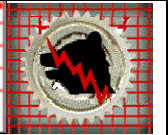




THE BOOM - BUST ALERT



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

Irrational Decision Making?

By Joe Average,
October 2008.

The expression “Irrational exuberance” was originated by Alan Greenspan to describe a runaway stock market, and was made famous by Prof. Robert Schiller in his bestselling book.

Now it seems we have a new expression... “**Irrational decision making.**”

Australian Westpac Bank's Diversified Property Fund moved recently and **froze redemptions to prevent investors from rushing to withdraw their funds.** These investors now find themselves in the same unfortunate position as many others who are locked into unlisted property funds with no way out... including Axa Wholesale Australia Property Fund, Challenger Hybrid Property Fund, Macquarie Direct Property Fund, Black Rock Direct Property, Real Estate and Combined Property Income.

The Westpac Fund manager advised investors that **it hoped to reinstate the withdrawal facility “when the demand for property funds picks up”**... (seems a bit open ended...are we talking a lot of years here?).

The global credit crunch and volatility in capital markets are blamed for forcing highly geared funds to urgently try to off-load more and more properties, just as investor demand is drying up. Rather than sell into a weak market at fire-sale prices some funds have chosen instead to freeze redemptions.

President of the Australian Direct Property Investment Association explained that **“freezing redemptions are sometimes necessary for prudent investment strategies... stopping outflows from property funds is the best way for fund managers to preserve investor value ... ADPIA contends that these managers are in fact exercising their rights as prudent and responsible managers to protect underlying unit holder value from irrational decision making ... decisions to limit redemptions have largely been made to limit the downside caused by a market characterised by bad news and panic selling”**. Ben Wilmot, Australian Financial Review, 16 September 2008.

This is very unfortunate for those investors who may need to access their funds anytime soon. They are locked in for the foreseeable future and will most likely look on helplessly as their investments gets whittled away by ongoing management fees and falling property prices. Meanwhile, the fund managers and their employees will be able to rest assured in the knowledge that their jobs are safe, **and will tell themselves that they are really helping investors from doing anything rash like trying to cash out in a weak market.**

It seems sometimes investors need to be protected from themselves... or else they just might resort to **“irrational decision making”**...even if they are only trying desperately to get their own money back.

America... “too-big-to-fail”?

The reputation of the United States has certainly taken a hammering the last few weeks as the US Treasury, Federal Reserve and Congress have rushed to Wall Street's rescue in an extraordinary bailout, the biggest since The Great Depression. A bailout that will end up being born squarely on the shoulders of US taxpayers in Main Street (the currently proposed \$700 billion rescue package will cost each taxpayer another \$5,400 on top of the \$600 billion spent so far).

The world watched incredulously as the self proclaimed beacon of Capitalism and Free Enterprise embarked on what almost looked like a wave of nationalisation of failing corporate giants... banks, mortgage lenders and insurance companies... that would have made many a fascist proud. And even as US Treasury Secretary Paulson strives desperately to put together a plan to take over more ill-liquid and toxic debt from US bank balance sheets, the struggling auto manufacturers and airlines wait in the wings.

Treasury Secretary “The Hammer” Paulson (who amassed \$500 million as former head of Goldman Sachs) shocked many with his assertion that **“raw capitalism is dead”** and **“If (the bill) doesn't pass Congress,**

then heaven help us all". Indeed, some of his critics think his recent actions more give the impression of a Wall Street banker running the world's largest vulture fund and on the acquisition trail rather than the unelected government official who proclaimed last October ***"I have no interest in bailing out lenders or property speculators"***.

The United States once held itself up as the beacon of free enterprise. The recent cover of Time Magazine, however, sees it differently... ***"THE PRICE OF GREED... How Wall Street took a mighty fall – and brought markets around the world down with it"***. Armando Falcon, former chief government regulator for Freddie and Fannie, agrees... ***"It boils down to a whole lot of greed and arrogance"***.

Meanwhile, lame-duck president Bush devotes a minute here and a minute there in televised sound-bites on this financial crisis as he tries to calm America's jitters. Less than impressed, AFR's international editor in New York Tony Walker writes about ***"the absence of White House leadership - George Bush's role has been a notch or two above that of a doorman at Claridges – for getting America out of its financial mess"***: and Ben Bernanke seems to be keeping a low profile allowing Paulson to claim centre stage.

America may be "too-big-to-fail", but at the very least it seems certain to lose its status as the world's financial superpower and principal currency as a new multi-polar financial world order emerges.

The land of the free (markets)?

Here's what people are saying about this global crisis;

"Fears of moral hazard have been abandoned amid the rescue effort. This is not how American capitalism is supposed to work.

It is hard to rate the worst of the sins: the avarice of American home owners playing the property bubble, the pride of risk-taking investment bankers emboldened by their status as 'masters of the universe', or the sloth of regulators who failed to identify and act to prevent the looming disaster (N.B. Alan Greenspan)".

Robert Guy, Australian Financial Review, 20 September 2008.

"Some are suspicious of Paulson's characterisations, finding in his warnings and demands for extraordinary powers a parallel with the way the Bush administration gained authority for the war in Iraq. Then, the White House suggested that mushroom clouds could accompany Congress's failure to act. This time, it is financial Armageddon supposed on the doorstep".

Peter Goodman, The New York Times, 23 Sept. 2008.

"(Alan) Greenspan was considered a master. Now we must ask ourselves whether he is not, after Osama bin Laden, the man who has hurt America the most".

Giulio Tremonto, Italian Economic Minister.

Ouch!...now that's a different way of putting it.

"It's hard, it's tough, but it's also the classic example of why we need change in Washington. It's an example of cronyism, special interest, lobbyists, a quasi-governmental organization where the executives were making hundreds of – some billion dollars a year while things were going downhill...going to hell in a hand-basket. This is the kind of cronyism, corruption, that's made people so justifiably angry".

John McCain, GOP nominee on CBS' "Face The Nation".

"... having read the latest Paulson bill, we fear we are back to training Pavlov's banker dogs to piss on the carpet of capitalism. We shall live with the stink and stain for a long time".

Independent Strategy, investment research house.

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 policy makers. We have become accustomed to the hypocrisy. America's financial system failed in its two crucial responsibilities: managing risk and allocating capital. 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".

Prof. Joseph Stiglitz, Columbia University, The Guardian 16 Sept.2008.

And the anger and resentment is showing;

“DON’T LET THE SPIVS DESTROY BRITAIN...Millions of British families are facing the destruction of their livelihoods as the nation’s economy teeters on the brink of catastrophe, brought low by the greed and stupidity of spivs in high finance.

Unless a new era of financial sanity is ushered in, putting high-rollers on a short leash and penalising them for their avarice, the free enterprise economics (that) brought prosperity to the Western world will be doomed.

It is a horrible thought but the greed of a few bankers and corporate fat cats could hand an undeserved lifeline to the failed creed of State socialism. It must not be allowed to happen”.

Daily Express, 17 September 2008.

Talking Rubbish?

Writing in the The Times of London (September 8, 2008) “Principal Economic Commentator and Associate Editor” Anatole Kaletsky was positive that ... ***“BAILOUT OF US GIANTS VIRTUALLY ASSURES ECONOMIC RECOVERY”***. He was of course writing about the monumental rescue of Fannie Mae and Freddie Mac. In closing his article Kaletsky was adamant ... ***“a US economic recovery is now assured”***.

Now that was one gutsy call, if somewhat premature.

Four days later he wrote that this same rescue ... ***“signalled the complete failure of the biggest, most dynamic, most innovative markets that have ever existed in the history of capitalism – the Wall Street stock market and the market for US bonds”***.

What a difference a few days make. As the news broke on Monday September 15th of the demise of two of America’s broking giants (Lehman Brothers being forced to file the biggest bankruptcy in history, Merrill Lynch’s being forced into a bailed-out by Bank of America), and with AIG teetering on the brink of collapse Kaletsky felt compelled to clarify the contradiction in his previous two articles . He wrote;

“Are these statements absurdly contradictory?.....(many would say yes).

Or did something change dramatically in those four days?.....(most would say no).

Or was I just talking rubbish?”.....(quite likely).

Kaletsky, however, writes ***“I believe the answer to all these questions is “no”***.

He then goes on to try and justify his position by stating that ***“Economic statistics in America have shown no evidence of the catastrophic collapse that seemed to be implied by credit markets and bank shares”***.

Well of course they haven’t! Enough people understand by now that the US government has long been fudging the inflation, unemployment, money supply, GDP and other figures so as to render them fairly meaningless.

Two weeks later in a complete about face in The Times on September 25th, Kaletsky blamed US Treasury Secretary Paulson because ***“American capitalism is on the brink of disaster... Paulson... does not know what he is doing... he did not know what he was talking about...has no clues and no answers to disaster... His recent blunders... have triggered unintended consequences around the world,***

resulting in the death-spiral of financial values... these Rumsfeldian achievements... 'Eerily similar to the rush to war in Iraq'.

So how come just a matter of days ago he was dead certain **“a US economic recovery is now assured”**?

If economic analysis is to be of a higher calibre than what we have come to expect from Jim Cramer and his circus on CNN, then perhaps deeper insight is needed from some of these scribes who constantly try to guide and influence us via the media. Otherwise, they leave themselves wide open to the accusation that at times they are indeed “talking rubbish”.

A new acronym: BABOONS... baby boomers with no savings.

All the best, Joe.

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