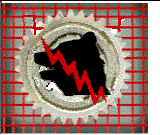




## THE BOOM - BUST ALERT



"There is always a bull market raging somewhere on this planet" - Byron King

### In Search of Clarity.

By Joe Average,  
June 2008.

[www.lifetoday.com.au](http://www.lifetoday.com.au)

***"Every single release of late has afforded both bulls and bears the chance to grab onto data to support their view of the economy, but it does not do a whole lot for those in search of clarity."***

To those words by Richard Moody (chief economist Mission Residential) may we all say **"Amen"**.

#### **New Boom or Bear Market Rally?**

The Dow has bounced back 12 percent over the past two months since the Fed's historic and unprecedented rescue of collapsing investment bank Bear Sterns, but looks to be faltering and still remains down some 11 percent from its October 2007 high of 14,164.

The more bullish analysts take the view that the February shake-out/ crashette/ mini-recession...whatever it was... is all over and that now it's **"up, up and away"**. They **"anticipate that the Dow and S&P 500 finally will break out of their current trading ranges...This view is reinforced by the action of the Dow Transportation Average which, despite the cost of fuel (oil recently surged over US\$135 a barrel) is pushing towards its all-time high with good underlying near-term momentum."** Gregory Drahuschak, analyst Janney Montgomery Scott.

The optimists are adamant that the amazing strength of the Transports in the face of soaring fuel costs and a faltering consumer, and a once-again resurgent DJIA signal a Dow Theory Confirmation has given the green light to lift off for these markets.

Others like Tim Wood and Robert Prechter read things differently. They believe we are still under the influence of a Dow Theory Non-Confirmation and that we're merely experiencing a bear market rally before plunging into the next, more vicious "wave 3" phase down. They see the Transports as more likely to finally break down and follow the DJIA as they both roll over together.

***"Our forecast for the balance of 2008 remains simple but profound. The stock market should fall in Cycle wave c and, as it does, it should draw down everything from the economy and gold, silver to the price of rice in China with it. Meltdowns in the housing and the financial sector are not aberrations but the wave of the future, one that is closer than ever to hitting the broadest range of financial markets."***

*Elliott Wave Financial Forecast, April 2008.*

***"We are surprised by the rebound and see this as a bear-market rally, not the beginning of another bull market...If anything, the earnings risk is increasing for stocks as the macro environment is slowing."***

*Chris Pidcock, Goldman Sachs JB Were equity strategist.*

#### **The Worst is Over...Or is it?**

***"The end of the credit crunch is in sight and losses will be less than forecast...(says ) the chairman and chief executive of the second-largest bond insurer in the United States (Ambac Financial), Michael Callen."***

*Jane Searle, Financial Review Weekly, 22 May 2008.*

***\*P.S. Ambac's investors, who have seen this stock's price vaporize over the past 12 months from \$96 to \$3.90 must be praying he's right this time!***

***“There’s no doubt that things feel better today, by a lot, than they did in March.”***

*U.S. Treasury Secretary Henry Paulson.*

***“It may be a sucker’s rally...Investors want to believe. But if I’m right, then there’s truth to the argument that this is the worst financial crisis since the end of World War II.”***

*Jean-Marie Eveillard, First Eagle Global Fund.*

***“Battlestations! S&P in Topping Mode...instead of the ‘worst being already over,’ we lean heavily toward the idea that the ‘worst is still ahead’. The price action of stocks like Fannie Mae, Lehman Brothers, and Citicorp is enough to give us bad indigestion...huge degrees of financial leverage are in play... ‘Run, don’t walk for the exits’ would be our best advice.”***

*Frank Barbera, The Gold Stock Technician.*

U.S. consumers, still reeling from the wealth destruction being inflicted upon them by an ongoing slide in house prices, are now also being squeezed by a relentless rise in cost-of-living items, soaring energy prices, as well as a sharp tightening of credit card lending standards. According to Joseph La Vorgna (chief economist Deutsche Bank) the buying power of U.S. households has plummeted from a peak of \$1.5 trillion in 2004 to \$688 billion in 2006 and a measly \$225 billion in 2007. And Lehman mortgage strategists are still factoring in a further 12 to 20 percent fall in house prices through to end of 2009.

***“US SPOOKED BY UFO RECESSION...Consumers in the United States believe their economy is in a recession that won’t end for some time and fear inflation will soon rise to levels not seen in a generation...just as economists were trying to predict whether the economy would produce a V, U or W shaped recovery, some investors were now referring to the country’s predicament as the “UFO” recession... “We will never be sure if we really saw it, or just imagined it,” said Dr Yardeni (Yardeni Research).”***

*Anthony Hughes, New York, F.R.W. 19 May 2008.*

Meanwhile, corporate defaults are also escalating. Last year 22 of the world’s larger companies declared bankruptcy or defaulted on \$8.1 billion of debt. In the first five months of this year alone a further 28 companies (almost all in the U.S.) have defaulted on \$18.4 billion.

***“When will it (real estate) get better is the million-dollar question. It’s not going to get better for a while. I think 2009 will be worse, and there might be some more banks that go down.”***

*David Osborn, Keller Williams Realty, 13 May 2008.*

Anatole Kaletsky, a leading economic commentator for U.K.’s *The Times*, was until recently rather optimistic that America’s sub-prime crisis would not drag the world down into a serious recession. Now, however, he is suddenly very concerned indeed... ***“Just as the credit crunch seemed to be passing...another and much more ominous financial crisis has broken out. The escalation of oil prices, which this week reached a previously unthinkable US\$135 a barrel (with predictions of \$150 and \$200 soon to come), threatens to do far more damage to the world economy than the credit crunch...This would be a disaster far more momentous than the repossession of a few million homes or collapse of a couple of banks..it encourages ...developing countries to turn their backs on global markets, resorting instead to price controls, trade restrictions and currency manipulations from the rising costs of energy and food.... (it) could reverse the globalisation process that has delivered 20 years of almost uninterrupted growth to America and Europe and rescued billions of people from extreme poverty in China, India, Brazil and many other countries.”***

*The Economist* backs up Kaletsky’s fears by pointing out that China, India, Saudi Arabia and Indonesia all suffered inflation rates of 8 to 10 percent the past year (forget the bogus “official figures” being bandied about); Russia was over 14 percent, Argentina 23 percent and Venezuela hit 29 percent... ***“If you measure the numbers correctly, two-thirds of the world’s population will probably suffer double-digit rates of inflation this summer.”***

## **Lies, Damn Lies, & (Government) Statistics.**

As the cost of everyday items like food, education, medical expenses, energy, gasoline etc continues to rise

rapidly, more and more citizens on Main Street are beginning to question the Government's sanitized, massaged statistics for CPI, GDP and unemployment.

Casting aside the illusion created by Washington's smoke-and-mirrors numbers crunchers, a few analysts have applied the criteria that were used some twenty years ago to uncover a different story.

Kevin Phillips, author of ***“Bad Money: Reckless Finance, Failed Politics and the Crisis of American Capitalism”***, contends there is ***“rampant data distortion”*** and the real current unemployment rate is somewhere between 9 and 12 percent rather than Washington's 5 percent; that the true inflation rate is somewhere between 7 to 11 percent rather than around the 2 to 3 percent suggested; and the GDP is closer to 1 percent (John Williams at [www.shadowstats.com](http://www.shadowstats.com) claims it's actually negative 2 percent) rather than the mooted 3 to 4 percent.

Little wonder that CNN Money's recently reintroduced “Misery Index” paints a different picture of what's really happening out on Main Street, or should that read Mean Street?

As Joseph Russo (Elliott Wave Technology) said... ***“One last thing to remember, never fight the Fed nor trust them either.”***

### **Enough is Never Enough.**

***“There is anger about a system that permits bankers to earn huge bonuses when finance booms while taxpayers pick up the bill when banks fail.”***

*The Financial Times.*

***“Now is the time to admit that for the rich, for the mega-rich of this country, that enough is never enough, and that it is therefore incumbent upon government to rectify today's imbalances.”***

*Warren Buffett (world's richest man).*

***“I paid a \$5 million bonus to a 29-year-old punk who was so insulted he walked across the street because he could get \$7 million to \$8 million.”***

*Michael Callen (CEO Ambac Financial) talking about attitudes at the peak of financial markets euphoria.*

### **Asia not Decoupling.**

Investors in Vietnam's stocks (Asia's worst performer to date), which are down 63 percent from their peak in March 2007, aren't getting much joy as they desperately beg for government assistance in any form to try and fix the plunging stock market. With inflation running at 22 percent Vietnam's Communist Party officials are focused more on the tens of millions of rural and village poor who will be devastated if the cost of life's necessities continues to soar than on bailing out capitalistic investors.

Many investors in China's stocks also are far from happy. One angry Chinese investor is quoted (Andrew Burrell, Australian Financial Review, 7 May 2008)... ***“China's government is nothing but a thief and a liar...They cheated us to put money into the stockmarket and then took all our money away.”*** Another was quoted as complaining ***“The only function of the market is to take money from the masses, to suck our blood.”***

Smarting from unexpected heavy losses, some Chinese investor's first taste of stock markets and investing sees them less than impressed. Meanwhile, Kazuo Momma (Chief economist Bank of Japan) has ***“big concerns”*** about his nation (the world's second largest economy) on account of inflation and a global slowdown... ***“It's like a tiger is waiting at the front of the gate and a wolf is at the back...We need to be very careful not to be eaten by them”.*** *Australian Financial Review, 27 May 2008.*

***“Globalisation was not meant to be like this – a frantic race to the bottom where the devil takes the hindmost.”***

*Carl Mortished, The Times, 15 May 2008.*

All the best, Joe.

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