



Answering Your Questions

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HAPPY DAYS ARE HERE AGAIN



FEL TEMP REPARATIO

The hit song of the Great Depression that everybody knows is "*Happy Days Are Here Again*" which was a campaign song for FDR <http://www.youtube.com/watch?v=gqsT4xnKZPg>. It is just another example of no matter how much things change, they remain very much the same. Here is a Roman bronze centenionalis issued by Constans (337-350AD) who was the youngest son of Constantine I the Great. The picture is that of a Roman soldier about to kill a fallen barbarian horseman symbolizing the barbarian threat to economic stability. The legend or caption reads **FEL TEMP REPARATIO** for which a fair translation is "*a happy renewal of times*", "*the Restoration of Happy Times*" or popularly "*Happy Days Are Here Again*". This is interesting since it is always the same political promise, no matter what action government is taking at that moment, trust them, it will lead to "*Happy Days Are Here Again*". Of course just about everyone running for US President for the last hundred years promised "change!"

As we head into the eye of the storm hoping once again that the latest bailout package will restore everything back to normal in Europe, remember this! Been there done that countless times before. The one thing in common for all forms of government, they tend to be buried in a common grave. Libya is free today. What will tomorrow bring is another story altogether. Likewise, instead of dealing with the economic crisis head on, they just can't bring themselves to do the right thing.

The European leaders are not much different than any other group of politicians. Would you go to a lawyer to have brain surgery? Yet we elect people with **NO** qualifications in the world financial markets and expect them to figure out what to do. We must be just insane. Would you let your 5 year old file your income tax?

The most important aspect is the economy. Screw that up and you get war, depression, and starvation. We then elect a whole bunch of people to posts and automatically assume these people have the (1) real intelligence **ABOVE** average to comprehend such complex subjects, and (2) they understand the right thing to do. Where did we ever get these ideas? Most of the staff members employed by politicians are smarter than the people they work for. But unless they believe an economic crisis is possible, they will not even look at the issue.

The Republican Party before it was completely usurped by the religious right had me meeting with potential Presidential candidates for the 2000 election. They would tell them I was flying in to brief them on the world economy. The real agenda was for me to report if I believed they were capable of comprehending the subject matter. I flew out to meet the Governor of Oklahoma. His Chief of Staff was brilliant. He impressed me with his ability to grasp complex subjects in the blink of an eye. It was during that period when I was asked to fly down and meet with George W. Bush. However, I was told this time was different. They told me he was “stupid” and that they really wanted me to advise him. I was stunned that they would call someone actually stupid. I asked if they were joking. They said he had the Bush name. I realize stories have appeared regarding this incident because I declined to get involved. That was irrelevant to events. I declined because I could not continue as an advisor to the private sector and take on a real up front advisory role in Government. That would have been a conflict of interest and I was not about to give up my clients for Government. On the other hand, I never met Bush, Jr. so I cannot comment on any assessment of his mental capacity. Nor did I ever advise him contrary to some other comments.



Nonetheless, the advisory role is normally filled **NOT** with traders, but with academics. China has been kicking everyone’s ass because the people I met at the Central Bank of China all had real actual experience and had worked on dealing desks at major banks in London, New York, and Tokyo. They understand markets and act like traders. There is **NO** other central bank that can touch them when it comes to qualified staff.



Europe will fail and the only open question is "when?" They simply resist creating a real single currency and lacking trading experience, they just do not get it that I can still short currencies that no longer exist by shorting bonds issued by individual member states. So for those who just don't get it, here is the table of the various different exchange rates of the individual

states to the new US dollar. Each currency was accepted according to the Free Market. Europe **MUST** do the same thing or die a slow death.

Europe has to swap the bonds of each member state according to the free market price. It will then swap and create a Eurobond. Each state retains its sovereignty and customs. Going forward, each state would then rise or fall according to its own debt credit rating. However, banks **MAY NOT** use new debt as reserves, **ONLY** the Eurobonds.

This is the **ONLY** structure that will survive. As a trader, the only play will be spreads. But if I sell Greece, I do **NOT** threaten the whole European Union. Just as it is in the United States, each state must clean its own house to get more money. It will **NOT** necessitate Germany bailing out Greece any more than the US Federal Government is compelled to support the debt in California.

So when you hear "**Happy Days Are Here Again**" because of some new proposal, keep in mind we have *been there done that before*. Unless this restructuring is done, Europe will collapse. This idea of bailing out the banks is an indirect bailout of the member states. Either do the right thing and make it really a single currency, or abandon it.

