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## Foreword

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## In This Issue

### **The Crack-Up Boom, Part XIV**

### **Battle of the Titans**

First I want to wish everybody a Happy and Prosperous New Year.

For those of you that prepare yourselves, the OPPORTUNITIES will be abundant and limitless; for those that don't it could be a very difficult period. "Volatility is OPPORTUNITY" and it is still set to skyrocket as G7 Public servants, financial and banking sectors and their crony capitalist campaign supporters try to escape INSOLVENCY and transfer it to the public. Ultimately they will fail, but the process may take several more years as they BELIEVE they have the ability to print money and create credit out of thin air endlessly.

In reality no one does, but they are now pushing this theft of purchasing power and the future income of the public to the cusp of its ultimate demise. The greatest transfer of wealth from those that hold their wealth in paper to those that don't is underway and INESCAPABLE. Only the twists and turns on this journey are yet to be identified. There is no going back to the way things were and a global paradigm shift is underway. The battle to create solvency where there is none will FAIL and the fight just DEEPENS the insolvency throughout the G7.

The BATTLE OF THE TITANS is public servants and central banks in the G7 trying desperately to DEFEAT "Mother Nature" and her laws. The forces of financial asset deflation (Mother Nature) versus the Inflate or Die mandate of the G7 governments who have tried to print wealth through monetary and asset inflation for decades.

The first law the G7 is trying to defy is: “There is no such thing as a free lunch”. The second is: “You must produce more than you consume or fall to your demise”. In an attempt to defeat the paradox of thrift, Keynesians are busily trying to turn cash into trash. They have not yet succeeded as FINANCIAL asset prices are in freefall and cash is PILING up on the sidelines in fright; only the fright has just begun.

Only two asset classes in the buy and hold category were profitable on a year-over-year basis in 2008: GOLD and Government treasuries. What’s wrong with this picture? When one is on its highs the other should be on its lows and vice versa. Gold is an asset which is NO ONE ELSE’S liability. It is a currency throughout history. Government treasuries are issued by those that have limitless, rapidly expanding and inextinguishable liabilities, repayment of which can ultimately only be done by the PRINTING PRESS. The only other asset class to do well was PROFESSIONALLY MANAGED FUTURES accounts where professional Futures Money Managers go long and/or short in futures markets around the world. They attempt to profit from RISING and FALLING markets and many have been successful.

This past month has been tumultuous to say the least. In looking over the last 3 months the price signals have been relentless. “Black Swan” actions have been seen in the credit markets, private and public: The Federal credit markets skyrocketed into territory never seen in history and private, state and municipal markets crashed. The Baltic Freight Index has crashed by approximately 90%+ percent. Stock markets suffered their worst years in over a century. Historic declines in oil and commodity markets have occurred as short term fundamentals and deleveraging work their destruction. The manufacturing sectors globally have descended to multi-decade lows and new orders’ indexes to ALL TIME lows. Take a look at this UGLY snapshot of the new orders in the manufacturing sectors:



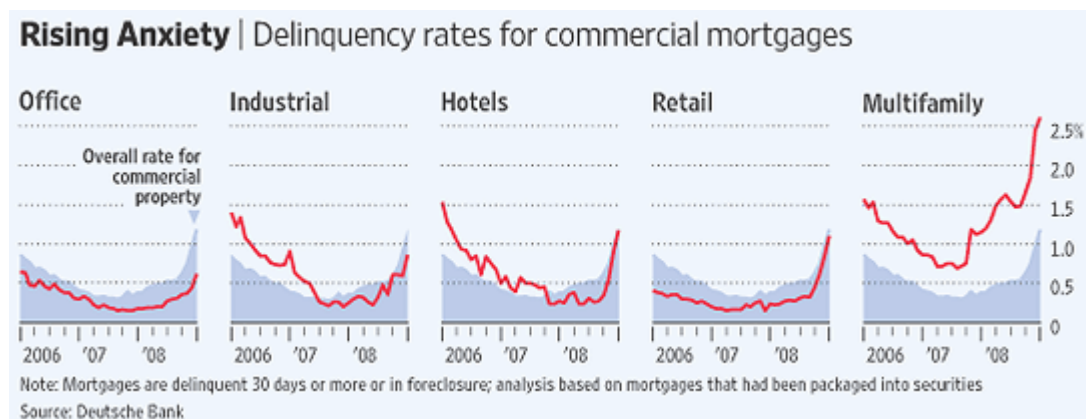
In the US it came in at 22 and that is the lowest since they began measuring this in 1949. Unemployment is set to skyrocket GLOBALLY as these managers try to cut excess capacity and costs fast enough to remain solvent. Last year 1,900,000 million jobs were lost in the US, look for that total over the next 4 MONTHS. Private incomes (individual and business) are set to drop and drop and drop as illustrated by the Wolfe Wave (see Tedbits archives at [www.traderview.com](http://www.traderview.com)). This will lead to a complete IMPLOSION in government revenues. The

Case-Schiller Home Index came in showing an 18% year over year loss in home values forcing even many of the prime loans from 2006 and 2007 into negative equity. Expect a repeat of this decline over the next twelve months.

Predicatively, G7 governments are throwing everything they have at it as the US Federal Reserve has thrown down the gauntlet and introduced quantitative easing that is going to boggle your mind. As the credit bubble INFLATED, over-priced assets DECLINE to their real values and the G7 financial systems and banks are imploding and will continue to do so.

Raising money for the financial sectors would be impossible without guarantees from the government. This is set to skyrocket as the private sector will increasingly REFUSE to lend to even the most credit worthy as there is no way to tell who is solvent and who is not when economic activity is receding as quickly as it is now. No PRIVATE investor will lend money or invest in: GM, Chrysler, AIG, Fannie Mae, Freddie Mac, GMAC, Chrysler credit or any BIG bank except with a government guarantee and the list just grows and grows. The marketplace has CLOSED to these companies and they are some of the biggest in the world, and INSOLVENT.

One of the next big debacles for the banks is commercial and industrial real estate as delinquencies across the board are set to soar:



This will create more and more toxic securities for the Federal Reserve to buy with their powerful printing presses. Look at the PARABOLIC up moves in these subcategories of commercial mortgages coming off huge bottoms; they are only beginning their ascents, every tick higher a potential loss for the banking system and their fragile balance sheets. Take a look at the Federal Reserve's balance sheet as it becomes one of the next bubbles:



Up almost 200% since September, my guess is that in 2009 it will rise to over 5 times this size in 2009 as it buys the toxic assets from the financial system, funds government STIMULUS packages and becomes the lender of last resort for more and more of the private sector. Look no further than the Fed's announcement that they will be buying MBS (Mortgage Backed Securities) and asset backed securities backed by credit card, student and auto loans of up to 800 billion dollars in the first 6 months of 2009. These purchases began THIS WEEK. You can expect them to take a slice of the commercial real estate loans mentioned previously as well. Take a look at several excerpts from the most recent Federal Reserve Board Open Market Committee statement:

- The Federal Reserve will employ all available tools to promote the resumption of sustainable economic growth and to preserve price stability. In particular, the Committee anticipates that weak economic conditions are likely to warrant exceptionally low levels of the federal funds rate for some time.
- The focus of the Committee's policy going forward will be to support the functioning of financial markets and stimulate the economy through open market operations and other measures that **sustain the size of the Federal Reserve's balance sheet at a high level**. As previously announced, over the next few quarters the Federal Reserve will purchase large quantities of agency debt and mortgage-backed securities to provide support to the mortgage and housing markets, and it stands ready to expand its purchases of agency debt and mortgage-backed securities as conditions warrant. The Committee is also evaluating the potential benefits of purchasing longer-term Treasury securities. Early next year, the Federal Reserve will also implement the Term Asset-Backed Securities Loan Facility to facilitate the extension of credit to households and small businesses. The Federal Reserve will continue to consider ways of using its balance sheet to further support credit markets and economic activity.

The new Term Asset-Backed Securities Loan Facility has also been OPENED to private equity and hedge funds to PURCHASE asset backed securities with NO RECOURSE loans from the Federal Reserve. *Incredibly they are attempting to REVIVE the Shadow Banking System whose collapse has brought down the banks and brokers and destroyed the credit markets. Frankenstein in every sense of the word.* This is an OBSCENE use of the Feds' ability to PRINT money. Over the next 6 months the Fed is planning on buying over \$800 billion of mortgage backed securities, credit card, auto and student loans etc.

Combine this with the \$850 billion TARP (troubled asset relief program, \$700 billion for the financial system and \$150 billion for PORK barrel to persuade lawmakers and PAYBACK campaign contributors) of which \$500 billion has yet to be spent. Then with OBAMA's ultra capital destructive \$800 billion to \$1 trillion STIMULOUS package to bail out deadbeat state and local governments who have FAILED to properly budget themselves or reduce spending, fund pork projects for campaign paybacks and create bridges to nowhere using exorbitant UNION wages. Think of it, borrowing from the prudent savers of the world and lending it to the insolvent with NO WAY to pay it back from income. Instead the bills will be paid by money printing. **Obscene. Immoral. Imprudent.**

Let's take a look at the GOODIE bag being proposed below. Keep in mind that over \$150 billion of PORK had to be added to the TARP to get that legislation passed so you can expect something along those lines this time as well:

- Total Cost of the plan is estimated to be \$775 billion.
- Plan is slated to take place over two years.
- \$300 billion will be in the form of a tax cut. \$100 billion is in the form of various tax incentives for businesses:
- \$40-50 billion for companies that hire new workers. A credit for companies that enter into new investment is also being discussed but there is no known value associated with it.
- Businesses will be allowed to reduce tax bills going back five years.
- \$200 billion for state and local governments. Primarily to maintain spending on healthcare/social programs.
- \$77 billion is earmarked for extending unemployment benefits and extending healthcare for the unemployed.
- At least \$85 billion is marked for infrastructure spending. These are programs which have passed the house but did not receive funding approval in the senate. Additional allotment is practically guaranteed but how much and for what sort of infrastructure (IT, roads, "green" projects, etc) is unknown.

NO WAY can Congress plan, spend, monitor and police the deployment of \$1 trillion or more of new spending in a short period of time like 2 years, and you can expect a good 20% of it to somehow DISAPPEAR (mostly into campaign contributors' industries inflated invoices). None of this creates REAL capital investment, sustainable new jobs, businesses or rising wages. Those things only come from the PRIVATE sector. **The only thing growing in the global economy is GOVERNMENT and piles of fiat currencies.** Since savers no longer are willing to lend, then the government and federal reserve stand ready to do so, no matter how foolish the purpose, worthless the asset or the credit worthiness of the borrower. SPENDING, BORROWING and PRINTING MONEY AT ANY COST... Keynesianism will be an epithet before this is over...

A trillion dollars is a hard concept for a human to conceive, let's take a look at an excerpt from a recent Wall Street journal to try and do so:

But before we get lost in the policy details, let's pause to consider that number of \$1 trillion. The human mind is not well equipped to fathom a number that large. A check for \$1 trillion -- a million million dollars -- would have 12 zeros to the left of the decimal point. Homo sapiens hadn't evolved a trillion seconds ago: 31,546 years in the past, Neanderthals were still trying to make fire.

More immediately, \$1 trillion is about one-third of annual U.S. government spending and 13% of the U.S. economy. It is more than the GDP of all but 12 countries in 2007 (America, Japan, Germany, China, the U.K., France, Italy, Spain, Canada, Brazil, Russia and India, in that order). A trillion dollars is also:

The difference between President Bush's proposed budgets of 2002 and 2008 -- the former being the first in U.S. history to exceed \$2 trillion, the latter being the first to exceed \$3 trillion.

The all-but-certain minimum deficit in the federal fiscal in 2009. A trillion-and-a-half isn't out of the question. Roughly one-sixth of the entire outstanding U.S. federal debt held by the public, one-tenth if you include intragovernmental debt (such as Social Security IOUs).

- The drop in market capitalization of the American financial industry since last October. The cost that Al Gore attaches to his plan to liberate the U.S. of carbon-based energy. - Not even close to the unfunded liability of Medicare, which is \$36 trillion over the next 75 years, give or take a few trillion.

Look no further than the bailout package for the big 3 auto makers and GMAC (General Motors Acceptance Corporation) a \$24 billion (24,000 million gone in 4 months, it is an inconceivable sum for a insolvent industry which REFUSES to reform itself in line with economic realities) black hole payback for union campaign contributors with NO CHANCE of succeeding as the painful restructuring required to return to profitability is NON EXISTENT. ONE DAY after the receipt of the 6 billion dollars from the fed GMAC resumed 0% down and 0% financing and lowered the requirements for buying a car. More deadbeats buying cars they cannot afford.

The US automakers (Ford may pull it off but it is a extreme long shot as the UAW will work against it) will never return to profitability, and the BAILOUT money will be GONE by the end of March. At what price will the public say no? \$50 billion, \$75 billion? These are not viable companies and are UNABLE and UNWILLING to become so and the political will to make them so does not exist as the unions and automobile companies contributed almost \$300 million in the last election cycle. EVERY TIME I see UAW boss Gettelfinger, I want to throw my shoe at the man. Doesn't he understand that Detroit either makes money or there are no JOBS or any wages at any level? Let's see: \$300 million into the campaign coffers and \$24 billion out, which is quite a return on investment. Bought and paid for by morally and fiscally bankrupt public servants.

Now we are going to have MONEY for NOTHING; you don't pay to borrow it from the government or get paid for saving or lending it. Savers, retirees and prudent households everywhere are thrown to the vagaries of riskier assets if they wish to receive any type of income at all. The government has reserved the right to the highest quality assets for themselves and thrown the private sector all the lower rated trash. In 2009 you can expect the Federal Reserve to start reaching out the risk curve further and further pushing the public further out as well. Soon they will be buying state and municipal issues and ultimately become the guarantor of them as they are presently doing for the financial industry. MORE GARANTEES FOR INSOLVENT POLITICIANS AND CRONY CAPITALIST CAMPAIGN CONTRIBUTORS!!!

I have to briefly note the Madoff ponzi scheme (everybody is talking about Madoff and I am sick of it) and state that you haven't seen anything YET. This is only the beginning. Many Hedge Funds marked their own books for YEARS and those GAINS where nothing but their imagination of the value of the TRASH paper they were holding. As we are witnessing, NO ONE will buy them at any price except the Federal Reserve and G7 central banks.

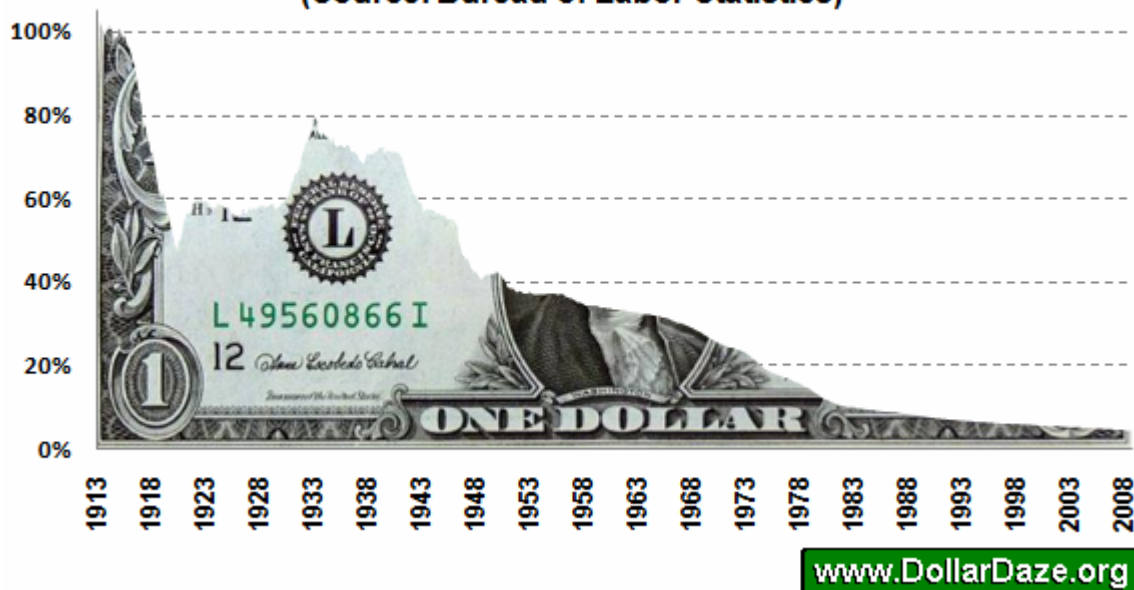
Of course, the biggest Ponzi schemes are RUN by the G7 government's retirement and healthcare programs. In fact, every government entitlement is a Ponzi scheme or welfare program. Properly measured G7 budget deficits are up to 4 times larger than reported and advertised. For instance, John Williams of [www.shadowstats.com](http://www.shadowstats.com) estimates the hidden budget deficits to be about \$4 trillion annually when properly accounted for, and that is BEFORE the current economic implosion. Over \$2 trillion of new spending by government and the fed has been announced since the last newsletter when the bill at that time was \$8.7 Trillion. It is clear the European Union does not understand the depth of the problems in the FIAT monetary systems of the G7. Whether it is stimulus programs or bank recapitalization, they are far behind the rest of the globe. The US is leading the charge in BAILOUT nations and the Chinese lead the world in practical capitalist solutions.

The current financial and monetary systems of the G7 have died. Trust has been lost between counter parties, the financial systems and in the government's ability to provide stable and honest money. The UK Pound, US Dollar and soon the Euro are on life support by the central banks taking up the lending duties of what used to go on between private counterparties. **As you witness the expansion of the lending facilities, understand you are seeing the private sector circulatory system of the G7 of the Fiat currency and credit based financial systems failing in an increasing manner.**

The G7 has been trying to buy free lunches with Fiat currency and credit creation for decades and now the bills are coming due. Finally, let's take a look at the chart of the dollar's purchasing power, courtesy of Mike Hewitt and Dollardaze:

## USD Purchasing Power Since 1913

(Source: Bureau of Labor Statistics)



When will this hit zero? That is the question! They want to pay the bills with NEW borrowing, printing and spending. Man versus Nature. Every empire in history has faced this challenge and NONE have succeeded in defeating Mother Nature. They will fail to do so this time as well. The G7 may delay or slow down the collapse of their debt based Ponzi currency systems but the end is near. Anybody got gold?

In conclusion: I have been mesmerized by the activity over the last 120 days as Black Swan after Black Swan hit market after market. Flocks of BLACK SWANS! It's a powerful chorus which no one can ignore as the message is not pretty. The footprints are ominous and bode poorly for the futures of us all, but for prepared investors the message is of unlimited opportunity and volatility as far as the eye can see. "Volatility is opportunity" and it will be with us for years. All markets are still mispriced for the unfolding demise of the G7 monetary and financial systems and most investors' focus is a relic of the past. Buy and hold is formally dead in most markets. For investing success you now must learn how to trade, or find someone to do so for you.

Going forward, a new paradigm is unfolding as the unorthodox policies of the central banks will change everything you thought you knew about investing. The BIG banks will ultimately be nationalized and it will take 1, 2, 3, 4 or more years to become reality. The tsunami of bad lending will hit them like waves striking a beach eroding them and their balance sheets.

President Elect Obama gave the first big economic speech of his career and it was a doozy, make no mistake: the era of big government is HERE now (Thank you Dennis Gartman [www.thegartmanletter.com](http://www.thegartmanletter.com)) and "Government knows best" as well. Today's unemployment figure, with revisions, amounts to another 750,000 jobs lost in 2008 (a farewell kiss from George "Pinocchio" Bush) and you can expect numbers like this as far as the eye can see; I predict last year's totals will be exceeded by May or June at the latest. Keeping with the Bush administration's precedent, the politics of FEAR are being employed to JUSTIFY more destruction of our freedoms and futures, in order to SAVE US. Of course, none of these public serpents have

EVER worked in the private sector or know how to PRODUCE more than they consume, so capital destruction and misdirection of precious capital is set to become an epidemic. They will print and borrow some more and send us the bill.

Gold is poised to RETAKE its throne as the king of the hill when it comes to currencies, as competitive currency devaluation looms as one of the major themes of the coming year. It is as inevitable as night follows day. Prudent monetary management will not be rewarded in this atmosphere as Gresham's law works its way further into the G7 as BAD money drives out good money. The Crack-up Boom just keeps on rushing into view coming at us like the freight train it represents. The Crack-up Boom series will take a hiatus for the next couple of issues as we do the 2009 outlook. Don't miss it, we NAILED it last year!!!

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