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Foreword

For greater insight into our publication, have a look at the [Overview of Tedbits](#). It helps current and potential subscribers understand our mission in serving you. It also gives a broad description of what's unfolding globally and what you can expect from Tedbits as a regular reader.

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Introduction

As the G7 economies plunge over a cliff, the governments and central banks are taking turns at fire fighting in their respective economies. With each new initiative the Crack-Up Boom creeps closer and closer on the horizon as G7 public servants and central banks attempt to RESCUE foolish lenders and borrowers from their approaching demise and insolvency. The attempts will fail and insolvency will be brought to the entire G7 financial systems. Never before in history has more been borrowed and printed to rescue global banking and corporate elites from their hubris and stupidity. Mal investments are crumbling to their REAL value, not their inflated NOMINAL value, and as they do, the banks, financial systems and real economies shudder under the repricing. As reality supplants the fairy tales the greatest opportunities are presented to you!

After decades of theft of the purchasing power of your money through fiat currency and credit creation, the rubber band has snapped. This wonderful turn of events allows you to REGAIN much of the purchasing power that was lost, but this is only a temporary turn of events. You must wait like a cat and pounce on the prize of excellent values before your cash begins to crumble again under the latest assault by fiat currency and credit creation; but this opportunity for value is much farther in the future. To be successful now, you must learn to make money in rising and falling markets. BUY and HOLD is DEAD for the time being.

At last week's lows, the return for the S&P 500 on an annualized 10-year basis after inflation was -3.8%. It is quite clear the baby boomers ARE NOT going to RETIRE with the gains accumulated over a lifetime as real estate and stocks have much further to decline. Now their brokers are telling them to hold for the recovery. The new definition of this strategy is buy and HOPE.

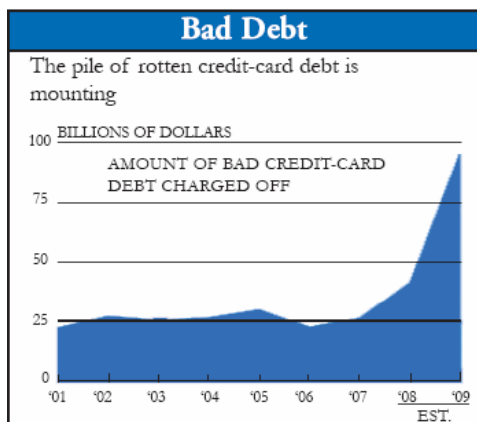
I have projected earnings to decline to \$50 dollars on the S&P 500 and to a multiple of 8. That signals a decline to 400 from Friday's close at approximately 896. There will be an approximate 60% decline from here. Hope is not an investment strategy. SELL INTO RALLIES!!!

Markets are experiencing VOLATILITY not seen since the early 1930's. Stocks, bonds, commodities, currencies and all markets will be repriced to reflect the new realities unfolding before us. VOLATILITY IS OPPORTUNITY for the prepared investor. You must prepare yourself or be a victim of it.

A case in point is Citigroup, the next permanent ward of the state. The headlines say it has been spared but the details say something else. Here's the price: over \$300 billion of IMPAIRED mortgage-backed securities were "ring fenced" and most of the future losses to the treasury. Citigroup is to take the first \$30 billion of losses and 10% of the losses on the rest, with the FDIC slated to shoulder the bulk of the RISK on the rest. Before the rescue the only thing keeping Citigroup's equity positive was CARRY FORWARD TAX LOSSES. Sounds like Freddie and Fannie, doesn't it?

The manner in which Citigroup was rescued relegates its shareholders to the boat of former OLIGARCH companies such as: AIG, Fannie Mae, Freddie Mac and soon the big three automakers. These stocks hold little or no value as the government has rescued them in a manner that never allows the shareholder to recover. Of course, they should not recover anything because they FAILED to properly supervise their investments. Citigroup will never deliver earnings again for common shareholders. Dividends were reduced to one cent a quarter for three years at a 20 to 1 multiple. That means a price of 80 cents, not the 8-and-change it closed at Friday. You can expect most, if not all of the big banks to join Citigroup in the breadline of government sponsored INSOLVENCY!

Before this episode is over, you can expect very few of the BIG banks to surpass this. The government inserts itself ABOVE all other investors and the amounts it injects will require DECADES to repay once profitability and the ability to lend is restored. This can be the expected outcome for all the big New York banks along with Bank of America and Wells Fargo. Take a look at these icebergs of potential losses:



Who's at Risk ?

The credit-card issuers that stand to lose the most if the industry stumbles

	AMOUNT OF CREDIT CARD DEBT (\$BILLION)	PERCENT OF REVENUE FROM CREDIT CARDS*
JPMorgan Chase	155.4	20.5
Bank of America	153.3	22.1
Citigroup	151.2	15.7
Capital One	67.8	62.0
American Express	64.7	24.5
Discover	47.0	97.8

*U.S. credit cards only

Charts courtesy of Businessweek

Add to this consumer, auto, commercial real estate, exploding ARM's and other lending and you get the idea how much bad debt is yet to be REALIZED. States and municipalities loom large as future deadbeats since borrowing and spending levels reflect the credit and real estate booms of 2003-2007 and income heads into the toilet. You can expect a showdown between the public and state and municipal governments that REFUSE to cut spending. Everything becomes "essential" and they send the bills to their constituents, who can't pay their own bills.

One thing you can COUNT ON during the debate: Whatever spending that is most important to the widest group will be cut FIRST and spending for tiny special interests and political campaign donors will not be mentioned. The headlines and the mainstream media will DUPE the illiterate public.

Almost no one is reporting the UNFOLDING debacle in pension funds and insurance companies that purchased assets at the top of the bubble from the same fraudsters at the banks and brokerages who are failing now, and then BORROWED money to enhance returns. Now they are TOAST. An anecdote has surfaced from a friend in the Virgin Islands. He lives in a well-to-do part of the islands. His neighbor has property insurance from Lloyd's of London. The recent hurricane damaged his neighbor's house to the tune of approximately \$1,000,000. The adjuster visited the house and verified the claim and eligibility. He then mentioned that he would submit the claim, but that the homeowner may not be paid for up to three years as Lloyd's is a little short of dough these days. What an off handed comment...\$1,000,000 should be chicken feed for one of the biggest casualty and property insurers in the world. I guess they need to wait for the markets to recover.

Corporate loans for investment-grade companies are almost 900 basis points over treasuries. For lesser companies it approaches 2,000. Bankruptcy looms for credit-dependent firms, GOOD or BAD, as they cannot overcome the cost of capital or be able to roll existing obligations. Share buybacks and mergers and acquisitions have now boomeranged, leaving huge piles of debt on shares purchased at 100 to 300 percent of today's market prices.

These loans are albatrosses around these companies' necks, dragging them down with INTEREST and PRINCIPAL payments as corporate receipts tumble further than they could have ever imagined. Even some of the smartest managers in the world have succumbed to the SIREN song of easy money and INFLATED wealth. Of course the same overpaid CEO's still have their

salaries from the years when they made these poor decisions. What a price to pay for inflating corporate earnings in the last several years. Of course, these STUPID actions were CELEBRATED as brilliant leadership and wonderful news for investors by the mainstream financial press.

The Great Reflation

As regular readers know I have ALWAYS said they will print the money to fix any and everything. The recent events have proven this to be true. I remember my missive just after the first Federal Reserve term-lending facility was created. At that time I said they would widen and widen to trillions of dollars. And they have. But now you must understand that things WILL NEVER return to the way they used to be. The investing, financial and economic landscapes are just in the infancy of what tomorrow will look like. The enormity of what has been done and what is to come is inconceivable to most people.

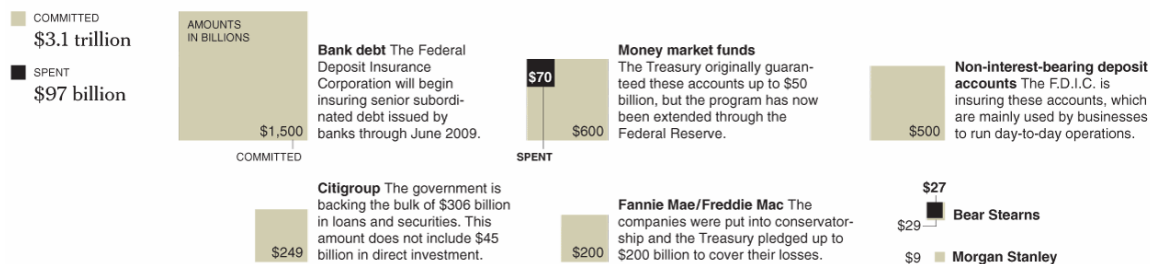
The United States has instituted quantitative easing and now has embarked on the ultimate journey that will turn the G7 into Weimar Republics. This week they announced another term facility known as the Term Asset Backed Securities facility. This will buy asset-backed securities consisting of mortgage-backed securities, auto-backed, student loan-backed, credit cards and small business loans since the private sector refuses to do so. Initially targeted at \$800 billion, this too will mushroom as the Federal Reserve is doing any and everything to prevent deflation. But they won't be borrowing the money as in many of the previous programs. Now they will be PRINTING it. People used to call the Federal Reserve chairman "Helicopter Ben" because of his deflation speech years ago. Now he is "B-52 Ben" as heavier ordinance is required in the ATTEMPT to fill the holes in the nation's balance sheets and asset values.

Over \$7.2 trillion has been committed so far. This can be expected to double again from here. The \$7.2 trillion does not include Obama's \$700 billion stimulus package or this week's \$800 billion commitment from the Fed. So the amount will soon be \$8.6 trillion. Here is a recent overview of all the programs, their costs, what has been spent and what is expected for the future from a recent *New York Times*:

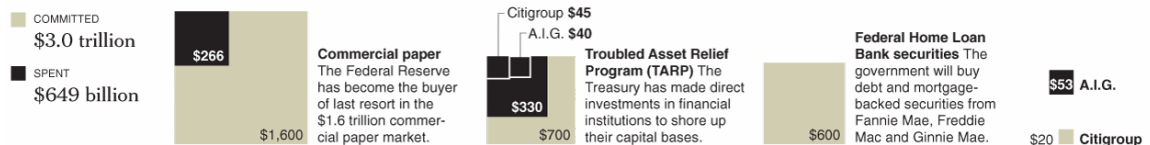
Commitments

include some lending programs for financial institutions whose cost is not quantified.

As insurer Guarantees the government has made to investors and depositors against default



As investor Stakes the government has taken in big financial companies, in exchange for cash



As lender Low-interest loans made by the government to large financial institutions



Sources: Federal Reserve; Treasury Department

THE NEW YORK TIMES

This week Goldman Sachs was the first issuer in the FDIC guaranteed debt issuance. \$5 billion was raised at a rate of about 200 basis points over treasuries at approximately 3.36%. Existing Goldman debt from before the guarantees was quoted 750 basis points above treasuries. JP Morgan and Morgan Stanley are lined up for the gravy train. General Electric is at the guarantee trough for a cool \$130 Billion. You know that GE is triple AAA, another dubious mark courtesy of the RATINGS agencies. This transfer of risk from the big banks to the U.S. Treasury will grow to over \$800 billion over the next 12 months. It will be in the trillions before they are finished SAVING us.

Public serpents are placing their constituents into DEBT slavery to SAVE them. Actually, the public is being killed. The banking and corporate elites who are drowning in their own poor decisions are the actual people being saved. This is the greatest heist in history and it is DESPICABLE. They need to go to the big banks and brokers and place the managers of this mess on trial and in jail. They have committed a total breach of fiduciary responsibility.

JP Morgan and Citigroup have far higher exposures looming in commercial real estate and leveraged buyouts. Estimates range to over \$300 billion. For instance, do you really think JP Morgan is going to recover much from its financing of the Cerberus acquisition of Chrysler?

Additionally, JP Morgan is on the hook for over \$9.2 TRILLION of over-the-counter CREDIT DEFAULT SWAPS in one way or another. This is about 20% of the total outstanding market. The question is, when they hedged their risk were the counter parties RICH ENOUGH to PAY OFF? My guess is that 30 to 40% of these counterparties have little or no ability to PAY. Who will fill the hole in their balance sheet? Either the Treasury (by BORROWING the money) or the FED (by

PRINTING it) will. Either way, it's the public who pay back the debt in future earnings or savers when their purchasing power is stolen while their money sits in the bank via DEBASEMENT.

Now instead of them being on the hook for the payback it will be you, me and our children. *These companies are bankrupt. They must be allowed to die and pass into the hands of PRUDENT managers and stronger hands. The irony and OUTRAGE of this is that management is allowed to stay in the hands of these incompetent fraudsters.*

To put this amount of spending into perspective, let's examine a recent missive from James Bianco at Bianco Research in Chicago:

"Jim Bianco of [Bianco Research](#) crunched the inflation adjusted numbers. The bailout has cost more than all of these big budget government expenditures – combined:

- Marshall Plan: Cost: \$12.7 billion, Inflation Adjusted Cost: \$115.3 billion
- Louisiana Purchase: Cost: \$15 million, Inflation Adjusted Cost: \$217 billion
- Race to the Moon: Cost: \$36.4 billion, Inflation Adjusted Cost: \$237 billion
- S&L Crisis: Cost: \$153 billion, Inflation Adjusted Cost: \$256 billion
- Korean War: Cost: \$54 billion, Inflation Adjusted Cost: \$454 billion
- The New Deal: Cost: \$32 billion (Est), Inflation Adjusted Cost: \$500 billion (Est)
- Invasion of Iraq: Cost: \$551b, Inflation Adjusted Cost: \$597 billion
- Vietnam War: Cost: \$111 billion, Inflation Adjusted Cost: \$698 billion
- NASA: Cost: \$416.7 billion, Inflation Adjusted Cost: \$851.2 billion

TOTAL: \$3.92 trillion (data courtesy of Bianco Research)

That is \$686 billion less than the cost of the credit crisis thus far.

The only single American event in history that even comes close to matching the cost of the credit crisis is World War II: Original Cost: \$288 billion, Inflation Adjusted Cost: \$3.6 trillion

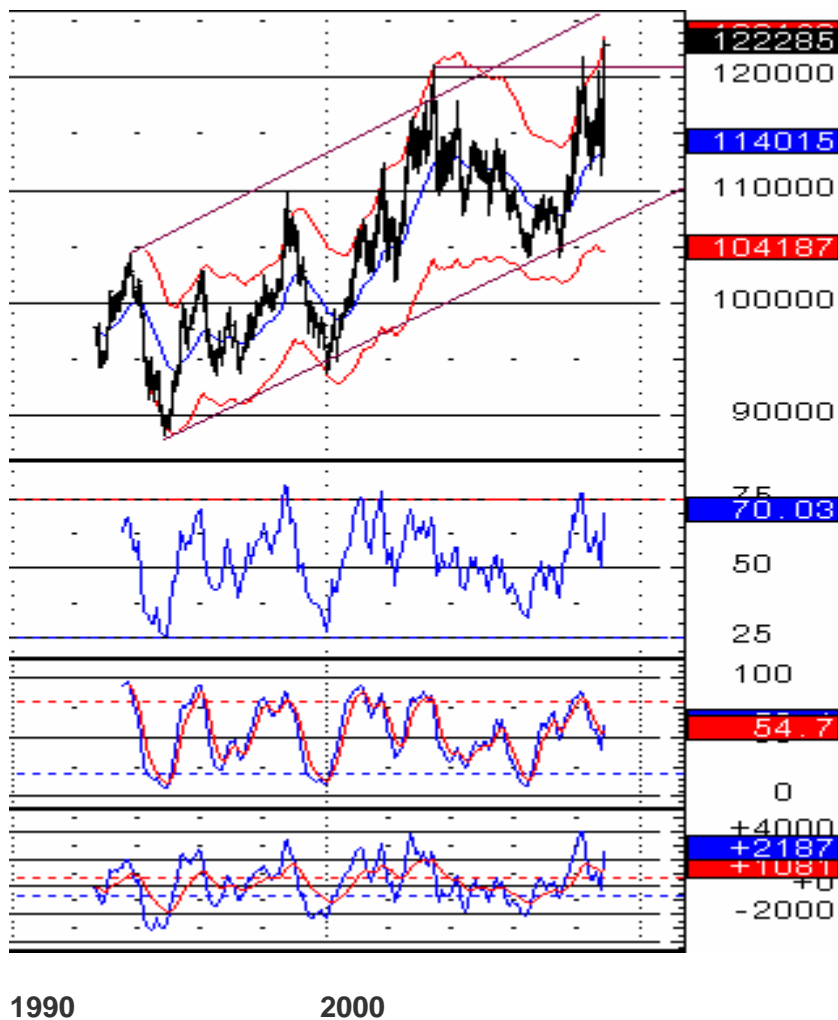
The \$4.6165 trillion dollars committed so far is about a trillion dollars (\$979 billion dollars) greater than the entire cost of World War II borne by the United States: \$3.6 trillion, adjusted for inflation (original cost was \$288 billion)."

Thank you, James.

So the cost of the current crisis is greater than all of the above, including World War II, and can be expected to at least DOUBLE from here. And of course Bianco uses the OFFICIAL GOVERNMENT measures of inflation, not the true numbers like we find at www.shadowstats.com. Now here's the BAD news:

THESE NUMBERS DO NOT INCLUDE THE REST OF THE G7 and they are in as much or more trouble than the United States. The reality of this has just BEGUN to be felt. It has happened so fast that the ALTERED REALITY we will endure is only in its infancy!!!

Let's look at the smoke signals emanating from the U.S. Treasury markets on the long end (10-year):



Massive breakout is bringing yields to below 3% (a level not seen in over five decades) on the highly significant MONTHLY timeframe, signaling a rally to less than 2% yield as the first stop. Both Slow Stochastics and MACD are giving very powerful BUY signals. This move is echoed by U.K. Gilts, below 4% for the first time since 1961, and German BUNDS. This is the face of the unfolding debacle in the demand side of the G7 economies. *The predictive ability of these markets is considerable so you can expect all long-term rates to gravitate to ZERO in the G7 as the respective CENTRAL banks EMBARK on quantitative EASING, a.k.a PRINTING THE MONEY!!!!*

It is despicable that Washington views the problems in terms of people not borrowing enough to FUEL the economy. Look no further than Hank Paulson's own words last Tuesday:

"Millions of Americans," says the U.S. Treasury secretary, were being denied credit or facing rising credit card rates, "making it more expensive for families to finance everyday purchases".

The notion that families should finance everyday purchases on credit suggests Washington has still to understand what brought us here in the first place. Income is collapsing and the only way to fix it is wages and thriving small businesses.

The public has been scared out of their wits (as they should be). They have been encouraged for decades by public servants and the BANKING industry to borrow and spend on items they cannot and could not afford. This has now placed them and the countries in which they live on the brink of bankruptcy. This lending was the solution to collapsing income as the G7 deindustrialized and substituted ASSET INFLATION for rising incomes and wealth creation. Now the public servants are desperate for them to BORROW MORE and go further into DEBT SLAVERY to the fraudsters at the big banks and institutional lenders. Let's borrow and spend our way to prosperity! How absurd!

But the public ARE NOT politically connected to big business, banking elites and BIG campaign donors so they will be allowed to fail. The amounts required to underpin the politically connected financial industry is just beginning. Crony corporate capitalists are in line right behind them, as are the states and municipalities. By the time they are through trying to SAVE the elites the bill will be far, far larger than is currently on the table and we will all pay for it. The guarantees and capital injections from G7 governments and central banks ESCALATES the insolvency. It is just moving further and further up the ladder until the financial systems as we know them disintegrate into the UNFOLDING "Crack-up Boom". Anybody have a wheelbarrow?

In conclusion: *Can you say morally, intellectually and fiscally BANKRUPT leaders in the G7???*

Recent Bailouts announced in the U.K. remind me of ICELAND. The idea of politically-directed lending to bankrupt people, banks and businesses is OBSCENE. And how do they pay for it? By borrowing from the prudent savers (destroying the seed corn of future growth), printing the money or taxing what little is left of actually productive enterprise and individuals. It is a recipe for disaster. When this episode is complete Keynes will be the most REVILED economist in history.

The U.K. economy can be expected to collapse, as well as the rest of the G7, under these policies. They are compounding debt upon debt. Deflation occurs now, as rolling bankruptcies destroy what's left of the wealth-creating private sector, which no longer has access to short-term financing as the babies are thrown out with the bathwater. The people and businesses that are being rescued don't produce more than they consume and you can expect that to continue with government funds printed to underpin them. Then, hyperinflation occurs as basic goods and services disappear and government prints the money to pay for them when incomes collapse FURTHER.

There is only one solution for this and that is raising incomes from WEALTH creation, which drives wages higher and demand for goods and services. How do you do this? Cut corporate taxes to ZERO to stimulate investment, hiring and risk-taking. Remove taxes on savings and investing. New companies will lead us into a high-wage future, courtesy of REAL wealth creation and entrepreneurial boom. In a stroke of a pen the U.S. will become one of the most competitive EXPORTERS in the world.

Allow the insolvent banks to FAIL, pass through FDIC bankruptcy and clean their balance sheets which are opaque and unknowable. When done, transparency can be reestablished and the TOXIC waste will be GONE in the process. Then they can be bought by SAVERS and investors.

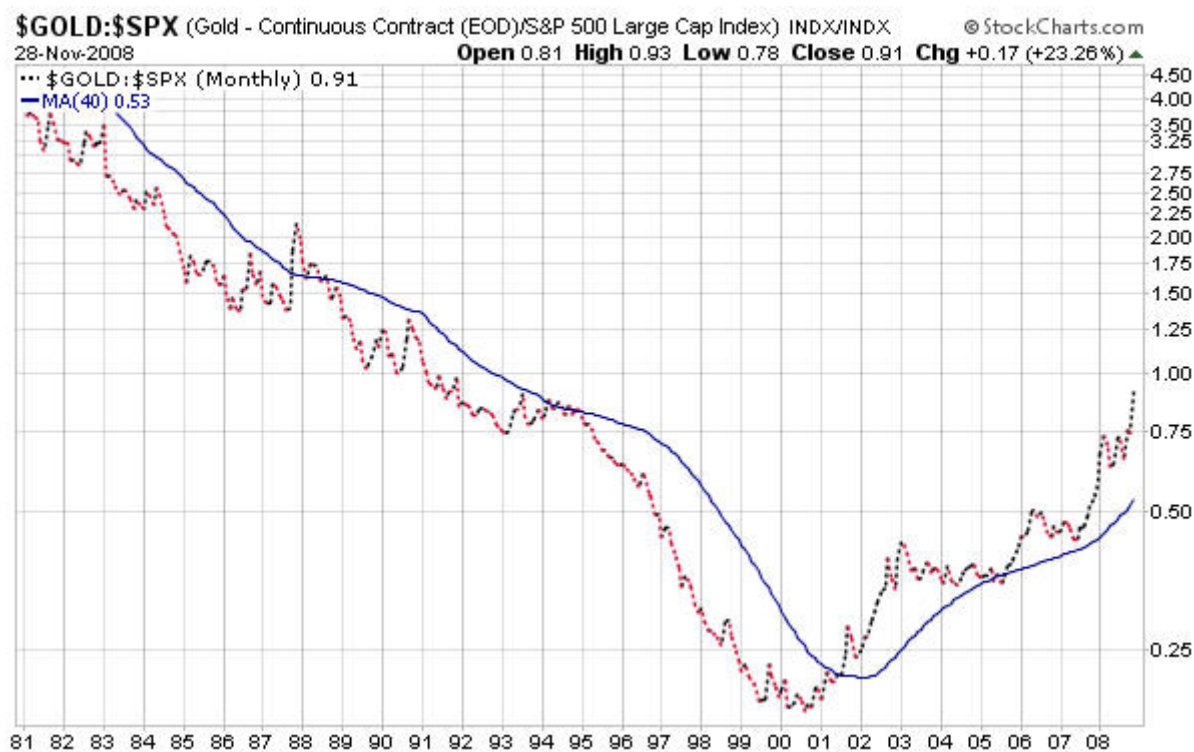
It will cost a fraction of what's being proposed. The foolish investors, lenders and borrowers need to pay the price for the poor decisions they have made. Unfortunately for us all they are the biggest and best-connected political elites in the world so the public will be sacrificed as the ROADKILL. Capitalism will be blamed and destroyed as an excuse to SAVE THE WORLD. OBSCENE. Capitalism is MAIN STREET, not financial engineering in the financial and government sectors. Don't be confused by the FOOLS in the mainstream media. It's the private sector that created the wealth.

There is no shortage of capital. There is only a shortage of trust in GOVERNMENT, public servants and crony capitalists. The con men are being exposed on a DAILY basis. NO ONE will invest in a company whose condition is unknowable -- except FOOLS who do not understand how to invest. Look no further than this week's rally in the stock markets, led by BANKS and retailers. Anybody bottom fishing in these areas deserves their fate which will be a TOTAL loss. Do you hear one person in the G7 talking about how to build economies and wealth rather than print it, or borrow to inflate demand and assets? NO. Insolvency just GROWS under these policies and with it the money printing to underpin it. Wealth is created in the private sector as small businesses grow big from providing more for less and being rewarded for doing so by CONSUMERS.

What's the solution for you? The indirect exchange as outlined by Von Mises. Study it, learn about it, plan and implement it. *Paper is king for only a short while longer. Hold it during the collapse, identify the winners after the collapse and invest your money in them before all the other paper holders REALIZE they have been played for DUPES by monetary printing presses throughout the G7 (paper has been and will shortly again be POISON).* Real businesses with real cash flow and dividends will survive ANY upheaval as the G7 leaders immolate their financial sectors and systems. You will know when to deploy by following the VELOCITY of MONEY. When it turns up you will know the rush to safety in TANGIBLE wealth has begun.

Many analysts are misleading you by saying gold must be higher. If looked at it on a year-over-year basis, the S&P 500 is down almost 50% and gold is up 2% year-over-year in November.

Take a look at this bullish chart (in the long term) showing the relative strength of gold compared to the S&P - this is figured by dividing gold by the S&P. We can see here that the relative strength of gold (the dotted line) rose in 2002, and it has consistently outperformed the S&P since 2002. Furthermore, its relative strength is pulling away and accelerating from its 50-month moving average (the blue line).



(Chart courtesy of a recent Richard Russell Dow Theory Letter – www.DowTheoryLetters.com)

To me that is skyrocketing. Keep in mind that only 13 to 16 stocks in the S&P 500 are up on the year. Looking closely at COT info shows that open interest has fallen radically and short interest by commercials is almost NET long. The rats are exiting the market before they are immolated. As the metal PRICES rise, the DEBASEMENT unfolds.

Huge opportunities are available in trading as “buy and hold” is dead for now. Stocks, bonds, currencies and commodities are ALL mispriced to reflect the monetary tsunami of the unfolding great REFLATION. The reflation will FAIL as loaning MORE money to insolvent people and businesses WILL NOT prevent insolvency (or reignite wealth creation, i.e. produce more than it consumes). Reflation will only make it BIGGER when insolvency finally arrives. When a man or leviathan government tries to FIGHT Mother Nature the battle is between TITANS. The battle will be fierce but the outcome is predictable - Mother Nature will ALWAYS prevail. Darwin may be a dirty name to public servants, socialists and egalitarians, but it is nature at work - survival of the fittest.

The amount to be spent, printed and deployed in the G7 is way over 10 trillion Dollars, Euros, Pounds and so on. Think of it as 10,000 billion and each billion is 1,000 million. It is an inconceivable amount and it is all the underpinnings to the G7 asset-backed economies. There is much more to come behind it, like a locomotive headed towards us. *No one can conceive what the world will be like AFTER it hits the streets over the next several years.* The amount of toxic assets still left to be dealt with is increasing at an accelerating rate. The bank rescues are FAR from over and now the new shoes are beginning to drop such as G7 insurance companies,

pension funds, state and municipal governments and unfunded government obligations, current and future.

They will print the money. You can be sure of this as public servants' actions to date illustrate clearly! It's the only thing they know how to do! When a gun is pointed at your head do you duck or take the bullet? You duck, and public serpents will as well. They will let YOU take the bullet instead.

Can you see the insolvency creeping higher and higher as the crony capitalists, financial and banking systems TRANSFER their insolvency to their respective governments, central banks and the public? And on top of this, the public is ENCOURAGED to BORROW more! The policies of insolvency...

There are tens of trillions of Dollars, Pounds, Euros and Swiss Francs sitting in banks and government securities and the owners are storing WEALTH in them. Ultimately, they will be POOR FOOLS. What do you think the foreign exchange reserves of the emerging world will buy after this monetary tsunami HITS the streets? Deflation now, inflation later...

The Crack-up Boom approaches... Don't miss the next edition of Tedbits. There will be one more Tedbits this year, then a holiday break until 2009.

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