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Article 1:

The Party's Over

Remember Bear Stearns' two hedge funds of CDOs? I mentioned them and their woes last month in Issue no 12 of ***Prosper!*** Well... their investors lost all their money and their woes have now started to spread like a virus and this one is not contained to just the US. For instance, even all the way here in the Antipodes, so far at least, it seems limited to Bridgecorp in New Zealand, a finance company, and Macquarie Bank in Australia, a major bank. What about in Europe? For now at least, it's IKB Deutsche Industriebank AG, another big bank. Who'll be next? Nobody knows. But, Jeremy Grantham (whose company, GMO, manages something in the order of US$150 billion) stated recently that he thought at least one major bank would go belly up within 5 years...

Meantime, back in the US... This comment came from no less than the Wall Street Journal itself yesterday: *"Credit-market jitters are beginning to shake up Wall Street's corner offices, as illustrated by the departure of Warren Spector from Bear Stearns, but a management shuffle is unlikely to alleviate problems facing the securities firm."* Another one bites the dust... Heads are starting to roll at the top. More from the same WSJ article:

> *"The implosion of two mortgage-related hedge funds spurred Bear Stearns Chief Executive James Cayne to ask Mr. Spector to resign as the firm's co-president. Mr. Cayne said he had lost confidence in Mr. Spector and it was in the "best interest of the firm" for him to go, people familiar with the conversation tell The Wall Street Journal. Mr. Spector had been seen as a likely successor to Mr. Cayne (...) Mr. Spector was responsible for the firm's asset-management business and the risk controls that were in place there. He was "the person most associated with making decisions in the mortgage and fixed-income businesses at Bear Stearns, and that's where the problems are," analyst Richard Bove at Punk, Ziegel & Co. tells Bloomberg.*
>
> *Going forward, Mr. Spector's former co-president Alan Schwartz will have that title all to himself and Chief Financial Officer Samuel Molinaro will take on the extra role of chief operating officer, as Reuters reports. But the new order at Bear leaves the firm without a clear succession plan and without the services of a mortgage and trading expert, the Journal writes. Mr. Spector's "unflappable mien and his deep technical awareness of Bear's complicated businesses" may have already been missed, according to the Times, during a conference call Friday following Standard & Poor's decision to lower its outlook on Bear's credit rating. On the call, Mr. Molinaro compared the current troubles at Bear to the bursting of the Internet bubble in 2001, saying it was the worst crisis he had seen in 22 years* (my emphasis)*, which prompted investors to further sell off the company's stock, the paper notes. A reduction in the rating would leave Bear with the lowest credit rating of the five biggest U.S. securities firms, Bloomberg says."*

This is not a mere 'sub-prime' mortgage lending blow-up... It's a derivatives blow-up! Most of the mainstream media seems incapable of understanding derivatives, so it is axiomatic then that the media will simply regurgitate the pabulum it is fed by Wall Street, the Fed and the US Treasury about the sub-prime problem. So we read that the problem is "contained" and so forth. Not so. The CDOs are junk debt instruments masquerading as investment grade paper because they are guaranteed through credit default swaps. Well, not any more it seems; the counterparties of these so-called 'structured credit' instruments can no longer make good on their obligations.

The credit rating agencies (like Moody's, Standard & Poor's, etc) will have a lot of explaining to do. I expect they will be seen in due course as the enablers of this mess and ultimately judged in the same way as the big accounting firms were in the case of Enron and the other big corporate scandals of a few

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years ago. To put it simply: buyers of CDOs were pacified by the credit rating agencies having appraised these CDOs as comparable to cash or bank deposits in terms of credit risk. Do I hear 'fraud'?

Credit Market Dislocation

There's trouble in 'Hedgistan'! *"The hedge fund industry is based on the bizarre notion that one does not have to produce anything of value to make boatloads of money. You don't even need assets any more---just a risky loan that can be transformed into an investment grade security through the magic of "securitization" a sprinkling of Wall Street snake oil. Abracadabra! (...)The skydiving hedge funds just pulled the CDO rip-chord and nothing came out but confetti. Aaaaaaaahhhh! And that's just half the story. There's trillions of dollars in derivatives riding on these shaky CDOs. That's enough to bring down the whole market in a heap once interest rates rise or liquidity dries up. Now it's just a matter of "when", not "if".* (For the full article, please go to: http://www.informationclearinghouse.info/article18051.htm)

I now turn briefly to a master of the US credit markets to lay it out even more bluntly for us. For years he was a lonely voice in the credit wilderness. His weekly examination of the entrails of the biggest credit bubble the world has ever experienced is well known in Internet financial circles. I am referring to Doug Noland over at www.prudentbear.com. Here are some of the most salient points from his latest Credit Bubble Bulletin entitled "Credit Market Dislocation" (http://www.prudentbear.com/articles/show/2081):

> *"The Credit Market has dislocated, liquidity has evaporated, and our academically-inclined new Fed chairman is in store for a historically challenging real world first test. Wall Street has been conditioned over the years to expect "bailouts." Only months on the job, Alan Greenspan stepped up and assured the markets that the Fed was ready to add liquidity after the '87 stock market crash. The Greenspan Fed acted aggressively during the LTCM crisis and, later, Dr. ("Helicopter") Bernanke played an instrumental role in the Fed talking the risk markets higher in late 2002. To be sure, Fed "re-liquefactions" played a conspicuous role in fostering ever greater and more unwieldy Bubbles..."*
>
> *"While the sub prime implosion was a major marketplace development, in reality only a small segment of the mortgage marketplace was actually impacted by significantly tighter Credit conditions. Today, we are in the throes of a dramatic, broad-based and momentous tightening of mortgage Credit. Importantly, key players and sectors throughout the mortgage risk intermediation process are increasingly impaired and now in full retreat (...) Risky mortgage exposure now permeates the (global) system..."*
>
> *"The process of transforming risky mortgage loans into coveted perceived safe and liquid ("money"-like) Credit instruments has broken down on several fronts. Not only is the risk intermediation community impaired, marketplace confidence and trust in the quality, safety, and liquidity of mortgage (and mortgage-related) securities is being shattered. There are apparently serious problems developing throughout the massive marketplace for ("repo") financing MBS. And it is precisely the market for financing the top-rated mortgage securitizations – where the perceived risk was minimal – where I suspect the greatest abuses of leverage occurred. The marketplace is now experiencing forced de-leveraging and a liquidity Dislocation - with major systemic ramifications."*
>
> *"I cannot this evening overstate the dire ramifications for the unfolding Credit Market Dislocation. There is today serious risk of U.S. financial markets - distorted by years of accumulated leverage and derivative-related risk distortions - of "seizing up." A system so highly leveraged is acutely vulnerable to speculative de-leveraging and a catastrophic "run" from risk markets. At the same time, the Bubble Economy and inflated asset markets – by their nature – require uninterrupted abundant liquidity. The backdrop could not be more conducive to a historic crisis, yet most maintain unwavering confidence that underlying fundamentals are sound."*

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"Credit Market Dislocation now dictates the assumption that Federal Reserve liquidity assurances and rates cuts are on the near horizon. And while they will likely incite the expected knee jerk response in the equities market, I don't expect they will have much lasting effect on our impaired Credit system. Current issues are much more complex and serious than '87, '98, 2000, or 2002. The dilemma today is that confidence in "Wall Street finance" has been shattered. The manic Bubble in Credit insurance, derivatives, and guarantees is bursting. The manic Bubble in leveraged speculation is in serious jeopardy."

"I have compared the current backdrop to that of 1929... For too long our Bubble Economy and Bubble Asset Markets have luxuriated in liquidity created in the process of leveraging speculative securities positions... We are now witnessing how abruptly euphoric boom-time liquidity abundance can transform to a liquidity crisis... I apologize for appearing overly dramatic. But (...) I fear for our markets, our economy, our currency and our system... The Great Credit Bubble has been pierced, and there will now be a very, very heavy price to pay. And, as always, I hope I am proved absolutely wrong."

I'm afraid that, unless all the central banks are prepared to flood the world with liquidity by lowering interest rates on a world-wide basis, he'll unfortunately be proved right. I do believe however that the US central bank itself will now reduce its interest rates (even if all other central banks are increasing theirs) because it now seems to have no other choice. In other words, the Fed will opt to continue inflating the money supply and in the same breath devalue the US dollar (and create ultimately much higher inflation), rather than facing the possibility of deflation. The mighty US dollar will be sacrificed on the great financial altar to maintain the illusion that all is well for a little longer.

Well, the Fed and other central banks can print all the money they want; one thing they still cannot do, thank God, is control how it ends up being invested. Be wise and don't get caught with your pants down. Remember what the great Warren Buffet once said about not being surprised by circumstances: *"It's only when the tide goes out that you learn who's been swimming naked."* Or what George Bernard Shaw said which was equally just as wise in my view: *"The surest way to ruin a man who doesn't know how to handle money is to give him some."* Yep, sure thing!

"There is no means of avoiding the final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as a result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved."

Ludwig von Mises
(1881-1973)
Notable economist; uncontested dean of the Austrian School of economics

Please note that all past issues of Prosper! are available Here for your convenience.

Article 2:
Time to Buy Some Real Stuff

Jim Rogers, who predicted the current global commodities rally in 1999, told reporters last Friday that US housing is one of the biggest bubbles in history – and one that will leave the biggest mess. *"This is the only time in world history when people were able to buy houses with no money down and in fact, in some cases, the builders gave them money for a down payment*," Rogers said. *"So this bubble is the worst we've had in housing, and it's going to be the worst we've had cleaning it out."*

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Last week, American Home Mortgages Investment Corp (AHM) -the 10th-largest mortgage lender in the US - was the first major lender OUTSIDE THE SUBPRIME MORTGAGE BUSINESS to go belly-up... The actual total number of mortgage lenders to have gone bell-up in the US since late last year is actually much much higher: 110. 110 firms! Don't believe me? Go see The Mortgage Lender Implode-O-Meter (http://ml-implode.com) and prepare to be shocked (especially if you are based in the US, have a mortgage and work for a Wall Street firm).

Russia Claims North Pole

You know that the commodities bull market is still alive and well when you read things like this in the newspapers: "Russia Claims North Pole"! To which, of course, Canada's Foreign Minister said: *"This isn't the 15th century. You can't go around the world and just plant flags and say 'We're claiming this territory'."* Huh? Russia planted a flag at the North Pole and claimed it??

Here's what happened, as reported by The Independent: *"Russia has taken a giant leap for the Kremlin by planting its flag on the ocean floor under the North Pole in a politically charged symbolic gesture to claim the rights to the sea bed which could be rich in oil and gas. In a dramatic technical feat testing international law, the Russians dispatched two mini-submarines 2.5 miles to the ocean floor in what is believed to be the first expedition of its kind. Both submersibles, with crews of three on board, completed their dangerous return to the surface yesterday after what was described as a 'smooth landing'. But the expedition raised the hackles of Russia's neighbours, who also have their eye on the vast mineral deposits that could lie under the Arctic area, and who consider the Russian moves as a brazen land grab."* (For the whole story: http://news.independent.co.uk/sci_tech/article2831111.ece)

So Russia, it seems, has now fired the first diplomatic shot in a really cold war. The accelerated shrinking of the polar ice cap because of global warming has now allowed exploration for oil and natural gas that had been previously unthinkable because of the extreme conditions. Russia has been claiming for some time that the Lomonosov Ridge, an underwater mountain range crossing the polar region, is an extension of its territory. Yesterday's scientific achievement of dropping a titanium capsule containing the Russian flag on to the seabed has, once again, demonstrated Russia's determination to expand its own energy empire.

Countries do not go to such extraordinary lengths to stake claims on oil and gas if they didn't believe that such commodities will be in short supply and highly priced in the future. The commodities super-cycle is alive and well.

Sovereign Wealth Funds

They are fast becoming the new 900-pound gorillas in the room for financial markets. What are they? 'Sovereign Wealth Fund' as a term has been around since 2005. But little attention until now has been paid to what they actually invest in. Sovereign Wealth Funds (SWFs) are funds owned by a state composed of financial assets such as stocks, bonds, property or other financial instruments and investments. Broadly defined, SWFs are entities that can manage the national savings of a country for the purposes of investment.

The names attributed to the entities that manage these funds may include central banks, official investment companies, state pension funds, sovereign oil funds and so on (e.g. the Abu Dhabi Investment Authority (ADIA), the Government of Singapore Investment Corporation (GIC) and the recently created China Investment Company by the People's Republic of China). Note that China, with their vast reserves (estimated at close to US$1.5 trillion as at the end of June 2007), will be putting no less than US$300 billion in their new SWF... Just like that, from day one, China will have almost as much (see the estimates in the table below) as Singapore's GIC to invest broadly; yet, it took Singapore 25 years to reach this point!

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Gold sovereigns

Sovereign-wealth funds, estimated assets

March 2007, $bn

Country	Fund	Assets, $bn	Inception year
UAE	ADIA	875	1976
Singapore	GIC	330	1981
Saudi Arabia	Saudi Arabian funds of various types	300	na
Norway	Government Pension Fund - Global	300	1996
China	State Foreign Exchange Investment Corp. + Central Huijin*	300	2007
Singapore	Temasek Holdings	100	1974
Kuwait	Kuwait Investment Authority	70	1953
Australia	Australian Future Fund	40	2004
US (Alaska)	Permanent Fund Corporation	35	1976
Russia	Stabilisation Fund	32	2003
Brunei	Brunei Investment Agency	30	1983
South Korea	Korea Investment Corporation	20	2006

Source: Morgan Stanley *Not yet finalised

Source: The Economist magazine, The world's most expensive club, 24 May 2007.

There have been attempts to distinguish funds held by sovereign entities from foreign exchange reserves held by central banks. The former can be characterized as maximizing long term return, with the latter serving short term currency stabilization and liquidity management. But the distinction is getting fuzzier and fuzzier.

That's because many central banks in recent years have begun to build reserves massively in excess of what could be considered simply as the country's need for liquidity or foreign exchange management. It is widely believed most have diversified hugely into assets other than short term, highly liquid monetary ones (almost no data is available however to back up this assertion). Some central banks have even begun buying equities, derivatives of differing ilk (e.g. Interest Rate Swaps) and commodities (e.g. oil, copper, gold).

Most of the money in SWFs originated from accumulated foreign currency reserves. These were formerly held only in gold, as official gold reserves. But under the Bretton Woods system, the US pegged the US dollar to gold, and allowed convertibility of US dollars to gold. This effectively made US dollars appear as good as gold. The US later abandoned the gold standard (for more on what happened, see Issue no 1 of ***Prosper!)***, but the US dollar has remained relatively stable as a fiat currency, and it is still the most significant reserve currency. In the 1990s and early 2000s, central banks began to hold ever more vast amounts of their reserve assets in multiple currencies.

As the asset pool of SWFs continues to grow in size and importance, so does its potential impact on various assets and financial markets. Are central bank reserve managers - at least those among them who have accumulated massive foreign exchange reserves in recent years (e.g. China, Japan, Russia, etc; NOT the US, Canada, Australia, etc) - starting to act more like sovereign wealth managers? What precisely is the difference between the two, and how can we expect them to develop and relate to one another in the future? These have got to be important questions to be asking ourselves as we try to understand where financial and real assets markets are heading.

Traditionally, central banks of emerging economies have invested in stable, low-return and highly liquid assets such as US Treasury bills that provide flexibility in terms of managing the local currency. However the massive growth in global foreign exchange reserves in recent years has pushed these public entities into the commodities and equity (including private equity) markets in the quest for higher returns from their excess capital.

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According to the US Treasury, the growth in global foreign exchange reserves including gold have grown at a rampant 20% annual average rate since 2002, compared to 6% from 1997 to 2001. Global foreign exchange reserves held by governments is now estimated to be around US$5.6 trillion, with an additional US$1.5-$2.5 trillion held in SWFs. When tallied up, the total amount of foreign assets held by governments would therefore be approximately US$7.6 trillion or 15% of global GDP. Wow!!

The trend toward large-scale investments in private equity by foreign state banks, a trend which has gained considerable momentum in recent months, has I think the potential to change the whole scope of global financial markets. Recent investments such as the US$3 billion invested into Blackstone by China contain the seeds of serious ramifications.

Not only can these new money pools move markets, up or down, in a big way… but any attempt to unload significant amounts of their cash for tangible assets can and already is, in some cases, having an effect on prices. I mention this here, because it is a powerful new force in the markets and one to keep a very close eye on. Their potential impact on investment markets and on international trade relations, I think, has yet to be fully assessed.

In the process of thinking about these new 900-pound gorillas, I came across an article in the Financial Times recently by none other than Lawrence Summers (he was US Secretary of Treasury right after Robert Rubin when the Mexican peso and Russian bonds crises happened and, following in RR's footsteps, it was his turn to once again 'save the world' from the likely ripple effects of the 1999 Asian banking crisis along with the master illusionist himself, Alan Greenspan). The article is entitled "Funds That Shake Capitalist Logic" (http://www.ft.com/cms/s/bb8f50b8-3dcc-11dc-8f6a-0000779fd2ac.html). Here are a few relevant excerpts:

> *"For some time now, the large flow of capital from the developing to the industrialized world has been the principal irony of the international financial system. In 2007 this flow will total well over half a trillion dollars, a figure that will be comfortably exceeded by the build-up in reserves and sovereign wealth funds (SWFs) in developing countries.*
>
> *Indeed, Morgan Stanley has estimated on reasonable assumptions that there is now close to $2,500bn (£1,200bn, €1,800bn) in SWFs and that this figure will increase to $5,000bn by 2010 and $12,000bn by 2015.* (Note the latter number; that's US$12 trillion dollars!!) *… A crucial question for the global financial system and indeed for the global economy is how these funds will be invested.*
>
> *…In the last month we have seen government-controlled Chinese entities take the largest external stake (albeit non-voting) in Blackstone, a big private equity group that, indirectly through its holdings, is one of the largest employers in the US. The government of Qatar is seeking to gain control of J. Sainsbury, one of Britain's largest supermarket chains. Gazprom, a Russian conglomerate in effect controlled by the Kremlin, has strategic interests in the energy sectors of a number of countries and even a stake in Airbus. Entities controlled by the governments of China and Singapore are offering to take a substantial stake in Barclays, giving it more heft in its effort to pull off the world's largest banking merger, with ABN AMRO.*
>
> *To date most of the official commentary on the issue of SWFs has been framed in terms of traditional arguments about cross-border capital flows. US and UK officials have raised concerns that focus only on the desirability of reciprocity and transparency and on how to treat sectors that trigger national security questions. Others, particularly in continental Europe, have been less positive and have emphasized nationalist considerations about the benefits of local ownership and control.*
>
> *What have received less attention are the particular risks associated with ownership by government-controlled entities, particularly where the ownership stake is taken through direct*

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investments. The logic of the capitalist system depends on shareholders causing companies to act so as to maximize the value of their shares. It is far from obvious that this will over time be the only motivation of governments as shareholders. They may want to see their national companies compete effectively, or to extract technology or to achieve influence.

…To the extent that SWFs pursue different approaches from other large pools of capital, the reasons have to be examined. The most plausible reasons – the pursuit of objectives other than maximizing risk-adjusted returns and the ability to use government status to increase returns – are also most suspect from the viewpoint of the global system."

This is what David Galland, Managing Director of Casey Research, had to say about the above: *"I found these excerpts enlightening in that it begins to reveal the strategy that foreign holders of US dollars will certainly use to try and unload some of same, and because Summers correctly points to just some of the problems that will flow from governments jumping wholesale into private enterprise. The implications go far beyond those touched upon, including the inevitable one-sided conflict that will occur when a true private enterprise competitor bumps up against a state owned enterprise either in local markets, or on the international stage. (Pssst… Want that oil concession back in China to get its next permit? Then, perhaps, you should forget about bidding against the Chinese backed SWF for some concession in Nigeria.)"* I couldn't agree more. We do live in interesting times, don't we?

So, in summary: it would appear what these SWFs may be really for is an attempt to secretly dump US dollars without affecting the foreign exchange rate and without triggering the global stampede out of the US dollar. Secret or not, however, the more of these there are, the less chance they must have of continuing to work, right? At present, governments and central banks trust each other not to start the stampede. But do not most of them have long histories of stabbing each other in the back? SWFs are just a way of buying time; to hoodwink the unwary. Don't be one of them.

Yen Carry Trade

The more people worry about risks within the financial system, the better. So, as if the above was not already enough to convince you that there is a 'perfect financial and monetary storm' brewing and that you should buy some real stuff like gold and silver bullion coins and invest in commodities, for example, I could not resist also mentioning at least in passing the apparent unwinding of what has been a long and persistent yen carry trade which seems to have finally begun. Why? Because if it is unwinding, then that's also got to have a huge effect in due course on financial, including currency, markets.

Earlier this year, *The Economist* magazine wrote an article entitled "What keeps bankers awake at night?" (For the full article, see: http://economist.com/finance/displaystory.cfm?story_id=8633485). In the article, it said that two things worry people:

"The first is the "carry trade", which involves investors borrowing a low-yielding asset (often the yen) and buying a higher-yielding one. Past financial market wobbles have been associated with periods when the carry trade was unwound. No one knows precisely how much capital is involved. But Tim Lee, of Pi Economics, reckons as much as $1 trillion may be staked on the yen carry trade. Were the yen ever to rise sharply (making the trade unprofitable), there could be hell to pay in the markets.

The second is the low cost of credit, and the rapid growth in credit derivatives, which allow investors to insure against default. The rise of the derivatives market has coincided with a very low default rate. Were defaults to rise, the ability of the markets to absorb losses (and clear trades) might be severely tested."

Well, we already know that the second thing above has already started to happen (re Bear Stearns, etc). What of the first one then? Well, according to Dr. Steve Sjuggerud of Stansberry & Associates Investment Research, for instance, on 31 July Japanese individual investors set a record… they

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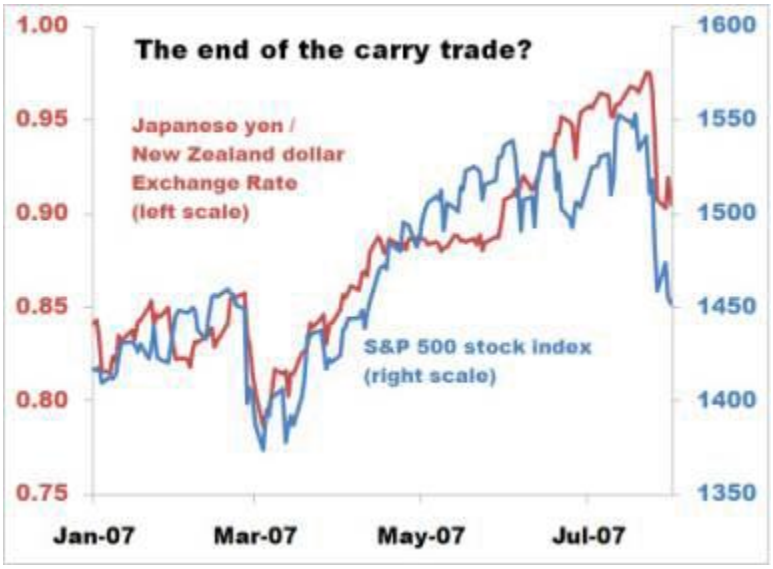
borrowed more Japanese yen and bought more in foreign currencies than they ever have before. What is going on here? Is it a sign that this first thing bankers worry about is also starting to happen? Here's Sjuggerud in his own words last Friday (interestingly, for all you Kiwis reading this, using the New Zealand dollar as the higher yielding currency in his yen carry trade story):

> *"What does Mrs. Watanabe (Japan's version of Mrs. Jones) know about the New Zealand dollar? My guess would be "not much." But this hasn't stopped Mrs. Watanabe from buying a heck of a lot of New Zealand dollars lately…*
>
> *Just think for a minute here… Do you think "Mrs. Jones" in America has ever considered actually borrowing dollars to buy Japanese yen? I know she hasn't… So what is Mrs. Watanabe doing? I'll tell you what she was doing… Up until last week, Mrs. Watanabe was making money, and lots of it.*
>
> *You see; the New Zealand dollar pays 7% more interest than the yen, so Mrs. Watanabe pockets that. In addition, up until two weeks ago, the New Zealand dollar seemed like a one-way bet – up. From March of this year to two weeks ago, the New Zealand dollar gained an astounding 20% versus the yen, with hardly a down move. Mrs. Watanabe thought she was a genius:*
>
> *"You just need to buy [foreign currencies] on dips, then sell them at a profit," a Japanese woman told Bloomberg a few weeks ago, sounding as if the rest of us were foolish for not doing the same. "It's better than stock trading," she said. "You can rely on daily interest."*
>
> *Of course, it's not just Mrs. Watanabe doing this sort of thing. Here's what's been happening…*



> *When big speculators around the world become fearless, they put "the carry trade" on… They borrow yen and buy New Zealand dollars (as one example of the carry trade). And when these big investors get scared, they take the trade off. (It's not quite that simple. But it's close.) You can see it in a simple chart of US stocks versus the carry trade this year. These two things in the chart should have no relation to each other… Why should US stocks care about the New Zealand dollar/Japanese yen exchange rate? Yet they track pretty closely this year…*
>
> *I think we're getting close to the end of the carry trade… for two reasons. One is rational and the other is emotional.*
>
> *The rational reason we're near the end is, after the sub-prime mess, the big banks are tightening up their lending practices. Big speculators simply won't get the borrowing power to do the carry*

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trade in the size they need to make big profits. The basic unwinding of carry trades will reverse the relationship between the Japanese yen and other currencies.

The emotional reason we're near the end of the carry trade is simple. We hardly ever get a better signal that a trend is near its end than when the Japanese housewives are doing it, and thinking it is easy money."

I agree. It's a bit like when people buy shares in a certain company or put their money in some investment simply because that's what the taxi driver recommends and everybody else is doing it and nobody thinks it can go wrong. That's when the trend is near its end... The yen carry trade is definitely coming to an end. So bankers can stop worrying and start fixing!

A Picture Worth a Thousand Words

The bridge spanned 435ft of the Mississippi River with no support columns

The above bridge that recently collapsed in the US is but ONE of MANY MORE that could also collapse. That's right; apparently, of the 597,340 bridges in the US national bridge inventory, 26 percent are 'structurally deficient or functionally obsolete'… That's over 155,000 bridges, if my math is correct!!! This is the US we are talking about: the wealthiest state in the world… How could such carelessness be so widespread? It is simply unbelievable. But, I guess, that's the sort of catastrophic event that must ultimately and inevitably happen when a country no longer looks after its infrastructure and people and instead prefers to throw more and more money at waging endless resource wars in increasingly far away and remote places for reasons that defy reason itself. Whatever next?

One thing is for sure. It's not only China and India and other fast emerging economies of the world that would seem to need plenty of raw materials. The US too would seem to need much more than first though to replace, fix or even just maintain properly its ageing infrastructure. And that has got to be yet another good reason to invest in commodities generally.

We can't stop what natural laws will inevitably make happen over time. But that does not mean that we must also all suffer from other people's lack of sense of responsibility for so long. The world, and the US in particular, has taken commodities, the raw materials provided by the Earth, far too much for granted for far too long and it's getting close to the time to 'pay the piper'… It could also be your time to prosper, if you invest wisely.

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To finish off this letter, here's a quote that, for me, brings out, almost painfully, how much the world, and especially the US, which I grew up so close to (8km away, to be precise), has changed since my childhood.

> *"We are not afraid to entrust the American people with unpleasant facts, foreign ideas, alien philosophies and competitive values. For a nation that is afraid to let its people judge the truth and falsehood in an open market is a nation that is afraid of its people."*
>
> *- John Fitzgerald Kennedy*
> *(1917-1963)*
> *35th President of the United States of America; assassinated on 22 November 1963,*

Your freethinking investment strategist, continuing to invest in a broad range of commodities including gold and silver and encouraging you to consider it as well if not already doing so,

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