

# The Strategic Global Investors Newsletter™

www.capitalife.com

**21 September 2008**

**No. 81**

## Overview

Friday news from the Treasury: "The U.S. Government will buy the illiquid assets on bank balance sheets that are the underlying source of the current stresses in financial institutions and financial markets". In addition global central banks announced coordinated efforts to pump massive amounts of liquidity into the financial system to alleviate "continued elevated pressures in the US dollar short-term funding markets". The BoC, BoE, ECB, SNB, BoJ and Federal Reserve increased their swap lines to provide improved liquidity in both term and overnight operations by more than \$180 billion.

It is funny money?

How all this it started. Freddie Mac and Fannie Mae started to buy all these mortgage loans, the good and the infamous subprime and package them into Residential Mortgage Backed Securities or RMBS. These securities were a mix of AAA, AA, A and junk mortgages. They also grouped together second lien loans, which were the loans generally made to get 100% financing, including the infamous AAA Collateralized Debt Obligation, or CDO. The creation of CDO was the financial alchemy that turned for the first time in history lead into gold. This is creating money out of thin hair. It is a clever trick when you can do it, and everyone, from mortgage broker to investment bankers was paid handsomely to dance at the party. Here is a quote from Charlie Prince's, the CEO of Citigroup, saying that "As long as they are playing music, you have to get up and dance" just a few

weeks before the market imploded. This Wall Street mentality of detachment from reality caused an implosion, which cost Citigroup tens of billions of dollars. Of course Charlie Prince and many executives at Wall Street firms from Bear Sterns to Lehman Brothers, from AIG to Merrill Lynch retire millionaire, while millions of Americans went broke. These executives are a bunch of greedy, incompetents, and egocentrics folks and the only way to prevent this market meltdown is to make them pay dearly for they irresponsible management of such huge public traded and owned companies. It is not because of the lack of regulations that these companies failed, but because the Congress, and the current Administration failed to implement a strict supervision of these institutions, and moreover, they allowed Freddie Mac and Fannie Mae to the ridiculous 30 to 1 leverage from their thin based capital structure. That was allowed with the U.S. Government guarantees on of their debts. That is one of the worst case of government lack of financial regulation and supervision I ever seen in history.

Fannie Mae CEO Daniel Mudd will receive \$9.3 million and Freddie's Richard Syron will take home \$14.1 million. While I think these guys deserve to be destitute of all their assets, the real villain of this story is Franklin Delano Raines, a key leader of Fannie Mae in the 1990s – and "the first black man to head a Fortune 500 company." Raines made a fortune (\$20 million in 2003 alone) by leveraging Fannie Mae to the hilt, a move that ensured its destruction if home prices

ever fell. He also orchestrated an accounting fraud for which he was later fired. While Fannie was forced to pay a record \$400 million fine for the scandal, Raines walked away with an SEC settlement that cost him nothing. You'll never guess where Franklin Raines went to college... Harvard and Harvard Law School. He was also a Rhodes Scholar. There are now some of these folks from Harvard that are responsible in taking other companies down. Fannie and Freddie spent over \$170 million lobbying Congress in the last 10 years. Where did the money go? Quite a bit went to Barney Frank and Chris Dodd. How much of the blame for the mortgage mess do you think Barney and Dodd will publicly accept? Zero. They will surely blame the catastrophe they helped create on the mortgage bondholders who are foreclosing on properties, or "greedy" banks. These greedy clowns at Wall Street lost their job with a golden parachute. What we can do is to call and write to our politicians and have them take charge in prosecuting these clowns. How about responsibilities of ex Fed chairman Alan Greenspan? Where he bears responsibility it is in his role in creating an era of cheap interest rates and keep them in the negative territory for too long, creating the worst home buyers speculation and bubble in U.S. history. He cannot claim he was not aware of the risk. Read all his comment in 1996 and 1998 regarding regulating and increasing the margin requirement for derivatives, and then you discover that he opposed such a move suggested by the head of the Commodity Futures Trade Commission.

In my past newsletters I have written many times of the excesses of the folks in Wall Street. Now enough is enough. We are fed up with these pin stripes that rig the investors and moreover, the American people. This lack of supervision and disregard of sound fiscal policy is not new and it has been a long process that started in 1972 under the Nixon administration and

went through all the U.S. administrations since that year. When a nation decides to detach its gold standard and replace it with nothing but printing fiat money, it gives politicians of all color a free pass to print more money. The rest is history.

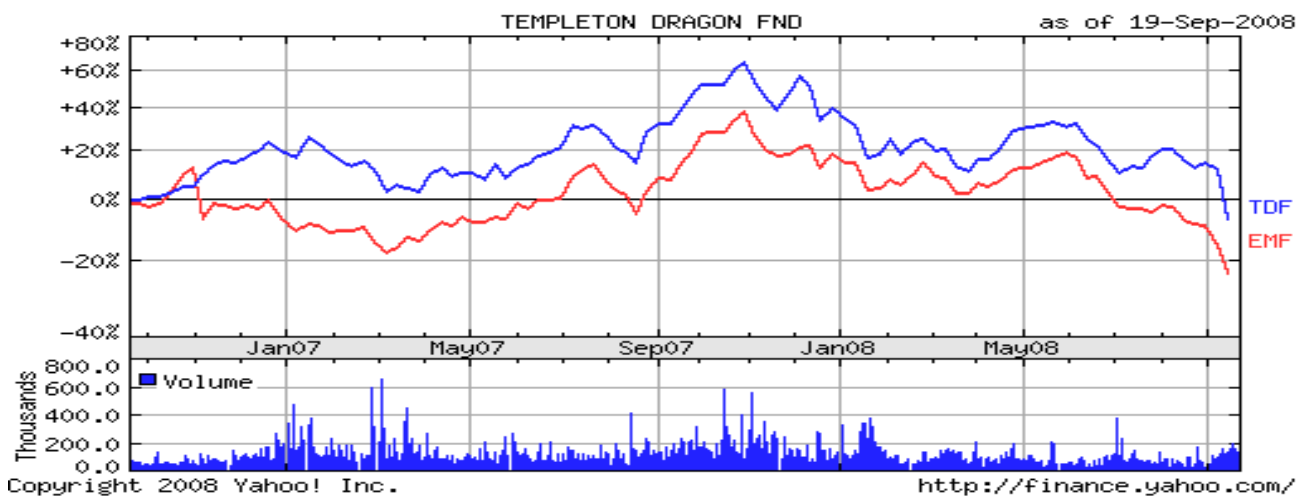
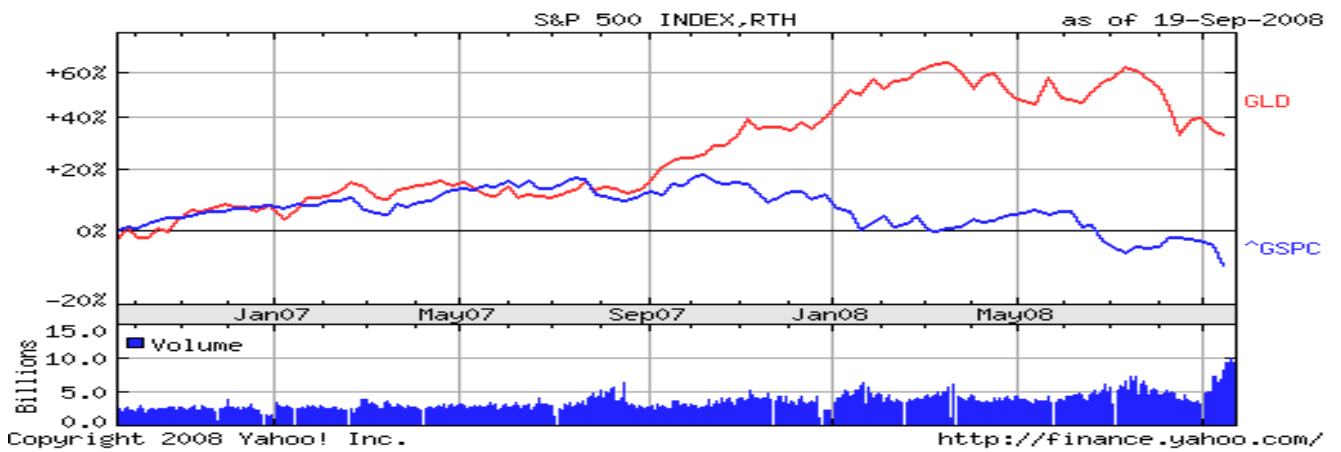
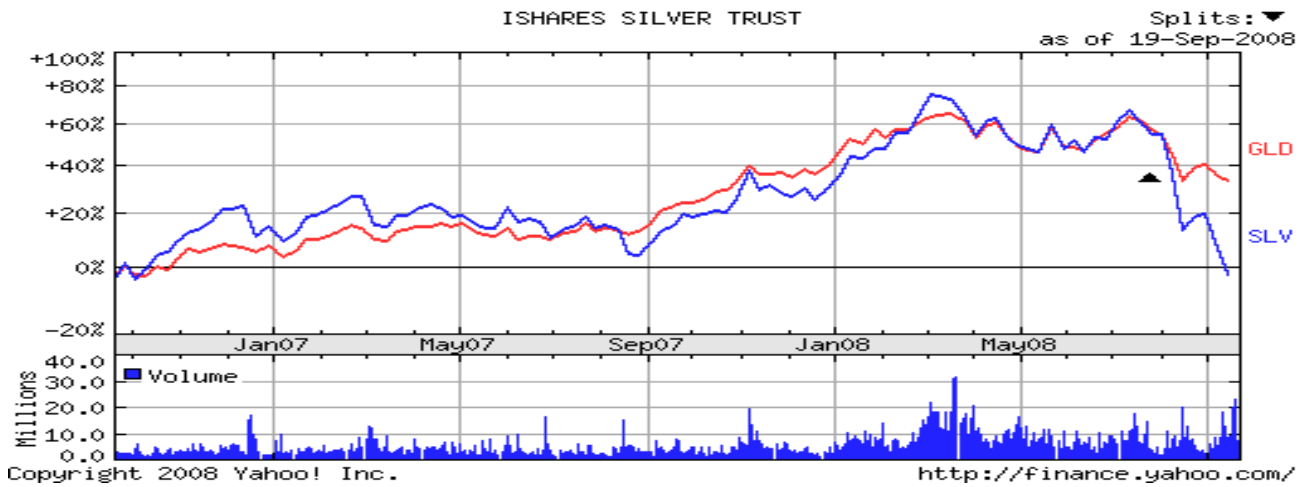
**Now what we do?** How about real assets such as gold and silver?

Well gold reacted from Wednesday 17, though Friday 19 going up about 11%, and silver about 18%. This is only the beginning of a run up in these metals. I believe gold will go to \$1,200 per one ounce by or before next year month of May. We have now to focus on very safe companies such as Exxon Mobil, Conoco Phillips, Plum Creek, Verizon, Barrick Gold, Novartis, Abbot Labs, and ETF's such as PIO, PHO, XLE, XLU, BCF. You got to protect yourself on the short side in buying puts. I believe that opportunities abound in the emerging markets. China is down about 60% from his high, Brazil is down about 37%, India is down about 50%, and Russia nobody knows what will happen when the market will reopen on Monday 22. When you will decide to invest in these markets the more diversified way to do is to buy closed end funds such as EMF and TDF, which have an excellent management team. If you do now own them, buy some gold coin such as the the American Eagle, Maple Leaf of Canada or Krugerrand. Keep them for long time as a cash of last resort. This is what I have written in the past ten years and this is what investors that have not done it before should do. Invest between 7% and 10% of your assets in precious metals, with a combination of stocks and metals. SLV and GLD are two ETF's that allow you to purchase the metals without own it. In any event buy some gold coins.

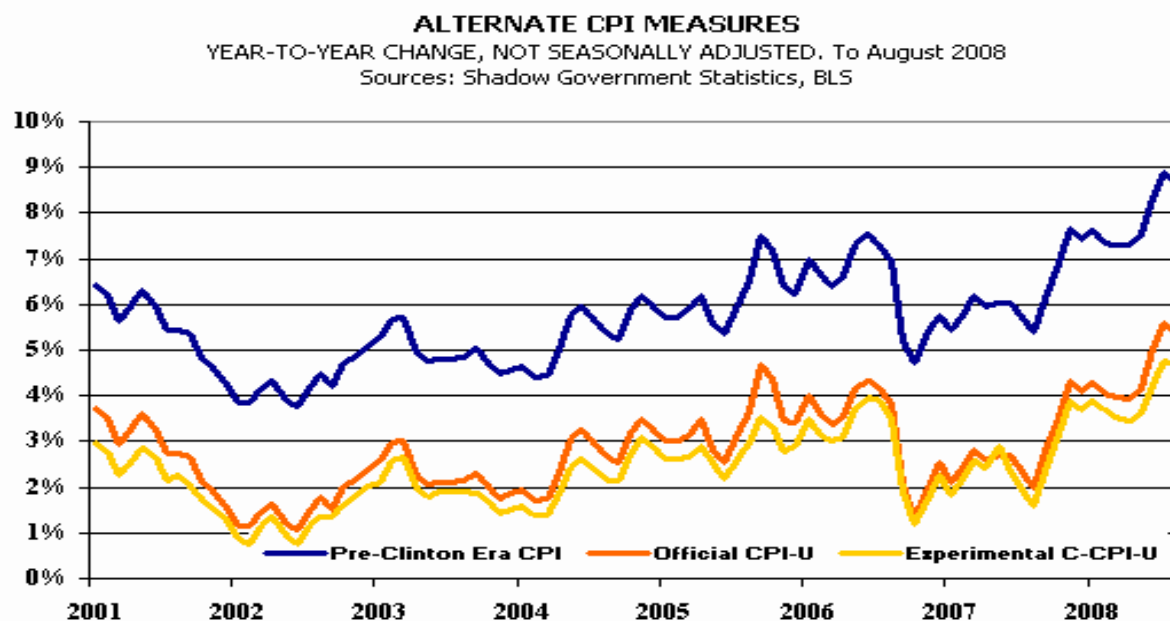
Our currency model portfolio calls for about 40% to 45% in U.S. dollar, 18% to 21% in Canadian Dollar, 9% to 10% in Australian Dollar, 9% to 11% in

Norwegian Kronen, 5% to 6% in Brazilian Real, 5% to 6% in EURO, and 6% to 7% in Danish Kronen.

Hereunder are charts for Silver & Gold, S&P500 index and Gold, and TDF and EMF.



## The true inflation in the U.S.



Note that the pre Clinton era Consumer Price Index which is the rate of inflation, is twice the Official CPI of today.  
You can see it yourself at <http://www.shadowstats.com/cgi-bin/sgs?>

**Have a Great day**

*Dario A. Bianchi*

Disclaimer

We strongly recommend that our readers do their own research into any type of investment to evaluate their risk or to consult with an investment advisor before investing. Information published in this newsletter is from sources deemed to be reliable. We are not, however, responsible for its accuracy and reliability. Reader's use of this publication is entirely at its own risk. The Information is supplied on the condition that the reader or any other person receiving the Information will make his or her own determination as to its suitability for any purpose prior to any use of the Information. Nothing contained in this newsletter shall constitute an offer to sell, or the solicitation of an offer to buy securities. Our recommendations, if any, are subject to change without notice.

Copyright © 2008 • By Dario A. Bianchi • Capitalife, Inc.

[www.capitalife.com](http://www.capitalife.com)

