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

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Freethinking Investment Strategies

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## Lipstick on a Pig

I wasn't going to write another letter this year, because what's happening in the global financial and monetary systems is so bad that I did not want to send a final letter for 2007 so near Christmas with negative content. But the European Central Bank (ECB) this week simply went too far, with the creation out of thin air of 348 billion Euros, which is equivalent to one-half trillion US dollars, in a single day!?!

It reminds me of Weimar Germany in 1923... As that country's monetary problems worsened, the central bank, then the Reichsbank, in the misguided thinking of that day printed one-half trillion of Reich Marks. As with the ECB today, it also had the aim to provide 'liquidity'. Is there anything essentially different between what the Reichsbank did in 1923 and what the ECB just did? Not really.

So what happened in 1923 in Germany after the central bank had been pumping so much money into the markets? Well, its currency depreciated at such accelerated rate that, soon, before people realised what was happening, Germany's currency was close to worthless.

Please take a good look at the banknote below: it's a 1,000 Mark banknote, but it is over-stamped in red with "1,000,000,000 Mark"

across it by the central bank. Presto! Like magic, that's how you could change 1 thousand Marks for 1 million thousands or 1 billion Marks if you were the central bank.



In 1922, the highest denomination was a 50,000 Mark banknote. In 1923, the highest denomination was a 100,000,000,000,000 Mark banknote. By December 1923, the exchange rate from Marks to US dollars had reached 4,000,000,000,000:1. That's not 4 to 1, but 4 trillion to 1! That's when feeding a stove with your currency notes becomes a good idea, because they burn longer than the amount of firewood the notes can buy...



Apparently, people carried a wheelbarrow full of the banknotes to the corner bakery just to buy a loaf of bread... I know; it's almost impossible to imagine that sort of hyperinflation could have happened and it's even more unbearable to think that it could happen again. Well, it actually is happening, right now... in Zimbabwe, where the inflation rate is now estimated to have reached 1,500,000,000%. And what is the Mugabe government doing? It's instituted a six-month freeze on wages...

That reminds me of the latest initiative to 'save the day', back in the I.O.U.S.A, earlier this month, by none other than the now famous Dynamic Duo: President Bush and Treasury Secretary Paulson. They instituted a five-year freeze on adjustable (up, of course) mortgage payments. Hummm... what about those who lent the money? What about the investors? What about contract law? Oh well, don't worry, they must know what they're doing; right? Yeah, right!

No, it's not about free and fair markets anymore; it's all about maintaining the illusion yet a little longer still and at any cost to future tax payers that 'everything is fine' and maybe, just maybe, it'll work. After all, don't we create our own reality? So please keep on shopping and, don't forget; it's Christmas soon, so please be generous even if it means you have to put it on the plastic card. With any luck, interest payments on credit cards will all be frozen in the New Year. Ho! Ho! Ho! Weimar here we come.

*"Like gold, US dollars have value only to the extent that they are strictly limited in supply. But the US government has a technology, called a printing press (or, today, its*

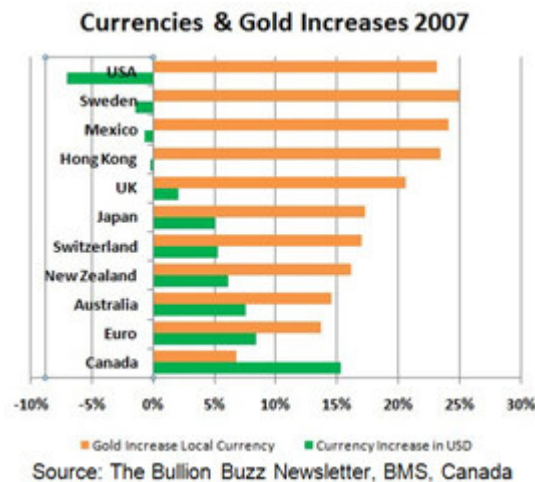
*electronic equivalent), that allows it to produce as many US dollars as it wishes at essentially no cost. By increasing the number of US dollars in circulation, or even by credibly threatening to do so, the US government can also reduce the value of a dollar in terms of goods and services, which is equivalent to raising the prices in dollars of those goods and services. We conclude that, under a paper-money system, a determined government can always generate higher spending and hence positive inflation.”*

- Ben Bernanke  
(1953 - )

*Current Chairman of the Board of Governors of the Federal Reserve (the US central bank)*

*Quote from a speech he gave in 2002 (Deflation: Making Sure ‘It’ Doesn’t Happen Here)*

Well, maybe once, before 1971, US dollars were like gold. But not any more... Got any gold yet?



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## **Mieux Vaut en Rire...**

Look, especially at this time of the year, it's always better to laugh at the situation than to cry. This letter is not about yesterday, last week, last month or last year. Nor is it about tomorrow, next week, next month or next year. It's about now. And now lasts forever if you pay any attention.

Yes, the global economy is perched on a pin. Yes, a problem delayed is not a problem solved. Yes, creating 'liquidity' won't solve insolvency. So what? Christmas is fast approaching and 2007 is nearly over. Let's forget about asset bubbles and let's drink some Champagne! Now is the time to be grateful, merry and kind. Let's laugh at the amazing determination we humans seem to have to complicate life to such

extremes that we virtually become our own victims and forget our true nature to simply be.

Take this hilarious [video](#), for example! If you find it hard to understand the so-called sub-prime mortgage crisis and all the rest of it, then you'll find these two gentlemen's exposé enlightening for sure. After all, you got it straight from the horse's mouth!



*“When the power of love overcomes the love of power,  
then there will be peace on this earth.”*

*- Jimi Hendrix  
(1942 - 1970)  
American guitarist, singer and songwriter*

Your freethinking investment strategist, wishing you and your loved ones a very Merry Christmas and a Prosperous New Year!

Louis Boulanger, CFA  
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