In This Issue:

Investment Insights from Louis Boulanger: *Prosper!*

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louisboulanger now
Freethinking Investment Strategies

In this Issue:

Printer Friendly

What a month!

Dear [FIRSTNAME]

What a month it's been! I'm not just referring to what has happened in the financial markets, but to my own travels and speaking engagements... ***Boy, am I glad to be back in New Zealand!***

Don't get me wrong. I love to travel and be in other countries around the world. I also enjoy speaking in public. But it just seems like there is something big and nasty about to happen and so, right now, I'd rather be here in quiet little old New Zealand for a while (although, right now, as I write these words, to borrow an expression I believe our very Prime Minister used, it's like Afghanistan outside my window with all the

fireworks... because it's Guy Fawkes Day!).

It also happens to be the day when there is a drive on the internet to raise money for Ron Paul; that is, to raise the most money in a single day for any US presidential candidate. As I will probably not finish writing the contents for this issue until later on this week, I'll make sure to check how much money was raised for Ron Paul on the 5th of November. The Ron Paul rEVOLution is actually building far greater strength and momentum than I ever expected (click here for more details).

Explosively Hot In Manila

I was invited to speak at the Asia Pacific Association for Fiduciary Studies (APAFS)' 7th Annual Pacific Region Investment Conference, where I made two presentations (which you can find on APAFS' web site and download if you wish). I love going to Manila. It was my 4th visit over the last couple of years.

Unfortunately, it can now also be a dangerous place, I guess, like many other places in the world... I was right there, two blocks away, when a bomb exploded in a shopping mall about two hours after my presentation of commodities. The local authorities at first said it was a gas leak, so nobody panicked. But as it turned out, it was in fact a terrorist attack!

Sweet As In Singapore

As I was leaving Manila for Singapore, the G-7 meeting of Finance Ministers and Central Bankers was taking place in Washington DC (ominously enough, it was on October 19, exactly 20 years to the day after that fatidic Black Monday in 1987 when the US share market fell by 23% in a single day). At the end of that meeting an official communiqué was released by the G-7 group. A statement was also issued by the US Treasury Secretary, Hank Paulson.

I went to Singapore because I had been invited by the Investment Management Association of Singapore (IMAS) to come and talk about how I saw the current state of the global financial markets. I gave the following 'modest' title to my little talk: "The American Dream Is Over: So What?" You'll find it here should you wish to read it.

Well... The US dollar was not mentioned once in either of the above mentioned official statements issued after the G-7 meeting. Not even once! Neither was the Euro, nor the Yen. In fact, no hint of anything germane to the actual situation affecting the global financial system was made in the communiqués! The G-7 communiqué didn't mention either the abruptly diminishing appetite for $US assets by foreign investors.

Instead, in their great wisdom, the G-7 ganged up on China… when what should have happened is for Europe, Japan and Canada to gang up on the US! They talked about the necessity of China letting its currency rise against its major trading partners. Of course, the Chinese could do this anytime they chose, simply by ceasing their buying of US financial assets with the US dollars they earn by exporting to the US. The G-7 knows this too, and according to the official August figures, the Chinese, and most of the rest of Asia, has begun to do just that.

Raw Deal In Sydney

My next stop was Sydney, where I was asked to give a workshop on alternative assets. I was informed that 15 or so people had registered

and paid for attending it, which I thought was perfect for a half-day workshop. Well... three people only turned up! Now was quite a contrast after speaking to 300 in Manila and about 50 in Singapore...

The firm that had asked me to give this workshop and organized it is Tonkin Corporation; a new player I believe in the conference game over there. My workshop was unfortunately on the 3rd day of a three day program consisting of a two day conference followed by two half day workshops; so I guess it is not too unreasonable to imagine that 'conferencitis' may be to blame for the poor turnout on the 3rd day?

One way or another, I enjoyed giving it and, based on the active participation, am pretty sure it was well received by those who did come. Better still, it gave me an opportunity to catch up with some friends based in Sydney, a truly beautiful experience in a beautiful city.

Off To Denver: Go The Rockies!

Next stop: Denver, Colorado (after a short stopover in Auckland to say hello to my wife Louise and the boys)! I know; it's not exactly close by. But this time, I would not be speaking but listening carefully; very carefully, in fact, because of the topics and the speakers. This was truly a different experience to all of the many conferences I've attended over the past 30 years or so. This was totally real and in the moment kind of investment summit.

It was particularly nice for me to meet the many individuals behind the name 'Casey Research', a firm whose research I have used and, as a result, has made me prosper a great deal over the past year or so. Not only people like Doug Casey, Bud Conrad, Mark Bustin, Terry Dwyer and David Galland of Casey Research LLC, but also people like Robert Friedland, Lukas Lundin and Rick Rule to name just a few who were also speaking at that conference.

There is absolutely no doubt in my mind that there are lots of great investment opportunities out there right now, despite the fact that we are still in the very early stages of the credit crisis morphing into a long overdue currency crisis. And that's not saying anything about what democracy, even in places like the US, is transforming into. But there's more on this later on below...

To top off another great experience in the Mile High City (last time I had visited Denver was back in 1981 when I went to an actuarial conference in Colorado Springs nearby, my first as a fully qualified actuary, to collect my Fellowship certificate), it just so happened that the local baseball team – the Rockies – had made it to the World Series finals for the very first time and there was not one but two games back to back played in town just a few blocks away from my hotel... So the place was buzzing, as you can imagine! (But the Boston Red Sox were just too good...)

Back In Quiet Auckland

I have to say that I was pretty happy to be back in Auckland last week, as it was again 'orange alert' at the San Francisco airport. I had invited Dr Marc Faber to come and speak at the CFA Annual Forecast Dinner and that was now just two days away. Thankfully, there was a totally committed team of people looking after all the last minute details to ensure nothing was left to chance at the last minute.

Dr Faber, also known as Dr Doom (his web site is www.gloomboomdoom.com), delivered what was at times quite an

entertaining contrarian forecast of the global economy and shared with us what he thinks may be lying ahead for us. One thing, I noted, that he did mention (more than once, actually) in his forecast is that gold should do well as an investment in the current environment...

Some 350 people were attending the gala event. Dr Faber asked how many in the audience had more than 5% of their investment portfolio in gold. Well, sadly, I saw only 3 hands go up! But, with the gold price increasing by US$100 an ounce over the past month (which is equivalent to a 13.5% increase in one month), including by as much as US$60 an ounce just since the Dr Faber's speech last week (!), I suspect that number is already higher or many must at least be thinking of buying some gold! Well, on the other hand...

> *"Good advice is always certain to be ignored, but that's no reason not to give it."*
>
> *- Agatha Christie*
> *(1890 – 1976)*
> *Famous English crime fiction writer; also the best-selling writer of books of all time*

Meanwhile...

Apparently, it's getting harder and harder to get one's hands on some gold and silver (bullion, that is, not jewelry) as more and more people are buying a very limited supply of the stuff. In fact, my dentist told me today that he had (finally) bought some gold (not for making crowns for his clients as usual, but for his own investment portfolio) and he was told that he had to wait a whole month for the delivery! Boy oh boy, what's it going to be like when institutional investors (i.e. the big funds) start to buy?!

...Back in the US

What of presidential candidate Ron Paul's explosive money raising effort on the 5th of November? Well, I just checked on the internet how much was raised in 24 hours for his campaign and... it was a very impressive US$4.2 million; the biggest single-day fund raising for a Republican candidate ever. Only Hillary Clinton and Barack Obama have ever amassed more campaign funding in a 24-hour period.

Wow! Go supporters!! Ron Paul still seems an unlikely winner, but he IS the ONLY candidate of BOTH major parties who TRULY respects the US Constitution. One only needs to look at his track record and compare it to the other candidates. He is extremely popular on the internet, but you wouldn't know he even exists if all you paid attention to was the mainstream media...

> *"The power of accurate observation is frequently called cynicism by those who don't have it."*
>
> *- George Bernard Shaw*
> *(1856 - 1950)*
> *World-renowned Irish author; also the only person to have been awarded both the Nobel Prize in Literature (1925) and an Oscar (1938)*

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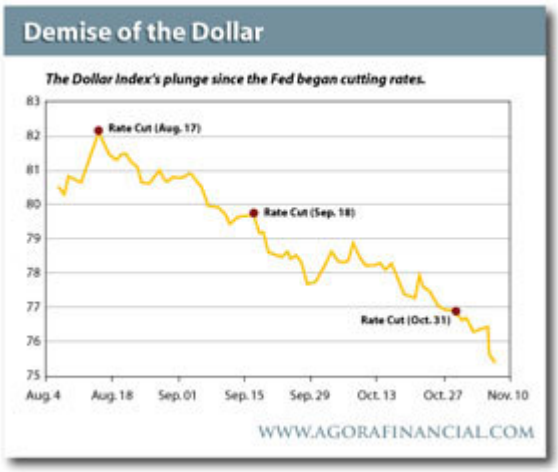
The Bubble and the Pin

Back in July (see Issue 12 of Prosper!) I suggested that if even one of three things happened, then there would be a rapid repricing (down) of financial assets. Well, guess what? One of those three things has already happened and the US dollar keeps sinking lower and lower and very rapidly so. Another of those three things is knocking at the door louder and louder: US$100 a barrel of oil. As I write this, it's trading at US$98 a barrel!

That leaves the third thing, which was another event like 9/11… I sincerely hope that it never happens. But I think it would be naïve now to expect that will actually be the case; don't you? But, it is so far so good, as they say. Oops, won't it be the 9th of the 11th month of this year later this week?!! Sorry… just panicked there for a minute. Don't worry, be happy.

So, who's holding the pin that will once and for all burst the bubble of illusion of wealth? Well, ironically, it seems to me it's the very same person everyone seems to count on to save the US economy and its financial markets: Ben Bernanke, the current US Federal Reserve Chairman! Why? Well, take a look at the effect of his recent decisions (to cut the discount interest rate and Fed funds rate) on the value of the US dollar over the past few months...

The Demise of the US Dollar



And to think that market pundits are expecting (and hoping like mad) another rate cut from Helicopter Ben in December (and maybe even before that)! It is pretty clear that they've decided to sacrifice the US dollar and to do their very best to maintain the great illusion of wealth creation. The problem is that now it's no longer the US that decides the value of its currency, but those who actually hold the most.

"The world's currency structure has changed; the dollar is losing its status as the world currency," said Xu Jian, a Chinese central bank vice director, yesterday. "We will favour stronger currencies over weaker ones, and will readjust accordingly," confirmed Cheng Siwei, vice chairman of China's National People's Congress, at the same conference. Well, that was enough to spook currency traders and cause

the latest sharp decline in the US Dollar Index seen in the chart above on the bottom right hand corner.

“"The US dollar's global currency status is shaky and the creditworthiness of dollar assets is falling," Xu said. He also said he was worried that a falling dollar would stoke global inflation. Need I say more?

Crisis, What Crisis? This One!

Source: The Economist (Artist: Satoshi Kambayashi)

I’ve been following the current crisis in the making (that’s right, it’s still in the making; it ain’t even close to being over yet whatever some ‘officials’ say) for a little more than a year now. During this pursuit, I’ve read some pretty eye opening stuff at times. But there was nothing to come even close to what I’ve been reading these past few days. Take the following two selections, for example.

Here is the contribution of one member of LeMetropoleCafé earlier this week in the great commentary served by Midas du Metropole at The James Joyce Table:

> “The financial imbalances right now are just incredible. The 10 year bond yields 4.34%, as oil approaches $100. Fannie Mae stock fetches $54 a share, while a trillion dollars of mortgages go sour. General Motors stock is $34, with gas barrelling to $4 a gallon. Goldman-Sachs shares are $218 as the banking panic unfolds. Google is $733 as Pakistan descends into chaos. The notional value of all derivatives on the planet is a number so big we're unsure how much it is, let alone what to call it. It's something like 2 or 3 times a quadrillion, which puts the dollar's true value in perspective. All the while the Dow and S-P act oblivious to it all. You could go on and on about the surreal dichotomy between reality and Wall Street. One thing is for certain, imbalances never last forever.
>
> We are entering a financial twilight zone with endless sign posts up ahead leading to gold ownership. It is asinine for the media to focus solely on geo-political tensions with so many other bullish reasons to own gold. The days of speculating whether the dollar can get stronger are over. Housing is toast, along with the American consumer. The daily collapse of derivatives continues unabated. Central Banks are running out of available gold suppression ammo. All that's left are endless bailouts, banking disasters, and military budgets etched in granite. Of course the U.S. must inflate or die.

No market would have ignored these sign posts unless it wasn't being allowed to react. If the gold market were freely traded it would have already looked far forward and factored $3,000 or more. The difference between the current $820 and $3,000 is the suppression factor. Gold is filling that suppression gap in an accelerated manner.

The Fed now will watch the train wreck they created. With no apparent tongue in cheek the Fed noted in last week's meeting that high oil prices were a problem that could "increase inflationary pressures". Hopefully a few of their cigars got spit out when that sentence was approved. Even a double speaking Fed can't hide the fact that the one product they were entrusted to protect, the dollar, is close to last rites. Gold is now once again pointing its finger (I'll leave it to you to choose which one) at the culprits.

Finally, after seeing numerous reports of dwindling gold production maybe the government will need to reclassify its gold again to "really, really deep storage gold, subject to derivatives, strikes, and social unrest." It is doubtful too you will ever see any Fed reference to dwindling dollar production."

Wow! And how about this comment from yet another member of LeMetropoleCafé who shall also remain nameless?

"I wasn't going to post anything today since it was obviously business as usual in mindless financial America. But I had to vent some emotion as I watched the markets recover once again in the Midas-term "Hail Mary" mode. If you think that Bill exaggerates this analogy, I wish to point out that unofficially the stock market has recovered about 15 out of the last 18 days following 3 PM. To put this into some kind of perspective I can recall and reported that the gold shares as they declined ferociously would tend to sell off at about the same kind of percentage. Both figures are quite remarkable and unexplainable except for the kind of psychology and the corruption each represents.

The other amazing point is the continuing disconnect between the financial stocks and the few highly visible stocks that capture the media's attention. These would include Google, McDonalds, Apple and Research In Motion. First, I want to report on the financial companies and what they have done since June 1st. Here are the top to today's close percentages. First, the Dow Jones is exactly the same point as it was that date. Citigroup-down 33%; Bank America down 12%; Wachovia-22%; MBIA-50%; JPM-22%; MER-38%, FNM-30%, FRE-30%, plus almost all of the housing stocks and so forth. Now here is my logic. What is more important? To have the financial sector healthy and capable to finance the economy or to have a few consumer stocks levitating while the financial sector indicates that there is an imminent contraction of credit? Isn't it logical that we have arrived at the second scenario? And finally, we have some other kind of related flashing danger light, the persistent power of the price of gold against an increasingly scary financial situation. Until now, gold has marched lockstep with the stock market to the inflationary pressure of an exploding money supply. But now it is rising for a new reason, and a

> much more important one--the coming implosion of the world monetary system. It is very possible that this might end up being just a tremor not the quake, but I wouldn't bet on it. All of the above is indicating to me that the system is coming unglued as the financial and the housing stocks going in one direction-down.
>
> This is the third time in the past 8 years that I have muttered to myself, my wife or to anyone who might listen, that they will have to break the arms of the public to stop the insane buying. Back in 2000 it was the high-techs. Then it shifted seamlessly to the housing market. Now we are reduced to Google, Apple and Research In Motion. I have this vision that one day Google will announce something that will cause the shares to halt at $750, with an indication that the stock will open 200 dollars lower. But even as they announce this, there will be hundreds of individuals or hedge fund that will beg that they might buy the stock even at $750 before the stock reopens. That is how insane this market is at this time."

OK... Are you still breathing? Good. Because it ain't over yet... and it could get a lot worse before it gets better (for those of you who don't possess any gold and silver to protect your wealth, that is!). Here are but a few recent developments that would seem to point in that direction, at least in my view.

Pakistan's State of Emergency

This is what George Friedman of Strategic Forecasting, Inc. (also known as Stratfor - see www.stratfor.com) had to write about the situation in Pakistan on Tuesday:

> "Pakistani President Gen. Pervez Musharraf declared a state of emergency over the weekend, precipitating a wave of arrests, the suspension of certain media operations and the intermittent disruption of communications in and out of Pakistan. As expected, protests erupted throughout Pakistan by Nov. 5, with clashes between protesting lawyers and police reported in Lahore, Karachi, Islamabad and several other cities. Thus far, however, the army appears to be responding to Musharraf's commands."
>
> "Musharraf's critics, including the opposition's top leader, former Pakistani Prime Minister Benazir Bhutto, argued that Musharraf was using the Supreme Court issue to protect his own position in the government and avoid leaving the army as promised and put off elections. In short, he is being accused of staging a personal coup under the guise of a state of emergency."

Today, as I write, Reuters reported that: "Former Pakistani Prime Minister Benazir Bhutto has told President Gen. Pervez Musharraf that the opposition will begin a march from Lahore to Islamabad on the 13th of November unless he quits the army". Bhutto was quoted as saying that Musharraf has until the 9th of November to resign from the military. That's tomorrow.

The End of America?

The above is the title of a recent book (but without the question mark) by Naomi Wolf, which I highly recommend reading – especially if you

are an American citizen. Ms Wolf is to be applauded for writing this book. Sure, her book will shock and enrage many. But, hopefully, it will also motivate many to rediscover what it means to be a true patriot as were, for example, Madison, Paine and Franklin.

"From Hitler to Pinochet and beyond, history shows there are certain steps that any would-be dictator must take to destroy constitutional freedoms. And, argues Naomi Wolf, George Bush and his administration seem to be taking them all," wrote The Guardian back in April (for the full article, go here). Now you can read her book that came out last month. I bought mine at a bookshop in Denver last week and, I have to tell you, I think it should be become compulsory reading in schools everywhere.

If you don't have time to read a book or prefer to watch a video, this may be a suitable or more appealing alternative to you. Watch this video on You Tube of her talk last month at Kane Hall on the University of Washington campus. But if you choose to do so, be warned that you may then (if not already) be considered an 'enemy combatant' in the US... Pretty scary stuff, huh? Nah, I'm just kidding (not). WAKE UP AMERICA, BEFORE IT'S TOO LATE!

Meanwhile, Back On Wall Street…

… Another one bites the dust. But hey, wait a minute, that's like, gold dust he'll be biting! Yes, indeed. Merrill Lynch's Chairman and Chief Executive Stan O'Neil "decided to retire" at the end of last month. Merrill Lynch had made its first quarterly loss in six years, thanks to write-downs, mainly related to subprime mortgages (surprise, surprise), amounting to US$8.4 billion. Mr. O'Neal will depart with a package worth more than US$160m, which does little to placate those (like me) who think Wall Street bosses should shoulder more responsibility for their firms' bad investments.

This week, it was the turn of Chuck Prince, Chairman and Chief Executive of Citigroup, to "retire"… Presumably, just before he would have been pushed! But, sadly, it pays to retire disgracefully these days on Wall Street. This is what columnist John Gapper (and good on him) of the London Financial Times had to write today about the recent 'retirement' phenomenon:

> "There is an element of saving grace about this rash of retirements. It sounds more dignified to retire than to resign or to be fired, which would have been a more accurate description of Mr. O'Neal and Mr. Prince's abrupt departures from the helm.
>
> Primarily, however, it is a financial manœuvre – one that ought not to have been colluded in by their employers. Not only would it have been better in principle to express the plain truth, no matter what the sensitivities, but these two retirees should not have been allowed to skip out with so much of investors' money."

Doesn't he (Mr. Prince) just look so happy?

If you want to read John Gapper's excellent article in today's full, you can find it on the internet right here. Enjoy!

As you may know, Robert Rubin has been called on again… this time to save Citigroup from its exposure to subprime lending. Rubin will temporarily (?) replace the departed Mr. Prince as CEO. And what a mess he will face… Apparently, Citigroup now holds over US$134 billion in what it calls "level 3 assets." Do you remember what those are? I wrote about 'level 3' back in August in Issue 15 of ***Prosper!***).

Quite simply, 'level 3', I wrote back in August, is "voodoo finance". Here's how Citigroup describes level 3 assets in its own words (taken from its own 10-Q filing with the SEC): "Level 3 -- Model derived valuations in which one or more significant inputs or significant value drivers are unobservable." In plain English that means that 'level 3 assets' are assets that are not marked-to-market or even marked-to-model (like the toxic CDOs are) using observable inputs (i.e. things that we can all observe in the market place), but that are valued only on the basis of what Citigroup says they are worth… Full stop! Now, that's frightening.

In other words, Citigroup owns "US$138 billion in assets" void of any reliable price, because no one is crazy enough to buy them. The last time we heard talk like this was when Bear Stearns told its fund's investors that its assets (i.e. the CDOs) were literally worthless. Buckle up, dear reader; because it's going to get ugly and it's going to take a long time to sort out all this mess on Wall Street… Good luck with the new job, Mr. Rubin!

On the Lighter Side

Here's a joke about economists I heard recently, which I found pretty funny… There's a group of economists that are walking in the Alps and at one point they get lost. One of them says: "Don't worry; I've got a really good map that's very detailed and precise in my pack". So he gets it out and unfolds it and after a long wait he stands up straight and exclaims, pointing in the distance: "Do you see that mountain peak over there? Well, that's where we are!"

Ah… those economists; they're pretty inventive when it comes to interpreting current events and proposing solutions to immediate problems. Unfortunately, inventiveness is NOT what is required here!

Words of Wisdom

I thought it would be appropriate for me to end this issue with two

quotes; one from a journalist and another from an economist, both of whom seem intent on getting an important message across to people. Is anyone listening?

> *"When a country lives on borrowed time, borrowed money, and borrowed energy, it is just begging the markets to discipline it in their own way at their own time. Usually the markets do it in an orderly way –except when they don't."*
>
> *- Thomas L. Friedman*
> *(1953 -)*
> *American journalist; Pulitzer Prize winning author and columnist for the New York Times*
> *Wrote 'The Lexus and the Olive Tree' and, more recently, 'The World Is Flat'.*
> *Above is a quote from a column of his in the NYT back in February 2005 – you can find it here*

> *"Be not misled. So strong and irreversible are America's balance of payments deficits, we must accept that at some future date there will be a run against the dollar... probably the kind of disorderly run that precipitates a global financial crisis."*
>
> *- Paul Samuelson*
> *(1915 -)*
> *American neoclassical economist; winner of the Nobel Prize in Economics in 1970*
> *Above is a quote from an exclusive interview with China's People's Daily almost two years ago – click here to read more.*

Your freethinking investment strategist, hoping you are as I am poised to prosper despite the coming chaos and ruin,

Louis Boulanger, CFA
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