

## Answering Your Questions

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### ARE EUROPEAN LEADERS JUST INSANE?

There is no question that what we need in the structure of government is more than just separation of church and state. We need separation of politics and economy. European leaders are so fixated on this bailout and who will pay for whom, that they just cannot comprehend it's the structure stupid! Latin America defaulted in the 70s and had to be restructured as bondholder took a haircut. They fail to understand that nationalizing the national debts into a single Eurobond opens the door for that "restructuring" meaning that the Greek debt would be exchanged at a discount. German taxpayers would not have to bail out anyone. The banks will need a bailout if Greece defaults because much of the debt is held among European banks as part of their reserves. They just can't make that transition to a new world where debt going forward becomes sovereign state separate and distinct from national debt as is the case in the USA. If California goes bust, it does not taken down the federal system. Is that so hard to understand?

Instead, European leaders are demanding austerity and unleashing revolution because they just do not understand the social impact of their demands. They are oblivious to the social unrest in South Europe, the high unemployment among the youth, and the fact that they just can't bullshit their way out of this one. Far too many banks are really run by the state and Europe is making the same mistake of Japan where it was the government that was the source of the problem.

I was called in to major Japanese companies with assets of over \$2 trillion before the peak in 1989. Asians understand cycles while many westerners hold up a silver cross and curse at you, so they would have been in a position to rule the world. Japan was on the precipice of greatness, but the government destroyed that all due to politics. The culture in Japan perhaps formally no longer publically believed the emperor was the son of God, but they still obeyed the government just as the kamikaze pilots did in World War II (today they would just be called terrorists). We prepared hedging proposals that would have saved Japan and propelled it to greatness. The government interfered and told the clients **NOT** to

hedge because that would make the market go down. The clients respected the government way too much as if it were the hand of God. They just sat there and one lost half a trillion dollars in 6 months. The rest of the companies held on to their portfolios because the government let it be known that they would support the market. The Nikkei kept falling and with it Japan's prospects for the future. It was the political views of government that destroyed the Japanese economy and sad to say, it looks like Europe is following suit and not far behind will be the USA.

Firsthand experience led me to see that the greatest of all economic threats is ALWAYS, and without exception, the politicians. They constantly assume political power can be translated into reversing the economy at will and make capital walk of water. Politicians should be BARRED from tinkering with the economy for they simply are not trained. And as for the academics without any experience, you might as well be a virgin monk or nun trying to write a book on sex. You can read everything, but unless you step out into the real world, you will never experience what it is really like. The Roman education system was far superior. It was the apprenticeship system where people in the real world took on kids interested in learning. There is no better way to learn the real market forces than trading. There is no pretending you are right. There is no theory that will prevail; only the harsh light of reality.

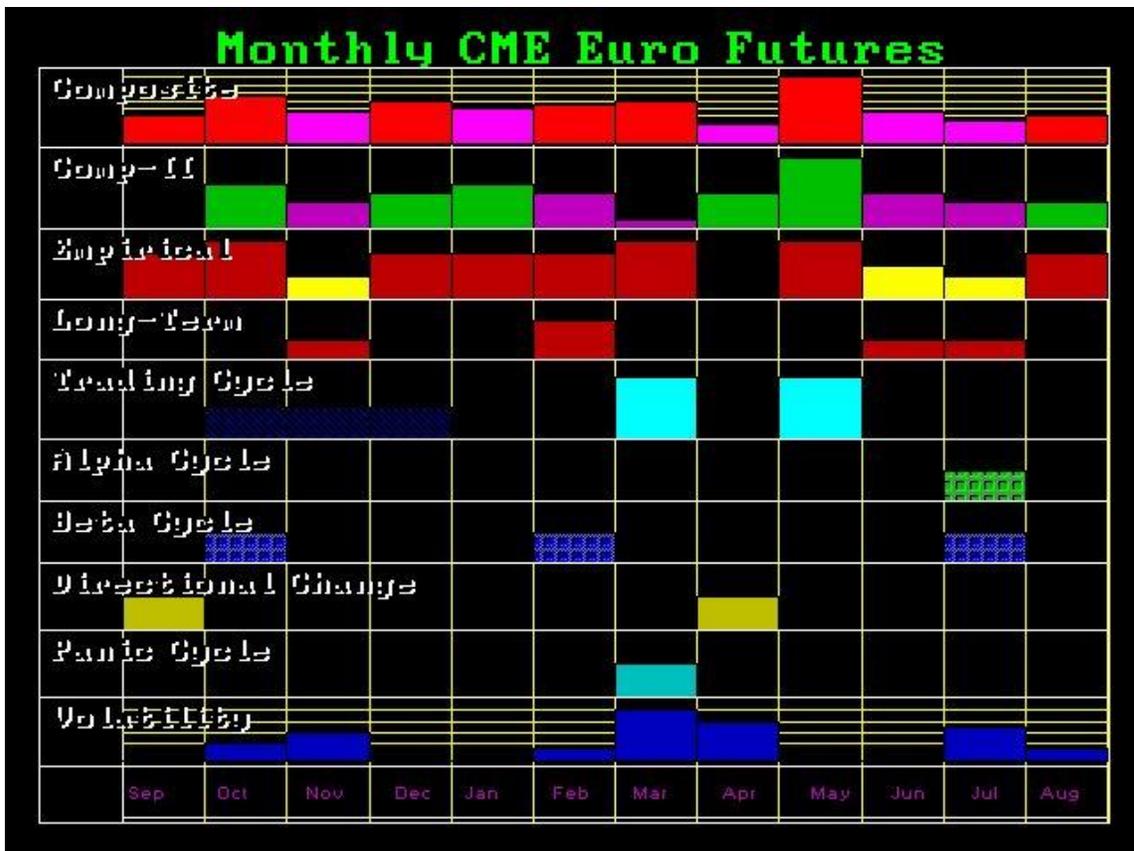
The failure to address the problems in Europe by the so called European leaders, who seem incapable of leading the way even to the bathroom, is bringing the world to the brink of real disaster. The socialistic-state controlled banks, intended to ensure no rich bastards take advantage of the people that might compete with government doing the same, are loaded to the gills with sovereign debt. The European leaders seem to be unaware of the word CONTAGION in finance. Let Greece go, and the world will see the Emperor has no clothes as was the case in Japan. At least for now, most don't even want to look for fear of the sight of a naked aging emperor.

The stubbornness of the European leadership seems to know no bounds. They will not listen to reason and consult academics with no practical experience on par with themselves. This entire Marxist experiment has proven to be a disaster. It whispered into the ears of politicians that they had the awesome power to rule the economy. The US Federal Reserve pumped \$2 trillion into the system, pushing interest rates to the floor and make a bold promise to keep rates low for two years. None of this has worked because they fail to understand the economy. Japan kept rates at near zero, and it produced the Yen Carry Trade where trillions of yen set sail to earn 8% in the USA. Meanwhile, the virtual zero interest rate screw the elderly, the one segment that bought in a decline for they feared not losing their job. Once the elderly were forced into poverty, how could they then lend a hand to their children?

The Federal Reserve is running out of options. It will roll out a reshuffling of the bonds the Fed already holds in its vaults. By exchanging short-term notes for longer-term bonds, the Fed is hoping to push long-term rates even lower than the already bargain basement rate of roughly 2 percent. It still thinks it can stimulate real estate by this stupid move. All they had to do was use the Tarp funds to shave-off 25% of the outstanding mortgages instead of lining the profits of the banks. That would have stopped the real estate meltdown by devaluing the loans and this would have prevented the vast amount of foreclosures and left people in their homes. But no; we have to always just defend the bankers. Now we have a real estate market that will take 26 years to recover from 2007 and mortgage payment for many

have been constructively transformed into rental payments with nothing going toward building equity. The Fed is putting the entire financial system at risk because by swapping long-term debt to short-term, they are increasing the volatility destabilizing the economy further. In other words, when capital begins to see it is government debt that is the problem, then rates will rise as they are in Greece. This is putting interest rates at extremely high risk to an explosive rally in the final days of this global economic crisis.

It may seem crazy, but these people just keep responding the same way during every crisis with the same result. The people are simply going to have to demand a separate economic board that runs the economy divorced of the political nonsense and central bank manipulations. We desperately need reform. And by the way, nobody related to a politician should be hired.



The Euro just looks rather bleak. Quarterly Models are pointing to the 1<sup>st</sup> Quarter in 2012 as key target. Yearly models show 2012 as critical followed by 2016 and 2021 as a Panic Cycle on a Yearly Level. Key weeks just ahead will be the first week of November. On the monthly level, illustrated here, volatility comes into play in November and we have a Turning point and Panic Cycle due in March. The key remains Monthly Bearish Reversal is 11802 on a monthly closing basis. Violate that level, and the Euro is in serious trouble. So far, the lowest monthly closing has been 12225. And June 2010 bounced off of this Reversal reaching 11880 intraday. To recover, the Euro needs a monthly closing ABOVE 15062. Weekly closing support lies at 13542 followed by 12528. The lowest weekly closing has been 13661.