the first butcher store where pork chops are going for two Dollars a pound. "Did you know", says she, "that the butcher down the road is selling pork chops for a Dollar fifty?" "Well", says the butcher, "why didn't you buy some from him?" "I couldn't", says the lady, "he hasn't got any". "Oh", says the butcher, "when I don't have any pork chops, the price is a Buck."

The world is bankrupt, but you don't need to follow it. Just watch the show. And if you have not bought any bullion yet, take advantage of the sale prices that are currently on and thank the central banks cartel for their gift (while it lasts)!

"Never has there been as wide a disconnect between the price of a commodity traded on a licensed exchange and the price of that commodity in the real world. This raises the issue that no true price discovery is occurring, and that paper trading is setting prices. This violates basic commodity law. All that remains is a contract delivery default and/or disorderly pricing to the upside."

- Ted Butler, www.butlerrresearch.com, www.investmentrarities.com, 13 Oct '08

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

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Strange Deflation Now; Inflation Tsunami Next

In the background of almost every price movement these days lurks the global deleveraging madness that is currently going on. Those who want to decrease their leverage (i.e. borrowed money to increase existing funds for investment in such a way that the potential - +ve or -ve – outcome is magnified and/or enhanced) must get **US dollars** in order to repay or reduce their loans.

This deleveraging has massively increased the demand for US dollars and, in the process and at least temporarily, is forcing its international value drastically higher. And it is this deleveraging which is being met by the US Federal Reserve's unlimited US dollar issuance - mainly done through the now open-ended swaps (look at what's now happening to the Canadian dollar!) which the US Fed has established with many other central banks.

What lies ahead is the point where the deleveraging starts to ebb away. **When that point arrives**, you should expect the demand for US dollars to also ebb away... Deprived of the present (exceptional and what could be called artificial) demand, the fall in the US dollar could be enormous. Of course, time will tell. But this is where the analogy with tsunamis gets interesting...

The flight to the so-called 'safety' of the US dollar has resulted in a deflationary pullback in prices across the board...but it is probably just the prelude to a killer wave of hyperinflation. Jim Kunstler works wonders with metaphors and the following he wrote recently makes it all clear, in my view:

"All nations that have reached the fork-and-spoon level of civilization are now engineering a vast network of cyber-cables that lead directly from their central bank computers to the Death Star that is hovering above world financial affairs like a giant cosmic vacuum cleaner, sucking up US dollars, Euros, zlotys, forints, krona, what-have-you. As fast as the keystrokes create currency-pixels, the little electron-denominated units of exchange are sucked out of the terrestrial economies into the black hole of money death."

To switch metaphors, let's say that we are witnessing the two stages of a tsunami. The current disappearance of wealth in the form of debts repudiated, bets welshed on, contracts cancelled, and Lehman Brothers-style sob stories played out is like the withdrawal of the sea. The poor curious little monkey-humans stand on the beach transfixed by the strangeness of the event as the water recedes and the sea floor is exposed and all kinds of exotic creatures are seen thrashing in the mud, while the skeletons of historic wrecks are exposed to view, and a great stench of organic decay wafts toward the strand. Then comes the second stage, the tidal wave itself — which in this case will be horrific monetary inflation — roaring back over the mud flats toward the land mass, crashing over the beach, and ripping apart all the hotels and houses and infrastructure there while it drowns the poor curious monkey-humans who were too enthralled by the weird spectacle to make for higher ground. The killer tidal wave washes away all the things they have laboured to build for decades, all their poignant little effects and chattels, and the survivors are left keening amidst the wreckage as the sea once again returns to normal in its eternal cradle."

- James Howard Kunstler, excerpts from 'What Now?' - see www.kunstler.com, 20 October 2008

Author of many great books, most recently: World Made By Hand and The Long Emergency



Now, more than ever before I believe, we need to try and understand what is actually going on right now before our very eyes so that we don't "*stand on the beach transfixed by the strangeness of the event*" until it's too late. This is what's going on: a global sell-off in the share, property and commodities markets. The huge deflationary effects that this massive deleveraging is having, as well as its positive effect on the current exchange value of the US dollar, will last only as long as the global deleveraging itself.

The current "*withdrawal of the sea*" that we are seeing is nothing else than the surest sign of a fast approaching tsunami of destructive inflation. Let's take a closer look at what causes tsunamis and the various phases of tsunamis once they are set in motion. First, here's a definition from Wikipedia:

A tsunami is a series of waves created when a body of water, such as an ocean, is rapidly displaced. Earthquakes, mass movements above or below water, some volcanic eruptions and other underwater explosions, landslides, underwater earthquakes, large asteroid impacts and testing with nuclear weapons at sea all have the potential to generate a tsunami. The effects of a tsunami can be devastating due to the immense volumes of water and energy involved. Since meteorites are small, they will not generate a tsunami.

What are the signs of an approaching tsunami? Again, Wikipedia:

There is often no advance warning of an approaching tsunami. However, since earthquakes are often a cause of tsunami, any earthquake occurring near a body of water may generate a tsunami if it occurs at shallow depth, is of moderate or high magnitude, and the water volume and depth is sufficient.

If the first part of a tsunami to reach land is a trough (draw back) rather than a crest of the wave, the water along the shoreline may recede dramatically, exposing areas that are normally always submerged. This can serve as an advance warning of the approaching tsunami which will rush in faster than it is possible to run. If a person is in a coastal area where the sea suddenly draws back (many survivors report an accompanying sucking sound), their only real chance of survival is to run for high ground or seek the high floors of high rise buildings.

OK, so that's what a tsunami is and those are signs to look out for if we want to know if one is coming. What has that got to do, I hear you ask, with what's going on right now in the financial markets?! Well, I happen to believe in natural laws, you see. I also happen to find it fascinating that the word 'tsunami' is more and more often used in the financial press to describe what's going on right now...

You see, everything is connected. Decisions we make today have an effect at some stage or another. Tsunamis happen in the natural world and we are part of that natural world. We are not 'exempt'. Our thoughts and actions are not exempt. It may seem more obvious to the naked eye that earthquakes and oceans are part of the natural world than our thoughts and actions are. But the truth is that everything starts with a thought and actions have consequences.

Know This: It's Not Possible to Prevent a Tsunami

Ultimately, we get what we deserve. But that does not mean that you should

stand on the beach and get washed away! The tsunami is coming; that much is clear from what's currently happening. You or I or anyone else cannot stop or prevent it. That is an important feature of tsunamis, once in motion. So, know it is coming and *"make for higher ground"*! In other words, protect yourself while you can, insulate yourself from the inevitable fiat currency destruction that is coming by buying some bullion and waiting for the wave to pass.

By the way, a tsunami wave is not what most people think it is. It is not a short sharp and enormously high wave that hits the shore for a minute or so and then recedes. It is a shallow but very long wave that seems to take forever to head back to sea. Here's a description, again from Wikipedia:

While everyday wind waves have a wavelength (from crest to crest) of about 100 m (300 ft) and a height of roughly 2 m (7 ft), a tsunami in the deep ocean has a wavelength of about 200 km (120 miles). This wave travels at well over 800 km/h (500 mph), but due to the enormous wavelength the wave oscillation at any given point takes 20 or 30 minutes to complete a cycle and has amplitude of only about 1 m (3 ft). This makes tsunamis difficult to detect over deep water. Their passage usually goes unnoticed by ships.

As the tsunami approaches the coast and the waters become shallow, the wave is compressed due to wave shoaling and its forward travel slows below 80 km/h (50 mph). Its wavelength diminishes to less than 20 km (12 miles) and its amplitude grows enormously, producing a distinctly visible wave. Since the wave still has a wavelength on the order of several km (a few miles), the tsunami may take minutes to ramp up to full height, with victims seeing a massive deluge of rising ocean rather than a cataclysmic wall of water. Open bays and coastlines adjacent to very deep water may shape the tsunami further into a step-like wave with a steep breaking front.

An instructive animation on the origin of a tsunami (www.forskning.no) may help in understanding why the analogy of a tsunami is so relevant in my view to what is currently in motion in our financial markets. You see, the *"earthquakes... landslides... and nuclear weapons"* that can cause tsunamis have all already happened... The last foundation of sound money was removed in 1971 by Nixon; many bubbles have come and gone since then; and now the unregulated derivatives market has already become an unfortunate weapon of mass financial destruction.

So, the triggers, as it were, have already occurred. Now, *"as the water recedes and the sea floor is exposed and all kinds of exotic creatures are seen thrashing in the mud, while the skeletons of historic wrecks are exposed to view, and a great stench of organic decay wafts toward the strand"*, the best thing for you to do is realise what's coming, not get suckered in and GET OUT of the way and seek safety on the higher ground of sound money.

There is Hope: Bretton Woods II

Or is it Bretton Woods III? After all, we've already been off the originally intended Bretton Woods global monetary system since the early 1970s...

"Perhaps what we need is to go back to the first Bretton Woods...to go back to discipline...as it's absolutely clear that financial markets need discipline:

macroeconomic discipline, monetary discipline, market discipline.”

- *European Central Bank President Jean-Claude Trichet, 13 October 2008...after speaking at the Economic Club of New York (www.bloomberg.com)*

Monsieur Trichet is French... Charles de Gaulle would have been pleased! What Monsieur Trichet speaks of in the above quote, is a return to the gold standard... in one form or another. And sooner or later, that's **exactly** what the world will be forced to do... as the economic, financial and monetary world we knew before 1971...cannot possibly be revived without such monetary reform and discipline.

But, hold on a minute here; what currency would take the place of the US dollar, as the only currency to be redeemable in gold, and at what price per ounce of gold? What would be the new sound measure of money? Well... it seems like virtually the whole world 'ex-US' (i.e. with the notorious exception of Australia, Canada and the UK among the leading nations...) already has a view on this. After all, they are the nations lending to the US and they've had enough of the ongoing shenanigans!

Leaders from 45 Nations Reach Consensus in Beijing

Note that the US was not there... It wasn't even invited!

“Asian and European leaders said Saturday they have reached a broad consensus on ways to deal with the global financial meltdown and will present their views at a crisis summit next month in Washington.

Speaking at the close of a two-day Asia-Europe Meeting in China's capital, the leaders called for new rules for guiding the global economy and a leading role for the International Monetary Fund in aiding crisis-stricken countries. The biennial forum, known as ASEM, generally does not make decisions, and a statement issued by the leaders indicated how much the crisis in global markets has driven world opinion and institutions. I'm pleased to confirm a shared determination and commitment of Europe and Asia to work together,” EU Commission President Jose Barroso said at a closing news conference.”
Source: www.reportonbusiness.com

“European and Asian leaders promised major reforms to the global financial system as they wrapped up a two-day summit here Saturday focused on the economic meltdown.

Leaders from the 45 members of the Asia Europe Meeting (ASEM) pledged to work together in comprehensively changing the world's financial architecture and urged the International Monetary Fund to play a larger role in the turmoil.

Chinese Premier Wen Jiaobao urged unity between the two regions as they tackled the worst financial crisis since the Great Depression of the 1930s, and called for more regulation of the financial system.”...

“In a statement released late Friday, the group vowed to overhaul the world's financial systems.

"Leaders pledged to undertake effective and comprehensive reform of the international monetary and financial systems," the statement said."
Source: www.france24.com

It seems pretty clear to me that the US dollar's role as the global reserve currency is on its last days. Of course, the US will try to drag out this process of finding a new monetary foundation for the world. The first opportunity to do so will be the summit on 15 November in Washington of the Group of 20 (G20) that was recently convened by US President Bush.

Time to laugh...

This joke came from Clyde Harrison, one of the smartest (and funniest) guys working in the commodities sector today – I had the pleasure of hearing him speak once at a dinner hosted by Casey Research LLC...

Young Chuck moved to Texas and bought a donkey from a farmer for \$100. The farmer agreed to deliver the donkey the next day. The next day he drove up and said, "Sorry son, but I have some bad news, the donkey died."

Chuck replied, "Well, then just give me my money back." The farmer said, "Can't do that. I went and spent it already."

Chuck said, "Ok, then, just bring me the dead donkey." The farmer asked, "Whatcha gonna do with him?"

Chuck said, "I'm going to raffle him off." The farmer said, "You can't raffle off a dead donkey!" Chuck said, "Sure I can. Watch me. I just won't tell anybody he's dead."

A month later, the farmer met up with Chuck and asked, "What happened with that dead donkey?" Chuck said, "I raffled him off. I sold 500 tickets at two dollars apiece and made a profit of \$998."

The farmer said, "Didn't anyone complain?" Chuck said, "Just the guy who won. So I gave him his two dollars back."

Chuck now works for Goldman Sachs...

And to finish: this year's Halloween is probably going to be a little different for many...



But, rest assured, as sure as hard times are coming for the fearful and vulnerable, you can also expect even harder times (and about time) for the deceitful and greedy...



Source: www.theglobeandmail.com

Your freethinking investment strategist, neither greedy nor fearful, but resolute in his decision to advocate for monetary reform and a return to sound money

Louis Boulanger, CFA
Louis Boulanger Now Ltd.

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