In This Issue: **Investment Insights from Louis Boulanger:** ***Prosper!***

Issue 16 - 4 Oct 2007

Louis Boulanger CFA
Office: +64 9 528 3586
Mobile: +64 275 665 095

louisboulanger now
Freethinking Investment Strategies

In this Issue:
Changing Dollars into Gold
First Anniversary of *Prosper!*

Printer Friendly

Changing Dollars into Gold

It's not like changing water into wine, you know… Anybody can do it! All you have to do is exchange one fiat currency for a real one: Federal Reserve Notes, for example, in the case of the US dollar, for pure gold bullion coins minted by any reputable mint of your choice in whatever country of your choice. With what's currently underway and what still lies ahead, you'd be silly not to. Really! More on the evolving financial crisis in a minute… But first, here's a word or two on things Chinese.

Nini, Yingying, Huanhuan, Jingjing & Beibei

Those are the names of the five Beijing 2008 Olympic Games Mascots. Expect to hear a lot more about them and what they represent (Good Luck, Health, Passion, Happiness & Prosperity) over the next year.

I visited Beijing last month. It was my first time in Beijing, although not my first visit to China. That happened in 1983 as me and my wife Louise travelled around the world with our back packs and almost made it to Tibet from Kunming… And my last visit was in 2002 when we

(again, with Louise) then visited Shanghai for the first time. But none of that came close to seeing Beijing today. What a people, what a place!

China is getting ready Big Time to showcase itself and the Chinese nation to the world on the 8th day of the 8th month of the 8th year of this millennium like we've never seen before. This century, I believe, will be China's century; just as the last century was the American (US) century and the one before that was the United Kingdom (UK) century.

I also went to Hong Kong for the latest round of ***GIPS meetings***. It was a great time to be in HK, with a recent CLSA study saying Hong Kong pulled away from Singapore as the most "advanced/transparent" market in Southeast Asia. Hong Kong excels in market transparency and media freedom, the study found. The study praised Hong Kong, China and Taiwan for overseeing major improvements in financial auditing, reporting and director training.

In the interest of my fundamental belief in free markets, I'd like to also mention the ***World Bank rankings on global ease of doing business*** that were just released. Singapore ranks #1 in the world on the ease of doing business for the second consecutive year and Hong Kong is not far behind as #4. Can you guess which countries are in between? New Zealand is #2 and the US is #3…

As countries reform their business regulation, more businesses are starting up. The World Bank reports that Eastern Europe has witnessed a boom in new business entry that rivals the rapid growth in East Asia in the past. Large emerging markets such as India, China, Egypt, Turkey, and Indonesia, are reforming fast and investors are taking notice.

That was the good news... Now, here's the bad news!

A Run on the Bank… in 2007?!

> *"Oh what a tangled web we weave, when first we practice to deceive."*
>
> - Sir Walter Scott
> (1771 - 1832)
> Scottish historical novelist and poet; above quote is from 'Marmion', a poem published in 1808)

You could, once again, be forgiven for thinking that the crisis is over. After all, did not the Dow Jones Industrial Average Index (a favorite benchmark of the mainstream media for the US share market) reach a new high yesterday (as I write), even as Wall Street learned more about the fallout from the credit-market and mortgage crunch from bellwethers including Citigroup? Don't be fooled again!

Last month, British citizens experienced their first run on the bank since 1866. The bank is named Northern Rock (what kind of name is that for a bank, anyway?!). A run on the bank is a rare situation where people lose confidence in their bank. They worry it's going out of business and it won't have enough cash left in the vault to return everyone's savings.

Banks never hold 100% of depositors' money. That's because it's inefficient to have money sitting in the vault. It's much more profitable for banks to put it to work earning interest. So banks usually hold closer to 10% (or less) of depositors' money in the vault and loan out the rest to businesses and homeowners. So, as everyone knows (right?), to have any chance of getting your money back in times of crisis, you have to be at the front of the line when the bank opens its doors for business.

So people rush over. As the word about a crisis spreads, it turns into a stampede pretty fast...

Well, that's exactly what happened at Northern Rock last month. It even had to ask the central bank (Bank of England) for emergency funds to meet withdrawals. According to the British newspapers, the panic got so bad that people started fighting each other to get to teller windows; police had to calm down angry customers and organized queues of people turned into rugby scrums...

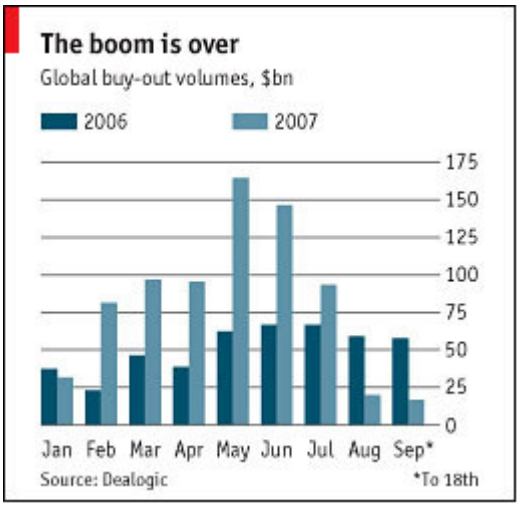
Maybe they should just buy some gold and calmly watch the experts do it (www.rugbyworldcup.com) instead! And maybe not... I don't rate the chances of England retaining the Cup too highly or even making it to the final match against ***New Zealand's All Blacks***! (Apologies to all my friends reading this in England, France, Australia, South Africa and other lesser rugby-playing nations...)

The Crack-up Boom Is Over…

…no matter what the central banks do. But what 'boom' exactly do I mean? The financial assets price boom; the credit boom; the make-believe 'wealth creation' boom or what is also known as the 'Crack-up Boom in proper economic circles. Just what is a "Crack-up Boom"? It is a period when the value of the currency you hold your wealth in becomes "suspect" and you wish to exchange it for something you have more "faith" in, to hold its value.

> *"In previous episodes of Fiat money and credit creation the offending country was an isolated outlier, while the majority of their peers continued to pursue more fudiciarily-sound monetary practices. For example, Argentina, the Weimar republic and Zimbabwe, could destroy their own currencies, while the countries around them continued to practice good banking and currency policies.*
>
> *So there was always a place to run to for safety, but in this episode of irresponsibility it is global in nature. As outlined by Ludwig Von Mises: In a Crack-up Boom the purchased asset becomes an "indirect exchange" in the anticipation of expected changes in purchasing power. In the case I am about to outline, it represents Global US Dollar Holders discounting the current and future action of Public Servants and financial authorities in Washington DC."*
> *(Source: Financial Sense)*

This next quote was taken from none other than the respected newspaper The Economist, last week: *"Scouring today's soggy leveraged-buy-out landscape, it seems faintly ridiculous that as recently as June bankers were waiting with bated breath for the first $100 billion deal. In a matter of weeks the private-equity boom has been strangled, its oxygen—cheap debt—cut off by the credit crisis. Shares in Blackstone, which led the boom, languish some 20% below the price at which they were sold to the public in June. The volume of buy-outs has shrunk (see chart)."*



The last few years have seen unprecedented record-breaking deals, many dependent on debt financing. *"Now bankers and dealmakers are getting cold feet," says Chris Mayer of Agora Financial. "There is a diminished appetite for funky debt deals. Mergers and acquisitions never go away entirely. They are part of the lifeblood of the market. But the total volume and size of these deals definitely has its own ebb and flow through time. The latest surge in activity is coming to a close."*

…Long Live the Commodity Boom!

Once again, I find myself in total agreement with Jim Rogers, who said last week in Singapore in an interview with Bloomberg: *"The clowns in Washington have signalled to the world they don't care about the US dollar."* In that interview, Rogers predicted another 15-year bull run in commodity prices. He expects the environment we're in today to return similar gains in commodities as back in the 1970s.

Just a look at the prices of various food commodities confirms this, most of which are priced in US dollars: Illinois corn and soybeans are up 40% and 75% from a year ago; Kansas wheat is up more than 70%; in Georgia (US), three-pound chickens go for record prices, up 15% from a year ago; a pound of whole wheat bread is up 24%; whole milk is up 26%... Need I go on?

And the US government wants Americans to believe that inflation is not a problem! America's families now face the fastest rising food prices in more than 17 years. And that's on top of rising energy prices... (Both of which - food and energy prices that is, I remind readers - are NOT included in the 'official' core CPI measure widely reported as the measure of inflation in the US; and that's no joke).

On top of that, with the US dollar continuing to be drilled into the abyss, commodity markets are gaining momentum. As the US dollar trends lower, US commodity products are on a fire sale to the rest of the world. Couple this with tight supplies and rising worldwide demand and you've got a sector that's ready to explode. Grain markets are responding in a big way, hitting new highs. Also, energies and metals, which are US dollar-denominated assets, continue to enjoy the benefits of the dollar's demise.

The US Federal Reserve's interest rate cut last month was *"a mistake that will prompt 'skyrocketing' agricultural prices worldwide, exacerbate a decline in the US dollar and quicken inflation"*, investor Jim Rogers said after the Fed reduced its benchmark rate by half a percentage point to 4.75 percent. The commodities rally, which Rogers correctly

predicted in 1999, may last 15 more years, he said. Oil may even reach US$150 a barrel during that time, Rogers added. In 2005, he said the commodity bull market may last until 2022 because of a lack of investment during the past two decades.

The Evolving Crisis

As I peruse the financial news this week so far, it seems that nothing has changed. It's as if August and September did not happen… The denizens of Wall Street and mainstream media appear to be paying no attention to the unfolding crisis. A view that I broadly share with a growing number of people is that the 'disconnect' with what seems to be so obvious to us, but not to 'Main Street', has to do with the herd mentality that makes them slow on the uptake. I know; I was once a member of the herd…

That's because, in that well-paid profession of investment management, the worst possible calamity that can befall you is to be found underperforming the peer group averages when quarterly portfolio review time rolls around. It doesn't matter if you actually lose your clients' money, that's not a problem -- as long as everyone else is losing it in more or less the same proportions!

Put another way, they won't move until they are "certain" that they are not just right, but that everyone else on 'Main Street' is also moving in the same direction at more or less the same time. And to think that people say there are a lot of sheep in New Zealand…

No, dear friend, the credit crisis is far from over. Worse, it seems to be morphing into a currency crisis as well. The current credit crunch is unfolding as anticipated and the demise of the US dollar as the favoured global reserve currency is now well and truly beyond doubt. It's only a question of time…
And as the credit crisis morphs into a currency crisis, gold (and anyone in possession of gold, of course) should be a major beneficiary.

The Demise of the US Dollar

Remember back in early July what I wrote in Issue 12 of ***Prosper!?*** In closing, I mused that so many things could go wrong and gave three examples. One of them was *"the US dollar sliding below its lowest point ever since breaking away from gold (USDX of 80)"*. Well, it's already happened!

Take a look at the next chart, which is an updated (but only to 21 September 2007) version of the one that was shown in Issue 12 and clearly shows the ongoing deterioration in the value of the US dollar relative to other major currencies as measured by the US Dollar Index (USDX). As I write this, the USDX not only remains below 80 and reached a new all time low at the end of September of 77.62 points. That spot future close of 77.62 is the lowest in the history of the USXD.

The index goes back to the beginning of the era of global "floating currencies" in March 1973. This is what the Captain, William (Bill) Buckler, at The Privateer had to say at the end of last week in his weekly gold commentary: *"The financial world is in literally uncharted waters. The US Dollar has never been this low before. There are no "support levels" left underneath it. The US Dollar has had no backing for nearly 40 years. Now, it literally has "NO BOTTOM"!"*

What? 'Uncharted Waters'!? Are we to believe that we are now "going where no man has gone before"; that we are literally "at world's End"?!

Seriously now, this is what the Captain of The Privateer (and not The Black Pearl) wrote last Friday: *"The implications of this disastrous and potentially catastrophic event are not being talked about by Central Bankers and Treasurers/Finance Ministers, least of all by those in the US. Every time the 80 level was approached before, there was a concerted international effort to support the US Dollar. That happened in 1975, in 1980, in 1987, in 1992, in 1995 and again as recently as 2004. This time - IT IS NOT HAPPENING. Not yet anyway."*

Source: The Privateer

Yet, we hear nothing of this from the mainstream media - what a surprise!!! The previous all time low of 78.43 was set in September of 1992, exactly 15 years ago, so you can see the depths to which the mighty US dollar has now plunged. The US dollar now joins the real estate market and SIVs (Structured Investment Vehicles) in the great disappearing act…

Artist: Christoph Niemann

Meanwhile… Gold Reaches Record Highs

How could I not mention this?? Bypassing US$739 for immediate delivery, gold set another new 27-year high! While prices are still well short of the record US$850, never has gold showed more longevity at high prices than now. It has remained above the US$700 mark for 18 sessions or for nearly a whole month now, non-stop. The spike in the gold price during May 2006 managed just four sessions above that level. The all-time top of January 1980 only saw five days running when gold prices topped US$700 per ounce… Are you getting the message?

If you have not bought any gold yet, it's not too late. It is still cheap in

real US dollar terms or in most other currency terms or in oil price terms. That will probably not remain the case for too much longer, I suspect. No? You don't think so? You think the price of gold is already too high or has peaked? Well, please take a look at this chart, which shows the price of gold in US dollars adjusted for inflation (even the low 'official' inflation rate, which excludes food and energy price increases):

Gold has a long way to go yet! Even as September 2007 ended with gold on its highest monthly closing price ever, you can clearly see in the above that, relatively speaking, gold is still extremely cheap right now. The Merrill analyst who assembled the report quotes a guy named Bob Farrell. One of Farrell's top 10 market rules is, *"The public buys the most at the top and the least at the bottom."* Since the public has never really begun to participate in this 6+ year bull market in the precious metals, can we safely assume that we are still near the bottom? Hummm...

Some commentators are starting to get really excited. Take this for example, from James Turk, Founder & Chairman of GoldMoney (goldmoney.com), who has supplied a sophisticated assessment of gold for more than 20 years:

> *"A blow-off leg in gold is looking increasingly likely once it clears US$1,000. Think about this a moment. The US dollar is now trading at record lows, with no bottom in sight. Commodity prices are soaring, with wheat at over US$9 per bushel and crude oil looking increasingly well supported over US$80 per barrel. Gold is rising against all the world's currencies, indicating that fiat national currencies backed by nothing but promises from over-indebted governments are becoming increasingly doubted. Britain just experienced the world's biggest bank run since the 1930s. ... We should be mentally prepared for the possibility that gold exceeds US$1,000 within the next few months, and then just keeps climbing to a blow-off high."*

You'd better hold on to your hats, I reckon, 'cause the ride on this bull, well, it's about to get serious.

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

Page top

First Anniversary of *Prosper!*

It's been one year already since I wrote the first issue of ***Prosper!*** And what a journey it's been so far… I hope you have allowed yourself to prosper along the way, as I most certainly have. By that I don't necessarily mean that I've made a lot of money over the past year, but that I've been more free to be, do and have what I really want than ever before. That's true prosperity, in my view. Of course, to prosper financially is always nice, but not at any personal price…

Shakti Gawain wrote in her book Creating True Prosperity, "prosperity has less to do with money than most of us believe; if we think that money has the power to bring us prosperity, we give our personal power to money", which is the same as saying that when we give our power away to anyone or anything that provides us the money we desire, we cease to be free and limit ourselves. I fully agree with Shakti Gawain's definition of true financial prosperity, as it has actually been exactly what I have experienced in life over the past few years. Here it is: "having a relationship with money that supports and enhances our overall experience of prosperity".

For the Record

Here then, now, is a quick trip back memory lane, hopefully an enjoyable one for you dear reader, with highlights of what I wrote in the first 15 issues of ***Prosper!***

Issue 1 (15 September 2006):
*"**Prosper!** is about the paradox of prudence and our relationship with money today. It's about first of all realising that what was once real money has subtly been replaced by an illusion; a highly deceptive and persistent illusion. Only then, I believe, can we proceed and act with the confidence and courage necessary to make investment decisions that are not only prudent but also in our own best interest. Be inspired and prosper!"*

Issue 2 (27 September 2006):
"It sounds to me like 'all is not well' in the high priests' world of debt monetization. It's almost as if there is a time bomb ticking and it isn't going to be pretty when it blows up. So what can you do to protect yourself (and maybe even profit) from the monetary collapse that is coming? Well, that's simple; but it sure ain't easy. Knowledge of what to do is not enough. You'll also need strength, courage, fortitude. Are you ready? Here's a start:

- *First, get out of debt (if you can)*
- *Second, buy some gold and silver*
- *Third, be patient and don't be greedy"*

Issue 3 (11 October 2006)

"So, my friends; believe it or not, like it or not, stagflation (the name economists give to the nasty combination of economic recession and price inflation) *is coming back! Now that you know, you can at least prepare for it and maybe even profit from it. But let's all hope that the US money illusionists do not completely loose the plot by creating increasingly mind boggling amounts of worthless paper money and, in so doing, create devastating hyperinflation with their ongoing consequential watering down of the value of a US dollar. Because if they do, it's not going to be pleasant for anyone (except maybe for those of us who own physical gold and silver and invest in commodities)..."*

Issue 4 (25 October 2006)
"In this issue, we'll take a look at the impact that re-emerging economies are having on commodity prices. We'll also make some observations on the growing tensions in the world between nations of different and sometimes conflicting persuasions and, for good measure, theorize a little on the future of the US dollar hegemony in global trade."

Issue 5 (22 December 2006)
"According to **GATA**, *there has not been an independent audit of how much gold is stored at the United States Bullion Depository (at Fort Knox) since the 1950s! So, GATA recently decided to go all out next year to do what they could to insist on an independent audit regarding the true status of US gold reserves. (Please note: GATA should be making the news very soon now with this important action) Watch that space..."*

Issue 6 (23 January 2007)
"So what's next from the great money illusionists? In a world of huge capital flows, the conventional price indexes (like the CPI, for example) have simply become much too narrow to be meaningful measures of inflation. What has radically changed since the early 1980s is the purpose of borrowing, from real to financial 'wealth creation'. The US has become a mere 'caricature of capitalism', according to Dr Richebächer! In his view, the US economy is in danger of a recession that will prove unusually severe and long. (Please note: the good Doctor passed away last month, may his soul rest in peace) *Certainly, by any measure, the US economy is in far worse shape now than it was even in 2001. And the unravelling of the housing bubble (yes, there IS a bubble) is clearly at hand. Yet, it seems that the continuous buoyancy of the financial markets is again deluding many people about the gravity of the economic situation..."*

Issue 7 (14 February 2007)
"Those of you who have been with me since the beginning of this journey will be aware that, now, in my opinion:

1. There is no currency in the world since 1971 that is real money.
2. Real money has always been, is and will remain gold and silver.
3. The US dollar hegemony is slowly but surely coming to an end.
4. The balance of power and wealth is shifting from West to East.
5. Central bankers are not gods but created the illusion that they are.
6. Inflation is back with a vengeance with out of control money creation.
7. Debt is no longer something we resist and so the deception continues."

Issue 8 (28 February 2007)
"Few people indeed realise that the US now has a military presence or active duty military personnel in about 150 foreign countries (source: US Department of Defense (DoD) Personnel and Procurement Statistics, June 30, 2006). That's right: 150 countries! That now

includes some in former Soviet satellite countries. That the US and NATO are now advancing closer and closer to the Russian border and beyond (incredibly, NATO is now even in Afghanistan... what does 'NATO' stand for again?) is not, I'm sure, the trade-off Russia expected when the Red Army pulled out of Eastern Europe after the fall of the USSR..."

Issue 9 (20 April 2007)
"Another consequence is that eventually, sooner or later, foreign investors who have funded the massive US budget and trade deficits so far will start selling dollar-based assets. Eventually they will get tired of losing money on US treasury bonds and corporate stocks because of the falling value of the US dollar. When that happens the US dollar will really start to drop and we'll see a brief period of hyperinflation. It will probably bankrupt a lot of Americans."

Issue 10 (25 May 2007)
"The global 'War on Terror' was declared by President Bush on that very same day (as the September 11 attacks…)*; actually, just hours after the Black Swan had occurred. Rather than trying to understand why such a catastrophic and unpredictable event could have occurred on US soil, for the very first time, and address its root causes, the so-called Leader of the Free World declared war! Funny that; I always thought that it was the aggressor that declared war, not the attacked..."*

"Nearly every central bank in the world is creating money faster than its citizens produce goods - a guarantee that the money created will lose its value... Note also that most of the money central banks create gets used by commercial banks to create still more money (thanks to the fractional reserve banking system). As if that was not enough, we also have the magic of what is known as 'financial engineering' to thank for the creation of yet more money as it gets leveraged (i.e. multiplied) through derivatives."

"Since 1971, the world's money supply has grown nearly 20 times as much as industrial production, with inflationary effects that should be no surprise. In 1970, crude oil was US$3.35 per barrel. Not so coincidentally, it is around 20 times that today. Gold was US$35 and is now also nearly 20 times that price. The big divergence between monetary growth and production growth obviously came after 1971, when US President Nixon decreed that the US dollar would no longer be convertible into gold. Since then, the US dollar has lost close to 80% of its purchasing power. Before 1971, central bank reserves were mainly gold. Now they're mostly paper - each paper or fiat currency pretending it is "backed" by other paper or fiat currencies."

Issue 11 (22 June 2007)
"Please bear with me as I will now attempt to explain the inexplicable... the totally mysterious... the baffling and bubbly babblings of The Maestro himself - who simply refuses to go away and ride on his horse like a good lonesome cowboy into the setting sun... Yes, dear friends, at great personal risk and for your benefit, I will attempt to unveil the secret of Da Greenspan code! Read on, as all will be revealed…"

"In conclusion, the explanation of the Greenspanite 'conundrum' (i.e. the low yield on US government securities) is neither expectations of low inflation or, as has been advanced by some, a "global savings glut"; instead, it is the actual money-pumping by the Fed and other central banks and speculation in continued high levels of money-pumping (especially by hedge funds and now also private equity firms with their increasingly leveraged buyouts)."

Issue 12 (6 July 2007)
"Boy oh boy, is anyone paying any attention? The latest annual report from the Bank for International Settlements (BIS) makes for pretty sombre reading... It was released on 24 June. The report states with unprecedented starkness that the world is heading into extremely dangerous economic times. The BIS has warned that many past years of loose monetary policy have fuelled a dangerous credit bubble which has left the global economy more vulnerable to another 1930s-style slump than generally understood. The point could not be made any starker than that!"

"The ABCs of Bubblenomics (or the anatomy of deceit):

***A** stands for Alan (Greenspan)*
***B** stands for Ben (Bernanke)*
***C** stands for Consumption at all costs*
***D** stands for Deceit, Debt & Delusion*
…
***O** stands for Oil*
…
***X** marks the spot where it all ends*
***Y** stands for Yen carry trade*
***Z** stands for Ground Zero"*

"The debacle in US housing is only the first part of a much larger problem — a global liquidity crisis. Banks and mortgage lenders have already begun to tighten up their lending practices and many have abandoned or are abandoning sub-prime loans altogether… The troubles at Bear Stearns seem to have changed the credit-landscape overnight, like the proverbial "goutte d'eau qui fait déborder le vase". Bankers are nervous, money is getting tighter, and liquidity is vanishing. Could this prove to be the straw that broke the camel's back?"

"So there you have it. The "virtual" wealth of Wall Street is a chimera which was created by the Fed's inexorable expansion of debt. It can vanish in a flash if the sources of liquidity are cut off. Sooner or later, this "wealth creation", achieved by an ocean of fiat money and record level indebtedness, will reveal itself for what it truly is: an illusion! A toxic concoction of lies and deceit about money has been brewing for quite some time now. Its poison is no longer contained and is about to claim many victims."

Issue 13 (24 July 2007)
"What is this newsletter about? It's about prudence; prudence in the art of investing (don't let anyone tell you it's a science)… Over time, a form of slumber has evolved to a point where now too often the blind follow the blind and few seem to really care or have enough courage left to confront the facts and judge for themselves whether they are investing prudently or not. Whatever happened to common sense and responsibility? Is there a point where fiduciary irresponsibility becomes financial insecurity?"

"The paradox of prudence is still very much alive and well. In fact, the very word 'prudence' has become increasingly synonymous with cautiousness. In this sense, prudence means a reluctance to take risks, which is prudence if it's unnecessary risks. But when unreasonably extended or incorrectly applied based on false beliefs, then it becomes cowardice and recklessness."

"There is a bull market in commodities going on and it is not the first time it happens. Is this time different? Only the passage of time will tell.

But there is no apparent reason why it should not last as long as previous bull markets in commodities did, which is between 15 and 23 years. This one started in early 1999… Investing in commodities now sounds pretty compelling to me:

• Commodities do well as an investment when share markets and/or fixed interest markets don't;
• Commodities do well when inflation is on the rise, whereas shares and bonds most likely won't;
• So to have commodities as well as shares and bonds in one's investment portfolio is clearly prudent."

"There is nothing new with what is currently happening. But it took almost 40 years for it to happen again. The current rise, it can be argued quite convincingly, may even be more powerful than any of the previous ones, due to the massive demand for commodities coming from China, India and many other emerging countries and the increasing supply shortfall for many essential commodities thanks to the lack of investment in productive capacity for their extraction from the earth over the past 30 years."

Issue 14 (9 August 2007)
"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 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 years ago."

"I do believe however that the US central bank itself may soon have to 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."

"Sovereign Wealth Funds are fast becoming the new 900-pound gorillas in the room for financial markets. What are they? Broadly defined, SWFs are entities that can manage the national savings of a country for the purposes of investment. As the asset pool of SWFs continues to grow in size and importance, so does its potential impact on various assets and financial markets. Global foreign exchange reserves held by governments are 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!!"

Issue 15 (27 August 2007)
"On 9-10 August alone, central banks around the world (European Central Bank, Bank of Japan, Federal Reserve, etc) injected no less than one-third of a Trillion US dollars, or the equivalent, into the money systems of the world. In 2 days!! Their goal was to stave off a spreading panic at bond trading desks and in the capital markets of the world. Did it work? Time will tell. But I don't think so for even a second or… even a week or two.

Why? Well, for a start, isn't 'money' supposed to be scarce? It takes more than 10 years of hard work gold mining to produce the equivalent of what was created in two days… That 'stuff' which is instantly created as "extra liquidity" and injected into the system only dilutes your purchasing power ultimately. It's nothing else than another debt obligation. It's not real money."

"The only rescue possible now rests with you. It's during times like these, dear reader, that you need to bring yourself into the moment wherever you are, take a good hard look at the facts, keep a cool head, gather your courage and take any corrective action necessary to protect your financial situation. The earlier you face the truth; the better off you'll be financially. And then there's even a chance you and your loved ones might prosper!"

What Now?

And now, in our wacky financial world, we have to come to terms with a new form of inflation and deflation, all at the same time... Let's call this phenomenon Indeflation! It's a ghastly creature that can be found in our present environment of rising consumer prices or cost of living, i.e. inflation, as well as falling financial asset prices, i.e. deflation. One is happening at the same time as the other. Welcome to the New Financial World Order!

China Investment Corp., China's US$200 billion new Sovereign Wealth Fund, started its operations late last month as the Chinese government seeks to boost investment returns on the world's biggest foreign-exchange reserves. According to reporter Belinda Cao in Beijing, the new investment agency will come under the direct supervision of the nation's cabinet, the State Council. Lou Jiwei, former vice finance minister, will act as director and Gao Xiqing, former deputy chairman at the National Council for Social Security Fund, will be general manager, according to information disclosed at an opening ceremony in Beijing.

China set up what amounts to Asia's biggest state-owned investment company, after surging trade surpluses helped push the nation's currency reserves to a record US$1.33 trillion. The agency's creation has spurred speculation of a flood of Chinese investments into overseas companies and resources such as oil and metals. After all, China owns US$405 billion, or 18 percent, of foreign-held US Treasuries, the second-biggest amount in the world after Japan.

The Chinese SWF's assets will exceed those of Singapore's Temasek Holdings Pte, which had US$107 billion under management as of March 2007. How can anyone not be awed by the sheer size of this brand new investment fund on the scene? What do the Chinese need most with their fast growing economy (China's GDP soared by 11.9 percent in the second quarter of 2007 from a year earlier and is expected to grow by 11.6 percent for the whole of 2007 - its fastest clip since 1994!)? Commodities!

War as "the Ultimate Economic Shock Therapy"

And to finish off, let's not forget what's going on 'behind the scenes' in the world of geopolitics, as not so secret war plans are being made...

A recent article written by Michel Chossudovsky, Editor of the Canadian Global Research Centre website, entitled: "US, NATO and Israel Deploy Nukes directed against Iran". What he unveils in his article is nothing

short of madness, if true. Unfortunately, his research is impeccable and his facts are correct (also reported in other media, including military).

What is unknown is what's coming next. The truth about any plans to go to war with Iran must come out. As such, I believe, the more the truth is out in the open, the more we all talk about it, the less likely it is to happen; at least, that is my hope. "Power to the people", as John Lennon once famously sang. Read the article (but beware: it's pretty scary) and decide for yourself what's likely to happen and act accordingly:
US, NATO and Israel Deploy Nukes directed against Iran.

> *"It is part of the general pattern of misguided policy that our country is now geared to an arms economy which was bred in an artificially induced psychosis of war hysteria and nurtured upon an incessant propaganda of fear."*
>
> - General Douglas MacArthur
> (1880 - 1964)
> Quote from a speech he made in 1951, near the end of the US occupation of Japan after WWII. MacArthur fought in three major wars (World War I, World War II and Korean War) and was one of the very few men ever to rise to the rank of General of the Army (5 stars).

Your freethinking investment strategist, determined to do what he can, however insignificant it may seem, to stop such madness,

Louis Boulanger, CFA
Louis Boulanger Now Ltd.

Page top

cannot attest to its accuracy and the information presented may be incomplete or condensed.

Prosper! E-letters issued by LB Now are intended solely for informational and educational purposes. Statements made in these E-letters should not be construed by the reader to be investment advice. Opinions expressed may change without prior notice. Readers are urged to check with their usual investment adviser or Louis Boulanger before making any investment decision.

The information contained herein is believed to be accurate and reliable. However, errors may occasionally occur. Therefore, all information is provided "AS IS" without any warranty of any kind. Please also note that past investment performance results are not indicative of future results.

You are currently on the distribution list for Prosper! E-letters.
If you wish to unsubscribe, please Click here.
To update your details Click here

Louis Boulanger Now Ltd
P O Box 25 676, St Heliers
Auckland, NEW ZEALAND
louis@lbnow.co.nz

Email Admin Center

To **ensure delivery** of this newsletter to your inbox and to enable images to load in future mailings, please add e-letter@lbnow.co.nz to your e-mail address book or safe senders list.

Update Your Profile | Send Message to a Friend | Web Version

Page top