Article 1:

To Buy or Not to Buy?

THAT seems to be the question we now ask ourselves more and more in our materialistic and consumerist world, rather than the more meaningful and existential one: To Be or Not to Be. A small step for man, but a giant leap for mankind… into the abyss!

Take houses, for instance. Their price does not seem to matter at all. People just keep buying them, rather than just using (renting) them. Even if they cost more than ever before! Why? Because house prices are continuing to rise? Probably. But the real and more sinister reason why people keep buying is that it's mostly not with their own money after all and it's soooo easy to get! We have the banks to thank – eh, sorry, blame - for that. So why miss out and not borrow? After all, it's easy money to get and easy money to make, right? Of course it is, my dear. Good night and, 'buy the way', please don't forget to turn the stars out before going to bed…

The results of a really interesting survey on house affordability were released last week (you can find these here: http://www.demographia.com). They confirmed what I intuitively suspected: houses are twice as expensive here (Auckland, New Zealand) as they are in Montreal (where I come from). But more importantly and relevantly, this survey looks at affordability from the point of view of how much the median (sort of an average, but better because it measures the mid point of the range and is not overly influenced by the extremes) house costs as a multiple of the median household income.

Well, guess what? Auckland, Wellington and Christchurch (the only three cities in New Zealand included in the survey) all rank in the not-so-enviable group of "severely unaffordable" houses. Auckland almost made it to the Top 20, with the rank of 21st most severely unaffordable place out of 159 major urban markets surveyed in Australia, Canada, Republic of Ireland, New Zealand, the United Kingdom and the United States. It was not easy to reach this enviable position; we had to borrow a lot of money. The median house price here, according to that survey, was already 6.9 times the median household income in the third quarter of 2006. Given that house prices continue to increase faster than people's income, we seem determined to reach the dizzying heights of the likes of Sydney, Vancouver, London and maybe even Los Angeles-Orange County as well... I know we can do it. We're an ambitious lot indeed here when it comes to residential property ownership.

But, sadly, we are not alone on this self-destructing path. No sirree! The world is swimming in money and there seems to be an endless supply of willing lenders and borrowers. Yippee Kayee, money lovers!

> *"Two things are infinite: The universe and human stupidity; and I'm not sure about the universe."*
> *- Albert Einstein*
> *(1879-1955)*
> *German/American theoretical physicist; best known for his Theory of Relativity (E=mc2)*

Before we move to the main story below for this issue, I would like to welcome all those of you who have recently become readers of *Prosper!* The purpose of these e-letters is to educate and awake on money matters and not to give investment advice. It is important that you understand where I'm coming from or you may understandably think I am making all these outlandish comments on money, central banking, inflation and debt just a little too gratuitously. Not so! I've actually spent the past couple of years researching this stuff. So please make sure you read my first issues of *Prosper!* You'll find them all here: hhttp://www.permissionmarketing.co.nz/console/newsletterlist.php?clientid=lbnow. Thanks for reading and you have my best wishes.

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

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Article 2:

Money, Money, Money!

Those of you who have been with me since the beginning will know that:

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.

"Inflation is as violent as a mugger, as frightening as an armed robber and as deadly as a hit man."
- Ronald Reagan
(1911-2004)
40th President of the United States

The US Federal Reserve ceased publishing M3 (as those of you who have read my very first issue of *Prosper!* will know), a broad measure of US Money Supply, on March 16, 2006. At that time M3 stood at about US$10.5 trillion. According to data collected by the good people at Now and Futures (see their web site http://www.nowandfutures.com/key_stats.html) who have reconstructed M3, total money supply has accelerated to an annualized rate of about 12% since then. The magnitude of the US$1 trillion increase in less than one year comes into focus when you realize that the entire money supply was less than US$800 billion when Nixon closed the gold window in 1971 and less than US$2 billion when Reagan was elected in 1980. This rapid, even exponential, increase helps explain the rising precious metals prices and provides an early warning about coming inflation.

Check this chart out; it's quite simply an amazing display of deception on a grand scale (remember, this statistic is no longer published by the US central bank) over the past few years, as we are lead by those who create the money to believe that inflation is not really a big problem any more. So why create so much money, so quickly then??

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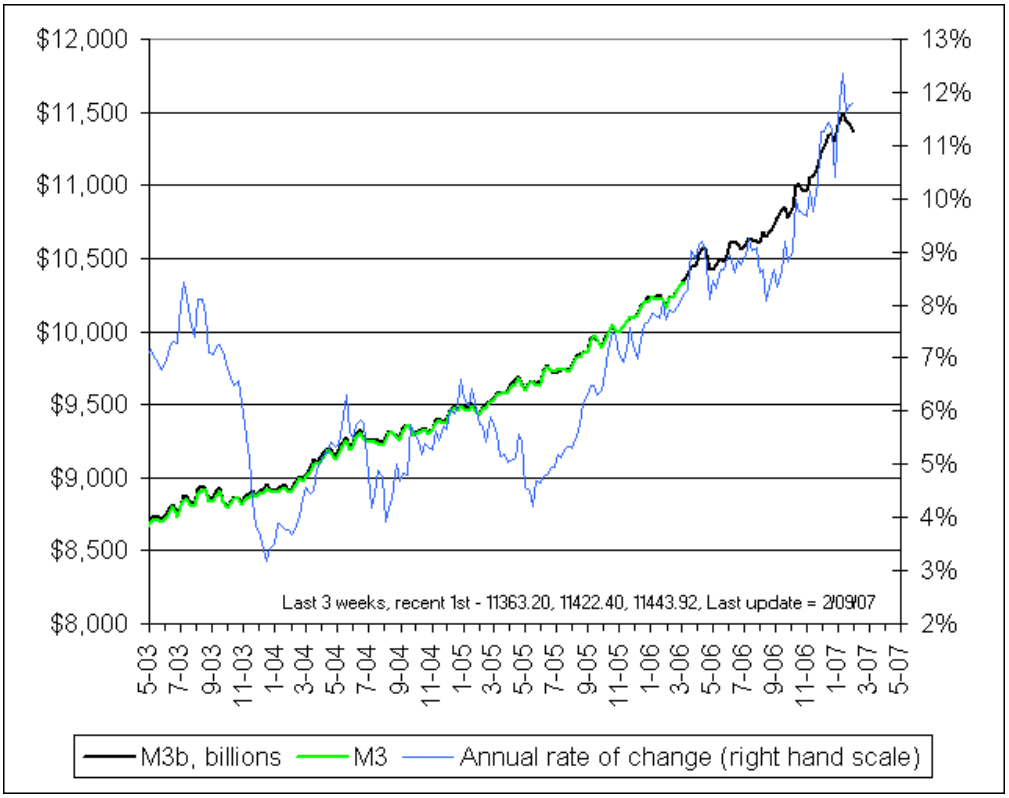

Source: NowAndFutures.com

M3 consists of cash/currency, travellers' checks, checking accounts, savings accounts, money market funds, time deposits, and repurchase agreement liabilities (also known as 'repos') of depository institutions (in denominations of US$100,000 or more) on US government and federal agency securities, and Eurodollars. For reference, and as of early 2007, M3 is about US$11.5 trillion, M2 (M3 less institutional money market funds, jumbo time deposits, repos and Eurodollars) about US$7.1 trillion, institutional money markets funds about US$1.4 trillion, jumbo time deposits about us$1.7 trillion, repos about US$0.67 trillion and estimated Eurodollars are about us$0.61 trillion.

What is inflation again? Attentive readers will know that when the Money Supply increases faster than the growth of the economy, the result is inflation (see Issue no 3 of *Prosper!* for more). Well, the system wants us to think in terms on 'price' inflation (as measured by things like the CPI) and think inflation is only 2-4%. But what we now have, which is far more devastating and feeding through to us as having to or wanting to take on more and more debt, is 'financial asset' inflation. This is the result of so much money floating around and the illusion of 'wealth creation' (see Issue no 6) that such massive amounts of credit has generated almost virtually unchallenged.

Speaking of credit, take a look at the next chart, which now includes the total amount of credit in the US on top of M3 (i.e. a 'total money' sort of picture, if you like) since 1970:

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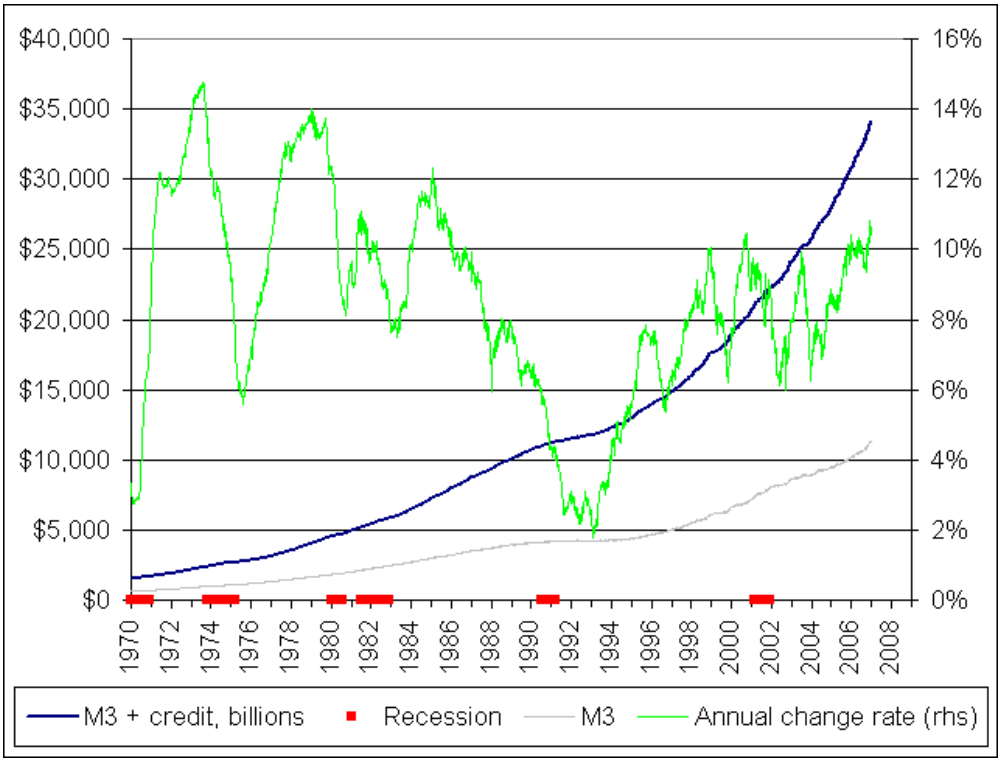

Source: NowAndFutures.com

Total credit here includes real estate credit (estimated by subtracting consumer credit from total household credit), bank credit and commercial/industrial credit, but not government debt.

Whoa! That's a lot of money sloshing around, my friends… No wonder we are duped into thinking wealth is being created by rising asset prices. Oh, by the way, are your wages adjusted with the 'official' inflation rate (i.e. CPI or 'price' inflation) or the actual growth rate of the Money Supply? Right! Moving right along…

What does all this mean for the US economy and, eventually, all of us as individuals around the globe, given the likely ripple effects (did I say 'tsunami'?) of any significant correction in the US? Well, to start, it looks like the US is overdue for at least another recession. Maybe even a depression? No, of course not! That's not possible any more, right? We've got things under control, right? Oh, wait: did a central banker not admit recently in Davos, Switzerland, at the World Economic Forum that they no longer knew where the risks were in the system because it's all suddenly got too complicated?

It was reported in a Financial Times article on 28 January (see http://www.ft.com/cms/s/1a94c8be-af15-11db-a446-0000779e2340,_i_rssPage=abb716b0-2f7a-11da-8b51-00000e2511c8.html) that:

> *" Conditions in global financial markets look potentially "unstable", suggesting investors need to prepare for a "repricing" of some assets, Jean-Claude Trichet, president of the European Central Bank, said over the weekend in Davos.*
>
> *"The recent explosion of structured financial products and derivatives had made it more difficult for regulators and investors to judge current risks in the financial system, Mr Trichet said. "We are currently seeing elements in global financial markets which are not necessarily stable," Mr Trichet said, pointing to the "low level of rates, spreads and risk premiums" as factors that could trigger a repricing.*

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"There is now such creativity of new and very sophisticated financial instruments ... that we don't know fully where the risks are located." He added: "We are trying to understand what is going on but it is a big, big challenge." "

Not exactly reassuring, is he? Well, if he does not understand what is going on, how can we be expected to do so?! As if that was not enough to generate some concern in the marketplace, if not at the very least generate more realistic or less bullish sentiment about financial markets' prospects at the present time, there's something else that was more eloquently said recently and which can certainly be more useful to those of us who are willing to listen and pay attention to what is actually going on in the 'financial system'.

Gold, Gold, Gold!

Indeed, according to GATA (http://www.gata.org/node/4725*): "Gold got a stirring endorsement and the central bank system of infinite money a denunciation last month (on 18 January) from a remarkable source -- a leading banker in Canada's financial establishment. The banker, Anthony S. Fell, chairman of RBC Capital Markets and former president of Royal Bank of Canada (RBC), delivered the endorsement and denunciation at a dinner in Vancouver."* The text was vetted by his office. *"Fell's remarks on gold and the excesses of the fiat money system came at the conclusion of his address at the dinner and were forwarded to GATA by a friend who was in the audience."*

I feel this is so important, that much of Fell's remarks (which can be found in full at the GATA web link above) are excerpted below for your convenience.

".... I would not want to close off the evening without tabling one opportunity for all of us to make money, safeguard our wealth, and protect ourselves from the ravages of inflation over the next many years -- and that is gold bullion.

Gold bullion is a secretive, opaque market with little transparency. Gold can be volatile, is almost impossible to forecast on a short-term basis, and requires great patience, and, accordingly, it's not for short-term traders but rather for serious long-term investors.
Is gold a currency, a commodity, or a store of value?

The answer is all three, but gold bullion is primarily a currency and a store of value and is a hedge against fiat paper money and inflation."

...

"As J.P. Morgan said in 1913: "Gold is money and nothing more." It was Alan Greenspan again who said in a 1999 testimony before the U.S. House Banking Committee that "gold represents the ultimate form of payment in the world."

Gold bullion is the only currency worldwide which is freely tradable and which is unencumbered by vast quantities of sovereign debt and prior obligations. Gold bullion is the one investment and long-term store of value which cannot be adversely impacted by corrupt corporate management or incompetent politicians -- each of which are in ample supply on a global basis."

...

"I believe gold bullion is now in the very early stages of a long-term secular bull market which will carry it to much higher levels over the coming decade. I don't think there's any point in speculating how high the price of gold might go in the course of this cycle because no one can be that precise. Suffice to say I anticipate a material increase.

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History doesn't repeat but it's well to remember that from 1970 to 1980 gold rose 2,300 percent so it shows what can happen. Reflecting on the long-term outlook for gold, it is important to fully appreciate that we now live in a world of fiat paper money. Just as a reminder, fiat paper money, according to the Oxford Dictionary, is inconvertible paper money made legal tender by government decree.

The real question over the long term is: How much confidence do you have in politicians and central bankers to maintain the purchasing power of their currencies? Since the US moved to fiat paper money in 1971, the dollar has lost 80 percent of its purchasing power. Since the Federal Reserve was established 93 years ago, the dollar has lost 98 percent of its purchasing power.

The new fiat US dollar system has been in place for only 35 years -- not long when you consider the sad and sorry record of fiat paper money around the globe throughout the past century or two. I would say the jury is very much out on this new system."

...

"We have never before experienced imbalances in global trade and foreign exchange of the current magnitude -- not even close. Major currency realignment is coming, and the longer it is delayed, the more the risk of the crisis. You can't hold back the tide. The ingredients are here for major trouble in global financial and foreign exchange markets.

For all these reasons, I believe the stature and reputation of the US dollar as a store of value have been greatly diminished and undermined over the past decade. In light of all this, I believe gold bullion will gradually re-emerge as an accepted alternative asset and investment."

...

"There is, at present, an unwarranted optimism that the business cycle is a thing of the past, that central banks with infinite wisdom are in firm control and will be able to thread the needle between inflation and deflation, and that we will never again have a major foreign-exchange or financial crisis.

Well, I don't believe it, and the record shows that gold bullion represents a solid store of value in times of economic and financial distress. Over the coming decade, global gold production will be static to declining while governments around the world continue to increase the money supply at a rapid rate. If there is an "event" and a crisis develops, they will print money even faster. The arithmetic is compelling."

…

"Investors forget that at most gold mines you have to move 35 to 40 tons of dirt and rock just to get one ounce. On the other hand, fiat paper money can be printed by pressing a button on a computer.

It's quite interesting if you've noticed what's happening to paper money. Not so many years ago millions of dollars seemed like a lot of money. Then we started talking about hundreds of millions and then we were thinking in terms of billions. Then a billion became petty change and we started to talk in terms of hundreds of billions and now you hear the word "trillion" more and more. The next stage will be hundreds of trillions.

Recently an "old master" painting was auctioned in New York for $94 million. Just based on common sense, we have to ask ourselves: Is that painting really worth $94 million, or has the US dollar become just like so much confetti? I think we know the answer. When Mr. Nardelli

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was recently fired as CEO of Home Depot he received a settlement of $210 million. The CEO of Pfizer received a settlement of $240 million when he was let go. A condo in New York trades for $80 million. What does all this say about the value of money?"

...

"Gold is a hedge against inflation and, as a result of the excesses of the past 15 years; I believe there is more inflation in the pipeline than is generally anticipated -- perhaps quite a bit more -- just like the 1970s. I believe any surprises on the inflation front will be on the upside.

To some extent, I regret to say, all paper currencies are becoming somewhat suspect, and accordingly it is my view that gold bullion, rather than being the barbarous relic described by John Maynard Keynes, may well become the asset of choice for many investors over the coming decade.

I have always been told to buy quality assets that are vastly undervalued and that have been ignored by the marketplace for a prolonged period. Notwithstanding the modest rise in gold prices over the past few years, that is where gold bullion is today, and it represents a great opportunity."

So, there you have it. And that was not the rant of some self-dealing pump-and-dumper. He's the real McCoy, dear readers! So, what are you waiting for? Go and buy some gold, if you have not yet started to do so…

Your freethinking investment strategist, still preferring gold over residential property,

Louis Boulanger, CFA
Louis Boulanger Now Ltd.

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