



TEDBITS
THE ECONOMIC & FINANCIAL NO SPIN ZONE!
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MANAGED FUTURES & ALTERNATIVE INVESTMENT SPECIALISTS

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Hello, My name is Ty Andros and I would like to show you how to capture the opportunities discussed in my commentary. Click here and I will prepare a complimentary, no obligation custom-tailored set of portfolio recommendations designed to specifically meet your investment needs. [Click Here.](#)

Foreword

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In This Issue

BEWARE: The Ides of March, aka FIRESTORM! Part II

As confidence in US financial institutions and its balance sheets DISAPPEARS, so have the investors in them. Liquidity from the private sector has stopped dead in its tracks. As I have outlined in the past, there is no lack of liquidity, only a lack of confidence to deploy as questions of **Solvency** are now of primary importance. So, now the financial systems' parents at the G10 central banks and the government's fire trucks are on the scene of the 5-alarm blaze pouring liquidity into the fires raging in the financial sector that is Wall Street, Lombard Street and the G7 banking system. Last week's RUN ON THE BANK and the subsequent rescue of Bear Stearns demarks the latest commitment of Helicopter Ben Bernanke and G10 central bankers to deliver on their recent promises to do "whatever it takes" to combat DEFLATION and protect the banking system within the various nations financial and asset markets.

This signals the acceleration of the "Crack up Boom", as described by Mises, and the unfolding hyperinflation over the coming decade. Get ready to rumble, everything is about to move in dramatic fashion as malinvestments are rationalized in a brutal manner. Permanent repricing is at hand. Classic exchange from weak hands to strong is unfolding. Currencies, stocks, commodities, precious metals and natural resources, interest rates and more, are all signaling massive moves UP AND DOWN unfolding in the future. A great opportunity isn't it?

With every new revelation of fiduciary malfeasance, unrestrained GREED, regulatory forbearance/incompetence and banks operating as poorly disguised HEDGE funds the bill to rescue them becomes a little, er a lot higher. *As with all financial crises in history this one is no different, a credit crisis lies at its heart.* Confusion reigns supreme and investors are bouncing about like ping pong balls in search of shelter and OPPORTUNITY.

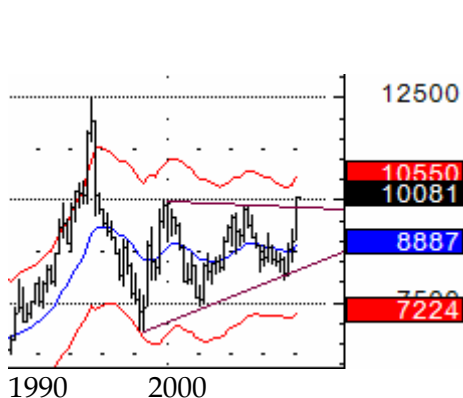
Most Investors are scared, on the run and caught like a deer in the headlights of an approaching vehicle that soon will RUN THEM OVER! While prepared investors ride in the vehicles which are

bearing down on them, such is the nature of capitalism and simply nature itself. Survival of the fittest as Darwin has detailed. Fear (false evidence appearing real) is a powerful investment theme and it is flowing in waterfall and flood-like quantities driving markets and opportunities into your path.

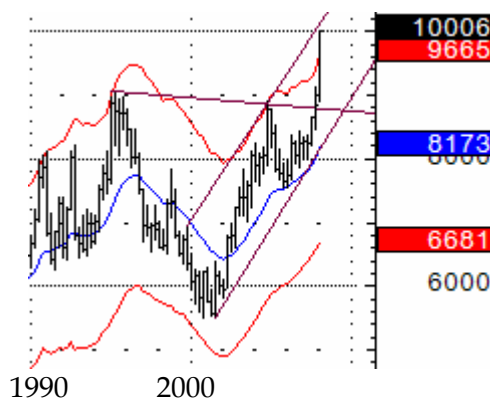
“Long-term charts” are signaling enormous opportunities across virtually every sector of the investing world so we know these opportunities will unfold over months and years. *Volatility is opportunity and it is abundant. Prepared investors are having a field day as markets seek PERMANENT new equilibrium and pricing.* Unprepared Investors are being hauled out on stretchers and seeking TRIAGE. Only small percentages are prepared to be successful and can SEE the BIG picture, while the broad lumpinvestor stands, as Warren Buffet so aptly put it, “swimming naked!” Conventional wisdom and advice from the solons of New York and London are about to put you either in the hot seat if you follow their advice or in the driver’s seat if you do the opposite. *The mainstream financial media stands as their mouthpiece on the investor’s path to the poorhouse.*

Big numbers have been and are being breached in the last several months signaling the unfolding future. \$110 dollar crude, 100 yen to the dollar, \$1000 dollar gold, \$5.50 corn, \$13.00 soybeans, \$10 dollar wheat, parity with the Canadian Dollar and Swiss Franc, just to name a few of the investing opportunities we have seen unfold. *These are NOT coincidences; they are Investor’s ROAD maps.* Don’t look back at these things and expect the future to revert to what was, as these prices will quickly fall into the rear view mirror as the United States begins to make its transition from empire to BANANA Republic over the next decade. *The old ranges are GONE and WONDERFUL new vistas on the emerging horizons beckon the astute investor.*

Since the Euro has such a short history let’s first take a look at two venerable currencies which are **screaming the new realities** we are seeing just beginning to unfold. These quarterly charts are of the Japanese Yen and the Swiss Franc:



Japanese Yen



Swiss Franc

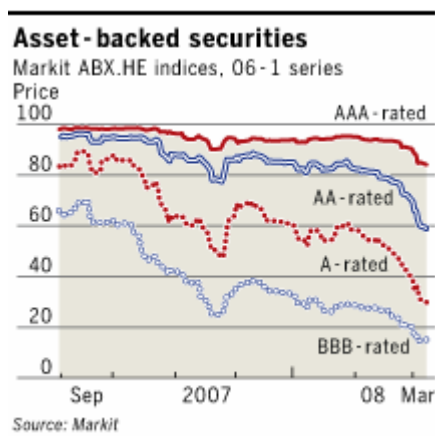
These QUARTERLY charts are signaling coming mega moves versus the world’s former reserve currency known as the US dollar. When you look at these currencies keep in mind they are FUNDING currencies for the carry trade. *Volatility is opportunity and both of these charts are signaling 25 to 40% moves.* In the case of the Japanese Yen and Swiss Franc, those technical formations were built over a decade signaling the long-term nature of the shift in sentiment and price which beckons in the coming decade as the US prints its way out of its obligations both foreign

and domestic! When you look at these realities please keep in mind the currencies that are PEGGED to the dollar, they are IMPORTING inflation from the G7 and **those pegs will soon fall!**

As these new realities become apparent to public servants in their respective regions AROUND THE WORLD, you can expect competitive devaluations to emerge via the "printing press" as a new chapter in competitive currency devaluations unfold. Look no further than the public servants in the European Union to see the future...

DEFLATION is ONLY unfolding in several places and that is on the balance sheets of the Money Center and Investment Banks, ALL CURRENCIES, PENSION FUNDS, and on the BIGGEST and DUMBEST money which believes Bonds and FIAT paper IOU's are the safest places to hold value. This couldn't be further from the truth. As Mises outlined, when a "Crack up Boom" unfolds, "Inflation becomes a policy of government". Paper-denominated investments in the developed world are reverting to their intrinsic value (the value of the paper) as I write this! This spells an increasing inflation to you and me!! *Bernanke's own words confirm this to be the governments and central bank's policy to meet this crisis!*

To see what is unfolding in the G10 banks and financial industries' balance sheets and reserves, look no further than this recent chart from Martin Wolfe and the Financial Times illustrating those alphabet-soup securitized investment products (CDO's, CMO's, MBS, etc) known as Asset-backed Securities:



These opaque, illiquid, PANDORA'S box products (you can look inside and you don't know what evil will come out of them) of financial and banking alchemy are in full crash mode, and *since the investment/money center banks and their customers are leveraged on average 30 to 1 on their holdings, their balance sheets are VAPORIZING*. As these markets decrease in value the lenders are making margin calls to those that have financed the purchase of them.

As a Futures broker I fully understand that when the margin clerk comes calling it is put up time or liquidate. Liquidation is sure and swift, and to fail to do so, quickly, involves the lender going into NEGATIVE equity at which point the losses are not just the client's responsibility going forward, but from that point the LENDER'S. Let's put this into perspective: Here are the leverage ratios of: Lehman: 30.7 to 1, Morgan Stanley: 32.6 to 1, Merrill: 27.8 to 1, Goldman 26.2 to 1, CITIBANK 41.6 to 1, ouch. Financial organizations in these positions are very vulnerable to RUMORS!!!

Forced liquidation is ORDERLY in regulated and organized exchanges, with pools of buyers and sellers, known as "Market Makers", and with specific rules and clearing houses. Price discovery is accomplished within seconds or days (limit moves). It is quite easy to control risk and exit in these markets.

The Asset backed securities trade in UNREGULATED and OVER-the-COUNTER markets created by the G10 banking and financial systems is a bidderless BLACK hole of capital as the POOLS of Market

Makers are not available, not like they are in regulated markets (see *Roach Motels* in Tedbits archives at www.TraderView.com). As these prices continue to plummet into near bidderless markets, price discovery becomes IMPOSSIBLE! These products DO HAVE underlying value, unfortunately there is now NO WAY to DISCOVER it! Every day banks restrict their over-the-counter activity or raise the price of doing so reflecting “loss of confidence” in the ratings and counter party solvency.

Triple AAA investments do not price out at 80 cents on the dollar, double AA do not price out at 60 cents on the dollar, etc. Hence they are not properly LABELED! The ratings agencies are now POLITICALLY correct comic book criminals, completely in the grasp of the G7 regulators, public servants and financial/banking systems! *Politically correct is financially and practically incorrect. Politically correct is in the headline illusions of government and public servants to fool you and cover up the true nature of things. Every assumption that previously underlined a credit rating, of one sort or another, is becoming suspect. You do not know whether to believe them or not, is it a politically correct credit rating or a real one? Or something IN BETWEEN? Big, dumb money’s WORST nightmares become real as every investment decision they have made is predicted on these flimsy facades known as credit ratings.*

As I detailed last week in part one, the Money Center and investment banks have QUIT making markets for their own investment products as survival is the only thing on the minds of the risk managers. It has now become every man, bank and investor for them self and exasperates the loss of value in the issues as bidders become scarcer. As they drop in price their ratings should as well, creating waves of new sellers as their investment charters require them to do.

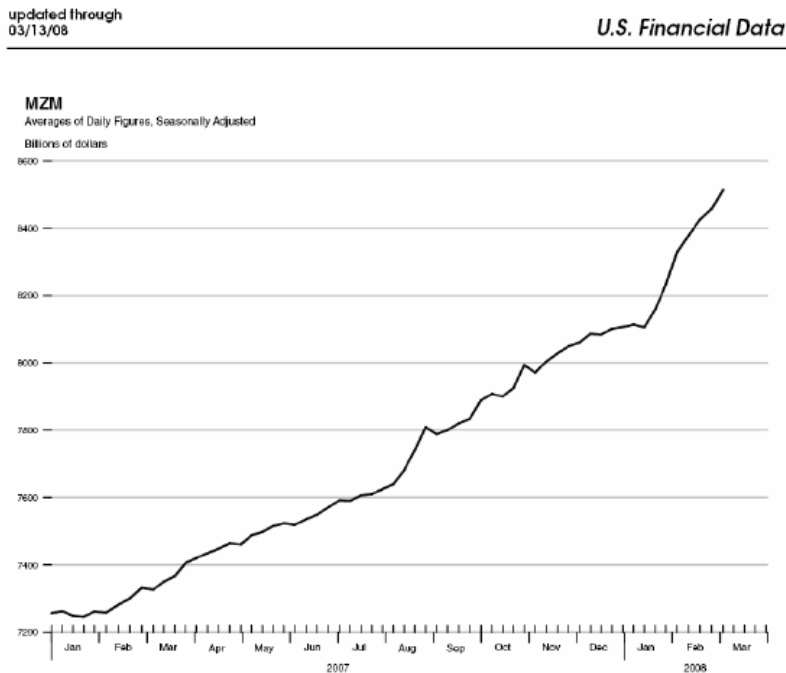
Walter Bagehot a 19th century British financial journalist wrote in his book “*Lombard Street*”, “*Every banker KNOWS that if he has to prove that he is worthy of credit, however good may be his argument, in fact his credit is gone*”. Bear Stearns’ Chief Alan Schwartz learned this lesson again this past week as did Ken Lay of Enron and Bernie Ebbers of MCI. All men uttered these words right up to the demise of their firms.

Fortunately for Bear Stearns, they are at the heart of the tangled web of Credit Default swaps so their demise was UNTHINKABLE to the solons at the SEC, Federal Reserve and US Treasury. Remember, credit default swaps (over the counter insurance for fixed income instruments) are only as good as the weakest LINK and there are 45 trillion dollars of them in the G10 banking systems. Bear was a major player in the swaps and in the MBS (mortgage backed Securities). *Snap those chains and the chain reaction in the financial system is something we DO NOT want to discover!* So off they went to the printing presses and a call was made to JP Morgan Chase Bank that created access to the DISCOUNT window at the Fed and provided liquidity to Bear in non-recourse loans. Non-recourse loans mean that if Bear Stearns FAILS, JP Morgan has no liability to the Federal Reserve.

THIS IS BUT THE FIRST RESCUE of Wall Street and the banks. It will happen over and over as Ben Bernanke has been quite clear in his speeches and his academic work regarding what we can expect from him to combat the unfolding financial CHAOS! **The financial system has now fallen under BOOK value signaling that book value is INCORRECT! Bear’s book value was \$80 dollars LAST WEEK and now it is \$2.** That is price discovery at work; ignore the words uttered by the STREET media, all you need to do to know the truth is look at the PRICE! All information is contained in that tidbit at the end of the day! All paper-denominated bonds FALLING in value and rising in implied yield, their spreads widening relentlessly with respect to sovereign treasuries, are blowing out, thus

reflecting the reality of the next three charts (courtesy of Bill King of the King Report and John Williams of www.shadowstats.com):

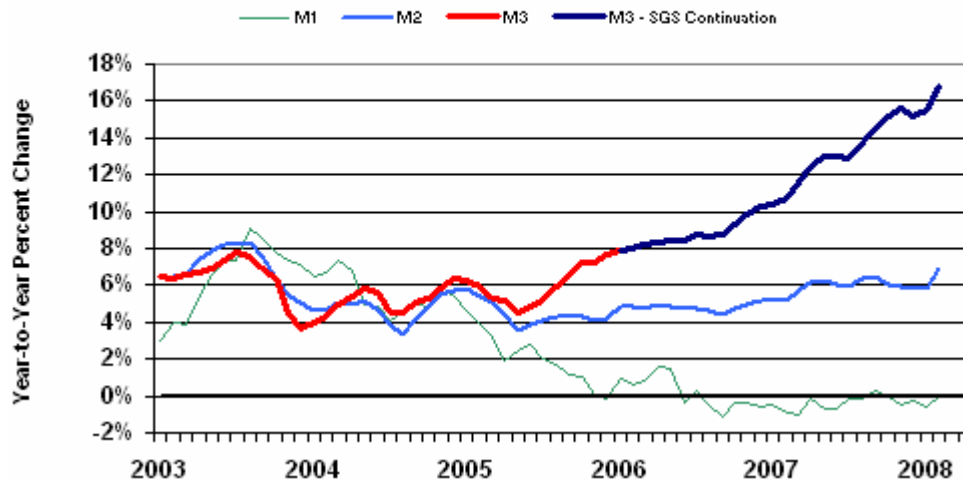
Bernanke is increasing credit at the fastest pace in Fed history. The ‘four week compounded average’ of MZM for the week ended March 3 is 30.9%!!! <http://research.stlouisfed.org/publications/usfd/page5.pdf>
 Most likely the rate has increased over the past two weeks.



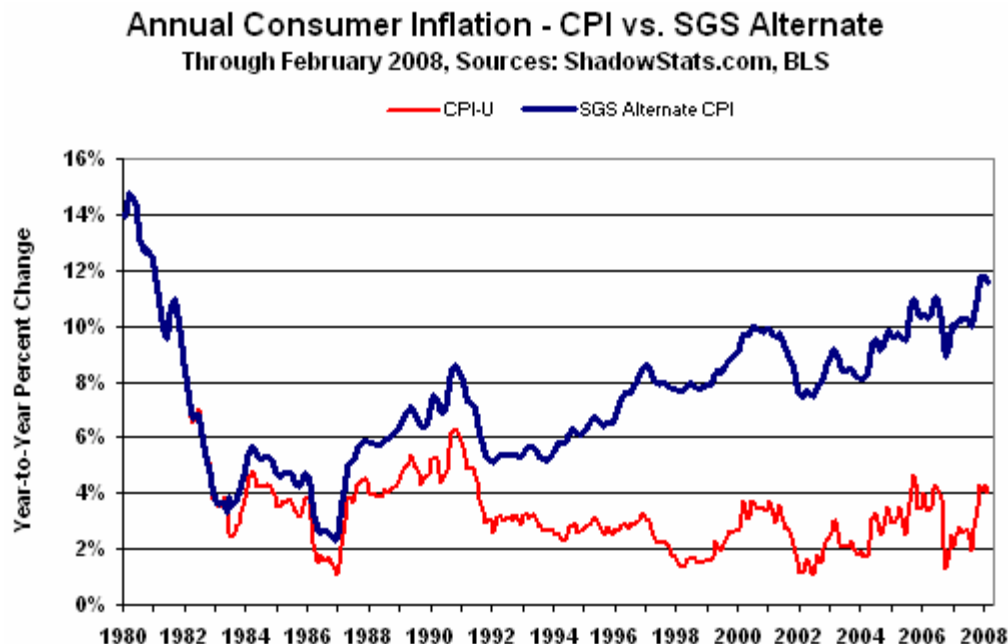
MZM as calculated by the St. Louis Fed - It's Weimar time!

This MZM chart shows the Federal Reserve's fire hoses of liquidity in action and a reflection of the Term Auction Facility's relentless expansion as illiquid assets float magically onto the Fed's balance sheet!

Annual Money Supply Growth - SGS M3 Continuation
 Monthly Average through February 2008 (Shadow Gov't Statistics, FRB)



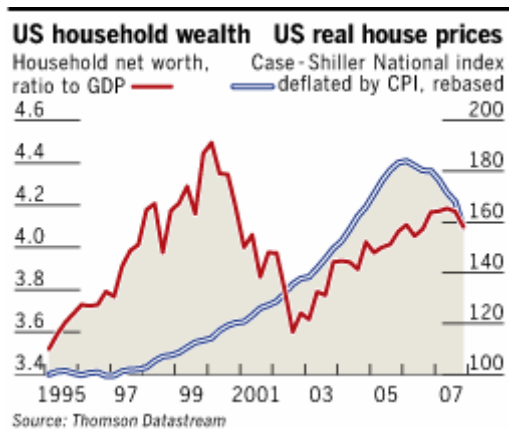
Please understand that if the economy is growing 2%, and it surely isn't, and money supply is growing at over 16% that anything and everything will go up in price almost 14%. EVEN a bag of dirt! Now let's look at the last chart courtesy of John Williams (ps. I urge you to subscribe to Shadowstats and the King Report; they are FABULOUS purveyors of the TRUTH and insightful information)



This is an important component of the capital losses we are seeing in the bond and interest rate markets as NO one who is remotely sane will buy them as they are currently priced. They are "certificates of confiscation" until they decline to reflect these new paradigms and REALITIES. Can you imagine the margin calls to come on these bonds of all stripes that are financed by hedge funds to create ALPHA. Can you say "picking up quarters in front of BULLDOZERS?". Look no further than Carlyle Capital which collapsed last week as their Triple AAA Fannie Mae and Freddie Mac bonds collapsed in price to reflect the LOOMING G10 monetary suicide required to SAVE the G10 financial and banking systems. Import prices were reported to have risen 10.1% year over year in January trade figures. **This is recycled inflation from prior episodes of money printing and easy money.** ALL fixed income instruments will have to price in these realities before they quit declining in price, the safety of government-issued treasuries is NO DIFFERENT! When they finally succumb to this picture, watch out below!

Now let's take a look at income versus the unfolding higher costs I have just detailed. The US federal budget deficit for February was released and it widened to a record \$175 billion dollars as the weakening economy reduced tax revenues for the second consecutive month. Revenue last month declined 12.1% while spending increased 17.1 percent. I promise you this collapse in revenue and spike in costs is being echoed on all levels of government -- state and municipal as well. Supposedly reliable Municipal Bonds are anything but reliable and you can watch for an unfolding cacophony of INCOME woes from this sector. For the first time in almost 5 years, American household's net worth declined according to figures released by the Federal Reserve. Data showed total household net worth declined \$533 billion dollars to \$57,718 billion in the fourth quarter, as declining stock prices

added to the damage of falling home values. Take a look at this illustration from Martin Wolfe of the Financial Times:



WOW, look at that momentum heading DOWN. I promise you this is a G7 wide picture, reflecting the 2008 pattern of the year: Wolf wave (see 2008 Outlook in Tedbits archives at www.TraderView.com) is ripping and chewing at the G7 income streams, and the money creation required to underpin the financial and banking systems is creating RUNAWAY inflation and cost push pressures.

In conclusion: If someone points a gun at your head will you duck or take the bullet? The choice is clear: YOU WILL DUCK! Public Servants and Central Bankers are no

different than you in their reflex to this question. There is only one answer to this problem and it is: THEY WILL PRINT THE MONEY! Over indebted, cash strapped governments and their constituents face only one future and that is an evolving hyperinflation as the “Crack up Boom” unfolds into the future (see Tedbits archives at www.TraderView.com). Printing the money is the only solution to paying the bills which are unpayable and to refilling bank’s balance sheets which are now quite bare. They will pay back Dollars, Pounds, Euros, etc. with a pennies worth of “purchasing power” compared to the currencies they have borrowed. As this becomes better known it will push markets all over the place.

Bear Stearns’ rescue is only the beginning, as the 5th largest investment bank on Wall Street it was aggressively wired into all the pressured over-the-counter markets. Ideally they should have been allowed to FAIL, but that was PRACTICALLY not an option. To have done so would have set off a chain of unknowable dominoes throughout the financial system. You can expect these Federal windows to multiply and widen relentlessly. A new \$200 billion dollar borrowing facility was announced on Tuesday which would broaden the collateral accepted and let NON commercial banks access the Fed directly rather than through JP Morgan, as Bear was required to. It should have been \$500 billion and will be soon....

Interest rates are going to continue to plummet, and regional banks are on the ropes from construction loans GONE badly. Balance sheet repair is the order of the day. You can expect regulators to CHANGE the accounting rules to allow losses to be recognized over time, as was done during the Latin American credit crisis of the early 1990’s.

FLASH: As this goes to press JP Morgan has bought Bear Stearns for \$2 dollars a share and the fed has taken 30 billion dollars of illiquid Bear holdings onto its balance sheet and lowered the discount rate to 3.25% in a surprise intra-meeting move. The Fed also widened the window to investment banks for the first time since the depression; usually these windows are only available to commercial banks. That is 1% of Bear’s value of just 16 days ago!! What’s so bad that this rate cut could not wait until Tuesday’s regularly-scheduled FOMC meeting? Hank Paulson is saying he’ll “do what it takes” to calm financial markets. The smell of panic is in the air. How many more Bears are out there? The big banks and brokers are going to announce some pretty grim numbers this

week and I imagine there are quite a few bears out there. On another note: Where were the SEC and the Fed as these excesses were accumulating? AWOL!

This is a replay of 1907. Who will fall to the rumor mill -- perceptions are everything at this point whether they are TRUE or NOT TRUE.

2008 is turning out to be the “THRILL” ride predicted in the 2008 Outlook (see Tedbits archives for the 2008 Outlook entitled *Thrill Ride* at www.TraderView.com). Volatility is opportunity and it is plentiful. Become its master not its servant!

Higher taxes loom throughout the G7 to pay for ESSENTIAL services, aka patronage and paybacks to special interests. And now we learn the definition of rich in America, which is anyone making OVER \$31,800, as the 2009 budget raises taxes on anyone above this level. As they inflate the money supplies, EVERYONE will now be RICH because their wages inflate as well. Trillions of dollars of higher taxes loom in the G7, for what reason? To pay the higher bills which are a natural consequence of this systemic inflation. Carbon taxes and socialized medicine are next onto the taxpayers tab. Do you think this will spur income, job creation and tax receipt growth? *We are now in the most vicious of circles!*

How will they make these payments? By inflating the money supplies until we reach the ultimate result seen throughout history in FIAT currency experiments -- they will fall to the intrinsic value of the paper, in other words ZERO! Sovereign Wealth Funds, high net-worth individuals and their FINANCIAL advisors do not understand that money no longer has the definition it once did:

- A medium of exchange
- A store of value
- A measure of value

It now only serves as a medium of exchange! Money is now an IOU of public servants and governments. They are IOU's and they are only as good as the government which is administering the financial and banking systems from which they spring. Those Pounds, Dollars and Euros are promises to pay, not money backed by gold, silver or commodities as they have been throughout history. If the situation becomes one of public servants and financial system survival versus those who hold their currencies you know what they will do! Duck and let the holders of the currency TAKE THE BULLET!

Did you see Treasury Secretary Hank Paulson on the Sunday morning political talk shows? He was so pale he looked like he had seen a ghost. In 1987 I remember seeing then Treasury Secretary James Baker on those same shows before the Monday crash talking about the dollar and the economy just as Hank did yesterday and I got a heck of a deja vu! Can you say print \$1 trillion dollars? I can smell the bananas! The fed is now not worrying about inflation or the dollar; they are focused on getting through this crisis! **And rightly so....**

Remember Walter Bagehot's observation about the bankers? Think about the words now coming out of mouths of Hank Paulson and Ben Bernanke in the United States, Alistair Darling and Mervyn King of the UK, and Jean Claude Trichet of the European Central Bank. **Their credit is increasingly GONE and only the printing presses remain to fill in the rest. So it's off to the printing press they**

will go... I am expecting a lightning strike somewhere in the markets before the end of the month and quarter; stocks could easily decline dramatically 10 to 20% down in the NEXT WEEK! *The fear is reaching a crescendo! Beware the Ides of March! And turn it into an opportunity!!! Got gold and commodities anyone?*

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