

Thunder Road

report

19th December 2011

The Theme

Inflationism

Interventionism

Socialism and Lowing Living Standards

The Road to Totalitarianism

Asset Allocation from Galt's Gulch

Need a Little Time to Wake Up

In investment terms:



Are you going to join me? Well are you?

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2012: Dear Portfolio Manager, you are leaving the capitalist sector and heading into a full-spectrum crisis.



"You were to hear a report on the world crisis. That is what you are going to hear. For twelve years you have been asking: Who is John Galt? This is John Galt speaking..."

Now it's getting serious. 2012 will be a year to remember as the globalist agenda comes into focus amidst economic and geo-political crises:

☉ The titles of the last two Thunder Road Reports were prefaced with "Helter Skelter" - "The Illusion of Market Stability" followed by "Gentlemen Start Your Engines". Sadly, the Helter Skelter I was writing about - the second part of the Great Financial Crisis is in progress and I'm expecting it to come to a head next year (2013 if we're very lucky). The only question is **WHAT** brings it to a head? We're not short of possible causes - a bank failure, sovereign default, Eurozone tipping into recession or the Middle East. Despite all the evidence to the contrary, like overwhelming debt levels and insolvent banks/sovereigns, the consensus seems convinced that we can "muddle through". Dow Theory veteran, Richard Russell, explained it best:

"In the coming two or three years we will be going through unprecedented situations beyond the understanding of most analysts."

- ☉ **The turbocharged, debt-driven over-consumption of past decades must be undone. The strong medicine could and should have been taken years ago. As the primary architect, Greenspan shoulders much blame, but shrugs it off. The financial system is already past the point of no return ("In my mind and in my car, we can't rewind we've gone too far") – and we are on the brink of a TSUNAMI of new money/credit creation to delay its failure. This will be the final run to the summit of the Ponzi scheme. All Ponzi schemes end and there will have to be a system reboot. This is a "Crisis of the Ages";**



- ☉ **To maintain credibility in the face of insane monetary/fiscal policies, a scapegoat for the coming surge in inflation would be helpful to TPTB, perhaps even necessary. The conflict in the Middle East and North Africa is almost certain to escalate, threatening to disrupt world oil supply. A surging oil price could be blamed as an "unexpected" external shock for the "unexpected" surge in inflation, which central bankers have repeatedly assured us (falsely) is not on the horizon. Since the creation of the Federal Reserve in 1913, the purchasing power of the US dollar has already declined by 98% (using the Fed's own data). With a track record like that, the last 2% is not going to be difficult. Substantial declines in the purchasing power of the Euro, Yen and Sterling are likely to precede the dollar, especially if the oil price surges (importing nations will need to hold more dollars);**
- ☉ **Western nations are at increased risk of false flag events as part of a "Strategy of tension" – be prepared then you won't be surprised.** Wikipedia: "The strategy of tension is a theory that describes how to divide, manipulate, and control public opinion using fear, propaganda, disinformation, psychological warfare, agents provocateurs, and false flag t-----st actions. The theory began with allegations that the United States government and the Greek military junta of 1967–1974 supported far-right t-----st groups in Italy and Turkey, where communism was growing in popularity, to spread panic among the population who would in turn demand stronger and more dictatorial governments." **TPTB might prefer a distracted, pliant and fearful public; and**
- ☉ **The majority of people probably won't agree (yet) with much of this paragraph, but we are in a chain of events where the direction of travel is: INFLATIONISM - INTERVENTIONISM - SOCIALISM - REDUCED LIVING STANDARDS - TOTALITARIANISM. Elements of all of them are already present to a greater or lesser extent, as I'll discuss. Of course, the earlier ones, inflationism and interventionism (which Ludwig Von Mises described as "socialism by installments"), are the most obvious. What we are experiencing was prophesied in fictional form by Ayn Rand in her masterpiece "Atlas Shrugged" when it was published in 1957. I'm reading it and it's amazing.**

This process raises interesting questions regarding asset allocation and while not all of them are very palatable, we are where we are. Let me outline my analytical framework for the big picture (rather than individual stocks) then highlight the key lessons from this report which, it turned out, fit into the framework:

Kondratieff Cycles: back to the dawn (almost) of the Industrial Revolution in 1788 - nominal GDP, real GDP growth, inflation, debt, interest rates and the performance of the key asset classes – stocks, bonds, commodities, gold and real estate. I only know of one other person (Ian Gordon) on the planet who has modelled this in detail, although there may be others. Joseph Schumpeter, who never did say which two of his three goals in life he achieved (to be the greatest economist in the world, the best horseman in Austria and the greatest lover in all of Vienna), had this to say:

“The Kondratieff Wave is the single most important tool in economic forecasting.”

Unfortunately my model of the Kondratieff Cycle is SCREAMING depression and reduction in living standards.

The mechanics of the four great price waves during the last millenium: Medieval, the “Price Revolution” of the 16th to the first half of the 17th centuries, 18th century-early 19th century and the (rather important) current one;

Geopolitics: Mackinder’s Heartland theory, Brzezinski’s “The Grand Chessboard”, Paul Kennedy’s “The Rise and Fall of Great Powers”, Project for the New American Century, and numerous works on the decline of the Roman Empire due to the startling parallels with the US (as documented in Thunder Road Report 23);

Demographics: like Harry S. Dent’s work on the predictable nature of consumer spending based on family formation pattern. The US birth rate peaked in 1961 (UK was similar) and peak earnings/spending of the average citizen is 48.5 years of age - as they say in America “you do the math”. The baby boomers’ kids will be coming out of college...!

Market interventions by the authorities: the Gold Cartel (the Gold Anti-Trust Action Committee - GATA - deserves immense recognition here), silver (Ted Butler likewise), equities via the President’s Working Group on Financial Markets and let’s not forget the Counterparty Risk Management Policy Group and the US Treasury Secretary’s gigantic slush fund, the Exchange Stabilization Fund. By the way, Bill Murphy’s Midas column on the Le Metropole Café website is the first thing I have read every day for six years and not just for gold.

Exter’s pyramid: a central banker who believed in sound money and his theory of capital flows in a major crisis is playing out right now. Speculative capital moves down through the credit instruments as, one by one, each credit instrument loses its “moneyness” – the last one being the US dollar/Treasury complex. The final destination is the only asset which doesn’t pay a yield – it doesn’t need to – it’s the ONLY one without counterparty risk in the biggest debt crisis in history.

The nature and history of money: I’m tempted to cite Francisco d’Anconia’s speech about money in Atlas Shrugged and Roy Jastram’s “The Golden Constant” - a key empirical study of how gold outperformed in both inflationary AND deflationary periods since the 16th century (although it neglects today’s Gold Cartel and that algorithm which only allows gold to rise on “risk on” days);

The globalist agenda: NWO, CFR, Rhodes, Trilateral Commission, Bilderberg, Club of Rome, etc. Few people in the markets incorporate its impact despite: i) it is heavily documented; and ii) it provides the context for so many world events - which suddenly lose their apparent “randomness”;

"Austrian" economic theory: especially Ludwig Von Mises' work in relation to credit bubbles and free market capitalism; and

Studying financial history mixed with pattern recognition with the above.

Without a framework with which you can see beyond the short term, it's getting more and more like being a spectator at a tennis match. Look at the equity market recently, or gold and silver, where the prices have fallen as the banking system disintegrates. Markets are all over the place, as more and more holes in the dyke burst open.

The main lessons I learnt from this report are about **SOCIALISM** and its impact on financial markets. For example:

- ① How far we've departed from the ideal of free-market capitalism and how far the Socialist takeover has advanced;
- ① How the style of the Socialist takeover has elements of both the extreme left and the extreme right ("national") on the political spectrum – not only making it harder to categorise, but also harder to see; and
- ① What I think that this means for asset allocation.

Let's take the last point and consider some of the key themes:

- ① **Socialism from the Left:** government taking a greater share of GDP, lower living standards and debasement of currencies;

Combined with:

- ① **Socialism from the Right:** government largesse and corruption with certain large corporate interests which serve the purposes of the state, military adventurism and a much more controlled society.

If it looks like a duck and quacks like a duck...

The source of this whole chain of events is inflationism and the debasement of currencies. As it unfolds, gold and silver increasingly become the critical assets to hold in order to safeguard capital. Currently, prices are being held down to hide the wreckage of the financial system and enable TPTB to load up. Market prices and demand for physical metal are temporarily disconnected. Going forward, essential items, like food and energy (especially crude oil) will account for a larger share of the "economic pie" as living standards decline and inflation increases. In contrast, items like luxury goods and diamonds (not a store of wealth) will suffer. I'm not planning on being short oil in 2012 as it strikes me as incredibly dangerous. The oil sector, along with defence, should benefit from the crossover of socialism from both the "left" and the "right" (military adventurism and the potential for conflict in the Middle East). Defence contractors are big beneficiaries of government contracts and lasting cuts to military spending rarely feature in declining empires. But of all the sectors which are "in bed" with governments, none come close to the major banks. However, I don't care what happens to their share prices, **EVERYTHING I** have learnt as an analyst tells me not to touch them as investments. The accounting principles used for both the balance sheets and P&L accounts render them almost meaningless and that's before taking account of OTC derivatives exposure and counterparty risk which can scarcely be imagined. You can't even get close to analysing them properly and it's legitimate to question whether professional investors managing money for pension funds, for example, should hold any major bank stocks at all?

The Theme

These are strange days indeed and some are very good - I never thought I'd see the reformation of the Stone Roses, the band which released the best debut album in history. Coming back from the musical dead is the drummer in the iconic hat, who **"plays the drums like Hendrix played guitar"**, the incredibly modest Alan Wren.



Growing up in Manchester, "the local kids thought Reni was a freak because he was such an amazing drummer, a total natural". He's an excellent guitar player, was acknowledged by Mani (the bassist) as a superior bass player and sings backing vocals with a better voice than front man Ian Brown. An early band member described Reni's audition with the Roses: "We never discussed it, we knew he was in...What a drummer!" The music producer, John Leckie: "When I listen to him play, I just sort of think...'No-one else plays like that!' By choice, he disappeared from public view, like a hero in an Ayn Rand novel, about 15 years ago, maybe waiting for this moment or something like it. An inspiration!

In in the hours before the 2004 Asian tsunami killed more than 230,000 people, National Geographic reported that:

"According to eyewitness accounts, the following events happened: elephants screamed and ran for higher ground, dogs refused to go outdoors, flamingos abandoned their low-lying breeding areas, zoo animals rushed into their shelters and could not be enticed to come back out."

Knowledge protects. This was from the Daily Telegraph regarding the same tragedy:

"A 10-year-old girl saved her family and 100 other tourists from the Asian tsunami because she had learnt about the giant waves in a geography lesson, it has emerged. Tilly Smith, from Oxshott, Surrey, was holidaying with her parents and seven-year-old sister on Maikhao beach in Phuket, Thailand, when the tide rushed out. As the other tourists watched in amazement, the water began to bubble and the boats on the horizon started to violently bob up and down. Tilly, who had studied tsunamis in a geography class two weeks earlier, quickly realised they were in danger."

From an economic perspective, the tide is going out and it's time to be moving to higher ground before it's too late.



We are in a battle between the forces of deflation and inflation, which are unprecedented in strength since the dawn of the Industrial Revolution. Economic gravity dictates a catastrophic debt deflation, but policy makers intervene constantly with one inflationary retaliation after another, which just makes the Ponzi scheme bigger. When the deflationary and inflationary forces offset each other perfectly, or the inflationary forces are slightly in the ascendancy, most people are lulled into thinking that everything is fine.

The potential for disaster goes unnoticed until the balance between these forces moves out of line again. This is exactly what has happened – especially in Europe - hence recent seizures in the inter-bank market and near collapse of the European banking system. It's a dynamic process and the strength of the deflationary forces is continuing to rise due to ever increasing debt in industrialised nations. Right now, time is running out for the inflation junkies in central banks and governments to redress the balance. Eventually, deflation will beget rampant (or hyper-) inflation as confidence in the purchasing power of currencies evaporates.

I liken the strategy to "The Grand Old Duke of York" in reverse. We all march down to the bottom of the hill (deflation) only to be marched all the way back up again via ever looser monetary policy, money printing and deficit spending – inflationary counter measures of some form – which keep feeding the Ponzi scheme. This suicidal artificial extension of the current Kondratieff long wave economic cycle has been going on for just over a decade:

- ☉ the Tech Crash in 2000 and the massive Greenspan reflation which followed;
- ☉ the 2008 housing crash/Lehman collapse and all round systemic failure - which led to near zero interest rates, QE1 and TARP, etc, in the US and similar programmes elsewhere;
- ☉ The renewed slowdown in mid-2010 which prompted QE2 - signalled in August and implemented in early November 2010; and
- ☉ In 2011 we've seen continued economic weakness, further declines in US house prices, the Fed's "Operation Twist", the Sovereign bond crisis across Europe and seizure of inter-bank lending before the recent central bank dollar swap agreement and ECB three-year LTRO announcement.

In the Grand Old Duke of York analogy, it's getting harder and harder to stay on top of that hill for any length of time. Something is going to give and there is NO WAY OUT. It boils down to the following – either:

- ☉ **Print trillions of Euros/dollars/pounds/Yen, etc., and delay the inevitable meltdown of the financial system; or**
- ☉ **Let the system crash then print trillions of Euros/dollars/pounds/Yen, etc., anyway as budget deficits rise exponentially (collapse in tax revenues with surge in social spending) and the banking system needs recapitalising.**

Either way, they are going to PRINT MONEY like never before and a tsunami of money/credit is heading our way. We ain't seen nothing yet.



An adherent to "national" socialism, Joseph Goebbels said this in a speech at Nuremberg in 1934:

"Propaganda is a means to an end. Its purpose is to lead the people to an understanding that will allow them to willingly and without internal resistance devote themselves to the tasks and goals of a superior leadership."

Today's leadership is a group of globalists where "superiority" is narrowly defined as wealth and an invitation-only network. Meanwhile, propaganda remains well bid as the politicians constantly discuss ways of solving an unsolvable crisis and central bankers placate the masses with reassurances that inflation levels will fall not rise. This was new ECB head Draghi in his first speech on 3 November 2011:

"cost and wage pressures in the euro area should also moderate; today's decision takes this into account. Overall, it remains essential for monetary policy to maintain price stability over the medium term..."

That old "medium term" chestnut! This was from the Federal Reserve on 2 November 2011:

"The Committee also anticipates that inflation will settle, over coming quarters, at levels at or below those consistent with the Committee's dual mandate as the effects of past energy and other commodity price increases dissipate further."

Here are some soothing words from the Governor of the Bank of England at his Inflation Report press conference on 16 November 2011:

"The big picture is that we think inflation will slow sharply through 2012 to at or around the inflation target thereafter. The Committee judges that in 2013 and 2014 inflation is more likely to be below the target than above."

Feel better? You shouldn't. The value of these currencies will be decimated by inflation – but not by demand-driven inflation, which is the only inflation acknowledged by snake oil salesmen heading central banks. In Britain, this clown decided to create another £75.0bn out of thin air to add to the £200.0bn he already "bought" for the Bank of England's balance sheet (£75.0bn is equivalent to c.5% of the entire annual output of the UK economy and 8% of the existing national debt).



According to history graduate, former Selfridges employee, wannabe journalist and ex-speech writer, George Osborne (also pictured above), and by an inexplicable quirk of fate...



...the current British Chancellor of the Exchequer:

"I agree with it and that's why I authorised quantitative easing to proceed."

And what a fantastic time to print money in the UK with CPI inflation already at 5%:

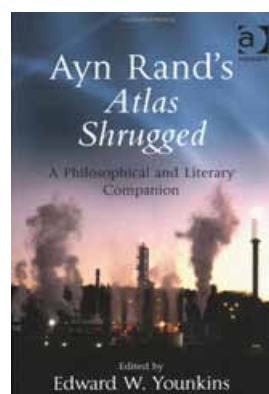
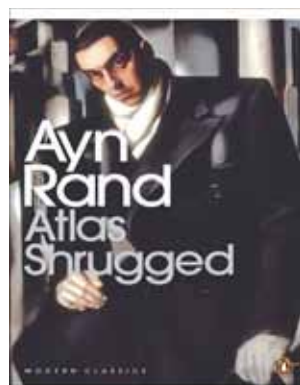


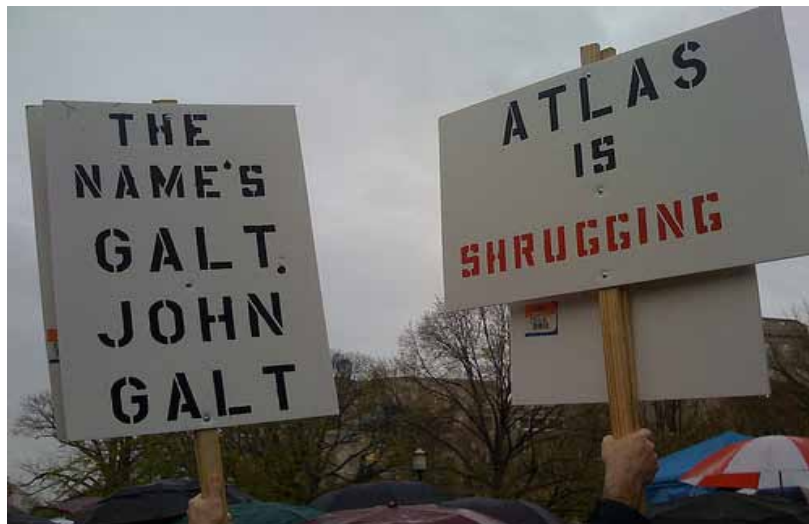
Source: Office of National Statistics

Central banker reassurance about lower inflation is as hollow as the consensus view that we can muddle through.

There is a book - written more than 50 years ago - which gives INCREDIBLE insights into the events unfolding today. The novel "Atlas Shrugged", written by Ayn Rand, begins with the iconic line:

"Who is John Galt?"





Shortly after the Lehman collapse, Stephen Moore writing in the Wall Street Journal had seen the parallels with Ayn Rand's masterpiece:

"Many of us who know Rand's work have noticed that with each passing week, and with each successive bailout plan and economic-stimulus scheme out of Washington, our current politicians are committing the very acts of economic lunacy that 'Atlas Shrugged' parodied in 1957, when this 1,000-page novel was first published and became an instant hit...For the uninitiated, the moral of the story is simply this: Politicians invariably respond to crises - that in most cases they themselves created - by spawning new government programs, laws and regulations. These, in turn, generate more havoc and poverty, which inspires the politicians to create more programs...and the downward spiral repeats itself until the productive sectors of the economy collapse under the collective weight of taxes and other burdens imposed in the name of fairness, equality and do-goodism...The current economic strategy is right out of 'Atlas Shrugged': The more incompetent you are in business, the more handouts the politicians will bestow on you."

Wikipedia summarises Atlas Shrugged as follows:

"The book explores a dystopian United States where many of society's most productive citizens refuse to be exploited by increasing taxation and government regulations and disappear. They are led by John Galt. Galt describes the strike as 'stopping the motor of the world' by withdrawing the minds that drive society's growth and productivity. In their efforts, these people 'of the mind' hope to demonstrate that a world in which the individual is not free to create is doomed, that civilization cannot exist where every person is a slave to society and government, and that the destruction of the profit motive leads to the collapse of society. The protagonist, Dagny Taggart, sees society collapse around her as the government increasingly asserts control over all industry."

It was twenty years after Atlas Shrugged was first published when the mysterious character, John Todd, remarked that:

"When you study Atlas Shrugged, you will find out that you are reading the front pages of the paper today."

That was in the 1970s and it's even more true today as events are proving. Harmon Kaslow, the producer of the movie, "Atlas Shrugged Part 1", which was released earlier this year (I haven't seen it yet) commented how:

"It's almost haunting how similar what (Rand) wrote 50 years ago is to what's actually taking place today."

I've just discovered that there's even a documentary film (I haven't seen it yet either) "Ayn Rand & the Prophecy of Atlas Shrugged":



Before she died in 1982, Ayn Rand was asked:

"Miss Rand, do you have any comment to make about the prophecy that was made in Atlas Shrugged?"

To which she replied (my emphasis):

"Only that I'm sorry it's coming true SO EXACTLY."

But HOW could this be? Was Ayn Rand unusually gifted as a prophet? Maybe. John Todd alleged that she learnt of the plan from Philippe de Rothschild, but I doubt that we will ever know the answer for sure.

In the companion book (pictured earlier next to the novel) to Ayn Rand's masterpiece, Steven Horwitz wrote that:

"The fiction of Ayn Rand has, perhaps, more economic content to it per page than that of any other novelist. This is not surprising given that her uncompromising belief in both the efficacy and morality of markets and capitalism is the driving force behind her work, especially Atlas Shrugged."

In the same book, Peter J. Boetke outlined the main influences behind her views in his essay "The Economics of Atlas Shrugged":

"As a matter of record, Rand's economic education was a function of common sense and Ludwig Von Mises...she did not claim originality in economics. She made it clear to her followers that her economics came from the leading free-market advocates of her age – Henry Hazlitt and Ludwig Von Mises. Hazlitt acknowledged Mises as the greatest economist of modern times and Rand took that endorsement as her own as well."

A letter from Von Mises to Ayn Rand about Atlas Shrugged is attached at the end of this report.

This is a brief quote from Wikipedia on Austrian economic theory (my emphasis):

"The theory views business cycles as the inevitable consequence of **excessive growth in bank credit, exacerbated by inherently damaging and ineffective central bank policies, which cause interest rates to remain too low for too long, resulting in excessive credit creation, speculative economic bubbles and lowered savings.** The main proponents of the Austrian business cycle theory historically were Austrian School economists Ludwig Von Mises and nobel laureate Friedrich Hayek...The Austrian theory of the business cycle is now rarely discussed by mainstream economists"

Bill Holter remarked sagely last month that:

“The only school of economics no longer taught in universities is the Austrian School of Economics. The funny thing about this is that Austrian economics is nothing more than the laws of Mother Nature and good old common sense street smarts, period. When I say ‘the funny thing’, I say this because it is the only school of economics that has been correct.”

From my research, the chain of events which we are not only experiencing, but jumps out from studying Austrian theory and Atlas Shrugged, is the following:

INFLATIONISM - INTERVENTIONISM - SOCIALISM - LOWER LIVING STANDARDS - TOTALITARIANISM

It will only get clearer if we keep living it. Now let’s delve into this process in more detail.

Inflationism

The road to socialism begins with inflationism, i.e. rapid growth of money and credit. Money is both a means of exchange and a store of wealth. In terms of the latter, I think of money as the CAPITALISATION OF HUMAN LABOUR. Consequently, the abuse of the monetary system by policy makers is morally reprehensible. Outrage directed at the authorities should be off the scale. Von Mises outlined the concept of “sound money” in his book “The Theory of Money and Credit”:

“The idea of sound money originates from the principle of decency and justice without which there can be no exchange economy based on voluntary exchange and division of labor. The modern ideology of sound money was devised to force decency and justice upon reluctant governments and sovereigns practicing debasement of currencies and to protect the civil liberties of individuals from destructive inroads on the part of governments.”

Here is Francisco d’Anconia, one of the main characters from Atlas Shrugged, discussing money in his famous speech from the novel:

“Watch money. Money is the barometer of a society’s virtue...Whenever destroyers appear among men, they start by destroying money, for money is men’s protection and the base of a moral existence.”

As Steve Horwitz explains in the literary companion to Atlas Shrugged:

“There are two steps in the process of moral and economic destruction that inflation engenders from a Randian perspective. First, inflation undermines the role of money as an ‘objective’ standard by which human actors can determine market values...Second, with money’s role as an arbiter of market value weakened, human interaction becomes less and less a matter of voluntary exchange and increasingly subject to regulation and other forms of coercion. It shifts the social power base from those who produce and trade, to those who have comparative advantage in the direct or indirect use of force. For Rand, this represents the undoing of human morality.”

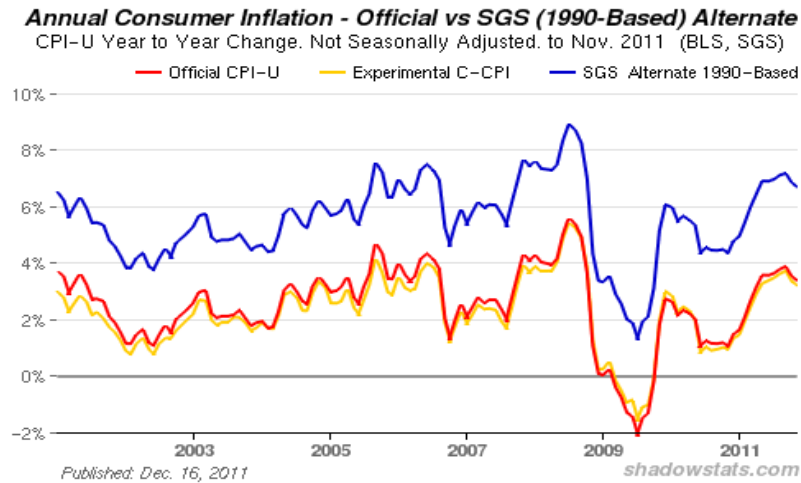
One of the wonderful ironies is the warning sounded by Alan Greenspan, the primary architect of the biggest credit bubble in modern history, of the link between socialism (“welfare statist” as he derides socialists) and inflation (“unlimited expansion of credit”). This was part of a famous (to the gold community) 1966 essay entitled “Gold and Economic Freedom” in Ayn Rand’s non-fiction book “Capitalism: The Unknown Ideal”:

“The abandonment of the gold standard made it possible for the welfare statist to use the banking system as a means to an unlimited expansion of credit...The financial policy of the welfare state requires that there be no way for the owners of wealth to protect themselves.”

Except with gold and silver. In a stirring speech from the recent Sydney Gold Symposium, Alf Field nailed the origins of today’s “world crisis”:

“The problem is that the current generation does not understand that the root cause of the GFC (Great Financial Crisis) is unsound money”

The value of the paper/electronic dollars, Euros and pounds is becoming ever more illusory, but from the point of view of the people creating the illusion, THAT IS THE POINT. They made hay while the sun shone and they will be positioned when the rug gets pulled. The purchasing power of today’s major currencies is already being destroyed. John Williams of Shadwostats.com strips out the distortions that have been used to under report US inflation, e.g. hedonic adjustments, substitution, geometric weightings, etc. since the Clinton era. He calculates that inflation is running at 6-7% instead of the reported 3-4%:



Source: John Williams at Shadowstats

This is a thought provoking observation by the Austrian school economist, Henry Hazlitt:

“What we commonly find, in going through the histories of substantial or prolonged inflations in various countries, is that, in the early stages, prices rise by less than the increase in the quantity of money; that in the middle stages they may rise in rough proportion to the increase in the quantity of money (after making due allowance for changes that may also occur in the supply of goods); but that, when an inflation has been prolonged beyond a certain point, or has shown signs of acceleration, prices rise by more than the increase in the quantity of money.”

My sense is that we are getting close to the shift from the early to middle stage described above and the effect – probably felt during 2012 - is going to be profound. Whether it is ultra-low interest rates, bailouts, continued massive deficit spending or huge dollar swap arrangements, the policies of central banks and governments are ALL variations on one theme – INFLATION - since the alternative is “Ponzi Game Over” (“Tubby Bye Bye”).



Source: BBC Teletubbies

This was Doug Noland in his weekly “Credit Bubble Bulletin” on 4 November 2011:

“I am of the view that inflationary policy doctrine (‘inflationism’) is in the process of impairing the creditworthiness of the financial claims that constitute the foundation of the global financial system. Massive issuance of non-productive debt and central bank monetization have irreparably

distorted the global pricing of finance and the resulting allocation of financial and real resources... From my perspective, it is the 'destructionist' forces of 'inflationism' that today pose grave risk to global capitalism. And, to be sure, the 'socialism' of credit risk is at the heart of the monetary and economic quagmires imperilling Europe, the U.S and nations around the world."

From Doug's comment, we begin to see the link between inflation and socialism. Curtis Ophoven explained it thus:

"Inflation and socialism are almost always at work together because socialism is non-sustainable by itself and therefore leads a government to inflate the currency to support its growing financial burden on the economy."

Please note how Doug Noland used the term "destructionist" which is not only 100% relevant to current trends, but also has a history of usage in the conflict between capitalist and socialist ideology. According to Wikipedia:

"Destructionism is a term used by Ludwig Von Mises, a classical liberal (Austrian school – Paul) economist, to refer to policies that consume capital but do not accumulate it. It is the title of Part V of his seminal work 'Socialism'. Since accumulation of capital is the basis for economic progress (as the capital stock of society increases, the productivity of labor rises, as well as wages and standards of living), Von Mises warned that pursuing socialist and statist policies will eventually lead to the consumption and reliance on old capital, borrowed capital, or printed 'capital' as these policies cannot create any new capital, instead only consuming the old."

Borrowed and printed capital...hello!



Margaret Thatcher put it more succinctly:

"The problem with socialism is that you eventually run out of other people's money."

Or you **PRINT IT**.

As we analyse the world economy, the stock market, the commodity markets, the bond market and the housing market, it's worth remembering that the biggest battle of all is the battle for money itself. More and more debt/credit is being created, but as Doug Noland points out:

"The vast majority of this debt is non-productive and of rapidly deteriorating quality."

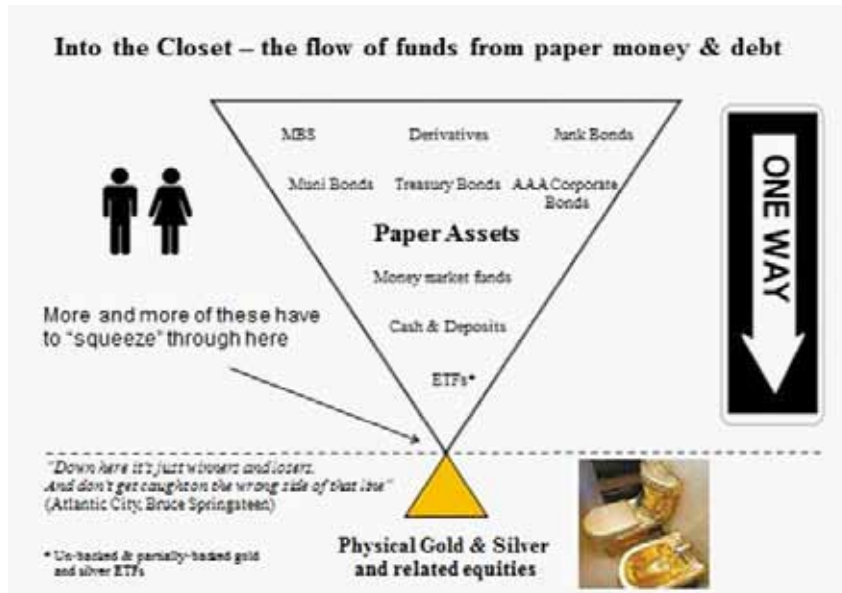
All that is happening is that we are continuing to drop down through Exter's Pyramid as the markets continue to re-evaluate the degree of "moneyness" of one credit instrument after another. Out have gone MBS/CDO's, Greek bonds, Italian bonds, Portuguese bonds, Hungarian bonds and French bonds are heading in the same direction. Indeed, we will watch the BIGGEST INFLECTION POINT in modern financial history with the low in yield on the benchmark 10-year US Treasury. It could be at 1.5% or 1.0%, whatever. We'll only know with hindsight.

10-year yield on US Treasuries



Source: yahoo finance

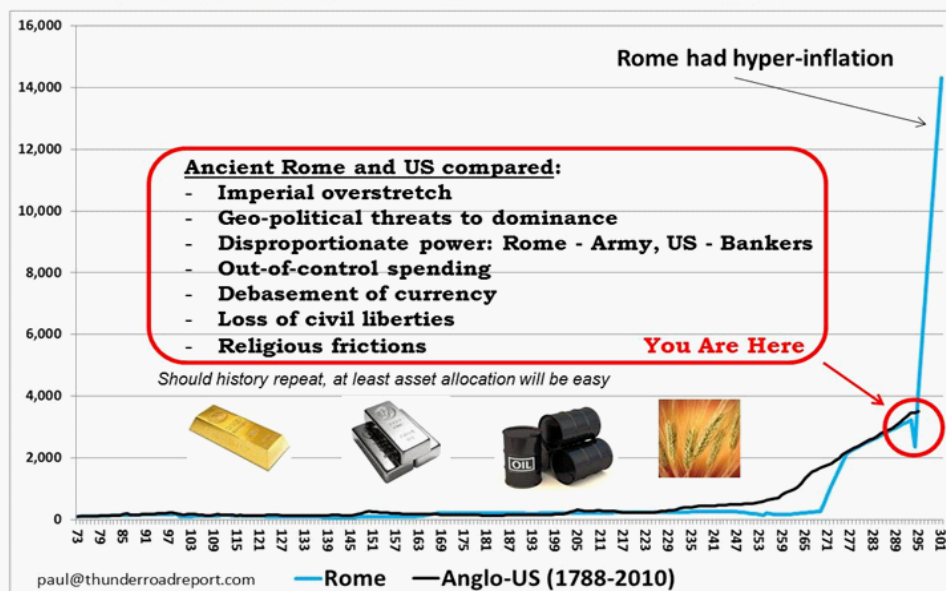
The process will continue until its logical end point as I showed a while back in a representation of Exter's pyramid:



Compare where we are with what happened in Rome:

Inflation: Roman Empire versus the last 223 years. What's next?

Price Level Index: 73AD (Rome) = 100 & 1788 (Anglo-US) = 100. Linear scale



We are approaching the tipping point when confidence in the purchasing power of today's major currencies is lost by the many, instead of just the few, and trends rapidly become non-linear. As Von Mises warned:

"This first stage of the inflationary process may last for many years. While it lasts, the prices of many goods and services are not yet adjusted to the altered money relation...But then, finally, the masses wake up. They become suddenly aware of the fact that inflation is a deliberate policy and will go on endlessly. A breakdown occurs. The crack-up boom appears. Everybody is anxious to swap his money against 'real' goods, no matter whether he needs them or not, no matter how much money he has to pay for them...If a thing has to be used as a medium of exchange, public opinion must not believe that the quantity of this thing will increase beyond all bounds. Inflation is a policy that cannot last."

Interventionism

The United States of America was the capitalist model par excellence and is by necessity the focal point of its demise - as Ayn Rand predicted in *Atlas Shrugged*. The link in the chain between capitalism and socialism is interventionism. Ludwig Von Mises described interventionism as:

"a method for the realization of socialism by instalments."

Jacques Rueff was the advisor to President de Gaulle when France was the biggest force behind the collapse of the London Gold Pool in 1968, which saw the inflating dollar lose its peg to gold at US\$35/oz. According to Rueff:

"Toutes les turpitudes de notre régime, j'en ai toujours trouvé la source dans des interventions de l'État. Les systèmes malthusiens donnent à leurs auteurs toutes les apparences de l'action généreuse, alors qu'ils organisent la misère et la ruine."

Which translates (roughly) as:

"The source of all our problems is State intervention. Statists appear to have good intentions, but all they do is to bring us misery and ruin."

The socialist takeover of the US is WELL ADVANCED and was accelerated with the onset of the current crisis. Here is former Sanford Bernstein analyst, Mike Kreiger, reminiscing about the TARP (US\$700bn Treasury bailout of the banking system) programme following Lehman's collapse (my emphasis):

"Do you remember TARP? Let me tell you a little story about TARP. I was at my old job at Bernstein and after this thing got rammed through I was apoplectic. It was 7am and I was spouting like a madman on the trading desk about how this was the end of the last vestiges of a market economy. That this was the beginning of all out central planning and we had just sold out (our) best chance to reform the system so that Hank Paulson's criminal friends could get their bonuses back. I spouted this to anyone that would listen. People looked at me as if I was insane (they still do, it is just that the issues change). People respected me at work and so they listened but everyone thought I was exaggerating way too much. My boss actually told me to 'go take a walk around the block'."

In a poignantly titled report "Had Enough?" Lawrence W. Lepard explained:

"The bail-outs, and their claimed 'necessity', are the BIG LIE method of propaganda. Letting over leveraged institutions fail, and letting the system cleanse itself, would have been painful but we would be in recovery by now (see: Iceland). The bail-outs did not benefit the American people, the bail-outs benefited the banking interests and their employees, the Washington, DC politicians."

Gerald Celente highlighted the demise of capitalism on King World News on 1 December 2011:

“You want to know four words which killed American capitalism, Too Big To Fail. It’s anti-capitalist to bail out Too Big To Fails, capisce? The whole game is rigged and everybody should understand that. They are going to rob us blind in broad daylight. They are doing it now.”

Banks, countries and even car companies have been and are being kept going while more and more debt is fed into the system, supposedly for the common good.

Hedge fund manager, Kyle Bass, put it more succinctly:

“Capitalism without failure is like Christianity without Hell.”

Today’s central planning junkies just won’t stop intervening in the free market process. In 1955, Hans Sennholz, who studied under Ludwig Von Mises, wrote a book (“How Can Europe Survive?”) in which he warned how interventionism leads to socialism (my emphasis):

“The socialists advocate complete and immediate abolition of the market economy and its freedoms for individuals, and the setting up of one central agency to plan and regulate all economic activity. The interventionists differ from the socialists in that they recommend a third system which is said to retain the advantages of socialism and the market economy, and avoid the shortcomings of both. **This system of ‘the middle-of-the road’ concurs with socialism in its critique and rejection of the unhampered market economy and, if not abandoned in time, will also lead to socialism.**”

TARP was nothing more than the tip of the iceberg. In keeping with the warnings of von Mises and Sennholz, let’s just consider the degree of intervention by the US government in some key financial markets:

- ☉ **Money market:** the Fed Funds rate is set at 0-0.25% by the Federal Reserve - basically providing free money to the banks which own the Fed – and Bernanke has said that he will keep it there at least until the middle of 2013;
- ☉ **Treasury market:** we saw the Federal Reserve buy US\$300bn of Treasuries in QE1, a further US\$600bn in QE2 and now “Operation Twist” – buying US\$400bn of longer dated Treasuries via the sale of shorter maturities. This was a superb comment from James Grant of “Grant’s Interest Rate Observer”:

“In this country, the United States, the Fed has virtually nationalised the yield curve.”

- ☉ **Equity market:** via the President’s Working Group on Financial Markets, a.k.a. “Plunge Protection Team” (PPT), which was set up in the aftermath of the 1987 Crash. More and more people are acknowledging the interventions, e.g. rallies in the last hour of US trading or sudden recoveries on no news or “news” later refuted, e.g. CNBC, FT and other sources leaking stories that Europe had concocted a “solution” to the sovereign debt crisis. Even mainstream brokerages are beginning to highlight strange intra-day movements in the market – even if, in this case, Bank of America wrongly ascribed them to bearish sentiment on Europe pushing down the market in the morning only to be replaced by bullish sentiment on the US in the afternoon. Ladies and gentlemen, here is the work of the PPT during the 5 trading days from 2-8 November 2011:



Source: Bank of America Merrill Lynch

This was Bert Dohmen in his Wellington Letter on 10 October 2011

"The major indices have had a three-day rally off the bottom. But the sentiment in the media is almost as if a new bull market had started. This is an amazing turn in sentiment. This is not your father's stock market anymore. We see so many signs of market manipulation during the day. It could be the PPT whose job it is to 'preserve orderly markets.' Or it could be the HFT (high frequency trading operations) or some big hedge funds. Most likely, it will be a combination of all three."

This was Andy Hoffman of Miles Franklin discussing the PPT on 18 November 2011:

"The two most important tactics in their playbook are early morning support of Dow Futures to 'set the tone' for the day and 'HAIL MARY' goosing at the end of the day, to 'instill confidence' that all bad news has been discounted, and secondarily cause the collectivist media to report as such...Our colleague Al Newman tracks the extreme volatility in the markets since HFT trading really got going. For the 10 year period from 1996-2006 there were a total of 28 'lopsided' days, which is when the ratio of advancing to declining issues, or vice versa, is 9-1 or more. That's fewer than 3 per year. This year, there have been 45 such days. That's about one per week."

I just want to dwell briefly on the stock market. When Bernanke was asked how QE2 had benefited the US economy, the only thing he could point to was a stronger stock market. Tyler Durden of Zero Hedge has referred to the stock market as a "policy tool". Bernard Connolly of "The Hamiltonian" noted that:

"to repeat, monetary policy (as opposed to productivity developments and expectations) can increase wealth only by creating a bubble. Moreover, if a major component of non-human wealth – housing – cannot increase because the market has never cleared after a previous bubble (though here, as elsewhere, one has to be careful about defining the counterfactual: in the absence of monetary loosening, housing prices might fall faster), creating a wealth effect has to depend on 'goosing' the stock market."

☉ **The creeping nationalisation of the housing/mortgage market via QE and "conservatorship":**

By 2008, Fannie Mae and Freddie Mac owned or guaranteed about half of the US\$12 trn mortgage market in the US. In the first round of Quantitative Easing (QE1), the Federal Reserve bought US\$1.25 TRILLION of mortgage backed securities and US\$175bn of Fannie Mae and Freddie Mac debt in QE1. On 7 September 2008, they were placed under the "conservatorship", i.e. ownership, of the US government. According to FHFA Director, James B. Lockhart it was:

"one of the most sweeping government interventions in private financial markets in decades"

☉ **Gold and silver:** the mortal enemies of paper currencies, governments with irresponsible spending policies and the canary in the mine for financial instability. Intervention in these markets has been rife since 1961 with the creation of the London Gold Pool and it just went from being "overt" to "covert" after 1980. I've documented the interventions numerous times so won't go in to detail here.

☉ **Currency markets:** central banks admit this!

Chris Powell of the Gold Anti-Trust Action Committee (GATA) put it succinctly:

"There are no markets anymore, only interventions."

In a speech at Pi Capital dinner in London on 10 October 2011, he explained:

"The problem goes far beyond gold price suppression. Indeed, since central bank intervention in the currency, bond, equities, and commodity markets has exploded over the last few years, we don't really know what the market price of anything is anymore. Thus the gold price suppression story is a story about the valuation of all capital and labor in the world - and whether those values will be set openly in free markets, the democratic way, or secretly by governments, the totalitarian way."

The number of people who have realised what a sham many financial markets have become is growing rapidly. This was Marc Faber on King World News:

“We no longer have free markets, we have manipulated markets by governments...”

Portfolio manager Sandeep Jaitly in his Gold Basis Service newsletter:

“In the whole course of history, markets have never been less free.”

And Bob Chapman of “The International Forecaster” discussing the equity market in particular:

“as it is black box traders account for 70% of all trades front-running and rigging markets. After 53 years in markets we cannot believe what we see. One thing is for sure there are no free markets left.”

Some of it is so ridiculous and counter-intuitive, it almost beggars belief. For example, Germany, the strongest nation in Europe by a country mile, had a failed bond auction. Contrast that with insolvent Italy, where the bond market had been cratering, but buyers suddenly appeared out of nowhere to fully subscribe an Italian auction when the system was on the brink of implosion.

We are being subjected to what some analysts call “Behavioural Finance” and Jim Sinclair refers to as “MOPE” – the Management of Perception Economics. There are numerous facets to this, including distorting economic data, the fiction in bank balance sheets and earnings reports, as well as the manipulation of financial markets. But hey, if Italian yields have stabilised, the banks are reporting profits, gold and silver markets are quiet and the stock market is holding up, then ISN'T EVERYTHING FINE?

I share the view of Dan (“Trader Dan”) Norcini – and I also think it goes a long way to explaining why so many portfolio and hedge fund managers are struggling to make money this year - this is a brilliantly observed comment:

“My view is that all of the instability currently in these markets is being caused by the government. If they got out of the way, we would actually have a trend and it would be a stable one. The only problem for them is that the trend would be DOWN. That is something that these meddling clowns cannot tolerate. That is where the instability is coming from, while traders try to guess what these fools are going to do next.”

At best, the interventions are supposedly for the “common good”, to “maintain stability”, etc. In reality, they are short-circuiting the self-correcting mechanisms of the markets which would have induced the necessary adjustment. The real problem goes back to Greenspan’s extreme reflation of the US economy after the Tech crash in 2000. US debt/GDP was c.270%, which was roughly equal to the peak during the Great Depression. A debt deflation back then would have been very painful, but now we’d be enjoying the fruits of an upturn in a new long wave economic cycle:



But now debt/GDP in the US is over 350% and poised to explode higher. When the markets finally overwhelm the intervention, logic dictates that there will be a much bigger crisis than in either 2000 or 2008. And if you think the uber-wealthy globalists don’t also realize it and aren’t planning to take advantage of it then... what’s that American expression about having a bridge to sell you?

You could not set up a system to fail any more successfully. This was Nassim Taleb's article "The Black Swan of Cairo" writing in (of all things) Foreign Affairs – the propaganda magazine of the globalists' Council on Foreign Relations...hint they KNOW what's coming:

"Although the stated intention of political leaders and economic policymakers is to stabilize the system by inhibiting fluctuations, the result tends to be the opposite. These artificially constrained systems become prone to 'Black Swans' - that is, they become extremely vulnerable to large-scale events that lie far from the statistical norm and were largely unpredictable to a given set of observers. Such environments eventually experience massive blowups, catching everyone off-guard and undoing years of stability or, in some cases, ending up far worse than they were in their initial volatile state. Indeed, the longer it takes for the blowup to occur, the worse the resulting harm in both economic and political systems."



Source: Phoenix Pictures promotional materials

This was the "Red Baron" of gold market legend writing (14 years ago no less) about the eventual impact of suppressing gold prices. It applies equally to the monetary and financial system as a whole:

"IMHO the imbalance of any 'contained' market will only cause an even bigger correction once the breaking point is reached. As an analogy consider the stresses that build up on a major fault (such as San Andreas) before an earthquake. The greater the movement of the two plates without relief in the form of an earthquake - the greater the eventual earthquake. We are now under a considerable degree of stress in the markets - we have been too long without much more than minor tremors. The big quake is getting nearer."

The analogy between today's world economy and the "two plates" described by the Red Baron are the ever more powerful forces of inflation and deflation discussed earlier.

Switching to Europe for a moment, read the following comment from ECB Executive Board member, Jose Manuel Gonzalez-Paramo, you can sense the transition from interventionism (subverting free markets) to socialism (central planning/control) - along with the first whiff of totalitarianism - as control passes from democratic governments to Euro technocrats:

"We cannot completely delegate governance to financial markets. The euro area is the world's second largest monetary area. It cannot depend solely on the opinions of ratings agencies and markets. It needs economic governance arrangements that are preventative and linear. This underscores my central point that a much more comprehensive approach to economic governance is now the priority for the euro area. And this means more economic and financial

integration, with a significant transfer of sovereignty to the EMU level over fiscal, structural and financial policies.”

When the system fails, you will see the politicians and central bankers stepping in with the “answer” as they always do. In reality, the globalists will just be springing the trap. Like an American Football coach who lacks imagination, they run the same old play over and over again – thesis, antithesis, synthesis – more commonly known as:

PROBLEM a crisis

REACTION the public, whipped up by the media, calls for action

SOLUTION the pre-determined plan is activated

We are well on our way to a far greater degree of central planning, unless this train can be derailed. As the writer Richard K. Moore explained:

“We need to keep in mind that the agenda of the cabal is quite different this time around. In the past, the cabal, by means of media propaganda and government lies, was always seeking to maintain support for the system they control: capitalism and Western governments. This time around, the agenda of the cabal is to discard capitalism and national governments, and replace them with the new centralized, non-growth system. Public anger and frustration feeds directly into this agenda – provided it is channelled appropriately.”

This is why I get concerned about the Occupy Wall Street and the other “Occupy” movements around the world. Protesting about the obscene largesse given to the “Too Big To Fail” is wholly justified. However, what concerns me, and what would have Ayn Rand spinning in her grave, is if these protests become overwhelmingly, and misguidedly IMO, anti-capitalist.

Socialism and Lower Living Standards



The starting point is to deal with the obvious paradox – why would those who have benefited the most in a (quasi-) capitalist system be hell bent on a transition to socialism? The answer is...even more wealth RELATIVE to the impoverished, average citizen, far more centralised control and more wealth in absolute terms if they load with gold and silver before paper currencies are wiped out.

This was Alan Watt from the Cutting Through The Matrix website speaking on 19 October 2011 (my emphasis):

"The big bankers at the top...favour socialism because it is big government and big government always borrows from them and big government can keep tabs on the general public and keep them under control when necessary. **The trick in big government is to bring in socialism and make the people think that it's actually theirs.**"

The New York Times published an article on 10 August 1973 penned by David Rockefeller "From a China Traveler" after he returned from a visit to China. It was a curious critique of the Chinese Revolution:

"Whatever the price of the Chinese Revolution, it has obviously succeeded not only in producing more efficient and dedicated administration, but also in fostering high morale and community of purpose...The social experiment in China under Chairman Mao's leadership is one of the most important and successful in human history."

Would you be happy in servitude like the Chinese used to be? In the opinion of the author Gary Allen:

"If one understands that socialism is not a share-the-wealth programme, but is in reality a method to consolidate and control the wealth, then the seeming paradox of super-rich men promoting socialism becomes no paradox at all. Instead, it becomes logical, even the perfect tool of power-seeking megalomaniacs. Communism or more accurately, socialism, is not a movement of the downtrodden masses, but of the economic elite."

Now do you see why we're being led in this direction?

It is a classic paradox - socialism is supposed to benefit the many in favour of the few, but actually benefits VERY FEW while decimating the living standards of the many, especially the middle class.

Winston Churchill outlined the differences between capitalism and socialism:

"The inherent vice of capitalism is the uneven division of blessings, while the inherent virtue of socialism is the equal division of misery."

He should have added "except for the political/financial elite".

If the transition is done slowly and covertly, major steps can be confined to times of crisis when people are fearful and pliant. It also helps to use propaganda along the way, i.e. the usual sound bites about freedom, democracy, capitalism, the common good, humanitarian assistance, etc. Most people, including millions of **FAICS, Fast Asleep Intelligent Citizens**, will not recognise what's happening until it is too late. This was from the same Goebbels' speech (see above) in 1934 (my emphasis):

"It is no sign of wise leadership to acquaint the nation with hard facts overnight. Crises must be prepared for not only politically and economically, but also psychologically. Here propaganda has its place. It must prepare the way actively and educationally. Its task is to prepare the way for practical actions. It must follow these actions step by step, never losing sight of them. In a manner of speaking, it provides the background music. **Such propaganda in the end miraculously makes the unpopular popular, enabling even a government's most difficult decisions to secure the resolute support of the people.**"

Six time socialist Presidential candidate Norman Thomas said:

"The American people will never knowingly adopt Socialism. But under the name of 'liberalism' they will adopt every fragment of the Socialist program, until one day America will be a Socialist nation, without knowing how it happened."

In this section, I'm going to focus on the US since what's happening in Europe, is in some ways already moving beyond socialism in the political sense, i.e. the attempt to take away the sovereignty of nation states and transfer it to bureaucrats in Brussels.

The next comment was written by Andrew Bernstein in the "Atlas Shrugged Teacher's Guide" describing the US portrayed by Ayn Rand:

“But the United States in the universe of Atlas Shrugged is heavily dominated by an altruistic moral code, which holds that an individual has no right to his life but must serve society. Under this principle, the country is increasingly becoming a collectivist dictatorship in which individuals are right-less slaves of the state. The government implements socialist policies, confiscates patents, controls manufacturing and trade, imposes heavy taxes, establishes a massive welfare state and subsidizes unproductive businesses at the expense of productive ones—all in the name of the ‘public good’. The free minds, free men and free markets so characteristic of capitalism have been abrogated, submerged in an advancing statist tide.”

The socialist takeover of the US goes well beyond massive intervention in financial markets. It is a government takeover of the economy which comes from the extremes of both sides of the political spectrum:

☉ **Socialism from the Left: debasement of currencies, government taking a greater share of GDP and lower living standards;**

Combined with:

☉ **Socialism from the Right: government largesse and corruption with certain large corporate interests which serve the purposes of the state, military adventurism and a much more controlled society.**

People like to be able to simplify terminology and pigeon-hole things, but there are elements of both left wing socialism and right wing (national) socialism, i.e. fascism. A better description, therefore, might be “socio-fascism”. However, since the proponents of this process are all ardent disciples of a globalist ideology, “Global socio-fascism” fits the bill.

Interventionism aside, here are a few obvious examples of “Socialism from the Left” and the creeping government takeover of the US economy:

☉ In the Q311, gross expenditure by the US government amounted to just over 36% of GDP on an annualised basis. This compares with 27% at the beginning of 1968 – in the midst of LBJ’s “Great Society” programme and the Vietnam War – and just under 24% at the beginning of 1950.

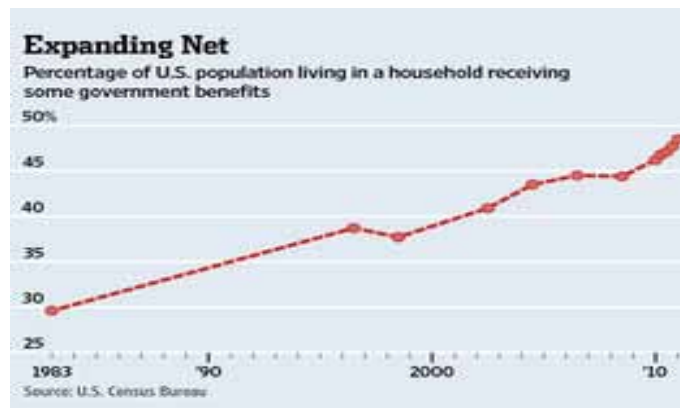
☉ The US, like other nations, is a debt/credit driven economy – albeit with declining marginal productivity of that debt. The Federal government is now monopolising debt growth in the US – see this comment by Doug Noland outlined on 9 December 2011:

“It is worth noting that Federal debt growth amounted 13.3% of total annual Non-Financial Debt growth back in 2007. It jumped to 71% in 2008, to 84% in 2009, and then to 113% in 2010. It will likely remain near 100% this year. No one should expect that an economy dominated to such an unprecedented degree by government finance to equate to positive economic performance or a sound economic structure. And beware of extrapolating apparent favorable economic metrics such as GDP and corporate earnings and cash-flows.”

☉ With the US government owning Fannie and Freddie, it owns 60% of the mortgage market and, indirectly therefore, most of the housing market.

☉ Half of the US population is now receiving some form of benefit from the US government. From a Bloomberg report on 28 October 2011:

“A record 49 per cent of Americans live in a household where someone receives at least one type of government benefit, according to the U.S. Census Bureau. And 63 per cent of all federal spending this year will consist of checks written to individuals for which the government receives currently no services, the White House budget office estimates. That’s up from 46 per cent in 1975 and 18 per cent in 1940. Those figures will climb in coming years.”



☉ In a story this month “Census shows that 1 in 2 people are poor or low income” the Huffington Post reported the latest data from the US Census Bureau:

“About 97.3 million Americans fall into a low-income category, commonly defined as those earning between 100 and 199 percent of the poverty level, based on a new supplemental measure by the Census Bureau that is designed to provide a fuller picture of poverty. Together with the 49.1 million who fall below the poverty line and are counted as poor, they number 146.4 million, or 48 percent of the U.S. population. That’s up by 4 million from 2009”

☉ Nearly 15% of the US population is now reliant on the government for putting food on its dinner table – the latest data for August 2011 puts the number of US citizens receiving government food stamps, a.k.a. “Supplemental Nutritional Assistance”, at a record 45.8m – and things haven’t even begun to get “really difficult” yet. Hitler said:

“If people have something to eat and their pleasures, then they have their socialism”

Which sounds like the “bread and circuses” during the latter days of Rome.

☉ Then there is the enslavement of America’s student population. Here is Bert Dohmen’s comment on the situation in his Wellington Letter from 14 November 2011:

“Look at our students. They are now saddled with \$1 TRILLION of student loans. How will this debt ever be repaid when they can’t even find jobs? Bankruptcy doesn’t forgive student loans. This is a well-planned program to make the entire country dependent on government. Look at this chart:



Source: Gary Varvell

I should really discuss “Obamacare”, but it’s depressing and so complex I haven’t really got my head round it.

Let's touch upon the lower standard of living which socialism necessitates. If you ever needed a warning, read this comment from arch-globalist Henry Kissinger as he laid out the globalists' socialist dream in a 2006 interview (my emphasis):

"It's a need for a new world order but it has different characteristics in different parts of the world...I want to make one point on globalisation. It's always discussed in economic terms that everybody is better off, but that is only partially true. Everybody is better off on the average. But in some countries, in some regions, people lose their jobs, major adjustments have to be made, that's the engine of globalisation. The people who are disadvantaged by the process look to their governments for solutions, but the governments are national and the problem is global."

If the average wealth per capita is going to increase but major downward adjustments will have to be made in "some countries, some regions", it's obvious who is going to bear the brunt of those downward adjustments!



Apart from all the jobs shifting to the developing world, the other main force behind (much) lower living standards in the US and western world is DEBT ENSLAVEMENT. Let's look at a snapshot of the US:

- ☉ There are approximately 115-120m households in the US, let's call it 120m to be conservative.
- ☉ From the Federal Reserve's Flow of Funds, household sector debt amounted to US\$13.2trn at the end of September 2011 – about US\$110,000 per household;
- ☉ The current outstanding public debt of the US is US\$15.1trn – about US\$126,000 per household;
- ☉ It leaves the average household already supporting about US\$236,000 of debt
- ☉ The current median household income in the US is just over US\$50,000 per annum and that's before tax. The overall tax burden is about 35% leaving disposable income of about US\$33,000;
- ☉ The US budget deficit in fiscal 2011 was US\$1.299trn – nearly US\$11,000 in additional debt per household and I expect US\$1trn+ deficits as far as the eye can see – probably far more at some point;
- ☉ The baby boomers have already started to retire and estimates put the unfunded liabilities of the Federal government at almost US\$90trn (some are higher).

And who will take on the next round of bailouts needed by the major banks? Checkmate looms.

Now let's move on to "Socialism from the Right" and the government takeover of the US economy in conjunction with select corporate interests. You can always rely on Gerald Celente for pithy insight:

"The merger of state and corporate powers by definition is called fascism. And fascism has come to America."

In his essay "Fascism Anyone?" Laurence W. Britt identified 14 common elements in the following Fascist regimes:

- ☉ **Nazi Germany;**
- ☉ **Fascist Italy;**
- ☉ **Franco's Spain;**
- ☉ **Salazar's Portugal;**
- ☉ **Papadopoulos's Greece;**

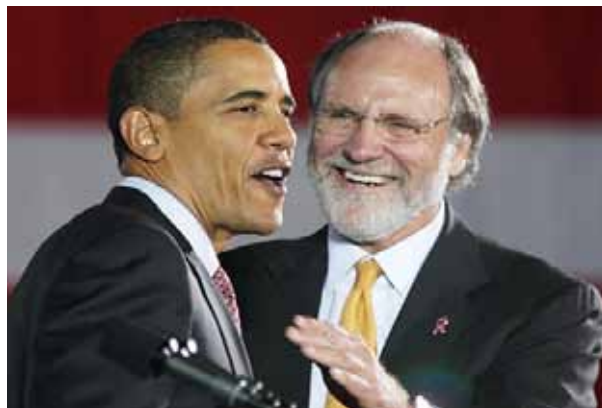
☉ **Pinochet's Chile; and**

☉ **Suharto's Indonesia.**

In my opinion, 8 of the 14 already apply to the US today:

Common Element	Example in US
Power of corporations protected	"Too Big to Fail" banks
Identification of enemies/scapegoats as unifying cause	Never ending "War on T----r"
Obsession with crime and punishment	Highest incarceration rate in the world. There were 2.3m adults in prison and 4.9m on probation/parole at end-2009
Obsession with national security	Homeland Security, TSA, Patriot Act, NDAA, etc
Avid militarism	US military spending roughly equals the rest of the world in aggregate. 700-800 bases worldwide
A controlled mass media	Start with the media coverage of 2012 Presidential candidate Ron Paul
Fraudulent elections	Bush in Florida 2000
Rampant cronyism and corruption	You'd need volumes

If it looks like a duck and quacks like a duck...etc.



The stories are coming thick and fast, e.g. Reuters reporting how former Secretary U.S. Treasury Secretary, Hank Paulson, gave inside information on Fannie Mae to a group of hedge fund managers (several Goldman Sachs alumni) on 28 July 2008.

Ayn Rand argued that:

"The requirements for a free society are the rule of law, protection of private property and limited government."

In Lester H. Hunt's essay "Some Structural Aspects of Atlas Shrugged" he discusses one of the chapters from the book:

"The title of the chapter is 'The Top and the Bottom,' and it begins in a dark, low-ceilinged, cellar-like room that is actually an expensive barroom on the top of a skyscraper. The bureaucrats and corporate executives who are secretly meeting there are at the top of their socio-political system in terms of power over it, though morally they are close to its bottom. The chapter ends with a scene in the employees' cafeteria in Taggart Transcontinental, a sparkling, high-ceilinged room with 'a sense of space and light', but which is in fact underground. Only two men are meeting there, Dagny Taggart's unprepossessing assistant Eddie Willers and an anonymous worker in grease-stained clothes, who we find out hundreds of pages later is the John Galt referred to at the beginning and end of the first chapter. These two men are near the bottom of the system

as far as political power and prestige are concerned, though morally they represent its highest and best.”

Moving on from Corzine and Paulson, there's the insider dealing by members of the US Congress. Here is Dave Kranzler writing on 15 November 2011:

“And the corruption and theft is becoming more open and egregious now that the crooks are the same ones who are supposed to be enforcing the laws. As many of you know, 60 Minutes ran a story on the 'legal' insider trading going on in Congress...What's most shocking for me about this is that this story should be front and center in the news and there should be a strong public cry for justice. But to whom do you cry? You gonna write a letter to your Congressman?”

Dave added a quote from Atlas Shrugged:

“When you see that men get richer by graft and by pull than by work, and your laws don't protect you against them, but protect them against you--when you see corruption being rewarded and honesty becoming a self-sacrifice - you may know that your society is doomed.”

In the US, it's only too easy to identify the banking system as the biggest beneficiary of an unhealthy close relationship with government. This is from Wikipedia discussing the economics of fascism (my emphasis):

“Historian Gaetano Salvemini argued in 1936 that fascism makes taxpayers responsible to private enterprise, because 'the State pays for the blunders of private enterprise... **Profit is private and individual. Loss is public and social.**' Fascist governments encouraged the pursuit of private profit and offered many benefits to large businesses, but they demanded in return that all economic activity should serve the national interest.”

And it's been no different in the UK or Europe. Paul Brodsky, the founder of QB Asset Management Company, shared his thoughts recently:

“This is drawing back the curtain to reveal exactly who is sovereign – the global banking system. There is no German banking system or Euro banking system or American banking system. When we strip out community and regional domestic banks around the world and consider the world's largest 30 bank holding companies, then we must recognize there's a global lending organism holding sovereign sway over G7 governments and populations.”

And Ted Butler:

“The system has been captured by an oligarchy of moneyed interests from the financial industry, mega-corporations, and military industrial complex, protected by their captured puppets in Washington DC and sustained by the propaganda peddling corporate media. The differences in political parties are meaningless as they each advocate big government solutions to all social, economic, foreign relations, and monetary issues.”

As Ted Butler highlights, it's not just the big banks who seem to be “in bed” with the government or, in some way, receiving favourable treatment: This was from a Reuters story on 31 August 2011:

“Twenty-five of the 100 highest paid US CEOs earned more last year than their companies paid in federal income tax, a pay study said on Wednesday. It also found many of the companies spent more on lobbying than they did on taxes...These included Boeing, Verizon, Honeywell, Motorola, Dow Chemical, Ford, eBay, Cablevision Systems, among them ...(just 10 of the 25 had combined US profits of \$26.8 billion).”

I created a screen identifying the top 40 quoted political donors in the US since 1989 and the top 40 recipients of Federal contracts in fiscal 2009. Here they are:

	Top 40 Political Donors since 1989	Top 40 Federal contracts in 2009
1.	AT&T	Lockheed Martin
2.	Goldman Sachs	Boeing
3.	Citigroup	Northrop Grumman
4.	UPS	General Dynamics
5.	Altria Group (Philip Morris)	Raytheon
6.	JPMorgan Chase	United Technologies
7.	Microsoft	L-3 Communications
8.	Morgan Stanley	McKesson Corp
9.	Lockheed Martin	Oshkosh
10.	General Electric	SAIC
11.	Time Warner	URS Corp
12.	Verizon Communications	BAE Systems
13.	Bank of America	Computer Sciences Corp
14.	FedEx	General Electric
15.	UBS	Humana Inc
16.	Boeing	Health Net Inc
17.	Pfizer	ITT
18.	Union Pacific	Honeywell
19.	Northrop Grumman	DynCorp
20.	Credit Suisse	Merck
21.	Reynolds American	Jacobs Engineering
22.	Comcast	ATK
23.	AB-InBev	IBM
24.	General Dynamics	Harris Corp
25.	BellSouth	Novartis
26.	Exxon Mobil	BP
27.	Honeywell	Shaw Group
28.	Walt Disney	Hewlett Packard
29.	Chevron Texaco	SK Group
30.	GlaxoSmithKline	General Motors
31.	Raytheon	Wyeth
32.	NewsCorp	Finmeccanica
33.	Walmart	Sanofi-Aventis
34.	Prudential Financial	Hawker Beechcraft
35.	Southern Company	CACI International
36.	CSX Corp	McDermott International
37.	MetLife	UnitedHealth Group
38.	Eli Lilly	AmerisourceBergen
39.	General Motors	S-Oil Corp
40.	Archer Daniels Midland	Textron Inc

No surprise, right up there among the biggest donors are the major banks like GS, Citi, JPM, MS, etc. Major telcos, such as AT&T and Verizon, figure prominently, as do logistics and shipping companies (UPS, FedEx), big defence contractors (Lockheed, Northrop, General Dynamics), tobaccos (Philip Morris, Reynolds) and drugs, oils and media, etc., as we move down the list.

In terms of the biggest recipients of Federal contracts, the leading positions are dominated by the defence contractors (including the UK's BAE Systems) – the term "avid militarism" comes to mind. Besides defence, the other major beneficiaries are a host of technology companies, mainly cross-over defence/intelligence/technology companies like L-3 Communications and combined defence, intelligence and infrastructure companies like URS Corp. Further down are a number of healthcare and pharma companies.

It's food for thought and more on this in "Asset Allocation from Galt's Gulch" below.

Jim Puplava interviewed Bert Dohmen on the Financial Sense Newshour on 8 October 2011 who had this to say about the US:

"We have a huge ideological battle in the United States now between socialism and capitalism. The socialists are right now (sic) winning and if something doesn't happen by November next year then it will be too late to change it, so people better wake up."

The sham American Presidential elections usually don't interest me, but 2012 does. Time is running out. Ron Paul is doing well in the polls, but he's pretty much blackballed by the mainstream media and even excluded from some debates. When he took part in the high profile CBS debate for Republican candidates last month, he was given 89 seconds of a 90 minute broadcast.



You can watch a great interview on Youtube where Ron Paul talks to students several years ago about how he had an original copy of Ayn Rand's non-fiction work "Capitalism: The Unknown Ideal" and how he got Alan Greenspan, who contributed several essays in it (including "Gold and Economic Freedom") to sign it. Here is a short excerpt (my emphasis):

"Everything he's done in public life rejected everything he believed about objectivism. So he signed that article and I said 'do you want to write a disclaimer on there now?.' He said 'No' he still endorsed it" and obviously he doesn't endorse that policy...I think Atlas Shrugged might be the second most read book in history...**it was word of mouth and she still sold millions and millions of copies because it was telling the truth, people were anxious to hear it."**

From what I can tell, Ron Paul is not bought and paid for, he's a libertarian and he supports limited government, upholding the Constitution, sound money, large cuts to wasteful Federal spending (five departments) and the end of military adventurism. We shouldn't be surprised by the media coverage since his message resonates strongly with people when they have a chance to hear it. This comment was seen on infowars.com:

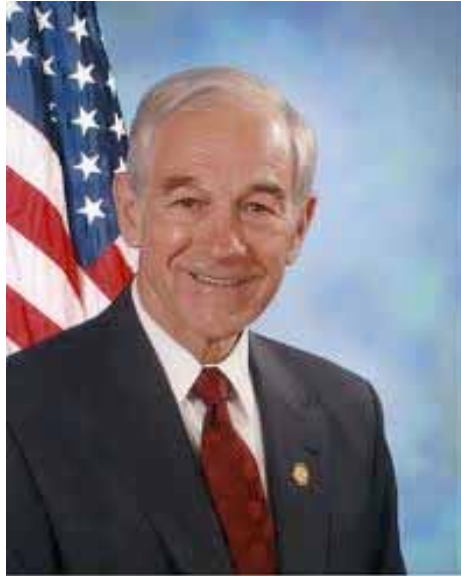
"The Republican candidates debate looked like a sock puppet fest with only one candidate with his own mind and integrity in the lineup. It's laughable how much the MSM is pushing Newt Gingrich. Anytime sheeple watch one of the debates they are brainwashed to see not 5 fingers but just 2, Gingrich and Romney. The mainstream media IS the boot stomping on your face!"

This was legendary investor, Jim Rogers, speaking to Alex Jones about Ron Paul on 14 November 2011:

“I happen to agree with almost everything he says and have done for years”

And Dow Theory legend, Richard Russell:

“Speaking of the US Constitution, there is only one presidential candidate who follows and abides by the US Constitution. His name is Dr Ron Paul running on the GOP ticket (and yes, he actually is a medical doctor).”



The Road to Totalitarianism

In his 1960 lecture, “Socialism, Inflation, and the Thrifty Householder”, Ludwig Von Mises outlined what happens during the transition from capitalism to socialism (including the left and right branches of socialism)..and what he saw as the end game:

“It is not an accident that representative government and civil liberties developed step by step with the substitution of capitalism for feudalism and disappeared everywhere as soon as socialism whether the ‘right’ model (German Nazism and Italian Fascism) or the ‘left’ model (Russian Bolshevism) supplanted the market economy. Despotism is the necessary political corollary of socialism just as representative government is the necessary constitutional corollary of capitalism.”

Fifty years ago, he also had this warning for the US:

“Both traditional parties, the Republicans as well as the Democrats, are sincere in protesting their abhorrence of totalitarianism. The voters in casting their ballots for either of these parties are fully convinced that they are voting for officeholders who are firmly committed to the preservation intact of the Constitution and all the freedoms it grants to the individual citizens. These politicians and their supporters would be seriously alarmed if they realized that they are virtually paving the way for a system that does not differ essentially from the totalitarian system they decidedly reject.”

Here is Wikipedia:

“A police state is one in which the government exercises rigid and repressive controls over the social, economic and political life of the population. A police state typically exhibits elements of totalitarianism and social control, and there is usually little or no distinction between the law and the exercise of political power by the executive.”

On June 27, 2002 U.S. Congressman Ron Paul said in the House of Representatives:

“Is America a Police State? My answer is: ‘Maybe not yet, but it is fast approaching.’”

And a lot has happened in the intervening nine years. The US has no less than 16 designated intelligence agencies and hundreds of other organisations operating in similar fields. A 2-year investigation by the Washington Post concluded that there were 1,271 government organizations and 1,931 private companies working on programs related to counter terrorism, homeland security and intelligence in about 10,000 locations across the United States. Analysts in these organisations were publishing 50,000 intelligence reports per annum. All that I’m going to do here is lay out a few recent examples:

National Defence Authorization Act (NDAA):

On 1 December 2011, the US Senate passed (93-7) the NDAA which includes a provision to allow the US military to indefinitely detain anyone who is deemed to be engaging in terrorism activities – and as if that wasn’t bad enough, it includes US citizens! No lawyer, no trial, off to the Gulag – or a FEMA detention camp – never to be seen again? Land of the free, home of the brave? The Open Globe reported that:

“Senator Rand Paul from Kentucky, son of presidential candidate Ron Paul, voiced concerns over the bill on the Senate floor on Wednesday. ‘Under the provisions, wouldn’t it be possible, then, that an American citizen could be declared an enemy combatant and sent to Guantanamo Bay and detained indefinitely?’ John McCain, who had helped write out the relevant provision in the bill, responded: ‘I think that as long as that individual, no matter who they are, if they pose a threat to the security of the United States of America, should not be allowed to continue that threat’. Senator Lindsay Graham, a supporter of NDAA, explained that it ‘basically say(s) in law for the first time that the homeland is part of the battlefield’ and anyone can be detained, ‘American citizen or not.’”

This was Ron Paul’s comment on the proposed legislation:

“This is a giant step, this should be the biggest news going right now, literally legalizing martial law”

US government activating FEMA camps

The mainstream media reading public, especially in the UK and Europe, probably won’t have even heard about FEMA (Federal Emergency Management Agency) camps. The origins date back to 1984 as described by Wikipedia:

“Rex 84, short for Readiness Exercise 1984, was a secretive ‘scenario and drill’ developed by the United States federal government to suspend the United States Constitution, declare martial law, place military commanders in charge of state and local governments, and detain large numbers of American citizens who are deemed to be ‘national security threats’, in the event that the President declares a ‘State of Domestic National Emergency’.”

On 6 December 2007, Infowars.com reported that:

“Infowars.com has received a document originating from Halliburton subsidiary KBR that provides details on a push to outfit FEMA and U.S. Army camps around the United States. Entitled ‘Project Overview and Anticipated Project Requirements,’ the document describes services KBR is looking to farm out to subcontractors. The document was passed on to us by a state government employee who wishes to remain anonymous for obvious reasons.”

You can see the document on the website and it says that subcontractors must be ready to provide services to the camps within 72 hours. WHAT ARE THEY PLANNING FOR? Gerald Celente’s idea of “economic martial law” in 2012?

The FEMA information ties in with the National Emergency Centers Establishment Act of 2009

Infowars.com again:

"In 2009, the National Emergency Centers Act or HR 645 was introduced in Congress. It mandates the establishment of 'national emergency centers' to be located on military installations for the purpose of providing 'temporary housing, medical, and humanitarian assistance to individuals and families dislocated due to an emergency or major disaster,' according to the bill. In addition to emergencies, the legislation is designed to 'meet other appropriate needs, as determined by the Secretary of Homeland Security,' an open ended mandate which many fear could mean the forced detention of American citizens in the event of widespread rioting after a national emergency or total economic collapse, as Paul Joseph Watson noted in January of 2009."

The rug could be pulled at any time, i.e. the financial system is headed for a collapse and vigilance is required vis-à-vis false flag events. Lindsey Williams is saying that his inside source says that the financial crash is planned for later in 2012 and that TPTB just want to push even more debt into the system first.

The pepper spraying of peaceful student protesters by Lt. John Pike at the University of California-Davis campus on 18 November 2011 – no comment required:



This comes from the writer Gonzalo Lira:

"I lived in Chile during the Pinochet dictatorship - I can spot a fascist police-state when I see one. The United States is a fascist police-state."

The police harassment of Los Angeles' artist, Alex Scaeffler, for painting a burning bank on 30 July 2011:



This is what the LA Times had to say:

"He explained that the artwork was intended to be a visual metaphor for the havoc that banking practices have caused to the economy. A terrorist certainly would not spend hours on a public sidewalk creating an oil painting of his intended target, he told the officers. The police took down his name, address and telephone number on a form - Schaefer declined to provide his Social Security number - and departed...I figured that when they left, they probably decided the episode was stupid and they'd just wad up the form and throw it away.' Wrong. On Tuesday, two more officers showed up at Schaefer's home. This time they were plainclothes detectives. "One of them asked me, 'Do you hate banks? Do you plan to do that to the bank?' Schaefer again explained what his painting symbolizes. He is actually doing a series of paintings depicting banks ablaze, he said. His first one two months ago featured a Burbank Chase branch, and he has a Bank of America painting in progress, he said."

In my view, there is far more insight in Mr Scheffer's art than most of the research reports written by bank analysts. .

None of what is happening surprises Richard Moore:

"Unsurprisingly, police-state tyranny is also crossing the Rubicon: the imposition of third-world poverty levels requires third-world methods of repression."

Now let's move across the Atlantic to, what on the surface, looks like a **BIG MESS but is usually referred to as the Eurozone**. Still, order out of chaos as some people like to say. Europe was already more socialised than the US, so it is being set up for the next step (although don't think the US can't catch up quickly depending on the course of events).

The whole question of European unity goes way beyond what is the best course of action, public opinion or the views of political pawns like Merkel and Sarkozy. The future of the European Union reaches to global power broking levels and a break-up of the Euro would derail the globalist power brokers' agenda, possibly setting it back years. Everything they have been striving towards involves the loss of national sovereignty and the checkmate of democracy, not their resurrection. They've been working on this for DECADES and it's been an idea for much longer.

There is tons of documentation, but I'll just highlight a few examples beginning with the founding of the "American Committee on United Europe" in 1948. Wikipedia:

"Declassified American government documents have shown that the ACUE was an important early funder of both the European Movement and the European Youth Campaign. The ACUE itself received funding from the Rockefeller and Ford foundations. The US policy was to promote a United States of Europe, and to this end the committee was used to discretely funnel CIA funds - by the mid 50's ACUE was receiving roughly \$1,000,000 USD per year - to European pro-federalists supporting such organizations as the Council of Europe, the European Coal and Steel Community, and the proposed European Defence Community (EDC - Paul)."



Not long ago, Wikileaks released the minutes from the Bilderberg meeting in 1955 at Garmisch-Partenkirchen on 23-25 September. Here are some relevant sound bites:

"The discussion affirmed complete support for the idea of integration and unification from the representatives of all the six nations of the Coal and Steel Community present at the conference. There was an assurance that the failure of the EDC., while perhaps interrupting the momentum of the movement towards integration, had by no means stopped it...A European speaker expressed concern about the need to achieve a common currency, and indicated that in his view this necessarily implied the creation of a central political authority... Another United States participant urged his European friends to go ahead with the unification of Europe with less emphasis upon ideological considerations and, above all, to be practical and work fast."

Obviously, these discussions were going on long before the man on the "Strasse" in Hamburg, or on the "Rue" in Lille, realised they were being led towards a "common currency" or a "central political authority". And most people wouldn't know Etienne Davignon from a bar of soap – the big globalists like to do their thing in the shadows. He popped up in an interview with the EUobserver online newspaper on 16 March 2009 boasting about Bilderberg's role in creating the Euro:

"A meeting in June in Europe of the Bilderberg Group- an informal club of leading politicians, businessmen and thinkers chaired by Mr. Davignon - could also 'improve understanding' on future action, in the same way it helped create the Euro in the 1990s, he said"

So it's obvious what the plan is – a socialist dictatorship headquartered in Brussels – and Merkel has already been talking about how ceding sovereignty and working towards political union being the ultimate goal. In the meantime, the likes of Greece and Italy have come off the rails so the traditional IMF playbook for bankrupt Third World nations has been implemented. We'll lend you money, but we are going to put our men in to control you and later "privatise" some of your best assets. And look at the credentials of those men:

- ☉ Italy: Mario Monti – Yale, Trilateral Commission, Bilderberg, international advisor to Goldman Sachs; and
- ☉ Lucas Papademos – Harvard, Boston Federal Reserve, European Central Bank, Trilateral Commission.

And both of them are ECONOMISTS for God's sake...when has any (non-Austrian) economist got anything right? But let's not forget this "giant global political figure" – and guess what he has a master's degree in?

"But really, you have the charisma of a damp rag and the appearance of a low-grade bank clerk."*



* quote from MEP Nigel Farage

Was it hubris on the part of TPTB or comedy? They must have been falling off their chairs with laughter when they made him the President of the European Council. If he'd gone to my school, he'd have been battered...maybe he was which is why he became a little bureaucrat.

In Atlas Shrugged, there is a Head of State, a Mr Thompson, described by Wikipedia as follows:

“He is not particularly intelligent and has a very undistinguished look. He knows politics, however, and is a master of public relations and back-room deals.”

Back to the bigger picture of turning the whole of Europe into a socialist dictatorship and there are two key questions:

☉ **Which group of people represents the biggest potential hurdle and has by far the most to lose? and**

☉ **How do you get that group to willingly accept the takeover?**

It seems to me (and George Soros agrees – see below) that the biggest potential hurdle is those 82 million Germans who have a fairly good standard of living, an enviable industrial base and are in possession of a sound constitution. The best thing for Germany would be to secede from the Eurozone and recapitalize its own banking system. There is going to be carnage anyway, so the rational thing for Germany would be to LOOK AFTER NUMBER ONE. Germany would recover after the initial shock to its export economy and further consolidate its economic supremacy vis-à-vis the rest of Europe.

The only chance for the German people (like the rest of us in this “world crisis”) is to refuse to be victims. Here is Steven Horwitz discussing Atlas Shrugged again (my emphasis):

“When the means for determining which actions are rational are taken away – when those who are producers are blinded – it will be those with a comparative advantage at gaining and keeping power who benefit. That group can maintain its hold on power in ways that the producers cannot. However, as the main theme of Atlas Shrugged points out, their power ultimately rests on the sanction of the victim...”

Back to the question: how do Merkel, Schauble, Soros and their friends (“looters” and “moochers” in Randian terminology) get 82 million Germans to consent to wrecked livelihoods and debt enslavement on the backs of those less productive and profligate Southern Europeans? It would bring tears to Ayn Rand’s eyes! What can they do? Well...what they can do is run that same old “play” ONE LAST TIME!

Back in September, George Soros published an article “Does the Euro have a Future?”, or as someone put it “The Soros Plan for European Serfdom”. The same person commented that:

“George Soros is a mouthpiece for the TPTB and it is incredible how openly he discusses their agenda when you read his dangerous dribble.”

This sentence is from the article:

“It takes a crisis to make the politically impossible possible.”

Here we go again: PROBLEM REACTION SOLUTION...every time!

And here is confirmation in a recent comment from Germany’s Finance Minister, Wolfgang Schauble:

“We can only achieve a political union if we have a crisis.”

Of course, Soros supports full fiscal integration with a “common treasury” and he pinpoints the vital position occupied by Germany:

“The path that leads to a solution has to be found in Germany, which, as the EU’s largest and highest-rated creditor country, has been thrust into the position of deciding the future of Europe... Under existing arrangements no more money is to be found and no new arrangements are allowed by the German Constitutional Court decision without the authorization of the Bundestag. There is no alternative but to give birth to the missing ingredient: a European treasury with the power to tax and therefore to borrow. This would require a new treaty, transforming the EFSF into a full-fledged treasury.”

Now here is the best bit where he shows his utter disdain for 82 million Germans (and we shouldn't forget the Dutch and Fins, etc, who would also have to shoulder a disproportionate amount of the burden):

"The German public still thinks that it has a choice about whether to support the euro or to abandon it. That is a mistake. The euro exists and the assets and liabilities of the financial system are so intermingled on the basis of a common currency that a breakdown of the euro would cause a meltdown beyond the capacity of the authorities to contain. The longer it takes for the German public to realize this, the heavier the price they and the rest of the world will have to pay."

The last comment is incorrect...but hey, the end justifies the means and isn't humanity there to be trampled? Soros also suggests that the great Euro project can proceed even if they have to toss out a few basket cases:

"it is imperative to prepare for the possibility of default and defection from the eurozone in the case of Greece, Portugal, and perhaps Ireland."

Perhaps the default and collapse of these nations will provide the necessary crisis?

The latest Euro Summit which was going to be THE solution was NOT the solution. The most significant event was probably the simultaneous ECB announcement of even more liquidity provisions via 3-year LTROs for the collapsing banking system – which will probably see the banks buy even more insolvent Eurozone government bonds – more feel good credit fed into in the Ponzi scheme.

An almighty crisis is coming, Soros and Schauble won't be disappointed on that score. Let's see what happens in the aftermath. This was MEP Nigel Farage warning the wannabe socialist dictators:

"You are very, very dangerous people, indeed. Your obsession with creating this Euro state means that you're happy to destroy democracy. You appear to be happy for millions and millions of people to be unemployed and to be poor. Untold millions must suffer so that your Euro dream can continue...But it is even more serious than economics. Because if you rob people of their identity. If you rob them of their democracy, then all they are left with is nationalism and violence. I can only hope and pray that the Euro project is destroyed by the markets before that really happens."

This anonymous quote captures the transition from capitalism (foraging for yourself) to interventionism (putting up fences) to socialism (controlled/dependent on the state) to totalitarianism:

"When they are used to coming every day, you put a fence down one side of the place. When they get used to the fence, they begin to eat the corn again and you put up another side of the fence. They get used to that and start to eat again. You continue until you have all four sides of the fence up with a gate in the last side. The pigs, which are now used to the free corn, start to come through the gate to eat, you slam the gate on them and catch the whole herd. Suddenly the wild pigs have lost their freedom. They run around and around inside the fence, but they are caught. Soon they go back to eating the free corn. They are so used to it, they have forgotten how to forage in the woods by themselves."

David Rockefeller outlined his vision of the takeover in a speech at the United Nations Ambassadors' dinner on 23 September 1994 (my emphasis):

"This present window of opportunity, during which a truly peaceful and interdependent world order might be built, will not be open for too long... We are on the verge of a global transformation. **All we need is the right major crisis**, and the nations will accept the New World Order."

From his perspective...what's that song by the Stone Roses? Oh, yes...

"THIS IS THE ONE".

The takeover attempt has to be made now and is – you've got the economic crisis, conflict on numerous fronts, regime changes, loss of sovereignty, reduction of civil liberties, etc. It's on.

Here is Wikipedia explaining the concept of the "Sanction of the victim" from Atlas Shrugged:

"This concept may be original in the thinking of Rand: she holds that evil is a parasite on the good and can only exist if the good tolerates it. Atlas Shrugged can be seen as an answer to the question of what would happen if this sanction were revoked. When Atlas shrugs, relieving himself of the burden of carrying the world, he is revoking his sanction. Throughout Atlas Shrugged, numerous characters admit that there is something wrong with the world that they cannot identify; frequently, they are struggling with the idea of sanction of the victim. We first glimpse the concept when Hank Rearden feels he is duty-bound to support his family, despite their hostility towards him; later, the principle is stated explicitly by Dan Conway: 'I suppose somebody's got to be sacrificed. If it turned out to be me, I have no right to complain.' John Galt vows to stop the motor of the world by persuading the creators of the world to withhold their sanction: 'Evil is impotent and has no power but that which we let it extort from us', and, 'I saw that evil was impotent... and the only weapon of its triumph was the willingness of the good to serve it'. In Rand's view, morality requires that we do not sanction our own victimhood. She assigns virtue to the trait of rational self-interest.

Time to wake up and push back? In a recent Trends Journal, Gerald Celente laid out the choice:

"The path politicians and the special interests they represent are taking, leads to ruin. People often ask me what they can do to reverse the course? The choice is stark – Renaissance or Ruin. Do your part: Stand up, Speak out, Spread the word!"

Asset Allocation from Galt's Gulch

In investment terms, let's take a trip:



Sources: James Steel, ProudProducers.com

We could call ourselves "**The Self Preservation Society**" which would be VERY Ayn Rand.

"Jump in the jam jar, gotta get straight

Hurry up mate, don't wanna be late"

From "Get a Bloomin' Move On (The Self Preservation Society)", the theme to The Italian Job (see Appendix 2). Note "jam jar" is car in cockney rhyming slang.



Sources: promotional materials for Paramount Pictures' "The Italian Job" 1969

In this article "Re-reading Atlas Shrugged" by the attorney and writer, Jacob Huebert, he discusses the heroes in Atlas Shrugged relocating to "Galt's Gulch":

"I recently returned to Atlas Shrugged, though, and found it far more powerful than I remembered. As our politicians grab ever more power on ever-more-dubious pretenses, the plot about a Remnant escaping to leave the looters and the moronic masses that empower them to the fate they deserve is more compelling than ever."

And this is Wikipedia discussing Galt's Gulch as it is portrayed in the novel:

"A secluded refuge in a valley of Colorado where the men of ability have retreated after relinquishing participation in American society. Nicknamed 'Galt's Gulch' by its inhabitants, it is in fact the property of 'Midas' Mulligan', one of the early strikers to follow John Galt's call, and thus is also known as Mulligan's Valley. This call was to the great men of mind and action to abandon the increasingly slave-state inclinations of a decaying United States - to go on strike - thereby withdrawing the only thing supporting the parasites and looters.

Sarcastically nicknamed Midas in the press because everything he seemed to touch turned to gold, Mulligan adopted the nickname during his explosive investment career before dropping out of sight. He had purchased this land among his far-ranging speculative endeavors, and subsequently retreated to it upon his disappearance. Other strikers soon followed him there, including John Galt, renting or buying land for summer retreats as a respite from continuing their search for fellow strikers among the increasingly collapsing American society. Eventually, a society develops in Galt's Gulch as more people live there year-round as the outside world becomes virtually unsafe to visit.

We are introduced to Galt's Gulch in the final section of the novel, in the first chapter, entitled Atlantis. The people live with each other in completely free society and embody everything which is the thesis of the Novel, the appropriate values for a society of Mankind: philosophical, moral, economic, legal, aesthetic, and s-xual, among others too numerous to mention.

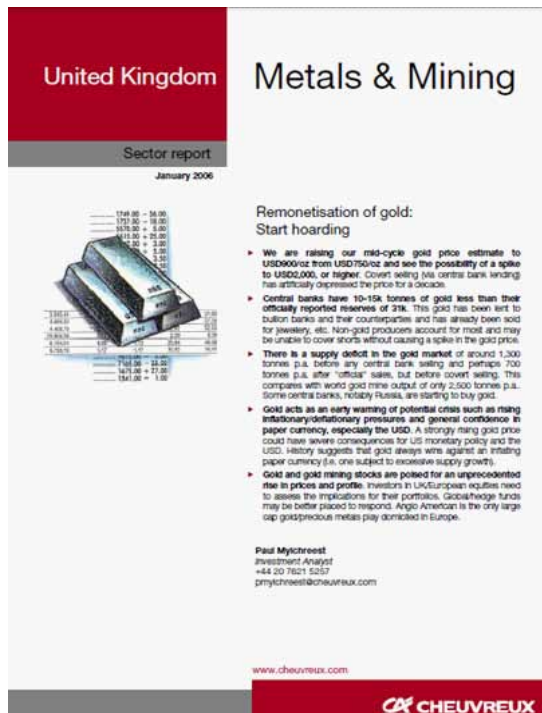
We find industrious, ambitious, happy people continuing their chosen fields of endeavor without the yokes of any taxation or regulation. There is a reverence for private property; everything transacted is paid for with the re-invented currency of solid gold coin struck from the reserves of Midas Mulligan's bank which now resides in the valley. The townspeople receive services from the various heroes we have met throughout the Novel, who all now reside and produce in the valley."

As we watch the unfolding crisis from Galt's Gulch, in an intellectual sense if not an actual one, and this chain of events:

INFLATIONISM - INTERVENTIONISM - SOCIALISM - REDUCED LIVING STANDARDS - TOTALITARIANISM.

Here are a few thoughts on how I'm thinking about investing my own small portfolio. In keeping with the thrust of this report, I'll couch them in terms of this process, especially socialism from both the the "Left" and the "Right".

Inflationism is the SOURCE of this process and the debasement of currencies means that gold and silver are the go-to assets.



It's amazing watching the top callers in these markets. The authorities have been up to their old tricks of leaning on prices – the bigger the crisis, the more active they become, encouraging as many traders as possible to follow them. This comment came from veteran lumber trader, James McShirley:

"EVERY single collapse, including the Asian crisis, LTCM, Enron, Refco, Lehman, AIG, EU nations, and MF Global has resulted in gold and silver getting hammered. The message is always the same: gold is a terrible idea whenever paper assets are in crisis."

McShirley started taking an interest in the gold and silver markets because he noticed how they didn't trade like lumber, which is a free market (not strategically important).

The Gold Cartel uses an algorithm that (almost always) allows gold and silver prices to rise on "risk on" days ONLY, while savaging them on "risk off" days. They can't have gold and silver being perceived by the masses as a safe haven, otherwise the currency monetary system would implode even more rapidly. This was GATA's Bill Murphy last week:

"The Muppets on CNBC explain what gold was doing and why was as comical as ever too. An example: 'If gold were a safe haven, jitters about the European crisis should have sent the precious metal higher. But it didn't. Gold tumbled like a risk asset,' says trader Steve Weiss."

You've got to hand it to the Cartel, the conditioning works well with a lot of people. During the last couple of weeks, gold has been hammered on some "risk on" days too, which is very unusual. Perversely, this has been a technical issue reflecting the near collapse of the European banking system – banks had to borrow

gold to sell in sheer desperation for dollars Here is Sandeep Jaitly from his excellent "Gold Basis Service" newsletter:

"A lot of reasons have been given for the correction in the gold price – futures liquidation being a prime candidate. However, this is not the case as movements in the bases tell otherwise. There has been continued Dollar-based funding pressure in the money markets of late (witness the escalation in LIBOR which has doubled over the past few months.) The escalation in the gold lease rates – that prompted gold to go into backwardation – was caused by gold being borrowed with the intention of providing Dollar liquidity (by selling the gold in a 'sale and repurchase' transaction.) The fall in the gold price being accompanied by a fall in the co-basis points to signs of physical gold being liquidated not futures. Massive futures' liquidation would see the co-basis rise and basis fall – the complete opposite of what actually occurred.

The salient points to remember here are: that the borrowing of gold caused lease rates to escalate above money market rates and that gold was borrowed 'on the swap.' The former point can only be explained by the fact that the physical gold market is very tight (in terms of both supply, and loanable gold.) With the latter point, one must remember that swapped (and sold) gold must be returned (and therefore bought)."

The sudden sharp rise in the open interest in the December 2011 gold contract on COMEX, which is about to go off the board, backs up Sandeep's view. These buyers are belatedly buying with the intention of standing for delivery (to get the gold back) when the majority of holders are rolling to the February contract.

The key point is to remember that gold and silver are fractional reserve markets – huge volumes of paper trading versus a much smaller amount of metal - and the theft of futures accounts in MF Global has made the important of securing physical even more important. The scramble for physical metal is overwhelming these markets and continues unseen. Let me relate a story told by Lindsey Williams about a conversation he had with one of his inside contacts, the late Ken Fromm:

"There's only one protection for your assets he said, and that's our currency'. And I said 'What's your currency?' And he said 'Gold and silver, that's the currency of the elite.'"

The latest news is that the buying has been stepped up during the recent price correction:

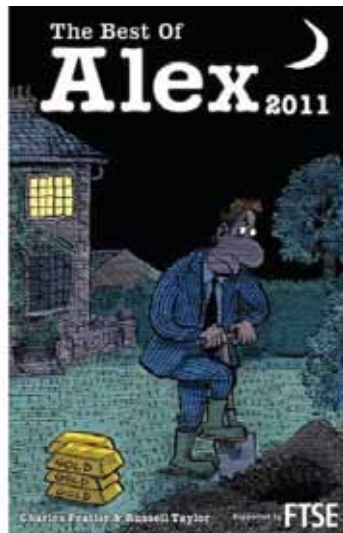
"They have taken the price low so the elite can buy it".

Then read this GATA press release from 5 December 2011:

"AngloGold Ashanti CEO Mark Cutifani tells Takoa Da Silva of the Bull Market Thinking Internet site that big buyers of gold are having trouble getting the volumes they want and so are approaching the mining company to try to get metal directly. Apparently bullion bank deposit receipts don't have the respect they once did."

Andy Hoffman from bullion dealer Miles Franklin on 15 December 2011:

"I waited patiently for day's end to receive Miles Franklin's tally. And finally it came - HUGE bullion demand, easily one of our TOP TEN best days EVER, with strong sales of gold, silver, and even platinum. REVENGE OF THE PHYSICAL, for the whole world to see!"



Source: Daily Telegraph Alex cartoon

We are approaching the tipping point. I've just come back from staying with friends in Dubai where I wandered round the gold souk..., gold everywhere, it was unreal – all I could do was laugh!



Source: Cheers Tim

The funny thing was that all the white people were just looking and having their photos taken with the gold jewellery behind them like me – I didn't see any of them buying. All of the buyers I saw were from India and other Asian countries. I was staying with friends out there and the wife, who is a former air stewardess, now mother and volunteer worker with handicapped children, commented that:

"It makes sense to insure your money, just like you insure your house or your car."

It might be obvious to many of us where we heading, but the head of the World Bank, Robert Zoellick, gave the game away when he talked about bringing back gold into the monetary system:

"Writing in the Financial Times, Robert Zoellick, the bank's president since 2007, says a successor is needed to what he calls the 'Bretton Woods II' system of floating currencies that has held since the Bretton Woods fixed exchange rate regime broke down in 1971. Mr Zoellick, a former US Treasury official, calls for a system that 'is likely to need to involve the dollar, the euro, the yen, the pound and a renminbi that moves towards internationalisation and then open a

capital account'. He adds: 'The system should also consider employing gold as an international reference point of market expectations about inflation, deflation and future currency values.'

They are planning the system to follow the current system, because the current system has to fail. Look at the cv of Robert Zoellick; Goldman Sachs, Project for the New American Century, Enron, Bilderberg, Council on Foreign Relations, etc. Is he a global power broker or Herman Vom Rompuy's red-headed step-brother?

Here is Richard Moore again:

"Capitalism is a vehicle that helped bring the banksters to absolute power, but they have no more loyalty to that system than they have to place, or to anything or anyone...they think on a global scale, with nations and populations as pawns. They define what money is and they issue it, just like the banker in a game of Monopoly. They can also make up a new game with a new kind of money. They have long outgrown any need to rely on any particular system in order to maintain their power. Capitalism was handy in an era of rapid growth. For an era of non-growth, a different game is being prepared."

As I said near the beginning, Kondratieff Cycles are screaming that depression and lower living standards are on the horizon. This fits perfectly with the chain of events I've been describing which are dragging us towards a socialist society (and beyond, if we're not careful). As discussed in earlier Thunder Roads, the lower levels of Maslow's hierarchy of needs will account for a growing share of the overall "economic pie". I'm thinking of the likes of:

- ☉ **Food/Agriculture;**
- ☉ **Energy (especially crude oil); and**
- ☉ **Basic personal care and household products.**

The other side of the coin is stuff like Luxury Goods and diamonds which I want to avoid. Last week I had lunch with the legendary London-based equity salesman, James Chancellor. He was commenting on how it's just as important to watch what people are selling as what they are buying. He'd noticed how the Oppenheimer family had sold its 40% interest in De Beers to Anglo American for US\$5.1bn in cash and BHP Billiton has its diamond business under review. Anglo American has sold gold AngloGold Ashanti and bought diamonds. Much as I like Cynthia Carroll, this company desperately needs help on corporate strategy. Who is advising them?

Let's move on to oil because this is one sector which I'm unlikely to go short of in 2012. It's also interesting because there's a crossover in the move towards socialism which should benefit the sector:

- ☉ **"Socialism from the Left": in terms of lower living standards (see above) and debasement of currencies (real assets); and**
- ☉ **"Socialism from the Right": military adventurism and the likelihood of an escalation in the Middle East conflict in 2012, which could disrupt crude oil supply.**

Before I discuss what may, or may not, happen in the Middle East crisis in 2012, let's just highlight another sector which should benefit from this crossover of socialism from both sides of the spectrum. This is Defence, which I also discussed in the last Thunder Road. Let's remember that government accounting for a growing share of GDP is another key theme of socialism. In "How the US Will Become a 3rd World Country (Part 2)", Ron Hera noted that:

"The federal government is the largest single customer in the U.S. economy and, through taxation or regulation, the government can grant or deny market access to private companies and can either prevent or mandate the consumption of their products and services. As a result, virtually every large corporation in the United States seeks to win the government's business and to steer government tax policies and regulations in their favor. Naturally, politicians who accede to the wishes of particular corporations are given campaign funds to ensure their re-election."

The big defence contractors are not only the leading beneficiaries of government contracts, but are equally big beneficiaries from Socialism from the Right in terms of avid militarism. These stocks are cheap, but there seems to be a big fear about cuts in defence spending. Declining empires don't tend to reduce spending on the military and it was the army and the bureaucrats who were the biggest recipients of state largesse in the latter days of Rome. The US/UK are now involved in occupations, actual conflict, border skirmishes or special forces operations in a host of countries including Iraq, Afghanistan, Libya, Syria, Pakistan, Somalia, Yemen and Iran.

This whole process has been planned for years and is behind schedule. Wesley Clark was the Supreme Allied Commander Europe of NATO from 1997 to 2000. In an interview with Amy Goodman on March 2, 2007, he explained that the Bush Administration planned to take out 7 countries in 5 years - Iraq, Syria, Lebanon, Lybia, Somalia, Sudan, Iran

"About 10 days after 9/11, I went through the Pentagon and saw Secretary Rumsfeld and Deputy Secretary Wolfowitz. I went downstairs to say hello to some of the people on the Joint Chiefs who used to work for me and one of the Generals called me in. He said "Sir, you've got to come in and talk to me a second". I said "Well, you're too busy" and he said "No, no, we've made the decision, we're going to war with Iraq". This was on or about the 20 September. I said "We're going to war with Iraq! Why?". He said "I don't know" (audience laughing). He said "I guess they don't know what else to do". So I said "Well, did they find any information connecting Saddam to Al-Q---a?" "He said "No, there's nothing new that way, they just made the decision to go to war with Iraq"...So I came back to see him a few weeks later and by that time we were bombing in Afghanistan. I said "Are we still going to war with Iraq?" and he said "Oh it's worse than that". He reached over on his desk and picked up a piece of paper and he said "I just got this down from upstairs", meaning the Secretary of Defense's office. And he said "This is a memo that describes how we're going to take out 7 countries in 5 years, starting with Iraq, then Syria, Lebanon, Libya, Somalia, Sudan and finishing off with Iran."

Problem (9/11), Reaction (public opinion whipped up), Solution (regime change overseas, reduced civil liberties at home and the advancement of the globalist agenda). Bish bash bosh.

Lindsey Williams' predictions from his inside sources have almost always proved to be correct, e.g. oil would fall from US\$150/bbl to US\$50/bbl in a matter of months (2008) and there would be a Middle East crisis in three to four months' time (October 2010), to name two of many. In April 2011, he said that the crisis would spread across the region and eventually take the oil price to US\$200/bbl. In a recent interview, Lindsey Williams said that his insider source told him at war with Iran is planned for September/October 2012. The aim is to continue harassing Iran in the hope that it will fire the first shot.



Now as I've speculated before, and this could be a very important bit, TPTB are unlikely to want the blame for the coming monetary carnage to be pinned on them, as the already agitated masses might decide that the so-called existing political/banking elite had forfeited (already have – Paul) their right to govern – leading to the cry of "off with their heads" as Gerald Celente might put it.

So, it would be naïve to discount the likelihood that they will try to fabricate/encourage a pattern of events which can be held responsible. What better than an escalation of the Middle East crisis, which leads to a disruption in world oil supply, and sends a huge wave of inflation across the planet, decimating the purchasing power of the already doomed un-backed currencies?

Supermarkets should benefit from this transition towards socialism as basic necessities take a growing share of the economic pie. In particular, I'm thinking about retailers of basic necessities which are operationally efficient and have a strong value proposition for customers. Walmart, for example, also appears to have a strong relationship with the US government. This was a CNN report from 10 December 2010:

"Walmart will join the Department of Homeland Security in a program called "If You See Something, Say Something" which encourages the American public to take an active role in ensuring the safety and security of the nation, DHS said Monday. Homeland security starts with hometown security, and each of us plays a critical role in keeping our country and communities safe," Secretary Janet Napolitano said as she thanked Walmart and the more than 320 stores who joined the national campaign Monday. Participating stores, eventually including 588 from 27 states, will play a short video message at select checkout locations to remind shoppers to contact local law enforcement to report suspicious activity, said a DHS statement. This partnership will help millions of shoppers across the nation identify and report indicators of terrorism, crime and other threats to law enforcement authorities," Napolitano said."

There's one sector, the biggest beneficiary in terms of close relationship with and largesse from governments, which I still haven't mentioned – the major banks. Indeed, some like GS and JPM, have arguably already become direct arms of the state itself. I don't want to own the bank stocks and I question whether any portfolio manager looking running a pension fund, for example, should be holding these stocks:

The balance sheet values became pure fiction after the FASB rule change in 2009 allowing the banks to value their assets at their own valuations rather than the market – many (most?) are likely insolvent and at least one would have collapsed if it had not been for the recent central bank swap agreement. If Credit Agricole or Commerzbank had failed, how many others would have perished?

Now the P&L accounts have become pure (pulp) fiction – my favourite and probably the most fictitious of all third quarter 2011 earnings reports came from Citigroup. Here are a few highlights:

☉ Citi "beat" with EPS of US\$1.23 and revenue of US\$20.8bn versus consensus expectations of US\$0.82 and US\$19.2bn.

But:

☉ Q3 EPS benefited by US\$0.39 and revenue by US\$1.9bn of debt value adjustments. This was due to the widening of Citi's credit spreads in the quarter. They weakened reflecting greater fear of insolvency, but the company was able to report the hypothetical benefit that it "could" buy back its debt at a lower price. I know...it's ridiculous; and

☉ Q3 net income benefited from a loan loss reserve release of US\$1.4bn, equivalent to EPS of c.US\$0.46. This was in spite of the continued deterioration of the US housing market and the flare up of the sovereign debt crisis in Europe.

A more realistic P&L might have shown EPS of US\$0.38 and revenue of US\$18.9bn. Not the "solid operating results" about which CEO Vikram Pandit was crowing.

Then there's the derivative exposure, which is truly massive and 100% opaque. The total notional amount of outstanding derivatives exposure just in the US amounts to US\$239trn, of which JPM holds US\$78trn, Citi US\$56trn, BoA US\$53trn and Goldman US\$48trn. Because they are 100% opaque, they are always ignored. However, the majority (over 80%) are interest rate derivatives and we are in a sovereign debt crisis AND most large banks are levered 15-

30x on a reported basis. Furthermore, you might not be able to net off the gross exposure if a counterparty bank or investor goes bust.

Then there's the lesson from MF Global which shone some light onto the dark secret of the banking system, i.e. "re-hypothecation". You only need to read the second part of that word to know that when it's being used in conjunction with the banking system, it's going to be bad news. From a Reuters article:

"Re-hypothecation occurs when a bank or broker re-uses collateral posted by clients, such as hedge funds, to back the broker's own trades and borrowings. The practice of re-hypothecation runs into the trillions of dollars and is perfectly legal. It is justified by brokers on the basis that it is a capital efficient way of financing their operations"

The bad news is that re-hypothecation is centred on London because there are absolutely no limits to its use. Basically the same collateral can be used over and over again, adding further unseen leverage in the shadow banking system. This led Zero Hedge to speculate that:

"In essence what re-hypothecation, and subsequent levels thereof, especially once in the shadow banking realm, allows Prime Brokers is to become de facto banks only completely unregulated and using synthetic assets as collateral. Curiously enough it was earlier today that we also penned 'ECB Confirms Shadow Banking System In Europe In Tatters' in which we explained that since ECB has to expand the eligible collateral it will accept, there is no real collateral left, meaning the re-hypothecation process in Europe has experienced terminal failure. Yet the kicker is that the 'safety haircut' only occurs in the US. Not in the UK. And therein lies the rub. In the UK, the epic failure of supervision has allowed banks to become de facto monsters of infinite shadow banking fractional reserve leverage"

Everything...ABSOLUTELY EVERYTHING...that I've learnt in my career as an analyst tells me not to go near the major bank stocks in the US, UK and Europe, whatever happens to their share prices. In fact, when you stand back and think about it, should professional investors running money for pension funds, for example, hold any major bank stocks at all? You can't even get close to being able to analyse them properly. Since you can't analyse them, are they "investable"? I sincerely doubt that it will happen, but if things go wrong, is there any possibility that managers could be accused of negligence? As I wrote to one of my former colleagues a while back:

"The best place for bank analysts at the moment is some kind of 'paid sabbatical' on a beach somewhere. Until this whole process plays out, they are just getting in the way since the banks themselves defy analysis."

I can imagine a scenario where the banks have to be nationalised, leading to a truly horrific additional round of bailouts and another big leap in state takeover on the road to socialism.

It's too sickening mulling over stocks which benefit from the progression of a police state. Of course, the FEMA camp-related KBR springs to mind as do companies providing services, including cyber-security, to government departments, like the Department of Homeland Security, Pentagon and intelligence agencies. The screen listing the biggest beneficiaries of US government contracts brings up names like SAIC, URS Corp, DynCorp and CACI International.

On a lighter note, I was also thinking about attractive assets and asset allocation in a broader sense. Given the difficult times we are heading into the concept of what is, or isn't, an attractive asset could change somewhat. Possibilities, and I'm not completely joking here, might include:

- ☉ **A low-spending wife, or husband, who is capable of adapting to a reduced standard of living without giving you a lot of grief (rumoured to be a market with limited liquidity);**
- ☉ **A house in the catchment area of an outstanding state (i.e. free) school;**
- ☉ **A very fuel efficient vehicle;**

- ☉ **Agricultural land and/or the potential to grow some of your own food if things get REALLY difficult;**
- ☉ **Good relationships with neighbours and friends in your local community; and**
- ☉ **Skills which could generate an income outside of financial services (I have zero).**

Ticking some of those boxes might help at some point. Throw in a job and some exposure to gold and silver and you might be able chill out when things get a little “hot”. I like the approach of the **world’s greatest unsung cinematic hero:**

Oddball: Hi man (waving).

Big Joe: Whaddya doing?

Oddball: I’m drinking wine and eating cheese and catching some rays, you know.

Big Joe: What’s happening?

Oddball: Well, the tank’s broken and they’re trying to fix it.

Big Joe: (Shouting) Then why the hell aren’t you up there helping them?

Oddball: Oh man, I only ride them, I don’t know what makes them work.

Big Joe: Creeps (walks off).

Oddball: Definitely an anti-social type...



Source: MGM's Kelly's Heroes

There are seven people in the markets that I can think of now who are storing food/essentials, e.g. in case of a bank holiday, etc, We came close to one when Lehman collapsed. I was ready to take out South London supermarkets if required and I'll ready again! Anyway, these people are a mixture of analysts, equity salesmen and fund managers and they're doing it in a low key way - just in case. I want to relate a story which made me laugh about one of them mentioning it to a friend and receiving this reply by email:

No gun...my tin of peaches

It reminded me of another classic Gerald Celente sound bite regarding his own preparations:

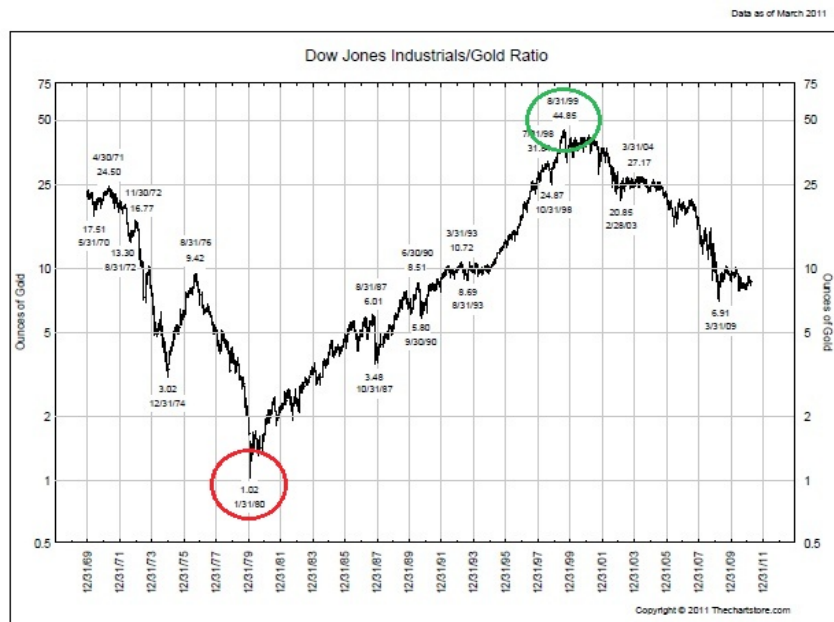
“GC’s three G’s - Guns, Gold and a Get Away Plan.”

Hey Gerald, you heading for Galt’s Gulch?

Moving on to asset allocation in the fund management industry itself. There are fund managers I know who are running equity funds who are heavily invested in gold and silver personally. Now obviously I think they are well positioned, but it highlights the disconnect between the money they are running professionally

versus the money they are running personally. The basic point is that many managers are not aligning their true investment views with their clients' interests – although it's not their fault. It's the industry's problem – equity managers are incentivised to beat the equity market by a few per cent. But then you have something like the chart below – it took 1oz. of gold to buy the Dow in 1980 and 44 in 1999. Currently takes just over 7 and I'm expecting we'll get back to something close to one.

Dow v. Gold 1969-2010



What's my point? When this crisis has played out and a few people have made a lot of money and many people have unfortunately lost a lot of money, I think it will lead to a radical shakeup of the fund management business worldwide. There will be far fewer discrete equity funds or bond funds, etc. but a prevalence of multi-asset funds, which allow switching between a much broader range of assets. The successful portfolio managers will correspondingly need a broader range of expertise – more stuff to read!

Need a little time to wake up

Before 2005, I was what the former Sanford Bernstein strategist, Mike Krieger, would term a "useful idiot":

"A 'useful idiot' is actually not really an idiot, rather it is someone who is ignorant and therefore can be manipulated by those that are not ignorant to do as they desire. I mean who reading this was not a 'useful idiot' at some point? I know I was. For most of my career on Wall Street that is exactly what I was. I worked in finance but had no idea how the system actually worked. As a result of my ignorance I was very susceptible to much of the propaganda that was blasted in my ear overtly and subliminally for much of my life."

There's a kind of threshold which some people have crossed and some haven't, just the way it is. The well-meaning, intelligent people who still don't "get it" are an issue. Here is Francisco d'Anconia again, talking to the heroine in Atlas Shrugged, his friend and former lover, Dagny Taggart. I'm thinking of it as a metaphor for mindsets:

"Until then, Dagny, remember that we're enemies...It's you that I'm fighting, not your brother James or Wesley Mouch. It's you that I have to defeat. I am out to end all the things that are most precious to you right now. While you'll struggle to save Taggart Transcontinental, I will be working to destroy it."



Source: Corney & Barrow

A couple of months back when I was having a drink (in the "airport lounge" in Broadgate Circle) with a good friend, former colleague and senior person in the equity business of a bulge bracket investment bank. She introduced me to one of her colleagues as follows:

"This is Paul. He used to work with us before he went mad."

Okay! Another former colleague (from a different firm) wrote a piece about how we were living in an era of "peace" and "capitalism". I begged to differ and was amused by his email response:

"As ever you make some good points, but are still crackers"

When you challenge programmed thinking and strip away the comfortable foundations of people's view of the world, ridicule is a typical response. The following quote is attributed to an author named Dresden James:

"A truth's initial commotion is directly proportional to how deeply the lie was believed. It wasn't the world being round that agitated people, but that the world wasn't flat. When a well-packaged web of lies has been sold gradually to the masses over generations, the truth will seem utterly preposterous and its speaker a raving lunatic."

Knowledge protects. Here is Alan Watt on why the waking up process for the average person takes so long:

"He believes the massive corruption 'just happened'...It does not occur to him that his parents, teachers etc. were as conditioned as he was. Most people do not wish to know. They, like farm animals, have been domesticated. Wild animals have natural instincts of self-preservation. They sense the evil intentions of predators and they survive by trusting their instincts. Wild herds do not 'hang around' when one or more members drops dead. Specially bred sheep do... Trust replaces the instinct of self-preservation. It over-rides memory and logic. Controllers and shepherds encourage trust...When threatened with loss of possessions, property, access to health care, etc., people turn to government (predators) for help"



From the website galtsgulchorbust.com:

"a good friend of mine recommended Ron Paul's "The Revolution: A Manifesto". I had watched Dr Paul during the primary debates, and had no idea where he was coming from. It seemed to me that his ideas were all over the political spectrum. It wasn't until I truly understood the concept of liberty, and what it means on an economic and personal level, that I was able to comprehend what Dr. Paul was getting at. Then an old man at work recommended a book by Ayn Rand called Atlas Shrugged. That book changed my life. The similarities between what was happening as the story progressed, and what was going on in the business world and our government, were uncanny. Things started clicking in my head. The last few months of the Bush administration are what really pushed me over the edge. His statement, "I have abandoned free market principles to save the free market system" was the final nail in the coffin. It was then and there that I started reading books on Austrian economics, and libertarian political theory. What was once so foggy to me became clear as day. It made sense! My views were changing. I was waking up."

H.L. Mencken remarked that:

"The most dangerous man to any government is the man who is able to think things out... without regard to the prevailing superstitions and taboos."

If we can think things out, we can also make money. Much of the blame for the situation lies with the corporatized mainstream media which has failed to apply the necessary checks and balances on governments and central banks. I question the motivations of the individual journalists – are they inept, or just corporate robots? This is from Atlas Shrugged:

"The reporters who came to the press conference in the office of the John Galt Line were young men who had been trained to think that their jobs consisted of concealing from the world the nature of its events. It was their daily duty to serve as audience for some public figure who made utterances about the public good, in phrases carefully chosen to convey no meaning."

Nowadays, newspapers are merely putting onto a natural resource, i.e. paper, what has already appeared on Bloomberg and Reuters screens across the planet the day before. And if I want insight, I'm far more likely to get it from my internet and email sources than an interview with some establishment honcho or even 95% of big cap CEOs these days. According to Thomas Jefferson:

"The man who reads nothing at all is better educated than the man who reads nothing but newspapers."

Besides the mainstream media, the other problems are too much trust in government and what is probably best described as "normalcy bias. J.R. Nyquist picked out a great quote from Wilhelm Roepke's 1948 book, "The Moral Foundations of Civil Society":

"It appears that in all great crises of world history most people utterly deceive themselves as to where they stand, just as if Providence had drawn a veil over the impending disaster...an optimistic self-deception...(attended by) that astounding superficiality of diagnosis with which so many of us have judged the state of the world."

Appendix 1: Letter from Ludwig Von Mises to Ayn Rand in 1958

LUDWIG VON MISES
777 WEST END AVENUE
NEW YORK 25, N. Y.

January 23, 1958

Mrs. Ayn Rand
36 East 36 Street
New York, N. Y.

Dear Mrs. Rand:

I am not a professional critic and I feel no call to judge the merits of a novel. So I do not want to detain you with the information that I enjoyed very much reading Atlas Shrugged and that I am full of admiration for your masterful construction of the plot.

But "Atlas Shrugged" is not merely a novel. It is also -- or may I say: first of all -- a cogent analysis of the evils that plague our society, a substantiated rejection of the ideology of our self-styled "intellectuals" and a pitiless unmasking of the insincerity of the policies adopted by governments and political parties. It is a devastating exposure of the "moral cannibals," the "gigolos of science" and of the "academic prattle" of the makers of the "anti-industrial revolution." You have the courage to tell the masses what no politician told them: you are inferior and all the improvements in your conditions which you simply take for granted you owe to the effort of men who are better than you.

If this be arrogance, as some of your critics observed, it still is the truth that had to be said in this age of the Welfare State.

I warmly congratulate you and I am looking forward with great expectations to your future work.

Sincerely,

LH/ms



Appendix 2: Get a bloomin' move on (The Self Preservation Society), lyrics by Don Black/Quincy Jones

This is the self-preservation society

This is the self-preservation society

Go wash your German bands, your boat race too

Comb your Barnet Fair we got a lot to do

Put on your Dickie Dirt and your Peckham Rye

Cause time's soon hurrying by

Get your skates on mate, get your skates on mate

No bib around your Gregory Peck today, eh?

Drop your plates of meat right up on the seat

This is the self-preservation society

This is the self-preservation society

Gotta get a bloomin' move on

Babadab-babadabadab-bab-ba

Gotta get a bloomin' move on

Babadab-babadabadab-bab-ba

Jump in the jam jar gotta get straight

Hurry up mate – don't wanna be late

How's your father?

Tickety boo

Tickety boo

Gotta get a bloomin' move on

Self-preservation society

This is the self-preservation society

Put on your almond rocks and daisy roots

Wash your Hampstead Heath and wear your whistle and flute

Lots of lah-di-dahs and cockneys here

Look alive and get out of here

So get your skates on mate, get your skates on mate

No bib around your Gregory Peck today, eh?

Drop your plates of meat right up on the seat

This is the self-preservation society

This is the self-preservation society

Cockney Translation: German bands – hands, Boat race – face, Almond rocks – socks, Barnet Fair – hair, Dickie Dirt – shirt, Peckham Rye – tie, Jam jar – car, Daisy roots - boots, Hampstead Heath - teeth, Whistle-and-flute - suit, Lah-de-dahs - posh people, Gregory Peck – neck, Plates of meat - feet

Author: I started work the month before the stock market crash in 1987. I've worked mainly as an analyst covering the Metals & Mining, Oil & Gas and Chemicals industries for a number of brokers and banks including S.G. Warburg (now UBS), Credit Lyonnais, JP Morgan Chase, Schroders (became Citibank) and, latterly, at the soon to be mighty Redburn Partners.

The unattributed quotes in the text are from Ayn Rand's novel, "Atlas Shrugged" and from "Pop Muzik" by M (Robin Scott)

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