Certified Gold Exchange, Inc.

ORE-VISION

Views and Analysis on the Economy and Precious Metals

A QUARTERLY NEWSLETTER

4th QTR 2008

VOLUME 24, NO.4

POOF! Ashes to Ashes, Debt to Dust

Alex Wallenwein

Question: What happens when you destroy a negative? Is that a bad thing, or a good thing?

Answer: It depends on how good of a liar you are. If you can get everybody to believe that the negative is something of positive value, its destruction will be seen as a catastrophe.

That is what we are seeing in the global financial system today. Our financial overlords have potty-trained us to believe that debt is money. National governments rushed in to help them cement the lie by (ab)using their law-making powers to make debt 'legal tender'. Now, those who would play god in their own financial universe are having their heads handed to them, left and right.

Surprising? No. The only surprise to many is the suddenness with which it is happening. That' however, is more a lack of preparation than a genuine surprise. The writing has been on the wall ever since John Law perpetrated his little fraud on the country of France, ruining both himself and the country whose legal system he learned out to abuse, in the process. The only difference between now and then is that his disciples have somewhat perfected the art of delay – until now, that is.

… And Then There Were Two

Bear Stearns, Lehman Brothels, Merrill Lynch – and now, only the two kingpins of the old investment banking drug-pusher cartel are left. Poof! Gone.

Of those, Morgan Stanley is already looking to 'merrillize' itself to another stellar financial icon, Wacked-ovia, which along with Whammo (aka 'WaMu') has long been on the list of 'next-to-fail' banks. Soon to go 'poof.'

That leaves Goldman Sachs, which spawned such laudables as Mr. Hankie, Secretary of the United States Department of the Trashury. That explains why GS is still huffing and puffing as if it had some real value backing it up – but, alas, thanks to GS and its consorts, there is no such thing anymore in the world of financial insecurities. There is only debt – and the growing realization that confusing liabilities with assets does not a solid foundation for general prosperity make.

An Upside-Down World

In the disorienting world of modern-day banking, loans are assets and deposits are liabilities. (In a banker's twisted logic, a customer's deposit is owed to him and therefore a liability, while made-up money loaned to someone else is an 'asset' because that someone is expected to pay it back with interest – hopefully, at least.) Yet, despite being liabilities, deposits constitute the required 'reserves' that allow the banker to pyramid further loans onto them. Under banking regulations, assets (loans) can only be created if they are 'backed' by sufficient liabilities (deposits). Makes sense? Go figure.

Continued on page 2

The fruit of hypocrisy

Dishonesty in the finance sector dragged us here, and Washington looks ill-equipped to guide us out

Joseph E Stiglitz

Houses of cards, chickens coming home to roost - pick your cliche. The new low in the financial crisis, which has prompted comparisons with the 1929 Wall Street crash, is the fruit of a pattern of dishonesty on the part of financial institutions, and incompetence on the part of policymakers.

We had become accustomed to the hypocrisy. The banks reject any suggestion they should face regulation, rebuff any move towards anti-trust measures - yet when trouble strikes,

Continued on page 3

Also Inside This Issue:

- **It's Official: The Crash of the U.S. Economy has begun**
  By: Richard C. Cook
- **Banks vulnerable as "rotten" foundations crumble**
  By: Christian Plumb
- **Fed, central banks move to boost global confidence**
  By: Patrick Rizzo

It's Official: The Crash of the U.S. Economy has begun

Richard C. Cook

It's official. Mark your calendars. The crash of the U.S. economy has begun. It was announced the morning of Wednesday, June 13, 2007, by economic writers Steven Pearlstein and Robert Samuelson in the pages of the Washington Post, one of the foremost house organs of the U.S. monetary elite.

Pearlstein's column was titled, "The Takeover Boom, About to Go Bust" and concerned the extraordinary amount of debt vs. operating profits of companies currently subject to leveraged buyouts.

In language remarkably alarmist for the usually ultra-bland pages of the Post, Pearlstein wrote, "It is impossible to predict when the magic moment will be reached and everyone finally realizes that the prices being paid for these companies, and the debt taken on to support the acquisitions, are unsustainable. When that happens, it won't be pretty. Across the board, stock prices and company valuations will fall. Banks will announce painful write-offs, some hedge funds will close their doors, and private-equity funds will report disappointing returns. Some companies will be forced into bankruptcy or restructuring."

Further, "Falling stock prices will cause companies to reduce their hiring and capital spending while governments will be forced to raise taxes or reduce services, as revenue from capital gains taxes declines. And the combination of reduced wealth and higher interest rates will finally cause consumers to pull back on their debt-financed consumption.

Continued on page 4

POOF! Ashes to Ashes, Debt to Dust

Continued from page 1

No wonder this entire structure is coming down as you read this. Yet, this ridiculous structure assumes an air of unquestionable solidity when compared with credit derivatives – private contracts, traded over the counter, that are supposed to 'insure' the future creditworthiness of banking institutions built on this quicksand-like debt-foundation.

While the financial world is quickly burning itself out in this fashion, the major central banks of the world are combining forces in shoveling more fuel into this all-consuming furnace by 'swapping' yet another 190 billion dollars into the interbank lending markets. You see, banks, which normally thrive on making loans (creating debt), are now afraid to lose whatever debt (deposits) they already have out of fear the banks they are lending to might not be able to cough that same debt back up if they go under. Without the deposits, they can't lend (get more people into debt). Poor banks.

The really sad part in all of this is that if you, a customer, put money in the bank for safekeeping purposes, you have legally speaking already lost it. It is no longer yours. It becomes part of the bank's property. All you have left is a legal claim for the return of a like sum, plus whatever measly little interest the bank may agree to pay you for your confidence in its terminal instability.

'Fedman' Swoops in for the Rescue

What? Banks are in danger? Oh boy, now Mama-bank must protect her young. Since Mama-bank (the Fed) owns the government, this is rather easy to do. Twist some arms in high places, and you get a taxpayer-sponsored bailout package for your devil's spawn, uhm, tender offspring.

In essence, what the Fed has been trying to do so far was to swoop in like Superman, wrap the atomic toxic debt bomb in his indestructible cape, and fly out to space to release it, or let it explode in his cape and leave the people unharmed.

The question, of course, is how indestructible is Fedman's cape? But, that was then. Now, the Fed is taking so-called 'assets' that have potentially zero value and pays 'real' money for them – sweet, fresh, recently created out-of-nothing cash – in the form of 'non-recourse loans'. (The loans that collateralize these debt obligations, called CDO's have no value if the borrowers walk away from them - and nobody can know how many or which ones will be walked away from). Essentially, non-recourse means it's free money to the banks. The Fed can't force them to pay that money back if they don't want to. All the Fed can do is to get 'the collateral' – the toxic slime represented by these ready-to-implode loan assets.

This is another step up, yet, from its 'term lending facility' under which it swapped bad CDO's for US treasuries. Of course, these treasuries were swapped for toxic slime on a loan-basis only, so that means 'Fedman' was wrapping the bomb into his cape only for a time and then planned to unwrap it again. Since nobody knows when the bomb will go off (least of all Fedman), how good of a strategy was this? It's little more than window dressing, really. What's more, 'Fedman' doesn't appear to realize that the bomb is wholly made of kryptonite. The longer he is exposed to it, the higher then chance it will end up killing Fedman himself.

Hit Me with the Enron-Stick, Hit Me, *Hit Me!*

At the end of the day, the Fed has created new money to 'buy' bad debt that will be carried on the Fed's balance sheet. Of course, the Fed makes the rules, so it will surely make new rules that will make the reporting of its balance sheet sound far better than what it carries. In other words, the Fed is putting Enron and its accounting firm Arthur Anderson to shame in terms of who can get more 'creative' with accounting rules. The American taxpayer is being sodomized with an Enron-stick.

Treasuries Deflate – Somewhat

As a result, we have a situation brewing that will be of great interest to gold investors. Treasuries

Continued on page 4

The fruit of hypocrisy

Continued from page 1

all of a sudden they demand state intervention: they must be bailed out; they are too big, too important to be allowed to fail.

Eventually, however, we were always going to learn how big the safety net was. And a sign of the limits of the US Federal Reserve and treasury's willingness to rescue comes with the collapse of the investment bank Lehman Brothers, one of the most famous Wall Street names.

The big question always centres on systemic risk: to what extent does the collapse of an institution imperil the financial system as a whole? Wall Street has always been quick to overstate systemic risk - take, for example, the 1994 Mexican financial crisis - but loth to allow examination of their own dealings. Last week the US treasury secretary, Henry Paulson, judged there was sufficient systemic risk to warrant a government rescue of mortgage giants Fannie Mae and Freddie Mac; but there was not sufficient systemic risk seen in Lehman.

The present financial crisis springs from a catastrophic collapse in confidence. The banks were laying huge bets with each other over loans and assets. Complex transactions were designed to move risk and disguise the sliding value of assets. In this game there are winners and losers. And it's not a zero-sum game, it's a negative-sum game: as people wake up to the smoke and mirrors in the financial system, as people grow averse to risk, losses occur; the market as a whole plummets and everyone loses.

Financial markets hinge on trust, and that trust has eroded. Lehman's collapse marks at the very least a powerful symbol of a new low in confidence, and the reverberations will continue.

The crisis in trust extends beyond banks. In the global context, there is dwindling confidence in US policymakers. At July's G8 meeting in Hokkaido the US delivered assurances that things were turning around at last. The weeks since have done nothing but confirm any global mistrust of government experts.

How seriously, then, should we take comparisons with the crash of 1929? Most economists believe we have the monetary and fiscal instruments and understanding to avoid collapse on that scale. And yet the IMF and the US treasury, together with central banks and finance ministers from many other countries, are capable of supporting the sort of "rescue" policies that led Indonesia to economic disaster in 1998. Moreover, it is difficult to have faith in the policy wherewithal of a government that oversaw the utter mismanagement of the war in Iraq and the response to Hurricane Katrina. If any administration can turn this crisis into another depression, it is the Bush administration.

America's financial system failed in its two crucial responsibilities: managing risk and allocating capital. The industry as a whole has not been doing what it should be doing - for instance creating products that help Americans manage critical risks, such as staying in their homes when interest rates rise or house prices fall - and it must now face change in its regulatory structures. Regrettably, many of the worst elements of the US financial system - toxic mortgages and the practices that led to them - were exported to the rest of the world.

It was all done in the name of innovation, and any regulatory initiative was fought away with claims that it would suppress that innovation. They were innovating, all right, but not in ways that made the economy stronger. Some of America's best and brightest were devoting their talents to getting around standards and regulations designed to ensure the efficiency of the economy and the safety of the banking system. Unfortunately, they were far too successful, and we are all - homeowners, workers, investors, taxpayers - paying the price.

Article by: Joseph E Stiglitz is university professor at Columbia University and recipient of the 2001 Nobel prize in economics josephstiglitz.com

Compared with previous recessions, the last two downturns can be pinned more on greed.

David R. Francis

It used to be that post-World War II recessions in the United States were the bad part of plain vanilla business cycles – inventories had piled up too high as a result of too few sales, or the Federal Reserve raised interest rates and slowed the supply of new money into the economy to battle inflation.

But the mild 2001 recession and the current slump are a bit different.

Their cause, at least partly, has been dishonesty, greed, and weak business ethics. The accounting scandals at Enron, Global Crossing, WorldCom, etc., combined with the bursting of the dotcom stock bubble, pushed the economy down in 2001.

Today's sinking economy, to some degree, is the result of sagging real estate values and the bad behavior of many in the mortgage industry and on Wall Street. Losses from today's financial crisis have already reached $500 billion.

In mature, highly developed countries like the US, individual acts of malfeasance are unlikely to have a widespread effect on the economy, notes Frank Vogl, cofounder of Transparency International, a nonprofit group which ranks nations each year by their degree of corruption, as perceived by investors. (Its next report is scheduled for release next week.)

Continued on page 7

It’s Official: The Crash of the U.S. Economy has begun

Continued from page 2

It happened after the junk-bond and savings-and-loan collapses of the late 1980s. It happened after the tech and telecom bust of the late '90s. And it will happen this time.”

Samuelson’s column, “The End of Cheap Credit,” left the door slightly ajar in case the collapse is not quite so severe. He wrote of rising interest rates, “As the price of money increases, borrowing and the economy might weaken. The deep slump in housing could worsen. We could also discover that the long period of cheap credit has left a nasty residue.”

Other writers with less prestigious platforms than the Post have been talking about an approaching financial bust for a couple of years. Among them has been economist Michael Hudson, author of an article on the housing bubble titled, “The New Road to Serfdom” in the May 2006 issue of Harper’s. Hudson has been speaking in interviews of a “break in the chain” of debt payments leading to a “long, slow economic crash,” with “asset deflation,” “mass defaults on mortgages,” and a “huge asset grab” by the rich who are able to protect their cash through money laundering and hedging with foreign currency bonds.

Among those poised to profit from the crash is the Carlyle Group, the equity fund that includes the Bush family and other high-profile investors with insider government connections. A January 2007 memorandum to company managers from founding partner William E. Conway, Jr., recently appeared which stated that, when the current “liquidity

Continued on page 6

POOF! Ashes to Ashes, Debt to Dust

Continued from page 2

took a huge one-day hit on Friday. The press spins it as a relief-rally for stocks. In the world of financial reporters where government actions are always effective and never fail, now that money markets are ‘safe’ again, people don’t need to run to treasuries for safety anymore.

That’s a bunch of BS. In truth, because the US government/Fed conglomerate is taking on worthless trash as collateral for soon-to-be worthless cash, the government’s debt becomes a bad (or even worse) investment. But, the crowds will not recognize this anytime soon. Dumb people are so much easier to (mis)lead, aren’t they?

The Debt-Slaves' Rebellion

Government/Fed policies have sucked regular Americans deeper and deeper into debt so they can consumer more junk food and invest in junk stocks and bonds and make the bankers more money. With real interest rates below the real inflation rate, you have to invest, or you lose money. While our parents and grand-parents still saved money, we spent our inheritance and borrowed money to invest. Sure, profligacy has something to do with it, but so did ultra-low interest rates.

Money was ”cheap” (to borrow) so, hey, why not? The financial firms were laughing all the way to (their own) bank – but now, who’s laughing? The debt slaves are walking off the plantation, leaving the bankers paper-empires in shambles in their wake. Poetic justice, that’s all it is, really.

After all, if my finances are so messed up that paying my mortgage costs me more than paying rent, especially when my ARM payment balloons into the stratosphere, why should I hold on to that house that I couldn’t afford to begin with? Even people with top-line credit are walking off the plantation, now.

What’s more, the slave owners were so remiss in their already minimal duties that they messed up their paperwork. Many buyers of mortgages never took the time to make sure they got all of their little ducks in a row.

Now, homeowners threatened with foreclosure are finding out that fighting back pays – big time. Courts are getting annoyed with lazy mortgage holders who can only produce an “affidavit of lost records” in court – and the judges are starting to rule in favor of homeowners.

It is estimated that more than half of all mortgage holders fall into this category. They may not even be able to get the property if the borrowers leave the plantation. Ha! What effect do you think that will have on the Fed’s efforts to buy all of this slime up with newly created dollars while sticking hardworking Americans with the inflation tax? The Fed’s balance sheet will implode! That’s why it wants ‘authority’ from Congress to tell Congress how much it must borrow from the Fed so the Fed can restock on treasuries. Double ‘Ha!’

It’s time for Americans to tighten their belt-buckles a little bit. We have sold our inheritance to the bankers in return for a nice, gleaming set of debt-shackles – but the shackles don’t fit anymore, and they are brittle. Very brittle! Shake them off, take your lumps, and rebuild a new government, new banking system, and a new economy to boot.. Buy gold, silver, food, water, and some lead to protect it all, and let your masters go ‘poof!’ Easy come, easy go - so what? Shake off your shackles and use them to slap those who put them on you. It works like magic: poof – and they are gone! Without the toil they extort from you, they starve - you win!

Got gold?

Article by:
Alex Wallenwein
September 21, 2008

Fed, central banks move to boost global confidence

Patrick Rizzo & Jeannine Aversa

Wall Street's biggest crisis since the Great Depression forced the Federal Reserve and central banks in other countries to pump billions of dollars into the world's banking system in an urgent bid to stop further damage.

The Fed plowed as much as $180 billion into money markets overseas. At home, the New York Federal Reserve acted to ease a spike in overnight lending rates by injecting $55 billion into the banking system.

Wall Street initially rallied, but it shed the gains and traded mostly lower by midday. Treasury securities and gold soared as investors fled to their relative safety.

Worries about even the safest investments intensified as Putnam Investments suddenly closed a $15 billion money-market fund after institutional investors quickly pulled out cash.

And the two remaining major Wall Street investment banks — Goldman Sachs Group Inc. and Morgan Stanley — were under siege.

President Bush canceled an out-of-town trip to stay in Washington and to huddle with Treasury Secretary Henry Paulson. Bush pledged to do all that was necessary to stem the crisis, whose fallout threatens the already fragile economy.

"The American people can be sure we will continue to act to strengthen and stabilize our financial markets and improve investor confidence," Bush said.

A sharp rise in borrowing costs has worsened as bad bets on dodgy mortgage-backed securities claimed more Wall Street giants. The total amount of commercial paper fell by $52.1 billion for the week that ended Wednesday, as banks cut back the short-term loans companies from small garment factories to General Electric Co. depend on for their daily operations. At the same time, the interest rate on those short-term loans more than doubled, with rates for seven-day paper jumping to 4.5 percent from 2.5 percent.

Russia closed its stock exchanges for a second day Thursday as President Dmitry Medvedev pledged a 500 billion ruble ($20 billion) injection into financial markets to stem a dizzying plummet in share prices — and quash fears of a repeat of the country's 1998 financial collapse.

The Dow Jones industrials slipped about 25 points in whipsaw trading by early afternoon Thursday after dropping 450 points Wednesday when a Fed bailout of American International Group Inc., one of the world's largest insurers, failed to settle the markets' frayed nerves. About $700 billion in investments vanished and trading volumes set new records Wednesday.

Investors were dumping their money into 3-month Treasury bills. Gold prices spiked to nearly $900 an ounce.

Morgan Stanley's stock price plunged again Thursday as the investment bank scrambled to strike a major deal or raise more cash that will reassure investors and prevent more damage to its free-falling shares.

John Mack, CEO of the bank — now one of only two large standalone investment banks — reached out to China's Citic Group overnight about a possible investment, according to a person familiar with the talks. Morgan Stanley is also considering a combination with retail bank Wachovia Corp. and an investment from Singapore Investment Corp., one of the world's biggest sovereign wealth funds, said the person, who spoke on the condition of anonymity because the discussions were still ongoing.

Goldman's stock was down nearly 15 percent to $98.40 in afternoon trading, having lost nearly 70 percent of its value in two weeks.

Administration officials refused to attend a closed-door briefing with House Republicans Thursday morning, said Rep. John A. Boehner of Ohio, the GOP leader,

Continued on page 6

Banks vulnerable as 'rotten' foundations crumble

Christian Plumb

(CNN) -- From pubs in London to bars in New York, everyone is asking the same question: Why is this financial crisis different? The answer is simple albeit not sexy. The rot has set in.

Traders will continue to feel the strain until the world's investment banks can restore the loss of confidence.

The world's investment banks are basically houses built on pillars of money. Sometimes those pillars are cash, often bonds; these days pillars are made up of derivatives, swaps, options and other frighteningly complex instruments.

But these pillars are the strength that supports not only the bank itself, but also its debts and liabilities.

Under technical rules the pillars have to be transparent and of a certain quality, so that investors know just how well propped up the bank is. In layman's terms -- everyone can tell "the bank is safe!" If the pillars remain strong -- the bank stays standing.

What has happened is that the rot has got into the pillars and no-one noticed. If they were wooden it would be worms. The very financial instruments that make up the core of the banks are questionable.

No-one can say for certain how much these instruments are worth, if anything. No-one knows if counterparties to deals are financially secure and will be around tomorrow. The very structure upon which banks like Lehman depended became doubtful.

Continued on page 7

Fed, central banks move to boost global confidence

Continued from page 5

leaving their congressional allies in the dark about recent actions to prop up insurer American International Group Inc. and whether further bailouts might be on the horizon.

Sen. Chris Dodd, D-Conn., the Banking Committee chairman, was peeved when Paulson twice canceled appearances he was to have made before the panel this week. Senators will have to wait until Tuesday to hear from the Treasury secretary and Bernanke on the financial meltdown.

A group of House GOP conservatives circulated a letter to Paulson and Bernanke calling on them to "refrain from conducting any additional government-financed bailouts for large financial firms.

The Fed said it had authorized the expansion of swap lines, or reciprocal currency arrangements, with the other central banks, including amounts up to $110 billion by the ECB and up to $27 billion by the Swiss National Bank.

The Fed also said new swap facilities had been authorized with the Bank of Japan for as much as $60 billion; $40 billion for the Bank of England and $10 billion for the Bank of Canada.

All told, Fed action increased lines of cash to central banks by $180 billion to $247 billion.

For more than a year, investors around the world have watched with growing alarm as the U.S. economy, the world's largest, has struggled to right itself before being tipped over the edge by massive foreclosures, shrinking consumer spending and rising inflation. The turmoil has swallowed some of the most storied names on Wall Street. Three of its

Continued on page 8

It's Official: The Crash of the U.S. Economy has begun

Continued from page 4

environment"—i.e., cheap credit—ends, "the buying opportunity will be a once in a lifetime chance."

The fact that the crash is now being announced by the Post shows that it is a done deal. The Bilderbergers, or whomever it is that the Post reports to, have decided. It lets everyone know loud and clear that it's time to batten down the hatches, run for cover, lay in two years of canned food, shield your assets, whatever.

Those left holding the bag will be the ordinary people whose assets are loaded with debt, such as tens of millions of mortgagees, millions of young people with student loans that can never be written off due to the "reformed" 2005 bankruptcy law, or vast numbers of workers with 401(k)s or other pension plans that are locked into the stock market.

In other words, it sounds eerily like 2000-2002 except maybe on a much larger scale. Then it was "only" the tenth worse bear market in history, but over a trillion dollars in wealth simply vanished. What makes today's instance seem particularly unfair is that the preceding recovery that is now ending—the "jobless" one—was so anemic.

Neither Perlstein nor Samuelson gets to the bottom of the crisis, though they, like Conway of the Carlyle Group, point to the end of cheap credit. But interest rates are set by people who run central banks and financial institutions. They may be influenced by "the market," but the market is controlled by people with money who want to maximize their profits.

Key to what is going on is that the Federal Reserve is refusing to follow the pattern set during the long reign of Fed Chairman Alan Greenspan in responding to shaky economic trends with lengthy infusions of credit as he did during the dot.com bubble of the 1990s and the housing bubble of 2001-2005.

This time around, Greenspan's successor, Ben Bernanke, is sitting tight. With the economy teetering on the brink, the Fed is allowing rates to remain steady. The Fed claims their policy is due to the danger of rising "core inflation." But this cannot be true. The biggest consumer item, houses and real estate, is tanking. Officially, unemployment is low, but mainly due to low-paying service jobs. Commodities have edged up, including food and gasoline, but that's no reason to allow the entire national economy to be submerged.

So what is really happening? Actually, it's simple. The difference today is that China and other large investors from abroad, including Middle Eastern oil magnates, are telling the U.S. that if interest rates come down, thereby devaluing their already-sliding dollar portfolios further, they will no longer support with their investments the bloated U.S. trade and fiscal deficits.

Of course we got ourselves into this quandary by shipping our manufacturing to China and other cheap-labor markets over the last generation. "Dollar hegemony" is backfiring. In fact China is using its American dollars to replace the International Monetary Fund as a lender to developing nations in Africa and elsewhere. As an additional insult, China now may be dictating a new generation of economic decline for the American people who are forced to buy their products at Wal-Mart by maxing out what is left of our available credit card debt.

About a year ago, a former Reagan Treasury official, now a well-known cable TV commentator, said that China had become "America's bank" and commented approvingly that "it's cheaper to print money than make cars anymore." Ha ha.

Continued on page 8

Compared with previous recessions, the last two downturns can be pinned more on greed.

Continued from page 3

But, he adds, when "so many people engaged in so many aspects of finance have lost their ethical compass and put their short-term personal gains above other considerations," such as was the case in the subprime mortgage market in the US, it can have a "profound macroeconomic impact." In other words, the broad economy gets hurt by greed and selfishness as ensuing financial losses mount and trust fades.

It is difficult, of course, to disentangle quantitatively how much of today's financial mess has resulted from shady practices and how much from simple mistakes, bad decisions, and false perceptions that home prices would rise indefinitely. Brokers placing mortgages with new homeowners unlikely to afford payments on adjustable-rate loans could perhaps tell themselves that rising real estate values would enable new owners to refinance their homes later and keep them. Is that bad judgment or unethical behavior by brokers, with some home buyers going along?

Certainly it's unethical if dubious information about an applicant's finances is included in the documentation. "Individuals get carried away," says David DeRosa, a finance professor at the Yale School of Management in New Haven, Conn. As he sees it, the housing problem lies more in reckless unwise decisions on home financing. In the case of financial derivatives that have got major banking firms in trouble (such as Lehman Brothers Holdings last week), part of the difficulty arose from poor risk assessment, using new financial models, he says.

In 1993, religious institutional investors began making "eerily prophetic warnings" of an impending subprime mortgage debacle in the US, says Laura Berry, executive director of the Interfaith Center on Corporate Responsibility.

These firms long ago voiced concerns in regard to predatory lending practices, inappropriate underwriting standards, and the potential consequences of securitization of debt instruments, that is, the packaging of bundles of mortgages and other loans into a big single investment for sale to pension funds and other investors around the world. If the early warnings had been heeded, the world "would have avoided the kind of meltdown we are experiencing today," she says.

Ms. Berry argues that ethical investing practices are less likely to lead to catastrophic losses. She notes that investment funds compliant with Muslim sharia rules, including strict prohibition of investments tied to collection of interest, have performed extremely well in the current down market. Berry holds that the "old rules," the rules of ethics set out ages ago by Christian, Muslim, and other leaders, are still in place.

ICCR members often strive to encourage corporate executives to follow good governance rules, using their investment money as leverage. Corporations were created in the first place hundreds of years ago "for the public good," Berry says, not merely to benefit managers or shareholders alone. This goal gives them "their license to operate," she says.

But the former Citigroup money manager cautions that the globalization of finance and the ability to move money and financial information with great speed through modern communications has multiplied the dangers from poor and unethical investment decisions.

"We have moved from arithmetic to calculus," she says.

Article by:
David R. Francis
September 15, 2008

Banks vulnerable as 'rotten' foundations crumble

Continued from page 5

If this was happening to just one or two banks then it would be a "nasty business." But it is happening to all the banks -- at once.

The major names have all been taking on these dodgy instruments and are all now seeking better quality investments and cash. And of course those with the cash want to keep it to themselves, in case they need it -- hence the term credit crunch.

Often during a period of financial turmoil there are clearly definable events -- oil crises, war, acts of terror -- which cause a loss of confidence which leads to a slowdown and possibly a recession.

But the infrastructure of the banks remains by-and-large solid. The pillars remain standing. Here the exact opposite is happening. Every event merely puts dodgy pillars under more strain and eventually they give way.

This is what links today's crises with those of the past: 1929 Wall Street Crash; 1970's Oil Crises; Black Monday, 1987; the Dot Com bubble bursting in 1998.

In all cases it wasn't just a turn of the economic cycle gone wrong, it was a problem at the very core of the financial system which in size and scale meant everyone was affected and from which no-one escaped.

How will this play out? Badly. Until the financial pillars can be rebuilt then there is little anyone can do but watch some banks get rescued, while others collapse completely.

Article by:
Christian Plumb
CNN
September 18, 2008

Fed, central banks move to boost global confidence

Continued from page 6

five major investment banks — Bear Stearns, Lehman Brothers and Merrill Lynch — have either gone out of business or been driven into the arms of another bank.

After the government bailed out the insurer AIG and a money fund "broke the buck," investors were worried about the riskiness of most assets.

It was the fourth consecutive day of extraordinary turmoil for the American financial system, beginning with news on Sunday that Lehman Brothers, would be forced to file for bankruptcy.

The 4 percent drop Wednesday in the Dow reflected the stock market's first chance to digest the Fed's decision to rescue AIG with an $85 billion taxpayer loan that effectively gives it a majority stake in the company. AIG is important because it has essentially become a primary source of insurance for the entire financial industry.

Article by:
Patrick Rizzo & Jeannine Aversa
AP Business Writters
September 18, 2008

The Outstanding Public Debt

National Debt:
9,671,833,118,509.18
The estimated population of the United States is **304,775,680**
US citizen's share of this debt is
$31,734.27
The National Debt has continued to increase an average of
$1.84 billion per day
Business, Government and Financial Debt exceeds
$60 Trillion

It's Official: The Crash of the U.S. Economy has begun

Continued from page 6

It is truly staggering that none of the "mainstream" political candidates from either party has attacked this subject on the campaign trail. All are heavily funded by the financier elite who will profit no matter how bad the U.S. economy suffers.

Every candidate except Ron Paul and Dennis Kucinich treats the Federal Reserve like the fifth graven image on Mount Rushmore. And even the so-called progressives are silent. The weekend before the Perlstein/ Samuelson articles came out, there was a huge progressive conference in Washington, D.C., called "Taming the Corporate Giant." Not a single session was devoted to financial issues.

What is likely to happen? I'd suggest four possible scenarios:

- Acceptance by the U.S. population of diminished prosperity and a declining role in the world. Grin and bear it. Live with your parents into your 40s instead of your 30s. Work two or three part-time jobs on the side, if you can find them. Die young if you lose your health care. Declare bankruptcy if you can, or just walk away from your debts until they bring back debtor's prison like they've done in Dubai. Meanwhile, China buys more and more U.S. properties, homes, and businesses, as economists close to the Federal Reserve have suggested. If you're an enterprising illegal immigrant, have fun continuing to jack up the underground economy, avoid business licenses and taxes, and rent out group houses to your friends.
- Times of economic crisis produce international tension and politicians tend to go to war rather than face the economic music. The classic example is the worldwide depression of the 1930s leading to World War II. Conditions in the coming years could be as bad as they were then. We could have a really big war if the U.S. decides once and for all to haul off and let China, or whomever, have it in the chops. If they don't want our dollars or our debt any more, how about a few nukes?
- Maybe we'll finally have a revolution either from the right or the center involving martial law, suspension of the Bill of Rights, etc., combined with some kind of military or forced-labor dictatorship. We're halfway there anyway. Forget about a revolution from the left. They wouldn't want to make anyone mad at them for being too radical.
- Could there ever be a real try at reform, maybe even an attempt just to get back to the New Deal? Since the causes of the crisis are monetary, so would be the solutions. The first step would be for the Federal Reserve System to be abolished as a bank of issue and a transformation of the nation's credit system into a genuine public utility by the federal government. This way we could rebuild our manufacturing and public infrastructure and develop an income assurance policy that would benefit everyone.
- The latter is the only sensible solution. There are monetary reformers who know how to do it if anyone gave them half a chance.

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June 14, 2007

ORE-VISION

Views and Analysis on the economy and Precious Metals

Published by Certified Gold Exchange, Inc.
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