

HOW FRIGHTENED OF THE FUTURE IS THE U.S. FEDERAL RESERVE BANK?

The Dow Index at 1000 and gold at \$4000/ounce? These are the recent predictions of Ian Gordon. I would agree, this is perfectly plausible. In fact, I would argue that the Dow Index is going to go lower than 1000, at least for a very brief period. My own investment strategy is published below. I conceived this strategy in January 2009. A number of well-connected Wall Street figures have suggested to me that many important and powerful investors are already following my strategy.

20% GOLD (own physical gold or ETF)

20% CAR (Canada, Australia, Russia)

20% HPG (listed or unlisted firms with high potential growth)

20% RM (robust multinationals)

20% SHORT (short selling)

The **WAM** audience will know that I turned unequivocally “bearish” in the summer of 2006 or so, but I was already getting very negative by the summer of 2004. It was certainly possible to sense that a peak had been reached in the American stock markets in 2000. Wall Street is by nature bullish – for obvious reasons. The business is good when the buyers (of stocks and bonds and other securities) are out in force. There is no reason to discourage buying. The prices of stocks, bonds and other securities respond of course to supply and demand. But the Wall Street sell off tells us that an economic depression is just getting started, and of course another major sell off of stocks and bonds is inevitable. We have seen the first stage of this sell off take place in 2007-2008. Ian Gordon argues that we are entering the last major phase of the Kondratieff Cycle, which is summarized below. Ian Gordon is the president of the Long Wave Group in Vancouver, Canada.

1028. Financial Cycles

A Russian Economist in the early part of the last Century identified financial cycles in the following terms, but now as we enter the *Second Half of the Age of Oil* we face an additional factor which will likely make the financial cycle much more extreme, giving an extremely harsh and prolonged winter. The following summary of the cycle is described by Ian Gordon

THE KONDRATIEFF CYCLE

The Kondratieff Cycle was first described by Nicholai Kondratieff, a Russian Economist early in the 20th century. He discovered a 50-60 year cycle in economic data series of the economies of the United States and other Western industrial nations. He used it to explain the underlying patterns of rises and falls in these economies.

An important underlying feature of the cycle is a build-up in debt during the up-phase of the cycle, and a destruction of that debt as the economy collapses in the crash phase at the end of the period, normally considered to be 50-60 years.

Spring

- Gradual increase in business activity and employment
- Consumer confidence increases in line with growing economy
- Consumer prices start a gradual increase from very low levels
- Stock prices begin a steady rise and reach a peak at the end of Spring
- Interest rises slowly from historic low levels in line with gradual credit expansion

Summer

- Summer War – 1st Cycle: War of 1812
2nd Cycle: US Civil War
3rd Cycle: World War I 1914-1918
4th Cycle: Vietnam War
- Financed by massive increase in money supply leads to large inflation which peaks at the end of Summer
- Gold prices reach significant peak at end of Summer
- Interest rates rise rapidly and peak at end of Summer
- Stock market under pressure and ends Summer with a bear market low

Autumn

- Massive stock bull market financed by fiscal and monetary largesse
- Stock prices reach euphoric peak to signal start of winter
- Inflation and commodity prices fall
- Real Estate prices rise and reach peak at beginning of winter
- Gold and Gold equities in bear market, reach bear market low at Autumn's end
- Debt reaches astronomical levels by end of Autumn
- Massive consumer confidence due to stock prices, real estate prices and plentiful jobs

Winter

- Stocks start major bear market, the bear market is in proportion to the preceding bull market
- Debt repudiation significant
- Bankruptcies
- Banks and quasi banks in crisis
- Credit crunch – interest rates rise
- International currency crises – à la 1931-34
- Gold and gold equity prices rise as deflation takes hold

As I have stated already, Ian Gordon is certainly brilliant, and his arguments and writing are very lucid and persuasive. His research is also excellent. I publish below some of his most recent analysis of the financial markets (in PDF):

[Click here](#) to read “Dow 1000 Is Not A Silly Number” (November 2009)

Where is the stock market going now? I would have to say that it is going down, way down. But there is the possibility that it may rocket up to new highs, and I have stated in **WAM** months ago why this might happen. I have not changed my opinion on this. I still believe, however, that by 2020 things will be very bad, so bad that most people, ordinary people, will think the world is coming to an end. In other words, it will not just be the religious folks who believe the world is coming to an end. Nearly everyone will. I would make these three predictions, and I list them below. I just made them this month in **WAM**.

I will make three predictions today, in this article, which is the third in my series about America's foreign creditors.

Prediction One: At some point in the future, the euro will buy many US dollars, initially \$4, then \$7, then \$20, then \$100, etc.

Prediction Two: At some point in the future, the federal government of the United States will cease to exist, it will simply collapse.

Prediction Three: At some point in the future, America's foreign creditors will withdraw their purchases of Washington's debt.

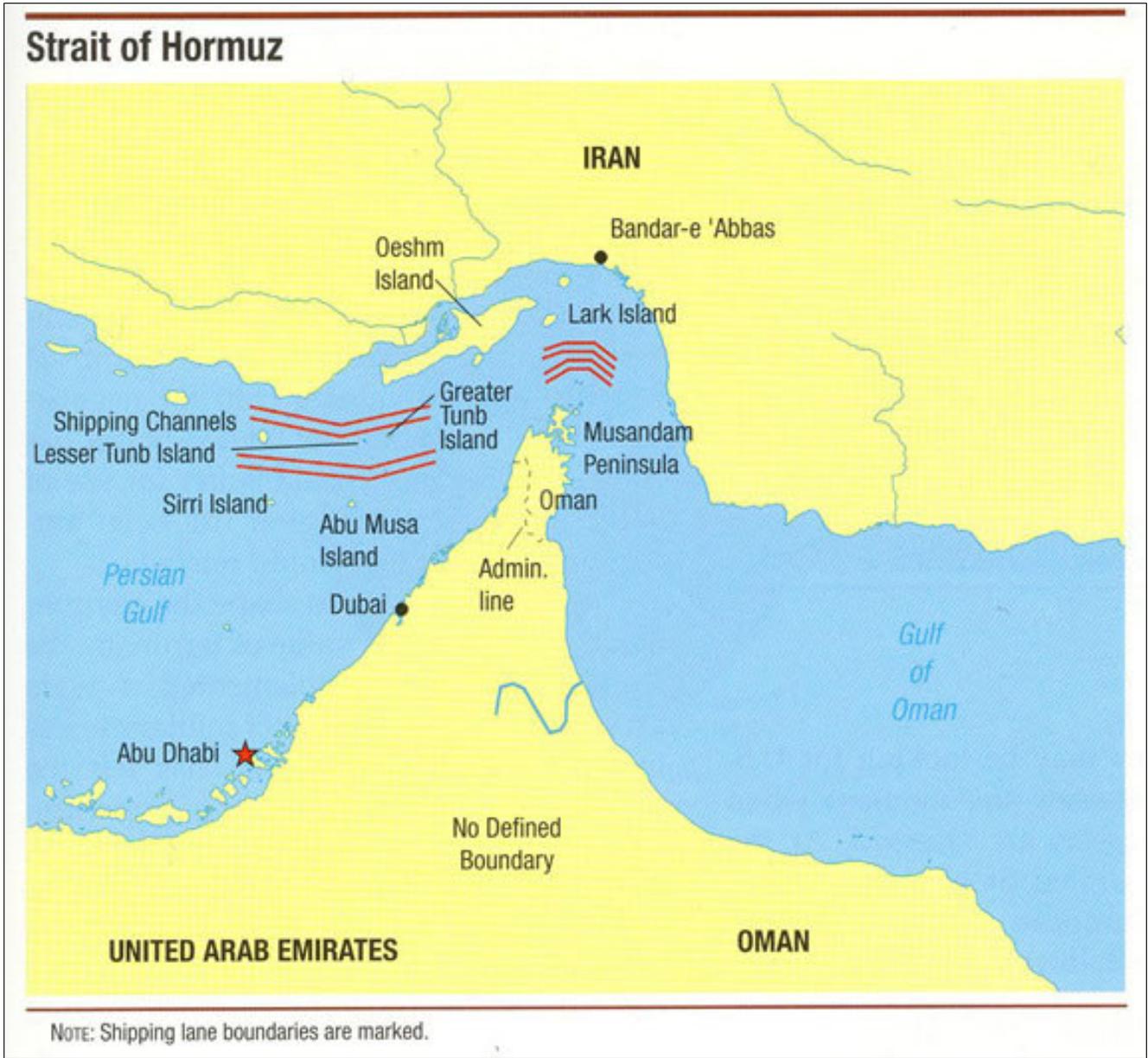
The title: THE UNITED STATES HAS NO MORE THAN 1-2 YEARS BEFORE ITS FOREIGN CREDITORS CEASE THEIR LENDING (PART THREE)

The URL: <http://worldaffairsmoonthly.com/printfriendlybyid.php?id=1375>

I recently called up (for the third time) Ian Gordon to see if he might once again explain what is happening in the world. When I asked him what he thought the folks who run the Federal Reserve Bank in Washington think, he replied, "They must be pretty frightened." I agree, I think they are simply terrified. I know for a fact that they are now terrified. Major economic contraction is coming, although it has been postponed a little by the massive money-printing and money-borrowing operation of the past year. The authorities in Washington have gone to America's foreign creditors, and got some assurance that the funding of America's economic power is going to continue. It is continuing at the moment, but I would argue that it is not likely to continue indefinitely. My guess is that it is likely to end within one to two years. When this happens things will get very bad very quickly, but I anticipate that Wall Street will signal – as it always does – that this funding crisis is imminent. There will be a historic and devastating sell off. [Click here](#) or on the audio icon above to listen to the editor of **World Affairs Monthly** interview Ian A. Gordon. The Long Wave Group can be found on the net at www.longwavegroup.com.

What are these foreign creditors now thinking? I have been writing about this in **WAM** in recent months, so I will not repeat myself. I do believe that they are close, very close, to panic. I do not think that Jean-Claude Trichet – I had a correspondence with him about ten years ago – will allow the euro to follow the debasement of the dollar. There are six documents below which will give us a secure grounding as we begin to consider what is likely to happen in 2010. These documents have appeared in

WAM already, but I publish them together to make my point that they must be considered together. Thanks so much Ian for the fascinating talk, and best wishes for 2010. I do think that we ought to soon have a discussion about the military dimensions of this drama.



WORLD CRUDE OIL RESERVES*

SELECTED COUNTRIES

(First figure is barrels of oil in billions; second figure is percent of world total)

| | | |
|------------------------------|----------------|-------|
| Saudi Arabia | 264.1 | 21.0% |
| Iran | 137.6 | 10.9% |
| Iraq | 115.0 | 9.1% |
| Kuwait | 101.5 | 8.1% |
| Venezuela | 99.4 | 7.9% |
| United Arab Emirates | 97.8 | 7.8% |
| Russian Federation | 79.0 | 6.3% |
| Libya | 43.7 | 3.5% |
| Kazakhstan | 39.8 | 3.2% |
| Nigeria | 36.2 | 2.9% |
| US | 30.5 | 2.4% |
| Canada** | 28.6 | 2.3% |
| Qatar | 27.3 | 2.2% |
| China | 15.5 | 1.2% |
| Angola | 13.5 | 1.1% |
| Algeria | 12.2 | 1.0% |
| Mexico | 11.9 | 0.9% |
| Norway | 7.5 | 0.6% |
| Azerbaijan | 7.0 | 0.6% |
| Sudan | 6.7 | 0.5% |
| India | 5.8 | 0.5% |
| Oman | 5.6 | 0.4% |
| Ecuador | 3.8 | 0.3% |
| Indonesia | 3.7 | 0.3% |
| United Kingdom | 3.4 | 0.3% |
| Gabon | 3.2 | 0.3% |
| Equatorial Guinea | 1.7 | 0.1% |
| Brunei | 1.1 | 0.1% |
| Chad | 0.9 | 0.1% |
| Total World Reserves: | 1,258.0 | |
| OPEC | 955.8 | 76.0% |
| Former Soviet Union | 127.8 | 10.2% |

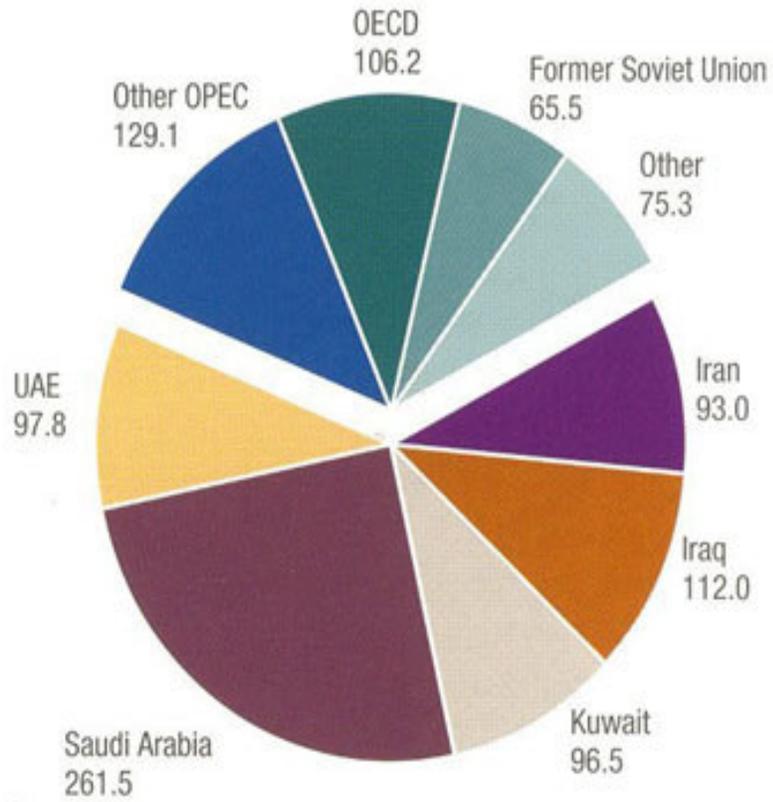
Source: BP Statistical Review of World Energy 2009

*Proved reserves of oil: Generally taken to be those quantities that geological and engineering indicates with reasonable certainty can be recovered in the future from known reservoirs under existing economic and operating conditions.

**Canadian oil sands: 150.7 billion barrels

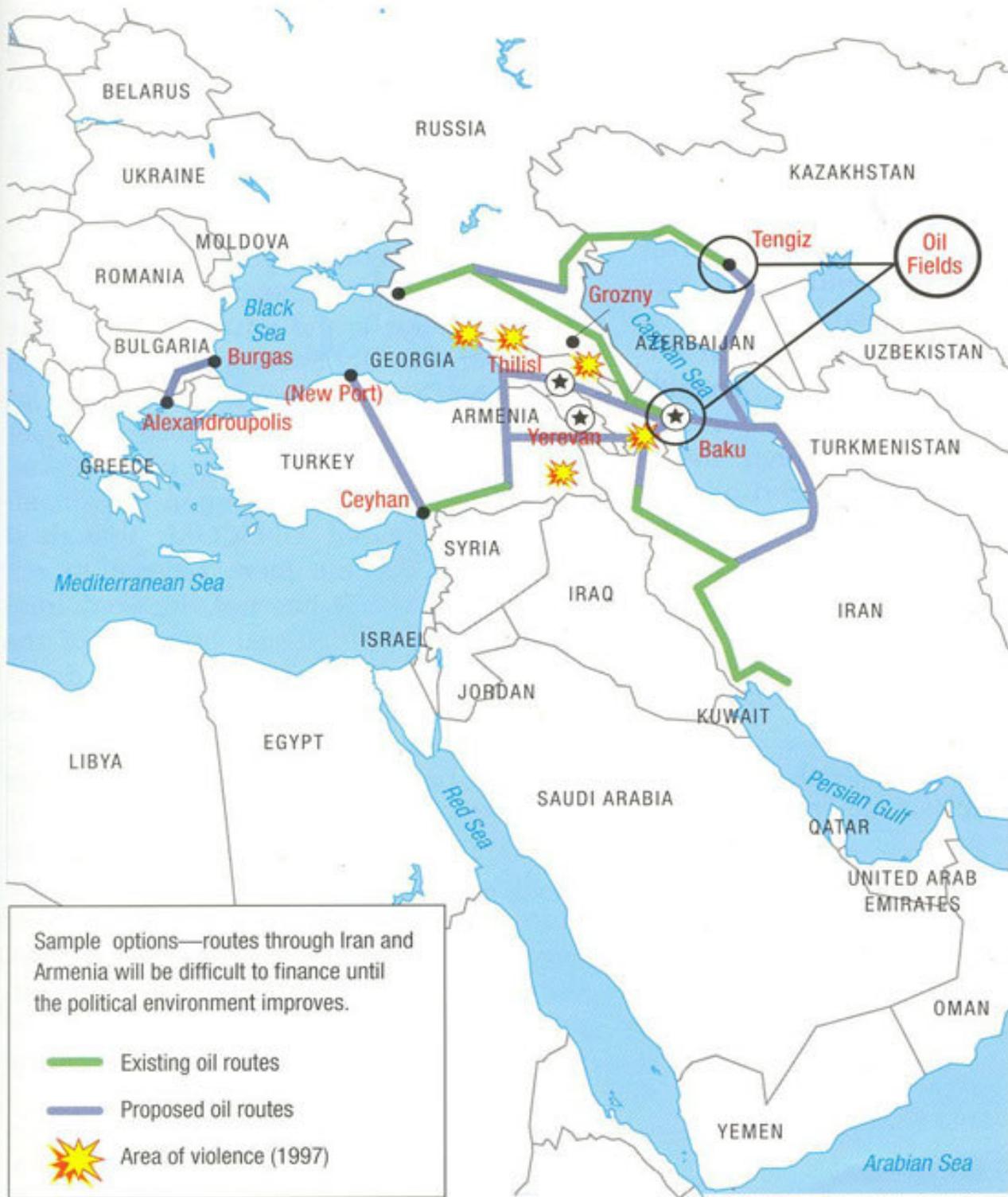
Distribution of Oil Reserves (1996)

(billion barrels)



SOURCE: British Petroleum, *Statistical Review of World Energy*, 1997

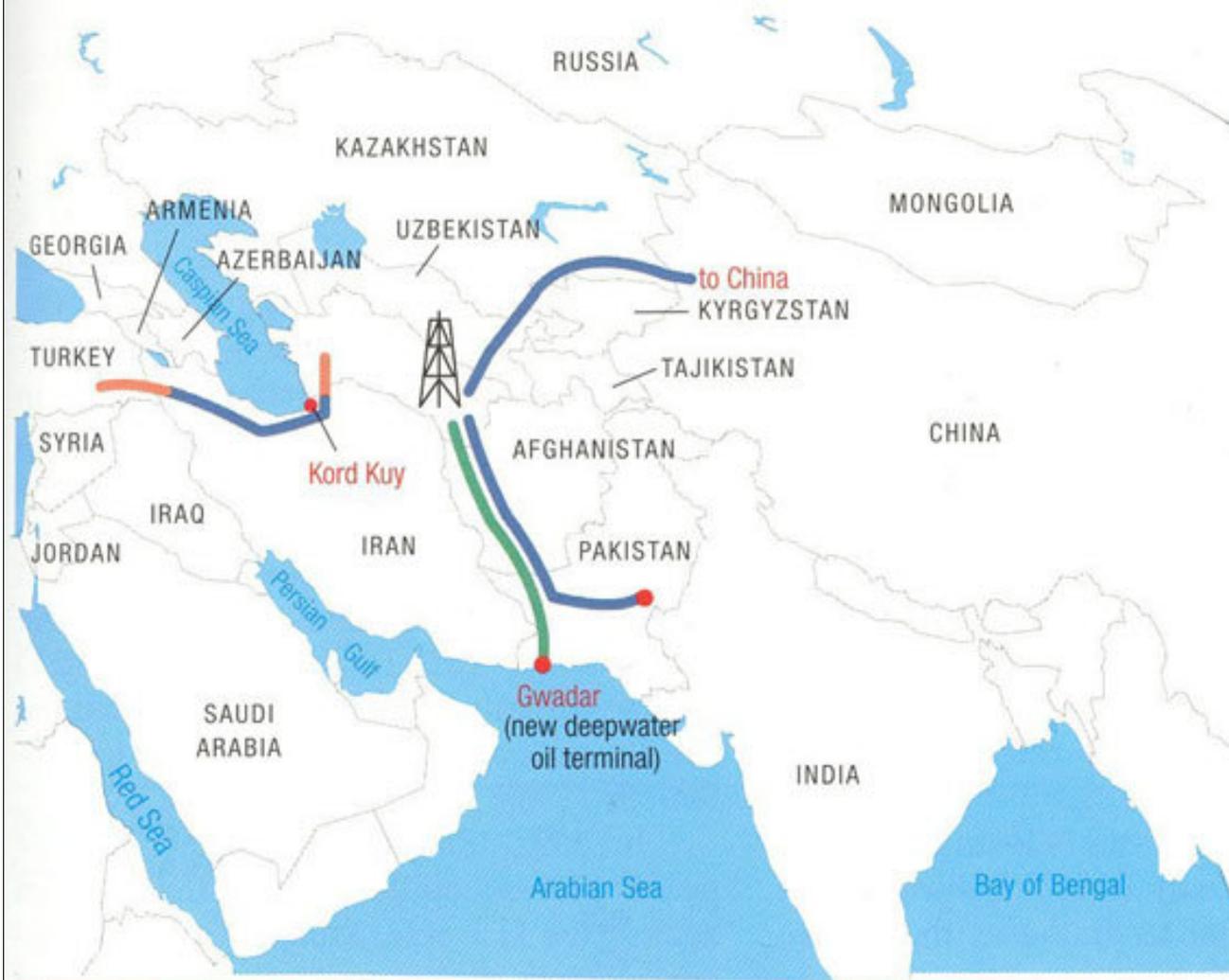
Possible Routes for Oil



Turkmenistan: Pipeline Options

Turkmenistan-Iran: 140 km linking the Korpedzhe gas deposit to the Iranian village of Kord Kuy.

- Proposed oil routes
- Proposed gas routes
- Under construction



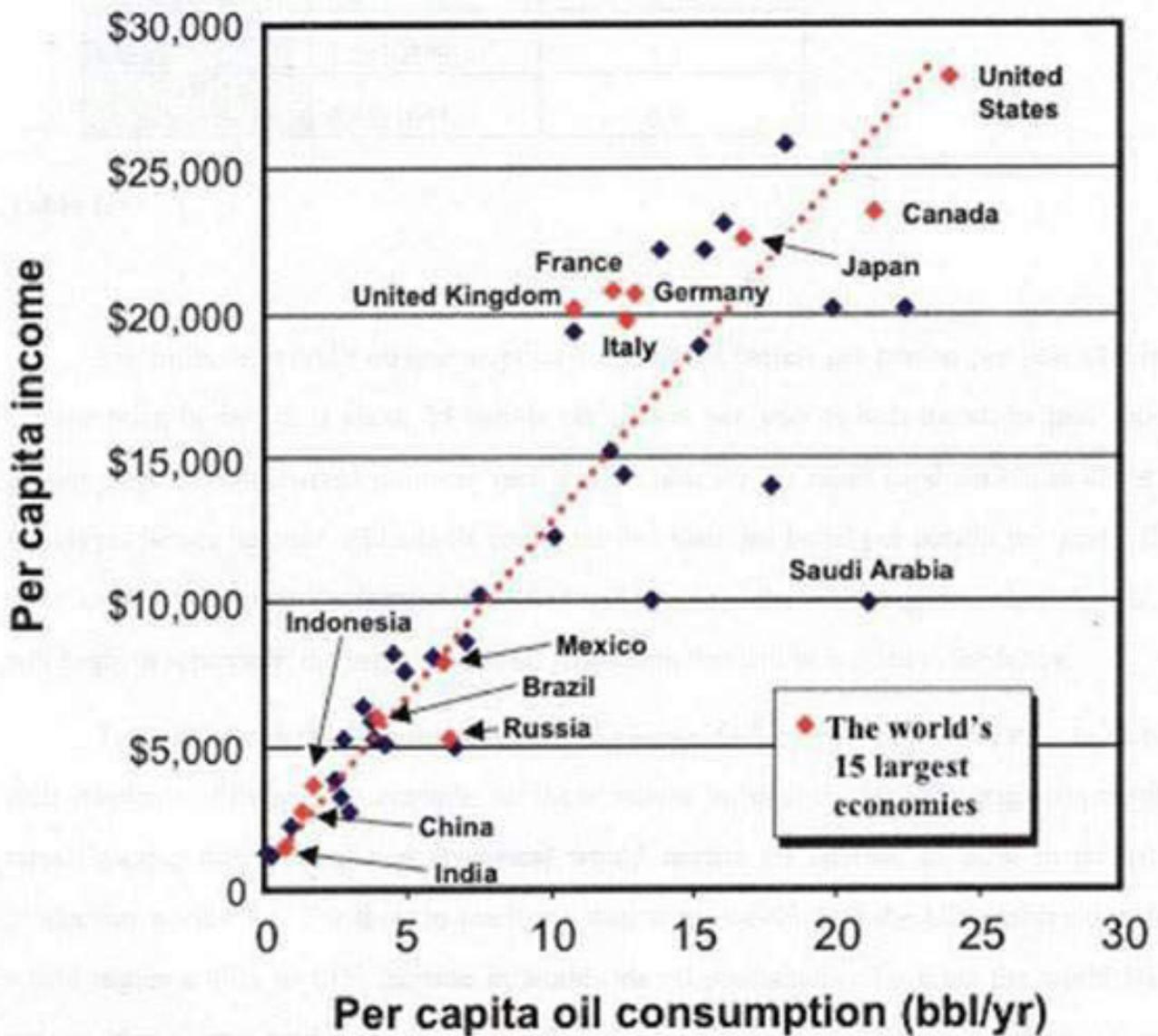


Fig. 1. Oil consumption as a real indicator of the wealth of nations (from Egonomides & Oligney, 2000).