Foreword

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Introduction

Oh what a two weeks it has been. It is a CHALLENGING task to figure out the latest FINANCIAL and Geopolitical curveballs that need to be interpreted. The activity in the last two weeks is EXACTLY why the "Crack Up Boom" series has continued. They stepped over the line with Bear Stearns (they had to) and the next dominoes to fall have done so. As Fannie and Freddie continue on the path to their demise, and that of the US dollar, the money printing now must go into a gear that is feared by the US Treasury and the Federal Reserve.

It's been ten short years since Graham-Bliley severed the wall between banks and investment houses combined with EASY Alan Greenspan's monetary policies, and now the disaster has mushroomed to envelope virtually all of the US Banking and financial industry. It has proven that Banks are not investment and hedge fund managers, investment bankers are not bankers and that once they try to be they open themselves to IMBECILITY! Further, that the public is NOT capable of running their lives and finances as HEDGE Fund's and BANKS do. Banks and brokers were NEVER meant to be speculators; they were to be the croupiers.

At no time in history has the biggest money in the world been as MISALOCATED and invested as it is today. Generally run by misinformed, poorly prepared ignoramuses who are at the top of the world investment and banking industries. They have not studied history or know economics and are repeating it as is always the case. THIS IS THE BIGGEST OPPORTUNITY IN HISTORY.

The greatest transfer of wealth from those that store their wealth in paper to those that don't is unfolding. ALL Markets will have to price in reality, and the reality is that the G7 in general and the financial and banking industries in particular (there are exceptions to this) are INSOLVENT. Rather than default through the normal process they will default through the printing press as legendary economist ADAM SMITH and Ludvig Von Mises have illustrated and predicted in their bodies of work. VOLATILITY IS OPPORTUNITY AND IT IS SET TO EXPAND.

The manner in which the rescue of Fannie and Freddie was affected insures additional capital injections of almost a trillion dollars or more. This is about 50% the amount of sub prime and Alt-A (aka liar or ninja loans: no income, no jobs or assets), that Fannie and Freddie insure or hold. The latest ***poster children for bailouts*** is clearer than ever, as taxpayer-funded bailouts FINANCE the creeping socialism that is the centrally planned economy of Washington DC's poor designs. They include: General Motors, Ford, their lending arms as well, Washington Mutual (a firm so large as to have the potential to take the entire FDIC insurance fund to zero), AIG Insurance, the airline industry, Merrill Lynch, and of course this weekend's debacle of the week Lehman Brothers. All of these firms have been CUT OFF from the credit markets as predicted. Commercial lenders, credit card issuers, STATES (California, Illinois, New Jersey and New York will require huge injections) and MUNICIPALITIES stand in line behind them. It is impossible to express to you the bankrupt nature of many states and municipalities, you can expect this story to increasingly emerge in the NEAR future. ***California, Illinois, New York are suffering historic budget shortfalls and are soon among the walking dead men, cut off from funding!!!***

To complicate matters we have huge GEOPOLITICAL elephants stampeding causing additional crosscurrents. In July the Federal Reserve, Wall Street, main stream financial media and the US treasury were wishing for a reversal in oil and commodity prices. They got their wishes granted from an unusual source: the Middle East oil powers of Kuwait, Saudi Arabia, Qatar, and Dubai. These countries have long standing agreements (early 1970's) to peg to the dollar, and to price oil in dollars in exchange for SECURITY from attacks from a US that is dependant on them for energy and external foes who wish them harm. ***About that time you saw a quiet trip by DICK CHENEY to the Middle East to give them a few thoughts, and think about it they did. They control their own destiny in so many ways but ONE. DEFENSE.***

In a fascinating piece of work by Gary Dorsch (http://www.financialsense.com/fsu/editorials/dorsch/2008/0910.html) entitled, Maverick McCain and the Resurrection of the US$, he outlines the genesis of the Dollar's rise from its death bed and the reversal of fortunes wished for by so many distressed players in the markets outlined above. In a nutshell, he outlines how the Middle East has placed their HUGE financial wherewithal in line to elect John McCain. Buying Treasuries, selling Euros, pulling out every stop in oil production, and selling their commodities investments EN MASSE.

Why, you ask? It's simple, if Barack Obama and the Dem's gather super majorities those Middle East countries are virtually left NAKED in front of their enemies, whether it be Iran, Syria, the Russians and Islamic extremists (Saudi Arabia, Kuwait, Qatar and the UAE, who are from the Sunni branch of Islam and their adversaries who are from the Shia "shite" branch). Between them they control OPEC and almost 3 trillion Dollars in Sovereign Wealth Funds, and countless individual wealth. And they want to KEEP it!

If you think Barack Obama (doesn't have a clue how dangerous the world is, Putin and Ahmadinejah will eat him for breakfast), Joe Biden (look at the guy's past foreign policy positions: show me one that was not ultimately WRONG over the last 3 decades), or the Democrats will show up to defend them if they need it you are dreaming. If you thought Bill Clinton was a national defense wimp, compared to them he was a ferocious beast. Appeasers of the worst sort, if confronted by danger they will: THROW MONEY at it!

These people and political parties are PAPER TIGERS who can be cut to ribbons in a REAL fight, as they are PAPER TIGERS not REAL ones. Look no further than what the United States will become under a Democratic administration and Congress, the present European Union. Do you really think the EU would defend them if we don't? Take a look at the current NATO dithering in the face of the Russian Bear. Toothless tigers and beggars.

They are SOOOO WWWEEEAAAKKKK (just as the US is to OPEC, Asian investors and GLOBAL central banks) concerned about their DEPENDANCE on Russian energy supplies and financing for their massive DEFICITS. As all people that are IN DEBT and can't provide for themselves in critical areas such as energy and domestic savings they are at the MERCY of those that do so for them. They have been given so much rope that now their counterparties can HANG them with it at a time of their choosing. Ever see anyone plead with bankers or suppliers of CRITICAL materials such as OIL? It's not pretty and that is just the position the G7 has put themselves into. Their futures are no longer in their own hands. Smart guys? Absolutely not.

When these Middle Eastern financial powerhouses rearrange their portfolios on this scale it can cause a tsunami in financial, currency, and bond markets. AND IT HAS! When you look at the charts THEY ARE NOT orderly, the activity is virtually ONE WAY as it would be when almost a TRILLION DOLLARS is rearranged in a very short time. $250 billion EUROS put into treasuries and the Dollar in a short time, while selling gold, oil and commodity investments will cause everything we have seen.

Warren Buffet recently commented that all investment themes, systems and trends run through three stages:

1. Innovators
2. Imitators
3. Imbeciles

The US and G7 financial and banking systems are firmly in the grasp of the IMBECILES; 40 and 50 year olds that grew up in the system but DID NOT learn anything (they sat at the feet of the imitators, not the innovators) they just rose through the ranks by being good a** kissers and company men. They are not bankers and financial advisors, they are clerks who have risen to their level of incompetence as outlined by the PETER principle.

The innovators and imitators were in the seventies, eighties and early nineties (Julian Robertson, John Templeton, Byron Wien, Elizabeth Bramwell, Carl Icahn, Sam Zell, Peter Lynch, to name a few and are mostly GONE, (or waiting for the RIGHT opportunity). The imitators, until the turn of the century, and the imbeciles in the last decade since GEORGE "Pinocchio" BUSH rose to power and QUIT enforcing the laws and regulations on the nation's banks and investment houses.

The SEC has been completely AWOL (absent without leave), completely in the hands of those they are supposedly regulating: also known as the investment banks and Wall Street. It's called CRONY capitalism and corporatism. Where's the SEC today? Absent again.

NONE OF THE INNOVATORS OR IMITATORS (WHO LEARNED FROM THE INNOVATORS) WOULD HAVE ALLOWED THE POOR ELEMENTS (POOR-QUALITY LOANS, SUCH AS SUB PRIME, CREDIT CARDS, OVER-LEVERAGED PRIVATE EQUITY, ETC.) INTO THE SECURITIES WHICH WERE PACKAGED INTO CLO'S, MBS'S AND CDO'S. It is the imbeciles that have done so, fiduciary duties to the clients and their own organizations are and have been FORGOTTEN by the imbeciles who only were concerned with their BONUSES. There are still many great investment managers in the world but NONE of them are still with the big banks and wires houses. Forced out by the imbeciles; just as Gresham's law postulates -- bad money pushes out good money (gold), it is no different with financial and banking systems.

Add to this fact that MOST of the biggest money in the world is NOW being RUN by the IMBECILES, barely out of college. As the rearranging of the Middle Eastern investments runs markets in countertrend manner, big hedge funds and banks traders' positions have been caught OFF guard and their poor understanding of the market exits, liquidity and RISK control cause domino selling in related investments. Reversion to the mean is something they have NEVER considered when devising their trades and risk controls. OVER THE COUNTER markets and many of the poorly designed and implemented NEW ETF's cannot handle huge volume and they HAVEN'T. That is why the markets are OVERSHOOTING on the downside, as to lay off risk they must enter smaller markets such as Futures and those markets are overwhelmed by the massive size caused by all the Dollars, Euros and Pounds that have been printed and created out of thin air for over 5 decades since Bretton Woods II in 1972 and invested in the toxic, over the counter derivatives.

When anyone has a gun at their heads they will DUCK and cover and the Middle East POWERS are doing so, causing spillover selling by huge money managers and the public which is blown about upon the winds of the MISINFORMATION presented by the main stream media and analysts which ARE NOT looking at the BIG PICTURE. Do not mistake it for fundamentals; it is PURELY an act of self preservation by HUGE Middle Eastern money and the DOMINO of carnage caused by poorly prepared BIG money investment managers being BLOWN about from their own lack of planning and understanding of the markets.

Even the best money mangers are HURT during this period, but the exercise allows us to see the prepared from the unprepared. The prepared managers control risk, take small losses and can go into the future, and those that aren't PERISH. Use this information to choose your advisors in a better manner. Look no further than Lehman Brothers, AIG, Fannie Mae and Freddie Mac (hedge funds and banks in disguise), Merrill Lynch, Bear Stearns, Morgan Stanley, Citigroup, Wachovia, as they DEMONSTRATE that, contrary to their reputations as the BIGGEST, greatest and most experienced financial and banking organizations in the world, they are actually the POOREST, as they and their customers are LEARNING on a daily basis. Fortunately for these organizations they are also the BIGGEST contributors to PUBLIC SERPENTS, er SERVANTS, and inextricably intertwined in the financial and banking systems and many will be rescued in one form or another as….

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The rescue of the mortgage giants by placing them in conservatorships is the DAM bursting. The cost to do so was advertised as $25 Billion in July, and as $200 Billion NOW, but the bill will be closer to the $1.3 trillion in additional borrowing authority authorized by the act. This legislation authorized huge new borrowing facilities for all the government housing agencies. The first checks were placed in the mail LAST week. The manner in which this BAILOUT has been implemented has CLOSED the funding windows for the nations banks and investment houses who were on the brink as outlined in the previous edition of this newsletter (see Tedbits archives for the Crack up Boom series VII: BLOW OUT and BLOW UP at www.TraderView.com).

As shareholders and preferred shareholders were wiped out it sent a signal to the world that whoever participated in the capital raising to cover previous losses in the global financial and banking systems are all FOOLS and suckers of the Federal Reserve and the US Government, who are filling the holes that never would have been created, had they practiced fiduciary oversight rather than allow the industries they regulate run over them and disregard the laws and regulations. The large financial and banking industries, through campaign contributions, have their regulators firmly within their grasp, so as to operate in an imprudent/reckless manner and destroy young competitors and innovators of the future.

Merrill, Lehman brothers, AIG, Washington Mutual, Wachovia, UBS, Citigroup and others have gone into freefall, all are still fairly highly rated by the POLITICALLY correct, bought and paid for and fiduciary-challenged FOOLS at the ratings agencies, but the price of their shares and debts in the marketplace tell a darker tale. **WALKING DEAD MEN**. These institutions have evolved into testaments to morally-challenged imbeciles (they don't call it moral hazard for nothing) who run them and have forgotten who they serve -- their customers, their depositors and their shareholders BEFORE the imbeciles are served themselves. If they had remembered this they would not be where they are now.

Lehman rolled out a course of action to raise capital and declared their BOOK value at $27 dollars, WRONG, as of Friday it is $3 and change, today it's about 70 cents. The market price of the shares and the price of their debt issues reflect their TRUE VALUE and ability to repay. They have been misleading everybody about their net worth, the value of their holdings and investment offerings for SO LONG that they themselves can no longer value them. BUT THE MARKETS KNOW and you can SEE it in their prices. It is why level II and III assets were devised, so they can mislead you and themselves regularly and GET PAID for the inflated values. Only their misstatements no longer have ANY credibility.

Many analysts have called these financial and banking giants too big to bail rather than too big to fail. I disagree for two reasons:

1. The US may not have the money to save them but the printing press is limitless and the amount of money that can be created is INFINITE!
2. More wealth is stored in G7 paper in general, and the US Dollar in particular, that the most powerful people and countries in the world will SUPPORT it until they have unwound their wealth from this global TARBABY. It is EVERYWHERE!

So the money needed to SAVE the US financial and banking system WILL be monetized***. The US Government has painted themselves into a corner and it is either cough up the money or be destroyed -- personally, politically and financially. They are NOT suicidal. They have the POWER to print the money out of thin air and do a soft default to the owners of dollars, also known as IOU's. They will do so.*** The EU follows down this path but the final catalyst to the soft default through money printing has not arrived yet. Whatever happens in the US financial system you can expect the survivors to fall into the hands of the JP Morgan's and Bank of Americas of the world. The financial and banking organizations that will be saved probably have EX-Goldman Sachs executives at the helms or will be folded into those that do. This is how the PRIVATE bankers of the world have extended their reach and fortunes for CENTURIES and they have a well worn PLAYBOOK from past episodes.

In conclusion, the demise of the dollar will take a huge leap forward as the US Government bailouts MUST materialize over the next 9 months as no one else will PLAY the FOOLS. Look no further than today's bankruptcy of Lehman and the sale of Merrill to Bank of America. Lehman's capital raises are TOAST and Merrill's is a disaster, but at least they get something for the retail business they have. Morally and fiscally Bankrupt G7 governments will just print the money to save the financial and banking systems as there is a diminishing source of it from investors. Globally, investors have the money but as the old adage goes, "fool me once, shame on you, fool me twice, shame on me." The money that is being used to adjust the portfolios of Middle Eastern interests will return to their previous trades after the political realities are addressed. The greatest reflations in history have just begun. Can the dollar rally further? Sure it can, there is a shortage of them in the G7 financial and banking systems to service the debts, so you can bet they will PRINT MORE OF THEM!

With Lehman's demise a trillion Dollars went to money heaven this morning, that's ten trillion of potential lending that is KAPUT. This is a small example of the amount of credit that will be removed from the marketplace and potential lending. The credit crisis is spreading, and credit is the LIFEBLOOD of the Ponzi G7 economies, also known as asset-backed economies. If a greater fool will not show up to pay a price in excess of the previous inflated price, then the G7 cannot grow through MISTATED inflation. *Either they remove the cancerous toxic securities and print the money to replace them or the availability of credit will continue to become scarcer, even for qualified borrowers. They will save the system but allow many of the citizens to fall to their demise as nature has its way with the weak and poorly prepared public.*

The Fed today has radically expanded the term lending facilities, both in size and eligible collateral, such as common stocks. *Congress is frozen like a deer in the headlights by election considerations, a group of lawyers who know NOTHING about economics, cowards until they are secure for another term rather than the fiduciary stewards they claim to be. They don't think of the public's needs during trying times, rather they think of their own and do imitations of OSTRICHS!* Short term rates (fed funds) WILL fall as predicted, possibly to almost ZERO. When Washington Mutual goes under so does the FDIC (the Federal Deposit Insurance Corporation only has $50 billion and Washington Mutual will be at least $40 Billion). ***A G7-wide banking sector BAILOUT needs to be commenced immediately. The system DOES not have enough capital, many of its components are INSOLVENT, and capital MUST BE injected by the central banks and their governments.***

Ten years ago the Glass Steagal Act was still in place and the walls between banks and brokerages were still in place; twenty years ago, home loans were made by your local banker who carefully examined ability to repay, sometimes they failed but the problems were small compared to today's banking systems. Wall Street bribed the Public Serpents, er servants and took this business from the local banks that had good lending practices and substituted poorly schemed sausage factories for lenders and lent to unqualified borrowers; the imbeciles have taken us to where we are today. Now Washington DC refuses to recognize the messes THEY created.

Wait till you see what the new 2005 bankruptcy laws bring us, bought and paid for by usurious credit card issuers with what else "campaign contributions", another betrayal of the public by morally and fiscally challenged public servants … It is a type of indentured servitude, with the usurious credit card companies, aka the nations banks, as lords and the public as the indentured serfs at high interest rates… Bankruptcy can be healthy, but without the ability to get rid of bad receivables, balance sheets can never be restored to health

The commodity bull markets are alive and well; use these deflationary and geopolitical exercises to enter at better prices and terms into tangibles. Frank Holmes of Global Insights has recently done an excellent GLOBAL macro overview and you can access it here: http://www.financialsense.com/fsu/editorials/holmes/2008/0910.html it details the hedge fund debacles caused by the Middle East portfolio adjustments outlined by Gary Dorsch. The credit crisis just kicks up the potential prices to be reached before supplies meet demand.

This is a time of great OPPORTUNITY, recognize them and grasp them or seek help from those that can. Set your investment sails in the proper directions and thrive.

There is no shortage of LIQUIDITY; there is a shortage of capital. The Fed has supplied ample liquidity and continues to do so. Only Congress can supply capital, as investor worldwide are now on the sidelines after multiple burnings. Not to mention the issue of $62 trillion worth of credit default swaps largely spawned be the imbeciles, and who knows what their ability to pay is, but we shall find out.

The money necessary to RECAPITALIZE the G7 financial and banking systems has disappeared due to the terms of the Fannie and Freddie bailout and the NO ACTION in the case of Lehman Brothers. The Fed and Treasury tried to halt the moral hazard by saying no to Lehman, but the time to do so was years ago, so instead it is the match that ignites the dynamite. Since the G7 banking systems have large parts of them which are insolvent, the governments and central banks will be forced to PRINT IT in one form or another. Creating trillions of new IOU's called G7 currencies in addition to those that have already been created. The G7 economies are in virtual collapse due to LACK OF FUNDING AND CREDIT, so ***expect the greatest REFLATION in history to EMERGE. The collapse in income outlined in the WOLFE wave is continuing, creating additional demand for the printing press. You name it: cities, states, auto and airline industry, the recapitalizations and bailouts have JUST BEGUN! It's inflate or die time…***

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