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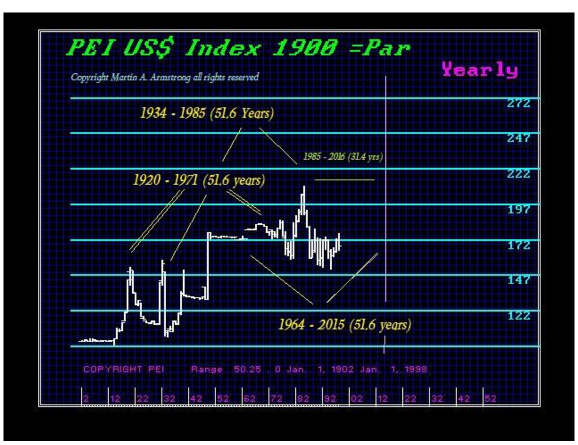
Answering Your Questions

THE 40 YEAR ANNIVERSARY OF THE FLOATING EXCHANGE RATE SYSTEM AND THE WEEK FROM HELL

The confidence in the world economy seems to have evaporated ever since the **Economic Confidence Model** turning point in June. It is true that this phase into 2016 of a **Private Wave** should be marked by a shift in confidence from **PUBLIC** to **PRIVATE** assets. So far, that lack of confidence has been widespread. The **S&P Downgrade** based upon politics rather than economics was a serious blow. The BIG money knows that the US Treasury market is the only game in town. The dollar is the reserve currency so two-thirds of central bank reserves are in dollars. All commodities trade in dollars from gold to oil. This creates a steady demand for dollars within world commerce. So the downgrading of the US Treasurys implied who is next – France? Because of the status of the dollar, it will be the last to fall and it is debatable whether hyperinflation is ever possible in the reserve currency. Historically, capital shifts prior to that causing the Financial Capital to migrate and that is followed by the collapse of the reserve currency. Such a collapse cannot take place merely because of a downgrade contrary to capital flows. Today is the 40 year anniversary of the birth of the floating exchange rate system and in these 40 years, it remains an enigma wrapped up in a paradox.



It is vital to separate the long-term from the short-term. The **Sovereign Debt Crisis** is alive and well, but that is the long-term where the financial system turns to dust - not just yet**!** Some people will take offense to that and expect everything to collapse immediately. That attitude has prevailed ever since 1971 and the birth of the floating exchange rate system. Those who stood tall proclaiming such end-of-the-world scenarios in the '70s, are dead and gone and the dollar kept on going rising to record highs in 1985 under a floating exchange rate system. There was no backing and that was not supposed to happen. Yet, the historic high for the dollar became 1985 **AFTER** the gold standard was abandoned.

Aes Signatum 274BC
Pyrrhic War

We have a rising choir who propose a return to the gold standard as if this will magically restore stability. If it was so great, then why did it collapse? What these people FAIL to understand is that MONEY is nothing more than a **MEDIUM OF ECHANGE** no different than a language. It is **NOT** the alpha and omega – that is plain old barter. Mankind engages in commerce exchange one product for another. **MONEY** is nothing more than a **DERIVATIVE** object upon which people agree to accept in exchange to broaden commerce. The problem with barter is that two people have something they want to exchange, but each may want what the other person does not have. So, **MONEY** becomes a **DERIVATIVE** reflecting **VALUE** only by the fact it is acceptable by others as the **MEDIUM OF EXCHANGE**. Cattle and bronze served as MONEY far longer than gold and cattle is still used in Africa among privative tribes.

The collapse of the gold standard on August 15th, 1971 was intended to be temporary. It collapsed because politicians had spent like a drunken sailor increasing the supply of money while failing to revise the fixed exchange rate of $35 to a troy ounce of gold. Those who claim a return to the gold standard will solve the problems failed to realize that NO standard has ever survived because you simply cannot fix the value of anything be it commodities, labor, or money. Europe is tearing itself apart because it failed to create a unified system of one currency and one debt. The gold standard collapsed because they FIXED the price of gold while wages rose, spending rose, and gold became undervalued. When capital began to realize that, dollars were being exchange for gold and that caused the system to collapse.

Capital is confused right now and all this talk of the gold standard is not helping. It doesn't know which way to turn. Many are captives of their biases. The Marxists insist this is the collapse of "capitalism" and get angry that anyone who has more money they should not be allowed to keep it. They refuse to look at the fact that it is socialism that is collapsing because it was never based upon assets, but just promises. If you enter into a contract and then refuse to honor that contract trying to change the terms, they call that **FRAUD**. Yet, this is how government functions. The Republicans refuse to raise taxes and insist upon cutting the social spending. Yet we were all promised social security in the US, our pay checks were disgorged accordingly and now the Republicans don't want to pay. The Democrats insist upon taxing the rich as if this will solve the problem for more than 6 months. Either we end up with civil war under the

Republicans who will cheat the worker who has paid into all this stuff or we will create a de facto new state of Communism with rising unemployment and declining economic growth. Neither party will address the serious issue of structural reform. The gold standard collapsed because politicians refused to change the price of gold since that would confirm that they screwed up the entire fiscal management of the country.

Today the crisis lies in Europe. The **European Central Bank** revealed Monday that it purchased €22 billion euro ($32 billion) last week, which was more than it has ever done before in a desperate measure to prop up the bond markets of Italy and Spain. The **ONLY** solution to save the euro is to consolidate all the debts into a single euro bond. The next step will be to introduce economic reform. As long as the **ECB** continues to buy the debt of the weaker states, they will eventually blow themselves up because they cannot support such a market in the face of a **Sovereign Debt Crisis**. Once the euro goes, capital will then turn to look at the dollar and then we will see the presumption that the USA will be next. That's the time to hold on to your socks and stay low.

We held the 11114 level for the weekly closing in the Dow Jones Industrials. This suggested that we may have a temporary low building into the end of the month. But after Labor Day (September 5th), we are likely to see a return to higher volatility. If the market makes a high at the end of the month, we could see another sharp decline thereafter. This may be driven by the euro once again. We need a daily closing back ABOVE 18895 to suggest we may see a rally into the end of the month.

The political will to consolidate the debt of Europe into a Eurobond does not seem hopeful as yet. This is like two bums tied together by a rope and one has fallen off the train. How long can the one remaining on the train hold on against fate? Do we cut the rope? Do we have the strength to pull him back on the train? Europe wanted a single currency without the responsibility and they got it. The system they created was as if all 50 states in the USA had the authority to print dollars. Can you image the chaos!

This week the overhead resistance in the Dow stands at 12000 and only a weekly closing above that area will signal a reversal of fortune. A daily closing in gold in New York below 1740 will signal a possible decline into the end of the month. There is a possibility of official sale of gold to reduce the debt in Europe. That would be long-term bullish since the less they have, the higher the price will rise.

So as we ponder this 40 year anniversary of the Floating Exchange Rate System, we must keep in mind that it has proven to be the best monetary system possible. Yes there is volatility. However, there is also freedom. Those who believe in gold are free to buy it rather than look at it in a museum. Capital is able to vote against the politicians and that is ultimately the ONLY voice they hear.

I am not finish working on the timing. I will complete this project this week.