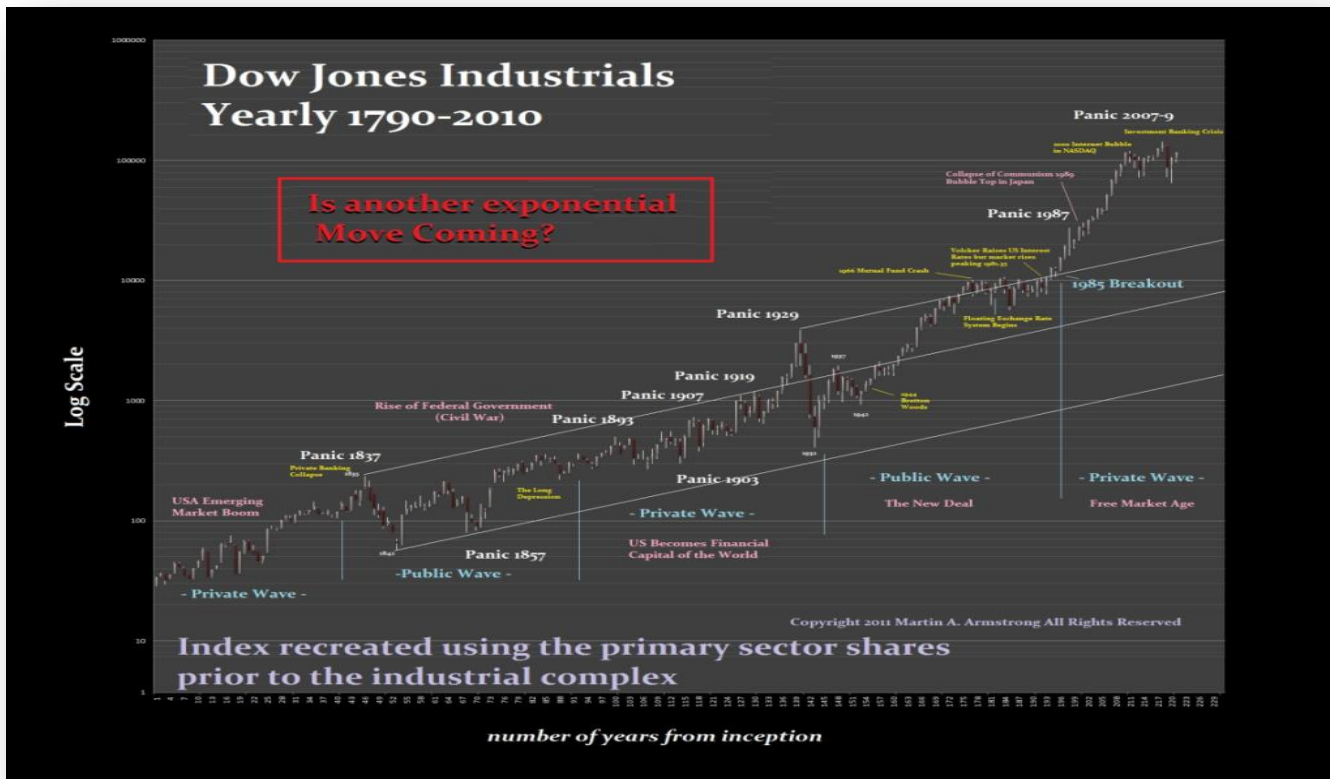




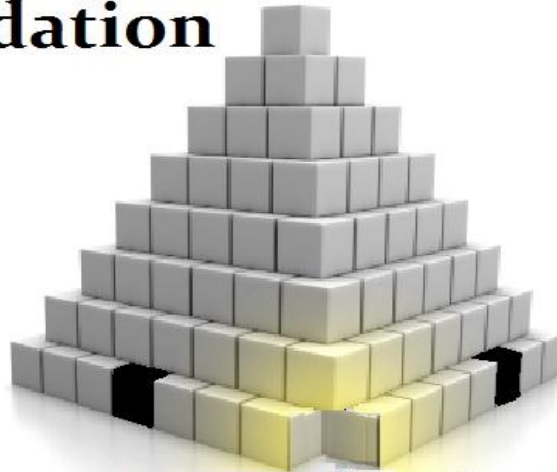
PULLING THE FOUNDATIONS STONES OUT OF THE GLOBAL FINANCIAL SYSTEM



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Pulling the Foundation Stones out of the Global Financial System



Creation of Volatility

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CONSPIRACY THEORIES are one thing I have never been a supporter of since most are often **DISINFORMATION** that allows the real schemes to go on unnoticed. They also tend to assign to people knowledge of an omnipotent nature. The **Mortgage Crisis** was a nightmare, but those that were responsible only look at the immediate rewards. They do not look at the **COLLATERAL DAMAGE** nor do they have a clue about international global ramifications. It is far more dangerous when you realize there are a lot of people who only look at the immediate objective.

They had no idea that rigging the mortgage market would bring down the whole system. Even Goldman Sachs needed to be bailed out and borrowed \$5 billion from Buffett. These people see only the money in front of them, not the collateral damage tomorrow. Now we have the **VERY SAME** mistake once again. The **S&P Downgrade** was about as stupid as if it were carried out by trained chimp. I believe the **S&P Downgrade** was a *market manipulation* no different than when they rated mortgages AAA. They only saw the immediate profit from quick trade. I believe they were too stupid once again to realize they were pulling another foundation stone out of the pyramid we call the **Global Financial System**. I believe it was irresponsible, dangerous, and has set in motion a meltdown of *global confidence* that is driving volatility much higher for the second half of the year. **CONFIDENCE** is collapsing worldwide. So thank you **S&P**. What you have set in motion cannot now be put back in the bottle. You have now caused people to assume France will lose its AAA and European banks hold the sovereign debt of troubled European nations. So the whole world is coming unglued. **Great job!**



Ralph R. Cioffi

Matthew M. Tannin

Capital is acting in its traditional role as Hoover said, like a loose cannon on the deck of a ship in the middle of a torrent. It is beginning to hoard, flee, and shift investment strategies out of a hard-wired response of self-preservation and the whole world is now suspect. The downgrading of the USA was one of the stupidest moves I believe I have **EVER** seen. These people I believe have no clue about the global economy and everything is instantaneous parochial gratification. They fail to comprehend what they are messing with. I have been so inundated because of this stupidity from the four corners of the world. What has been unleashed is just a total breakdown in confidence where people are now questioning absolutely everything.

The most fundamental issue that supports everything is **CONFIDENCE**. You can't possibly invest unless you understand and have **CONFIDENCE** in what is happening. A real trader must have conviction that his comprehension of what is driving the market is correct. **Standard and Poors** has caused so much damage to **CONFIDENCE** it is just not funny anymore. In the instant case, the **S&P Downgrade** is the icing that appears to be one of those desperate attempts to rig the markets to create the **PERFECT TRADE**. Not that we are in the land of stability. Our politicians will not fix the problems because they will only act **AFTER** the crisis and then lock up peripheral characters that were not responsible. Ralph R. Cioffi and Matthew M. Tannin were two Bear Stearns hedge fund traders who were criminally charged in Brooklyn and the prosecutors tried to blame the entire mortgage collapse on these two men. The jury found them innocent and the government full of shit charging these two traders **ONLY** because Bear Stearns collapsed. It is only Manhattan courts change transcripts and enjoy a 99% conviction rate. The judges in Brooklyn are not as morally depraved as in Manhattan. This shows how they will never charge the real culprits, only the fringe. However, the government would never have charged these traders if the firm was still viable. Everything that takes place is carefully orchestrated and with a purpose. **This S&P Downgrade is bogus!** But don't worry, nobody will be charged with insider-trading.



The Kiss of Death

the markets are clearly showing S&P was **WRONG** as Treasury yields go even lower. Japan is in a debt crisis and Europe will be torn limb from limb because of stubborn politicians who are trying to defend their structural design that was flawed from the beginning. Plus the US\$ is the **RESERVE CURRENCY** meaning about two-thirds of foreign central bank reserves is held in US Treasuries. Everything trades in dollars, oil, gold, and just about every other commodity in the world. That means dollars facilitate world commerce. The **S&P Downgrade** is suspect for it is a **departure** from the norm and reflects an arbitrary action. Only an investigation would reveal the truth just following the money. But then again, does government really want to follow that path when it is obvious where it would lead? The **S&P Downgrade** may just be the **Kiss of Death** to the whole **PERFECT TRADE** game. It believe S&P leaked what they intended to do to key clients in advance. Watch earnings next quarter!

Meanwhile, a broker at Wedbush, an investment bank, **Lucy Nobbe**, hired a plane to fly over the headquarters of **Standard & Poors** on August 9th dragging a banner reading "**Thanks for the Downgrade. You should all be fired.**" **Lucy** captured the heart of the entire issue. This is by no means a **NORMAL** downgrade and it reeks of the stench of insider trading to goose dismal performance sheets for the first half of the year and politics. Lucy as they say is Australia – **Good On Ya!**

It would be nice just once to see a real criminal investigation and those at S&P perhaps deserve free room and lodging for a decade or so as their bonus. This symbolizes **EVERYTHING** that is wrong with the financial markets in New York that are placing the entire world at risk. But what the hell; to speak out against New York is akin to the old medieval crime of heresy and death by fire at the stake.

As Lucy has demonstrated, the corrupt bastards in New York are giving the rest of the firms and people a very bad name!

What makes this **S&P Downgrade** bogus and a likely market manipulation is the fact that it is **political** and **not** economic driven. When S&P downgraded **AIG** taking away their AAA status, the stock had already collapsed by at least 50% and the market had rendered its judgment. S&P simply does **NOT** downgrade in anticipation. It reacts **ALWAYS** to market movement. Something ain't right in Kansas on this one Dorothy. There is no place for **REAL** money to invest **BUT** US Treasuries which is why



'Thanks for the downgrade. You should all be fired'



1937 Film Toast of New York about the Manipulation of gold in 1869

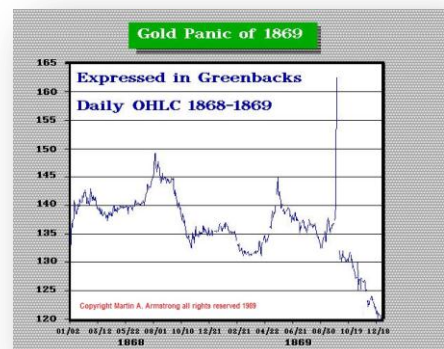
Market manipulations have been a growing problem ever since the Commodity world did a reverse takeover of Wall Street in the mid-1980s namely **PhiBro** with **Solomon Brothers** and **J. Aron & Co** with **Goldman Sachs**. The stories that fill the web about such gray areas are too numerous to list. Even Forbes Magazine Questioned Goldman Sachs' involvement in the oil markets in an article "**Did Goldman Goose Oil?**" published on **April 13th, 2009**.

<http://www.forbes.com/forbes/2009/0413/096-sachs-semgroup-goldman-goose-oil.html>

However, while New York has been dominated by the questionable conduct of a few, what is important to comprehend is that **NO MANIPULATION** is possible where a bull market can be artificially converted into a bear market. Here is a chart of the **Panic of 1869** where the term "**Black Friday**" was coined because the riot on Wall Street turned into dragging the bankers out of their offices and hanging them on Wall Street. They sent in troops to suppress that panic. But look closely at this chart. The high in gold actually took place in 1864. It was a bear market and this manipulation was an attempt to actually turn a bear market into a bull market. It completely failed. Modern attempts at manipulation that have been successful **GO WITH THE TREND** and just **GOOSE** the volatility as we have just seen.

These modern types of manipulation are seeking the **PERFECT TRADE** that is of course **GUARANTEED**. The recent trial of Galleon shows that the government can call anything "inside trading" and prosecuted on absurd arguments that phone calls about earnings was inside info. But such info is **NOT** by any means a **GUARANTEED** trade. But the trial of Galleon was a show to pretend they prosecute people for this stuff when in fact the real **INSIDE INFO** is the **GUARANTEED** trades that nobody will investigate because they lead right down the rabbit hold nobody in New York wants to talk about. When the regulators are in their pockets, this type of shit is more likely to cause a world war if people start rioting overseas about US market manipulations.

Even Goldman Sachs who claims to be the smartest firm to ever exit lost money on 15 days in the second quarter, which was one of the worst trading performances they posted in recent time according to their regulatory 10-Q filing. Only four days did their trading revenue rise above \$100 million. In July they reported only a profit of about \$1 billion a figure sharply below expectations of \$2.27 a share. Also in the filing, Goldman says it is dealing with several legal matters and "**reasonably possible**" losses from these claims



may amount to as much as \$2 billion. They conceded there are now a handful of regulatory investigations. Goldman did recently pay a \$10 million fine to the Massachusetts Securities Division following an investigation into whether its stock research favored some customers over others. Goldman would funnel short-term trading tips, generated at times by its analysts, to its biggest trading clients. Goldman also disclosed that it is "***in discussions with the S.E.C. staff and the Finra staff concerning resolutions of their proposed charges***" in connection with the same matter. But none of these investigations are truly material for they will only involve small fines.

You also have to realize that some analysts are in the pocket of the same crew and have links into even the press. And then mainstream press will not even report that judges change transcripts in New York when there are published cases on it. One must always be alert concerning the shenanigans that have been going on in New York for quite some time. You must also be careful about the source of forecasting. A notorious pro-government and pro-NY institution judge, Milton Pollack who died at the age of 97 on August 16, 2004, just five months early protected Merrill Lynch & Co dismissing of suit filed in federal court in New York accusing it of artificially inflating value of Tyco International Ltd. The SEC had fined Merrill and others for issuing rigged analyst reports. Yet Judge Milton Pollack threw out the suit basically saying investors should have known they were investing in risky stuff. One of the stocks alleged to have been manipulated was their reports regarding Tyco, where its head Dennis Kozlowski was prosecuted by the strangely enough, not by the Feds. So here you had a conviction that was questionable and you had SEC civil fines, so why did Pollack protect the NY boys again? Consequently, you have to be very careful these days for not everything may be as it seems.

It is essential to have an understanding of the financial system. There are far too many ***street hawkers*** yelling and screaming like storeowners on South Street in Philadelphia back in the day trying to sell suits to everyone that passed by on the sidewalk. The more they yell and put on a show as to their prognostications, the less likely they even know what the hell they are talking about and are even independent. It is thus critical in that first step to understand the system. Otherwise, you will sit on the sidelines and in the end, either buy the high or sell the low for the price action will be the only thing that compels you to act.

The second danger is you listen to the standard canned reasoning of the ***street hawkers*** and you become like a sheep just following the explanation you prefer while abandoning all independent thought. It is lethal to be held captive of a bias cloaked in a philosophy. Others think the job of analysis is to declare **BUY** or **SELL** and that is it. Those are typically the fools who will be eventually separated from their money since they can't be bothered with understanding market behavior and are constantly in search of the next guru. ***A real analyst states where he is right and where he is wrong.*** The market will rise if **x** takes place, and if **y** takes place it will collapse. Between these two points remains just a trading range of neutrality with nothing to get all excited about. If you want to **TRADE**, you better learn the rules of how to be a **TRADER!**

Rule #1: Always have an open mind and be willing to learn from others not blindly follow them.



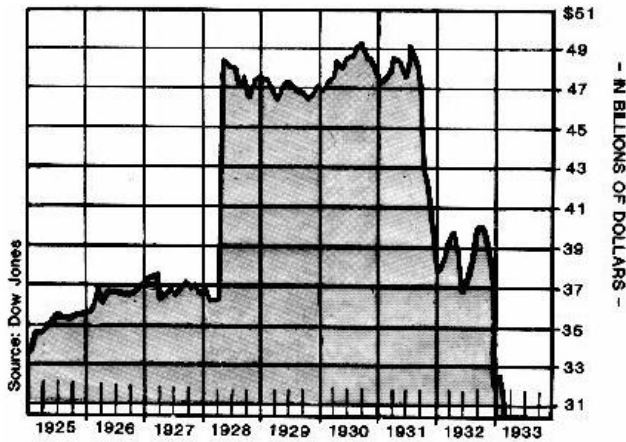
I actually met the old Japanese gentlemen who had bought the high in the Nikkei back in December 1989. He bribed his way in to an institutional seminar to ask me what to do. He told me for 7 years brokers had tried to get him to buy the Japanese shares and he ignored them yet watching to see if they were right. Every January the Nikkei had risen about 5% after the holiday (*New Years*). He watched their forecasts unfold in true amazement. Finally convinced by the price action, he made his first investment of about \$50 million and lost 40% because he also could not admit his mistake and waited to get back to break-even, which never came.

The Dow Jones will at **LEAST** double in price in the **YEARS AHEAD (NOT NOW)** as a result of the **DEBT CRISIS** once we get through the chaos of this period. While everyone acknowledges gold rises in times of chaos, so will the Dow when we are dealing with a debt crisis because capital shifts as it did 1932 to 1937 from debt to equity. Confidence in corporations surviving rose and government declines (**Private v Public Confidence**). When there is **FEAR** that the US will default or the currency will depreciate in purchasing power, the Dow will rise provided the rest of the world is in the same boat. If the US is the **ONLY** problem, the foreign capital will short the US as was the case in 1987 and during the 1970s. Why? **UNLESS** you understand the dynamics of global capital flows, you will become a victim of domestic **street hawkers'** fundamentals, and you should just call your favorite NY banker and give him what you own now and save all the humiliation. My father was a colonel under General Patten who really did read Rommel's book on tank warfare and defeated him because he understood what he believed.

Rule #2: Always view everything through everyone else's perspective to understand the world.

TOTAL BONDS LISTED AT PAR VALUE ON THE NYSE 1925 - 1933

THE 1931 SOVEREIGN DEBT DEFAULT



Source: Dow Jones
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In Western society, there are no qualifications to run for political office. This means the people we elect require no expertise. Would you allow someone to be a surgeon operating on you who was a lawyer? Well, try searching for intelligent life in any capital that has any qualifications whatsoever to deal with markets no less our debt crisis. What to do not grasp is that in the end, the interest cost of constantly rolling over the debt will cause the entire system to collapse. Politicians are risking **OUR** very future and that of our posterity all based upon the

fact that they are clueless. I have been a board member of a bank in the '70s. I have advised more multinational companies and governments probably than anybody else. I have seen the world through everyone's eyes. You cannot understand these subjects in depth without real experience. I can no more be a surgeon than those in political office can do economic forecasting. We are an accumulation of our experience, yet we elect people who look sharp, smile nice, and can read from a script to get everyone excited. Didn't Obama stand in front of vacate factories and say he would bring back job? Let's see, we do that by raising taxes? He criticized Bush for denying terrorists trial by jury. After one trial in NYC of Ahmed Khalfan Ghailani charged with 286 counts of killing 244 people, the jury acquitted him of ALL counts but one. Suddenly, Obama switched back to military trial when he realized the American people didn't buy all the bullshit exaggerations. It make you wonder how much you can believe and Obama is doing the very same thing right down to signing statements that he criticized Bush for doing. This illustrates absolute power does corrupt absolutely.

Government **NEVER** trusts the people. It is always **THEM** against **WE THE PEOPLE**. The lack of term limits created a professional political class who identifies with the courts and executive NOT the people. They also assume the American people will soon forget all about the debt and that whatever the headlines are today, they will be forgotten by election. The Flash Crash is ancient history already and so goes elections. Those who are born and want to be politicians have nothing to offer because they have NO EXPERIENCE in the real world. How can you lead a nation when you have never been really part of the PEOPLE?

However, it is debt that is the great destroyer. It was the sovereign debt defaults that created the Great Depression – not the drop in the stock market and speculation. The amount of money invested in bonds v equity is at least 10:1. If the debt market collapses, so does the nation. The same cannot be said for the stock market.

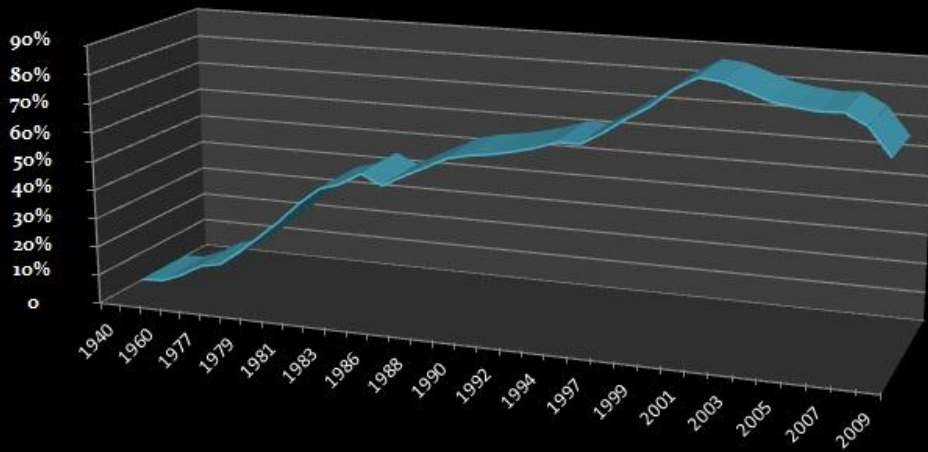


As Europe prepares to implode, The **European Central Bank** (ECB) is like the Dutch boy sticking his finger in the dike. Instead of fixing the system structurally, they are vowing to buy Italian and Spanish bonds to support the market. This is the European version of QE2. Let's follow this through to the logical conclusion. Is the **ECB** willing to permanently buy all the debt of troubled nations? Or is it simply a measure like Japan where the government wiped out the Postal Savings Fund \$1 trillion desperately trying to support their bond market. This is the whole problem. Everything is reactionary and seen to be a temporary fix. The wound requires stitches, not band aids. Italy is the **THIRD** largest debtor behind the US and Japan. It is too **BIG** to be bailed out. Either Europe consolidates **ALL** member debt into a single EuroBond issue, or it should sell tickets to the fireworks display that will eventually take place.

Career politicians have destroyed our future for they have borrowed all the time with no intent upon ever paying anything back and in this light they just issue bonds paying interest that escalated the entire debt crisis. Who could bailout the USA or Japan when it is their turn? Then we have the US states starting to implode. And the Republicans really think just cutting spending will save the day? S&P seems to be in the Democratic camp becoming political insisting on tax increases and Newsweek puts **Michele Bachmann** on the cover with an unflattering deer in the headlights look. These two interesting events seem to be political attempts at steering the country politically. If S&P is really concerned about the future, then why not be honest in the analysis that shows interest expenditures will crowd out all other spending. Then what? Are they advocating generational **REVOLUTION** as is perhaps beginning in Britain thanks to high unemployment among the youth?



US Accumulative Interest Expenditures as % of Total National Debt



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Instead of actually looking at the structure, it appears we are getting caught between political forces that are escalating to a horrendous climax. The Democrats just want to tax the rich and destroy all jobs as if this is really going to solve anything. Even **Wolf Blitzer** of CNN was actually asking the question of Donald Trump that the hedge fund manager Paulson made \$4.5 billion and only paid 15% tax and said that was not "*fair*" in his mind. I was shocked at the question and it is clearly Marxist class-warfare that will tear the United States apart. This is like your kid has your check book, buying everything in sight, and the blame is yours for not having enough money in your account. How dare you!

Nobody is looking at the system itself. Even if we take every penny earned by Paulson, destroy his incentive to work, would this actually balance the budget? **Never!** The interest expenditures are like that Energizer pink bunny on TV that keeps on going. The Republicans are **WRONG** and you cannot cut social spending to reverse the economy and the Democrats are **WRONG** that you cannot tax the rich to solve the problem without wiping out jobs. Our system is screwed!



Wolf Blitzer CNN



Nobody seems to analyze the interest expenditures. You can't cut the interest costs without defaulting on the debt! In the end, we will default because there is no intelligent life residing in Washington. We will default because there is **NO** intent to ever pay off anything and right now each and every taxpayer's share of the national debt is almost \$130,000. **HELLO!** Is anybody home?

The rhetoric that America always pays its debt is not true! They forgot about the default on the **Continental Currency** before the US dollar. America is not above everyone else and will be thrust into default as buyers of debt shift from public to private assets towards the end of the cycle (**NOT NOW**). Certainly, there is no hope of paying off the debt. We ran out of *magic beans* to climb to a new world and the last I looked, there was no manna falling from heaven.

There is no doubt that we have a serious **Sovereign Debt Crisis**, but this was **NOT** the reason for the **S&P Downgrade**. If that were the case, then they should have downgraded **EVERY** country to **JUNK** and state that reason. There is **NO** collateral! If a country defaults, you cannot go to court and seize property. You can't run down to the **National Art Gallery** and start walking out with Renoirs. The chart of the **Total Accumulative Interest Expenditures as a Percent of Total** shows the real problem – its borrowing! Had we just printed money and **NOT** borrowed this would have eliminated 68.2% of the entire national debt. This illustrates another **MYTH that it is less inflationary to borrow than print**. Spending is spending and borrowing just kicks the can down the road and we are coming to the end of that road. Borrowing has a much worse impact for it creates competition with the private sector for capital reducing economic growth, increasing interest rates and unemployment fueling the need for more taxes. Had we printed to cover expenses, the debt would not exist, and the real cost of inflation (*which is an indirect tax*) about two-thirds less today. The money created would have been more **domestic oriented** and **NOT** exported to pay interest to foreign bondholders. So even printing what people call a "*fiat*" currency would have been far less damaging to our future than what we now face. The entire world is intertwined in this debt crisis that is percolating in every country. It just costs **MORE** to borrow than it does to print and there is **NO** empirical evidence that borrowing is less inflationary than printing. Now the gold bugs will yell it's a fiat currency. True, but if government were strictly limited in its spending and it printed for that expense as a percentage of GDP, then you **DO NOT** need taxation at the federal level. Taxes exist because when money was gold, government could not create it and so they needed to tax you to get some back. If they printed to cover expenses, there is **NO NEED** for taxes and you will be free to buy gold for savings. That's just another of those stupid **myths** that it is somehow less inflationary to borrow when it exports 46% of interest stripping capital from the domestic economy. This is worse than a trade deficit because you get no product in return.

DOW JONES INDUSTRIALS

Dow Jones Industrial (1932-2010) Yearly



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The S&P in its hair-brain downgrade has opened the door to perhaps the worst shock in consumer confidence in history. Their actions were highly irresponsible to make a downgrade on political reasons and not economic when in fact the greatest danger right now is Europe. The S&P has assured a **DOUBLE DIP** for 3 out of 4 Americans no believe the country is headed in the wrong direction. So the S&P has seriously damaged the long-term economic prospects of the world with their stupidity and there is **NO** hope of growing out of this economic disaster. The Federal Reserve pledged for the first time to keep its benchmark rate at a record low through mid-2013 adopting the Japan strategy. But the S&P has forced that outcome by its political position to raise taxes that was the precise recipe that produced the Great Depression.

As shown above, what we are building is a **Sideways Plateau** the same as we did in the 1970s when then it was concern of a US default on the part of foreign investors who sold the dollar and US assets taking their capital home. This time, we have the confusing mess of a **GLOBAL SOVEREIGN DEBT CRISIS** and there are **NO** politicians willing to step up to the plate and be statesmen. All we have is political infighting of blaming-other-people and nobody is coming forward to deal with the **Structural Failure** of the entire hypothesis of *borrowing perpetually with no intent of every paying anything off* at the end of the day. Because of the self-interest of politicians, we are paralyzed and unable to fend off a crisis

that is so severe an asteroid might as well be approaching earth for its impact upon civilization is about to send us back to the Stone Age.

Dow Jones Industrial (Cash) *(Daily up to 08/09/11)*



The Dow crashed and burned closing at 10719.94 yesterday. Just to stay neutral, we need a close today **ABOVE** 10780. The low so far is 10588.55, key support lies at 10682.40 and 10460.34 on a closing basis. Resistance remains high and it will take a close back above 11995 to suggest no further lows are likely. But for now, we could still see further downside in the weeks ahead and September looks to be just nuts. Additional main support for the cash Dow Jones Industrials lies at 10607 followed by 9457. The year-end position shows that as long as the Dow closes on the cash **ABOVE** 9457, then the market remains long-term bullish. Only a year-end closing **BELOW** 7375 would be negative. A broader sell signal would be a year-end closing **BELOW** 7180. The **Yearly Bearish Reversal** number remains at 6315. The low in 2009 was 6440.08. We are still in a Plateau move formation as was the case in the 1960-1970s. This will remain true as long as 6315 holds on an **ANNUAL** closing basis.

Dow Jones Industrial (Cash) *(Weekly up to 08/09/11)*



The weekly level of the market show key timing targets as this week followed by three weeks later being the last week of August just before Labor Day. Thereafter, the next key target periods will be 10 and 12 weeks from there, which brings us into November during the weeks of the 7th and 21st. The two key levels to watch on the weekly level are 11114 and 10053. The first weekly buy signal stands at 12327 to suggest that the downward pressure has subsided for now, but this is quite high.

Dow Jones Industrials (Cash) (Monthly 08/09/11)



On the monthly level, the key will be to watch the month-end closing. Will there be a close below 11006 for August. If so, then the market is putting us on notice that the correction process is not yet over and we could retest the 7600 level. A closing below 10810 will keep the selling pressure on. To suggest that the market could support in the broader term, a month-end closing **ABOVE** 11549 is necessary. This is where overhead resistance is starting to form. Resistance is also forming at 11928. A year-end closing beneath that area will still warn that the market is still in a broad consolidation forming the Plateau move. For now, August **MUST** close **ABOVE** 10633 to show some neutrality.

While it does not appear that we would make new lows under that of 2009, the only signal that would suggest we could penetrate that level would be a year-end closing **BELOW** 7181. That would warn that a test of the 5975 area is likely.

CONCLUSION: I will publish by the weekend the targets for the turning points and Panic Cycles that lie ahead. I wanted to get this out ASAP before more of the world goes nuts and my phone goes into meltdown. The crisis is really in Europe. The banks hold various bonds of member states and there lies the problem. **THE DEBT MUST BE CONSOLIATED INTO ONE NATIONAL DEBT ASAP!** I know the European readers will be sending this to every politician on the continent. The Social Unrest in London is taking place because unemployment among the youth in places stands at 50%. This will spread worldwide because socialism is collapsing and it is creating a generational war. Such events are starting in the USA even in Philadelphia with roaming groups of youths. **IT IS TIME TO WAKE UP! THE ENTIRE STRUCTURE MUST BE REFORMED FROM THE GROUN UP!**