THE LONGWAVE ANALYST

BOLDER INVESTMENT PARTNERS

FORWARD WITHOUT FEAR

Ian Gordon Economic Forecaster & Interpreter of the KONDRATIEFF CYCLE

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

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WINTER WARNING

"The Die Is Cast"

In the year 49 B.C. Gaius Julius Caesar uttered this phrase while crossing the Rubicon River back into Italy from France with his legion, thus ensuring the outbreak of a Roman civil war with legions led by Gnaeus Pompeius Magnus. This analogy of no turning back, can be applied today to the U.S. dollar, while an enormous Federal Government bailout, currently being fashioned to alleviate the financial woes of several major U.S. investment banks, insurers and mortgage lenders; will propel the greenback down the river of no return, as the world's reserve currency. From the current account deficit to the international trade deficit and from the fiscal deficit to the national debt level, as this analyst has long predicted, a financial apocalypse in America will culminate in the global monetary system returning to the discipline of the gold standard.

Shuffling the Deck Chairs on the Titanic

Having recently expended $814 billion (U.S.) on the takeovers of mortgage giants Fannie Mae and Freddie Mac and insurance colossus American International Group and having provided a huge loan to Morgan Stanley in the Bear Stearns buyout and several injections of sizeable amounts of liquidity to the marketplace, the U.S. Government now proposes to spend at least another $700 billion (U.S.) in order to purchase illiquid bad debts (mostly sub-prime mortgages) from American financial institutions. Naturally, since this initiative is at the American taxpayer's expense, the national debt ceiling must be raised to a staggering $11.315 trillion (U.S.). Incredibly, U.S. Treasury Secretary Paulson said yesterday that he was "talking very aggressively with other countries around the world and encouraging them to do similar things and I believe a number of them will." I shall wait and see how this rescue package unfolds, but at best I remain skeptical and at the worst, I remain pessimistic. The reactionary rally in equity markets will be short-lived.

The Flight to Folly

Many investors have been fleeing the stock market and mutual funds recently, favouring the safety of U.S. Treasury notes and bonds. This perceived flight to quality will soon prove to be a disappointing investment strategy when a higher domestic inflation rate and climbing interest rates attack the U.S. economy, as a result of soaring debt levels and a potential downgrade of U.S. Treasuries from their current AAA (stable) credit rating. Indeed, this was suggested as a possibility some months ago by Moody's Investors Service, if the U.S. Government cannot reduce the military commitments and domestic entitlements it has championed for the future. Moreover, how can America expect to attract foreign capital when she uses it for the bailout of reckless financial institutions? Indeed, the People's Republic of China served notice last week that it will be diversifying its investment portfolio away from U.S. Government securities in the near future.

Put Not Your Trust in Princes

Gold is the eternal money! I reiterate my long-term conviction that gold is a buy. The market action of last week provided us with further confirmation. Having suffered a significant price pullback due to panic investor selling of all sectors of the stock market, gold bottomed out mid-week and experienced the largest one day price rise in its history – over $70 (U.S.) per ounce. This represents a significant upside breakout on the charts and has been confirmed by subsequent trading activity with the price today climbing over $35.00 (U.S.) to exceed the $900 (U.S.) level. Gold is now in a global bull market with particularly strong demand emerging from India, Japan and Turkey. Buy pullbacks and embrace the long-term view.

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