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

Issue 26 - Oct 2008

In this Issue:


Printer Friendly

Dear [FIRSTNAME]

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Game Over

"As the precipitous drop of the Dow Jones index of industrial stocks to the 8600 level on Thursday shows, the US$700 billion bailout is an exercise in futility. The rescue effort administers one wrong medicine after another. Shunting rotten assets to the balance sheet of the central bank is not the way to go. Consolidating banks through forced mergers is not the way to go. Cutting interest rates is not the way to go. These measures

make the problem worse, not better."

- Antal E. Fekete, Gold Standard University Live, www.professorfekete.com, 11 October 2008

"We are probably close to the point (probably just weeks away) when the gold cartel stops supplying metal in London and Zurich at these low prices. The question is: What comes next? It is, of course, impossible to predict what the gold cartel has up its sleeve...but I sense that a big announcement by governments is coming soon. It is reasonable to expect an outcome like March 1968, in which case the free-market price of gold will soar."

- James Turk, Founder of GoldMoney, www.goldmoney.com, 9 October 2008

Few so-called experts really know what is going on right now in the banking/financial world and fewer, it seems, appear to know what the actual cause is and therefore cannot find suitable solutions to the problem. The following brief article from Professor Fekete sums it up perfectly, in my opinion. Here it is in its entirety for your enlightenment on what this crisis is truly all about.

"As the precipitous drop of the Dow Jones index of industrial stocks to the 8600 level on Thursday shows, the $700 billion bailout is an exercise in futility. The rescue effort administers one wrong medicine after another. Shunting rotten assets to the balance sheet of the central bank is not the way to go. Consolidating banks through forced mergers is not the way to go. Cutting interest rates is not the way to go. These measures make the problem worse, not better.

All the remedies to check the burgeoning credit crisis that have been proposed or put into effect are based on misdiagnosis. This is not a sub-prime crisis or a real estate crisis. It was not caused by loose lending standards, or by the banks recklessly and aggressively increasing their assets.

This crisis was caused by shrivelling capital ratios due to the destruction of bank capital through 28 years of falling interest rates. As I have been saying again and again, falling interest rates destroy capital by increasing the liquidation value of debt – an insidious process that has been missed by all other observers. Ignoring capital dissipation is possible only so long as capital lasts. As soon as capital is exhausted, dissipation stops. There is nothing left to dissipate. The problem at once becomes painfully noticeable.

The term 'liquidation value of debt' is self-explanatory, meaning the lump sum that will liquidate it before maturity, should it be necessary in case of a takeover, merger, shot-gun marriage, bankruptcy, or outright nationalization of the banking system. The point is that when the rate of interest falls, the liquidation value of debt rises. Why? Because the stream of interest payments is now discounted at a lower rate of interest. Therefore at maturity it will fall short of liquidating the debt.

Here is a familiar example. When the rate of interest falls, the market immediately bids up the price of bonds. This is the same to say that the liquidation value of the debt underlying the bond is raised. Debtors wanting to liquidate their bonded debt before maturity are not let off the hook on the same terms. The market demands more than the pound of flesh originally agreed upon for releasing the debtor from his bond. This example clearly shows that a fall in the rate of interest, far from alleviating the burden of debt, aggravates it.

Bank capital is debt and it has been eaten away by persistently falling interest rates. Impairment of capital has been ignored and, after 28 years of negligence, the global banking system now stands denuded of capital. Those shareholders who can read balance sheets see through the fancy values banks are putting on their assets, and they dump the stock before bank capital goes all the way to zero.

The only way this crisis can be resolved is through recapitalizing the banks with gold. Contrary to Keynesian propaganda, gold is not a barbarous relic. It is not for decoration purposes. Nor does gold serve for the purpose of window-dressing in the balance sheet. Gold is unique among financial assets in that it has no counterpart as a liability in the balance sheet of others. It follows that gold, and gold alone, will survive any consolidation of bank balance sheets. Gold will not be netted out like paper assets are in case of mergers, acquisitions, and takeovers, or the nationalization of the banking system.

The fatal weakness of the present rescue effort is precisely this: consolidation of banks, just as consolidation of the derivatives monster, far from stopping the rot, will accelerate it. For example, if you consolidate the derivatives monster, claims and counter-claims through credit-default swaps will cancel out, and all risks will be exposed as being uncovered. Recapitalization with more fiat money will not work. It takes something more solid than irredeemable promises to pay. It takes gold.

Unfortunately our political leaders and policy-makers are lacking the moral fortitude to admit that they have been wrong all along about gold and its role in the financial system. Nor do they have the wisdom to realize that in cleaning up the train wreckage they have to go back all the way to the point where the train was derailed: to the insane decision to discard gold from the monetary system in 1971. Politicians and their academic sycophants will stick to their pet-rock, TARP, the Troubled Ass Relief Program (if you pardon my pun of cutting off the tail of the word 'asset'). This is their cover-up of the fact that the credit-crisis is their own making.

The first of the Twin Towers, the Derivatives Tower of Babel, has now toppled, although you cannot see it yet as the dust is still settling. The toppling of the second, the Debt Tower of Babel, will follow in due course – unless banks are recapitalized with gold with all deliberate speed.

The collapse of the Debt Tower of Babel would spell a disaster

of the first magnitude, adversely affecting everybody. It would trigger the Great Grand Depression of the twenty-first century, making the Great Depression of the twentieth look mild in comparison."

Professor Fekete is a renowned mathematician and monetary scientist. In 1974 Professor Fekete delivered a talk on gold in Paul Volker's seminar at Princeton University. Later, Professor Fekete was Visiting Fellow at the American Institute for Economic Research and Senior Editor for The American Economic Foundation. In 1996, his essay "Whither Gold?" was awarded first prize in the international currency essay contest sponsored by Bank Lips, the Swiss bank.

For many years an expert on central bank bullion sales and hedging, and their effects on the gold price and the gold mining industry itself, Professor Fekete now devotes his time to writing and lecturing on fiscal and monetary reform with special regard to the role of gold and silver in the monetary system.

At this moment, when the world's monetary system appears increasingly shaky, Prof Fekete details why the current paradigm is flawed and how the problems must be dealt with. This is almost taboo in the main stream financial media. Prof Fekete explains it as a gold crisis, not a dollar crisis. Those who doubt it would do well to recall that every fiat* money system ever tried – and history is littered with examples – failed.

* Money that is not backed by, or convertible to, any specific commodity and whose only value is that determined by government.

I am looking forward to attending his fifth and final session of the Gold Standard University Live, which will be held in Canberra next month. As there are readers of this e-letter all over the world, some of you may be able to attend one or another of the events where Professor Fekete will be speaking over the next month or so. Here is a list of those events and their dates:

1. New York City, October 16, 2008
Committee for Monetary Research and Education, Inc., Annual Fall Dinner
Professor Fekete is an invited speaker. The title of his talk is:
The Mechanism of Capital Destruction
Inquiries: cmre@bellsouth.net

2. Santa Clara, California, November 3, 2008
Santa Clara University, hosted by the Civil Society Institute
Professor Fekete is the invited speaker. The title of his talk is:
Monetary Reform: Gold and Bills of Exchange.
Inquiries: ffoldvary@scu.edu

3. San Francisco, California, November 4, 2008
Economic Club of San Francisco
Professor Fekete is the invited speaker. The title of his talk is:
The Revisionist Theory and History of the Great Depression - Can It Happen Again?
Inquiries: ifkbischoff@yahoo.com

4. Canberra, Australia, November 11-14, 2008
Gold Standard University Live, Session Five. This is the last session of GSUL. This 4-day seminar is a Primer on the Gold Basis - Trading Tool for Gold Investors, Marketing Tool for Gold Miners, and Early Warning System for Everybody Else.
A more detailed description of this seminar is found at the end of his article: *Cut Off Your Tail to Save My Face!* September 1, www.professorfekete.com

Inquiries: feketeaustralia@yahoo.com

5. In view of the extraordinary events unfolding in world finance and on the banking scene right now, there will be an extra meeting to answer questions from participants and to have a discussion from our distinctive point of view, namely, that this is not a sub-prime crisis, not even a dollar crisis. *This is a gold crisis that cannot be solved by continuing to muzzle gold.*
Canberra, Australia, November 15, 2008
Panel Discussions: *The chickens of 1933 and 1971 are coming home to roost and take out bank capital.*
Inquiries: feketeaustralia@yahoo.com

I'd like to thank a reader, Graham Soughtton, for alerting me to this informative and easy to follow piece of investigative reporting that was part of a recent 60 Minutes program by CBS. Reporter Steve Kroft looks at some of the arcane Wall Street financial instruments that have magnified this crisis. It's entitled "Wall Street's Shadow Market" and you can find it here.

> *"It's my opinion that the world's financial system is on the verge of total collapse. I don't think that anything can save it...or stop it...and I don't care how much 'money' they throw at it. It seems like confidence in the system is eroding by the day. The speed at which events are now unfolding has become frightening...and unless the G7, IMF, or World Bank pull a gold-backed currency out of the hat in the next few days...it's my belief that it's all over."*
>
> *- Ed Steer, Casey Research, LLC (Ed is also a board member of GATA), 11 October 2008*

Got gold yet?

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

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Free Markets? No; Interventions!

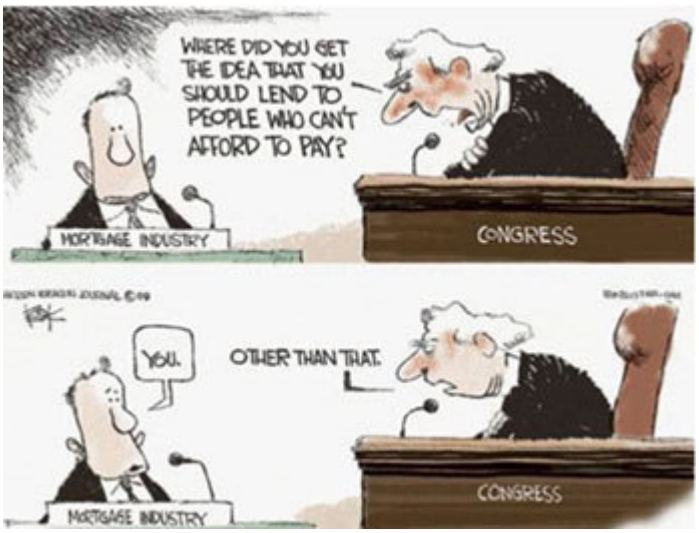
> *"A nation ceases to be republican only when the will of the majority ceases to be the law."*
>
> *- Thomas Jefferson*
> *(1743 – 1826)*
> *Primary author of The Declaration of Independence*
> *Third President of the United States*

Well, guess what? That's exactly what happened when the US Congress finally passed the 'Bailout Bill'! Almost all the telephone calls that members of the House of Representatives and their staff received from their constituents asked

them NOT to pass the bailout bill!! What was once the greatest republic and where there was once the best democracy in the world, socialism NOW reigns supreme... But not any kind of socialism; socialism for the rich! America, the idea, is dead. Unless, that is, enough US citizens wake up before it's too late.

I was in Boston during the week when the Dynamic Duo (US Secretary of Treasury Hank Paulson and Fed Chairman Ben Bernanke) scared the s**t out of Congress with their urgent bailout proposal/plan. Hey, apparently, they were even threatened with the imposition of martial law by the White House if Congress did not 'sign that blank cheque'! If you don't believe me, view this clip and hear it from none other than Congressman Brad Sherman.

> *"Watch money. Money is the barometer of a society's virtue. When you see that trading is done, not by consent, but by compulsion -- when you see that in order to produce, you need to obtain permission from men who produce nothing -- when you see that money is flowing to those who deal, not in goods, but in favours -- when you see that men get richer by graft and by pull than by work, and your laws don't protect you against them, but protect them against you -- when you see corruption being rewarded and honesty becoming a self-sacrifice -- you may know that your society is doomed..."*
>
> *"Whenever destroyers appear among men, they start by destroying money, for money is men's protection and the base of a moral existence. Destroyers seize gold and leave to its owners a counterfeit pile of paper. This kills all objective standards and delivers men into the arbitrary power of an arbitrary setter of values. Gold was an objective value, an equivalent of wealth produced. Paper is a mortgage on wealth that does not exist, backed by a gun aimed at those who are expected to produce it. Paper is a check drawn by legal looters upon an account which is not theirs: upon the virtue of the victims. Watch for the day when it bounces, marked, 'Account overdrawn.'"*
>
> *- Ayn Rand*
> *(1905 – 1982)*
> *Excerpts of Francisco d'Anconia's 'money speech' in Ayn Rand's Atlas Shrugged, 1957*



Courtesy of David Galland's weekly newsletter 'The Room'

Money is the “barometer of a society's virtue”... How so very and profoundly true! Money today has, in my humble opinion, lost its integrity. Men of very little virtue, it seems, have seized control of our global monetary system and, sadly, very few men of virtue seem willing to come to terms with reality. But, as the saying goes, it’s always the darkest before the new dawn... And so, there is hope that a better world will eventually emerge from the ashes of the current prevailing delusion.

The delusion, of course, as I’ve been reiterating in these e-letters since their very beginning in September 2006, is that central banking can solve anything and that central bankers are god-like in their ability to solve all the financial problems. Wrong! They ARE the problem. You can’t solve a problem (i.e. too much credit) with more of the same thing (i.e. throwing more and more borrowed or fiat money at the problem) that created the problem in the first place.

This should be so obvious, as to not even needing to be mentioned. But it seems the world has either lost its mind completely or there is so little of it operating with reason that basic natural laws of cause and effect have to be explained again and again. That’s what I tried to do on two occasions I had recently to speak on television.

The first was in Montréal, where I was ten days ago. My nephew, Patrice Gauvin, put the interview on You Tube, so you can see it here – pretty cool, eh? (But, of course, being in Québec it’s in French!): ca.youtube.com/watch?v=cvS--2KC4kQ. The second was just a few days ago in New Zealand on TV3’s ASB Business morning program, when I asked why bank deposits were still not insured in New Zealand: view the video here.

The key point I try to make in both instances – as well as in these e-letters – is that the only thing that will ultimately solve this evolving crisis is **monetary reform.** You can imagine my surprise when I read yesterday that Italian Prime Minister Silvio Berlusconi (of all people) also said this past weekend (as the G7 met in Washington) that the world needed a new Bretton Woods! Apparently, world leaders are already discussing this... see the article here.

Well, bring it on! Are we on the verge of seeing a new world currency??? If so, I think that’s great. But, if it's not backed by gold... it will just be as bad and good luck introducing it in this monetary climate!!

Time for a few smiles…
(Courtesy of LeMetropoleCafe.com)

CEO --Chief Embezzlement Officer
CFO-- Corporate Fraud Officer
BULL MARKET -- A random market movement causing an investor to mistake himself for a financial genius
BEAR MARKET -- A 6 to 18 month period when the kids get no allowance, the wife gets no jewelry, and the husband gets no sex
VALUE INVESTING -- The art of buying low and selling lower
P/E RATIO -- The percentage of investors wetting their pants as the market keeps crashing
BROKER -- What my broker has made me
STANDARD & POOR -- Your life in a nutshell
STOCK ANALYST -- Idiot who just downgraded your stock
STOCK SPLIT -- When your ex-wife and her lawyer split your assets equally between themselves
FINANCIAL PLANNER -- A guy whose phone has been disconnected

MARKET CORRECTION -- The day after you buy stocks
CASH FLOW-- The movement your money makes as it disappears down the toilet
YAHOO -- What you yell after selling it to some poor sucker for $240 per share
WINDOWS -- What you jump out of when you're the sucker who bought Yahoo @ $240 per share
INSTITUTIONAL INVESTOR -- Past year investor who's now locked up in a nuthouse
PROFIT -- An archaic word no longer in use

Bank Deposit Guarantees

A most interesting development is occurring. And it's happening right around the world. As fear takes over greed and people scramble to find a safe place for their money, a lot of it ends up in bank accounts and/or deposits. But, it seems reasonable to ask, are banks safe? Well, just in case they're not, governments everywhere are announcing that they will guarantee those deposits. Hey, that's with future taxpayers' money that 'they' are being so generous...

It all started, it seems, in Ireland. On September 30, Ireland's government had its Finance Minister come out and announce a blanket guarantee on the deposits and almost all of the debts of the country's six biggest banks! Greece followed Ireland in unilaterally guaranteeing all bank deposits amid reports that Greek depositors were rushing to withdraw their savings. Greece's cabinet agreed to protect all deposits whatever their size.

A silent swoosh was heard in the City of London as tens of thousands of British savers were seeking to transfer their cash out of the UK banks and into Irish banks to gain the unlimited deposit protection offered. And then came a BIG one... On October 5, Germany announced that it would guarantee all private bank accounts, joining Ireland and Greece.

Then the Danish government followed suit on October 6, guaranteeing all bank deposits in Denmark. Spain has indicated that it could soon join Germany, Austria, Denmark, Greece, Ireland and Sweden in offering a full government guarantee for deposits. Ireland started it, but there are now "safer places" for savings deposits. The global run on banks is ON!

No wonder all the governments are 'guaranteeing' bank deposits in their countries. Oh, but, wait a minute... not ALL countries. New Zealand does not offer ANY protection to bank depositors. It's the ONLY country (Australia too, up to last week) in the OECD that does not. Oh, but, hold on... This, just in as I write, as I just received an email (on a Sunday afternoon??!!!) from the Reserve Bank of New Zealand's email service, outlining a press release just going out:

> *"The Minister of Finance announced today that the Government has introduced an opt-in deposit guarantee scheme. The scheme covers deposits for New Zealand-registered banks and eligible non-bank deposit-takers (including banking societies, credit unions and finance companies).*
> *As noted in his statement, the Reserve Bank and the Treasury are now releasing more detail about the scheme.*
>
> *"The purpose of the scheme is to assure New Zealand depositors that they can be assured their deposits are quite safe and the New Zealand financial system is sound," said Reserve Bank Governor Dr Alan Bollard, and Acting Secretary to The Treasury, Dr Peter Bushnell."*

Huh? What does an 'opt-in' deposit guarantee scheme actually mean? Why would you not opt in?! I guess, as is usually the case, the devil will be in the detail... Ahhh, there are just no more weekends!! For more on this latest development in New Zealand, see the news release here.

I know where I think my money is not only 'safest', but will also preserve its purchasing power and prosper, and that's NOT by lending it to a bank (which is what, in effect you do when you leave money in a bank account of deposit money at a bank). It's by converting my fiat paper money into real money by buying bullion (gold, silver and platinum) and not by being tricked into buying paper gold or paper silver as most seem to do (by the looks of how fast ETFs are growing.

Protect yourself and your loves ones before it's too late: buy some precious metal, buy some gold and silver bullion and hold on to it or make sure the bullion you buy is safely and securely stored and insured for you. And don't be swayed by the scary volatility that its daily price will continue to be subject to. It's only going to get worse, before it finally settles down for the better.

Keep your bullion until THERE IS monetary reform; that is, until integrity is finally returned to our global monetary system. In times like these, you need 'mint ease' (you need to say this out loud and to be a Kiwi to get the joke); if you're not a Kiwi, this may help: nz.youtube.com/watch?v=ksvcJ-Q7bSA.

> *"…public credit depends on public confidence… The financial crisis in America is really a moral crisis, caused by the series of proofs … that the leading financiers who control banks, trust companies and industrial corporations are often imprudent, and not seldom dishonest. They have mismanaged…funds and used them freely for speculative purposes. Hence the alarm of depositors and a general collapse of credit …"*
>
> *The Economist magazine, November 2nd, during the **1907** crash...*
> *(Courtesy of Bill Murphy, Le Patron of LeMetropoleCafe.com)*

Hey, that was 101 years ago! Haven't we learned anything? An Economics 101 crash course is coming up our way real fast. Hang on tight, 'cause Dorothy, Kansas is going Bye, bye...

Bear: "What's on the menu today, Ben? I'm starving."
Ben: "Today, le plat du jour is moi. I hope you like it!"

Your freethinking investment strategist, knowing that fundamental analysis and/or technical analysis are no longer sufficient when doing financial analysis;

interventional analysis is now also necessary.

Louis Boulanger, CFA
Louis Boulanger Now Ltd.

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