



Those who cannot remember the past are condemned to repeat it. Santayana

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WINTER WARNING



US CONFIDENCE ON SKIDS-Financial crisis knocks it back to 1973 levels. McMullen, Alia, [Financial Post \(National Post\)](#), Wednesday, March 26th, 2008.

US consumer confidence figures released for March fell 11.9 points to 64.5. This is down 29% from December and 40% from a year ago.

Expectations for the US economy were down to 1973 levels at 47.9.

David Rosenberg, North American economist at Merrill Lynch in New York, quoted in this article said, "Fed policy eases and US \$300 rebate checks from Uncle Sam are proving no match for the rocketing pump prices, intensifying real estate deflation, the worst financial crisis in decades and a deteriorating economic and employment backdrop."

Unfortunately, there seems little that can put a stop to this rapid decline in consumer confidence. The housing market and prices will continue to deteriorate; unemployment will rise in all facets of the economy led by job losses in the financial services industry. This means that consumers will temper their spending and 'glory be,' they may start to save for the inevitable freezing days of the Kondratieff Winter which has already begun.

The National Post on the same date as the above carried a story with the title reading- CITIES FIGHT ABANDONED HOMES BLIGHT.

"Like many cities in the United States, where the home vacancy rate has scaled its highest since records began in 1956, the former textile mill city of Worchester in Massachusetts is turning to the courts to fight back. Their target: banks that abandon properties and leave behind a glut of empty, dilapidated houses and offices that draw crime, cut tax revenue and depress nearby property values in a market already in a tailspin."

In Worchester, the city is asking judges to assign property managers to buildings at the mortgage companies' expense. The purpose is to stop tenants from being moved out of recently foreclosed homes and to provide enough maintenance to keep them from being condemned.

In rustbelt cities like Cleveland and Buffalo the foreclosure problems are greater and the measures sought are more extreme.

On February 21st, 2008, the city of Buffalo filed a lawsuit against 36 lenders which included JPMorgan Chase and Countrywide Financial for foreclosing on 57 homes that led to the properties being abandoned. This necessitated their demolition at city expense, which amounted to more than \$1 million. In addition, the city paid out another \$1 million to provide extra police patrols and other expenses. Buffalo already has more than 10,000 homes and commercial buildings that are standing vacant.

The city of Cleveland is developing land banks to buy and either repair or demolish vacant properties.

A publication called 'Housing Wire' wrote on March 27th 2008, "Philadelphia City Council Suspends Foreclosure Sales, Calls for a Six Moratorium" The council instructed the sheriff's department to immediately suspend all foreclosure sales in the county scheduled for April. It also instructed the sheriff to ask the courts for a six month moratorium on foreclosures.

"Attorneys that spoke with 'Housing Wire' said they believe the actions of the City Council to be a blatant abuse and violation of existing law. 'Theses actions, as proposed, will obviously cause major disruption in the practice of mortgage foreclosure law in Philadelphia County, which handles the largest volume of foreclosures in the State of Pennsylvania.'" Housing Wire, March 27, 2008.

Almost nine million US households now have 'upside down' mortgages; that is, their dwelling is worth less than the mortgage. "For the first time ever, aggregate mortgage debt is bigger, by \$US836 Billion, than the total value of homeowner equity." 2008-The Privateer <http://www.the-privateer.com>. capt@the-privateer.com

The real estate crisis has just begun, which means that these numbers will continue to get far, far worse. Mortgage borrowers and lenders have much more pain to bear.

The number of US homes foreclosed on by the banks was approximately 1 million at the end of 2007, which meant that the homeowner vacancy rate stood at a record 2.8%.

Meanwhile, prices of existing family homes collapsed In January, with 16 out of the 20 regions measured by the Standard and Poors/Case-Shiller Index posting record annual declines. The year over year decline amounted to 10.7 percent.

Home prices in Las Vegas and Miami experienced the biggest drop, losing 19.3% in the year ending January 2008. Phoenix, San Diego and Los Angeles also experienced double digit losses.

"Some US homes worth less than their copper pipes." Was the headline of a story written by Jason Szep that appeared in The Globe and Mail business section on April 1st, 2008.

Apparently, thieves are raiding vacant homes and stealing copper and other metals. "Real estate brokers and local authorities say once-proud homes coast to coast are being stripped for copper, aluminum, and brass by thieves. Much of it ends up with scrap metal traders who say nearly all copper gets shipped overseas, much of it to China and India." Ibid

The Independent Newspaper out of the United Kingdom in its April 1st edition headlined a story by David Usborne on food stamps in the US, in this way- **"USA 2008: The Great Depression."**

"We knew things were bad on Wall Street, but on Main Street it may be worse. Startling official statistics show that as a new economic recession stalks the United States, a number of Americans will shortly be depending on food stamps just to feed themselves and their families."

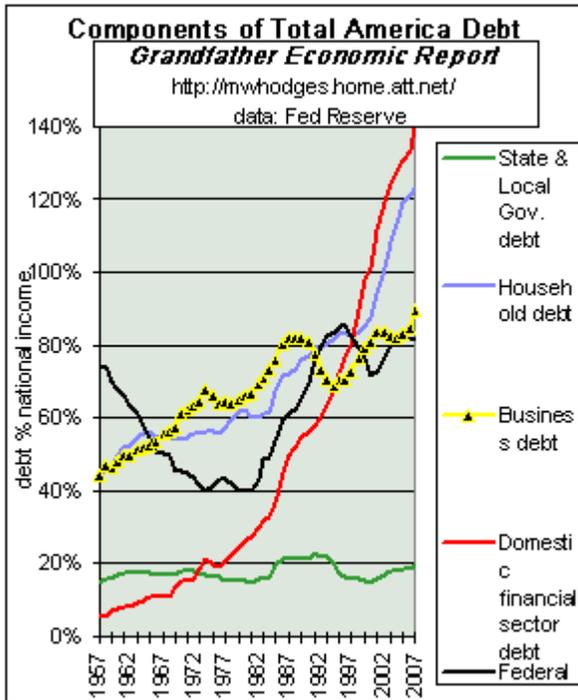
According to the Congressional Budget office in Washington, 28 million people in the United States will be dependent on food stamps to feed themselves. This is the highest number since the programme was introduced in the 1960s.

"Emblematic of the downturn until now has been the parades of houses seized in foreclosures all across the country, and myriad families separated from their homes. But now the crisis is starting to hit the country in its gut. Getting food on the table is a challenge many Americans are finding harder to meet."

"Michigan has been in its own mini-recession for years as it's collapsing industrial base, particularly in the car industry, has cast more and more out of work. Now, one in eight residents of the state is on food stamps, double the level in 2000."



The following chart shows the 5 components of American debt, courtesy of the excellent Grandfather Economic Report at www.mwhodges.home.att.net. Much of the following that I have written on debt is attributable to Mr Hodges work.



Total Debt	
State & Local Government	\$2.2 Trillion
Household Debt	\$13.8 Trillion
Business Debt	\$10.1 Trillion
Domestic Financial Sector Debt	\$15.8 Trillion
Federal Government Debt	\$9.2 Trillion

Mr.Hodges estimates that total debt in the United States, including unfunded liabilities, such as Social Security and Medicaid, now totals a mind-blowing \$117 trillion. There is absolutely no way that the US will be able to honour its obligations to Social Security and Medicaid, let alone honour her \$9.2 trillion debt.

“The most dramatic and scary is the soaring red line, which is Financial sector debt (today at 140% of national income, or \$15.8 trillion)-a very scary trend.” mwhodges.home.att.net. This probably doesn’t include a whole bunch of off-balance sheet debt. This debt has to scare the living daylights out of Ben Bernanke.

The US economy is leveraged by household debt of \$13.8 trillion, which is on a scale never seen before. Of this total, mortgage debt accounts for \$10.5 trillion. Apparently only \$587 billion of equity supports that debt. This is the lowest home equity ratio in history.

Consumer automobile debt is also at record highs. The average automobile loan is for 63 months. In 1997 banks financed an average 89% of the cost of a new vehicle. In 2007, banks financed 101% of the cost, because many purchasers were upside down on their trade-ins.

42% of Americans make only the minimum payment and some make no payment at all on their credit card debt.

Business debt totals 10.1 trillion and is 90% of national income. Many companies have taken on debt to buy back their stock. This of course does nothing to enhance the company’s performance; it may enhance executive compensation.

49% of US corporate debt is junk. In 1992, 22% was in this category. There is a fear that up to 15% of this debt or \$750 billion could default in a recession. How much of it defaults in a depression; and how much of the non-junk debt too?

According to Henry CK Liu writing in the Asia times, “Hundreds of US companies keep trillions of dollars in debt in off-balance sheet subsidiaries and partnerships, skirting the consolidation rules of Financial Accounting Standards Board.” http://www.atimes.com/atimes/Global_Economy/II01Di02.html. I urge you to read this series by Mr. Lui that he calls Pathology of Debt.

Let's see how Mr. Hodges puts these massive numbers into perspective for us. "A billion minutes ago, Jesus was alive. A billion hours ago our ancestors were living in the Stone Age."

"How much bigger than a billion is a trillion? One thousand times. Three zeros bigger. It's a number so big, it needs to be seen in a human context before we can really grasp its size. So, we might say: It's the year 0, the beginning of the first millennium, and you have a **trillion dollars** to spend at the rate of a **million dollars a day**. At just before three years, you've reached a billion. You keep spending, and now you are in the year 2007. You still have 731 years to go, spending a million every day, before you reach the end of your **trillion-dollar** pile."

The US debt is so astronomical, that for most of us, it is incomprehensible and so we shut the number out of our minds. We believe that debt has been managed up to now and that it will always be managed effectively. After all, the United States is not Argentina or Mexico or Zimbabwe, it's the United States; the country with the largest economy in the world; the lone super-power; the country that possess all those people steeped in a superior knowledge and understanding of banking, finance and economics. But the management of that horrific debt is now out of control and all these great brains are powerless to halt the looming catastrophe.

I want you to pull yourself away from the crowd and quietly contemplate some 'what if' scenarios.

What if the US debt was reduced by 25%? Let's leave The US Government debt out of the total. This would leave about \$44 trillion or \$11 trillion that would be wiped off the slate.

What would be the repercussions of such a happening to creditors, debtors and the economy?

What if US housing prices were to fall by 50%? What would be the repercussions to mortgage lenders, to consumers and the US economy?

What if stock prices were to drop by 50%? What would be the repercussions to peoples' wealth and their retirement assets; what would happen to the US economy?

All these 'what ifs' impact the economy. So let's ask the question, what if the US economy was halved? What would happen to employment; what would happen to the tax base? How would government, that is Federal, State and Municipal, cope?

Given the seriousness of the situation, I think all these events will happen and in fact are in the process of happening right now.

Ian A. Gordon

Bolder Investment Partners

igordon@bolder.net

(604) 742-3200

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