THE BOOM - BUST ALERT
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"There is always a bull market raging somewhere on this planet" - *Byron King*

Collateral Damage.

By Joe Average,
October 2007.
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Collateral Damage; (euphemism) inadvertent casualties and destruction inflicted on civilians in the course of military operations.

Euphemism – an inoffensive or indirect expression that is substituted for one that is considered offensive or too harsh.

Collateral: any interest in a property that secures the payment of an obligation.

www.freedictionary.com

New York reporter Robert Guy writes (The Australian, September 15 2007)…**"Unlike the euphemistic military doublespeak, the collateral damage being inflicted on the US economy and world markets is easily definable; damage to the collateral of the US housing market. That damage has investors on tenterhooks as the fallout from the slide in house prices, rising foreclosures and delinquencies, and mounting sub-prime losses radiates across the globe….while an easing of monetary policy is arguably needed, a cut of 50 basis points could be viewed as a panic move, which might only unsettle markets further."**

After Bernanke moved so boldly on September 18th to cut interest rates by .5 per cent the Dow soared 335 points. Media "talking heads" and Wall Street cheered…. one T.V. "head" proclaimed ***"God Bless the greatest central bank on earth!"*** They now had the assurance that the baton of the "Fed Put" had officially been passed on from Greenspan to Bernanke, and that the punchbowl was about to be topped up once again so the party could continue.

Was this a panic move by Bernanke? After all, his counterpart in Great Britain, Finance Minister Alistair Darling, had just hours before been forced to weigh in and stem a panic at the **crisis-wracked Northern Rock Bank** which saw worried customers queuing for days to pull their savings out. This run on the bank resulted in savers withdrawing $6 billion of their cash and sent the Bank's share price plummeting 56%.

Some of the reports attributed to nervous Northern Bank customers by the media included;

"I'm doing what everybody else is doing…panicking. I'm joining the herd." (TIME,October 1,2007).

"The website was down and no-one was answering the phone this morning…when the shares fell 20 per cent I decided to come down and take my money out!" (Financial Times September 14, 2007).
* A month earlier on August 17th the LA Times had reported similar problems of frozen websites and unanswered phones occurring to customers of U.S. Countrywide Bank which also resulted in worried savers rushing to local branches to withdraw money.

"Frozen website shows just how anxious depositors are to access their funds…the volume of traffic from depositors and mortgage holders had caused the website to freeze… the Newcastle-based bank has ridden a wave of technological and financial innovation to become one of Britain's largest mortgage lenders." (AUSTRALIAN September 15, 2007.)

"Northern rocked to its knees... It sparked a rush of customers desperate to withdraw their money." ... "Scuffles broke out at several branches as counter staff were overwhelmed by the queues. The mayhem left many customers still empty-handed at closing time." (AUSTRALIAN, September 17, 2007.)

While the Bulls appear to be back in the driver's seat, some analysts are less sanguine.

Steven Leuthold (his Leuthold Core Investment Fund has this year performed better than 97% of like funds) believes this current rebound in prices ***"should be viewed as the eye of the hurricane."***

The market's latest round of enthusiasm may be tempered by the fact that a further US$450 billion of sub-prime loans (around 30 percent of the outstanding) have to reset their honeymoon rates by the middle of next year.

Furthermore, further signs of stress are spreading around the globe.

Australia's leading credit rating Company Dun & Bradstreet reports that major trading partners in the Asia-Pacific region are slashing demands for exports and delaying payment for goods by more than twice the due date. ***"The sub-prime fall-out has had a significant detrimental impact on currency and economic growth in many countries,"*** said chief executive Christine Christian.

Meanwhile, consumers continue to plunge further into debt often maxing out on their credit cards as they find it harder and harder to keep up; and once-conservative retirees flock to take out reverse mortgages on their houses and spend most of the loans on new cars, travel and "lifestyle" purchases (hardly any reinvest the money) as they **SKI** (spend the kids inheritance).

Cowboy Mortgage Brokers.

Every morning of late when my radio-clock switches onto my regular station I'm awakened by this really annoying jingle;***... "just call halveyourhomeloan.com ...we'll show you how to do it...the banks they will be spewing...*** (Spewing; euphemism for vomiting/angry).***"***

This is just one of many non-bank mortgage brokers touting to struggling home owners with the promise to reduce or "halve your home loan". Trouble is, a study by a major Consumer Association has damned some of these brokers as failing to deliver on this promise. Instead, vulnerable home owners are simply being switched from one home-loan to another, incurring hefty fees in the process, and often end up deeper in trouble than they were before.

Meanwhile, another mortgage broker who set up down the road from my office some eighteen months ago has suddenly closed up shop and disappeared. I had to laugh. Someone had obviously thought the huge…and I mean huge!...billboard on the shop front that read ***"STUFF the BANKS"***... (STUFF; euphemism for the "F" word) was apparently very clever. When you got close enough to read the tiny, fine print above and below those words you got the whole message; "We do ***STUFF the BANKS*** won t do."

Now that the sub-prime crisis has caused many sources of cheap, easy money to dry up, looks like this broker may be one of those that end up "stuffed". The feeling in many quarters is that the major retail trading banks (backed by large customer's savings deposits) are well positioned to benefit from the current global credit crunch and seize back market share from the non-bank lenders who previously undercut them by resorting to short-term securities to fund their mortgages.

Some of these mortgage brokers behave more like dodgy used car salesman, the main difference being that instead of shafting customers with a dud product costing several thousand or several tens of thousands of dollars, they are tying people up to debts of hundreds of thousands of dollars where they are literally "betting the house".

Greenspan- the Teflon Man.

Alan Greenspan has recently hit the TV talk shows to promote his new book "The Age of Turbulence: Adventures in a New World" for which he was paid a handsome advance of US$8 million.

Funnily enough, after his eighteen years as Chairman of the Federal Reserve (during which time he became famous for his vague and ambiguous double-speak on all things economic and financial)…now his recollections are crystal clear and succinct.

He is quite clear and adamant that his stewardship during this time was fairly faultless. According to "the Maestro" any bubbles that developed on his watch were either completely undetectable early-on or were unpreventable. Any credit problems now apparent were simply due to ***"certain aspects of human nature…periodically we all go a little bit euphoric…effectively assuming with confidence that everything is terrific, there will be no problems, nothing will ever happen…Human nature hasn't changed…we can't improve ourselves."*** (John Stewart's Daily Show).

"Mr Greenspan argues that these occasional crises are unavoidable because they – and the price bubbles that precede them – are ultimately rooted in the human psyche and its propensity to lurch from euphoria to fear." (Krishna Guha, Financial Times).

I get it! It all happened because us humans simply can't help ourselves. It's our own fault…we just get too plain greedy and hyped up for our own good.

It has nothing to do with poor leadership from central bankers and government leaders, and is definitely not associated with deregulation and new innovative financial experiments.

Greenspan is now writing his own version of how he'd like to be remembered in history books.

Well, not every one is convinced.

New York correspondent David Nason (Australian September 17, 2007) suggests ***"the former Federal Reserve chairman has so many critics these days it might appropriately be subtitled, (The Age of Turbulence)… The One That I Caused."*** Nason goes on to criticise ***"Greenspan's whorish readiness…to perform interest rate reductions whenever the market demanded relief…Greenspan doesn't seem ready to apologize for his rate cuts that force-fed Wall Street's culture of greed."***

If Greenspan does indeed go on to rewrite the history books so his reputation is not tarnished by the ever growing number of critics then not only will he remembered as "the Maestro", but he should also be awarded the accolade of "the Teflon Man" where no criticism or blame stuck and he came out looking squeaky clean.

Financial Double-Speak.

"The business model is not appropriate and we will have to evolve and change. Though we will not be the only ones, I think you will see the whole lending environment change."

Adam Applegarth, chief executive Northern Rock Bank after desperate customers rushed to withdraw savings.

Plain-Speak.

Northern Rock's meteoric rise from small Newcastle-based building society to one of Britain's largest mortgage lenders was only possible thanks to Greenspan's "easy money" policy (i.e. slashing interest rates to historically low levels and maintaining them there for too long), and to ***"technical and financial innovation"*** (i.e. deregulation, complex new financial instruments, huge leverage and global internet banking).

In simple words…Northern Rock's "new business model" is flawed and doesn't work under normal circumstances. And yes…the old rules in Economics 101 most likely do still apply.

All the best, Joe.

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