

Wednesday, March 5, 2008

We are releasing a new product today, called Short Reports, which, like the spreadsheets, we hope will bring clarity in an increasingly intense environment. Rest assured that we will continue to produce *The Investor's Mind* on a monthly basis, as we have since its inception. This email gives some of my thoughts that led to this new product, which is part of your current subscription.

All the investment history since 1971 - all the stories, systems and people - has been built on top of the greatest debt experiment in world history. Yet few are even aware that the foundations of this system, upon which our livelihoods depend, were unsustainable from the beginning. No matter how long the experiment continued, at some point the petrodollar would force enormous changes, which even today we cannot comprehend.

The early 1970s were watershed years, and if we are to understand our day, we must understand the 70s. If we are to understand the 70s, we must understand the ideas and intentions of influential individuals and institutions of that day - which means we must look back further. As we do, we begin to realize *why* a discussion of currency disruptions and failures is foundational to our trading and investment strategies. It's no surprise; all forms of fiat currency ultimately fail. And while none of us will know *the* day, we do well to ask, "Where could one have looked to gain insights prior to: Britain coming off the gold-exchange standard in September of 1931; the establishment of the IMF in April of 1944; or the US coming off the gold-exchange standard in August of 1971?" Currencies change, and history has its major turning points. We'd best try to anticipate and prepare for times such as these.

With this in mind, my aim has been to warn people that we are at a *historic juncture* and that we are heading into a time of enormous change. If we're to stack the odds of winning and surviving in our favor, we must ponder a wide range of topics before we take our ideas into the battlefield of global markets. In this process, since 2005, we've produced over 700 pages of information with more than 1000 references for the small group of passionate readers and thinkers who comprise our readership. Specifically:

1. With the dearth of information on the subject and history suggesting the markets were approaching a historically significant fall, I set out to write a research paper on short selling in the fall of 2005. My thought was, no matter how much confidence the public has in our banking systems' ability to stave off one more crisis with even more debt, a paper on short selling would someday prove extremely beneficial. So we produced *Riders on the Storm*, which is not so much a technical treatise as it is a discussion of the flaws and errors upon which this worldwide credit explosion was built and how short selling has fared in market meltdowns throughout history.
2. With all the information we had to leave out of *Riders*, and with so much more to say, I decided to utilize my reading, research, and newly formed contacts to begin a short newsletter in early 2006. The plan was to take a wide range of topics and

books to produce a newsletter that would convince intelligent, honest, and open-minded people that something of massive proportions was coming down. Since one of the greatest challenges to our success is *our perspective* of past and current junctures, accurate information is of paramount importance.

3. In July 2007, after the two Bear Sterns hedge funds worth a combined \$20 billion blew up, leaving the "lucky" investors with 9 cents on the dollar and the rest with nothing, with my "keen" sense of perception, I surmised that the "contained, subprime" housing bubble was beginning to topple our banking and financial concerns, which had topped in the second quarter of 2007. I knew from my contacts and research that it was urgent to get out the July newsletter.

So, some of you may have noticed that we released the July newsletter on July 19th, the first day the Dow closed above 14,000, before its sharp decent into its August bottom.

4. Since July, we've watched as our political and financial leaders have offered rescue plans at a faster and faster pace. Some, like the M-LEC, offering \$75 billion in support for the structured investment vehicle (SIV) market, were closed down less than 90 days after it was presented to the public. Consider this October 15th 2007 quote from the Wall Street Journal.

"The nation's biggest banks are attempting to woo investors and other banks to a mega fund that will buy troubled assets by promising not to purchase the riskiest securities and forcing sellers to pay a fee to put their assets in the fund. Many investors said they welcomed the plan by Citicorp Inc, J.P. Morgan Chase & Co, and Bank of America Corp to set up the \$100 billion fund. In doing so, the fund would help prevent the SIVs' asset sales from triggering a market meltdown. There are some 30 SIVs with about \$400 billion in assets."

5. As we went through January 2008, things began accelerating to the downside. In less than 90 days, China's Hang Seng Index tumbled 32 percent from 32,000 to 21,700. In nine trading days Bombay's Sensex 30 lost 28 percent declining from 21,200 to 15,300. And in a little over 90 days, the widest equity index in the US, the Wilshire 5000, lost 20 percent.

So why is it, that after this much destruction of capital, more investors and advisors are not fleeing conventional buy-and-hold strategies? Why is it that so much trading commentary is built around buying the dip, rather than selling the rally? On one hand, we see historically awful numbers reported in the economic headlines. On the other, we see our political leaders suggest solutions that amount to nothing more than printing hundreds of billions of dollars out of thin air. So again we ask, why such a lack of concern? I believe it comes down to this: as individuals, we desperately want to believe that the pain and turmoil that accompany credit contractions can be avoided. In many ways I wish it could too; but in the real world our wishes often do not matter.

What we are seeing is exactly the same drama that Dr. Murray Rothbard reveals in his classic, [America's Great Depression](#). In its over 200 pages of heavily-documented research, Rothbard is careful and clear as he recounts the constant stream of bureaucratic "solutions" extended to the public as the Dow continued its descent into 1932. Based on historical precedence, at some point politicians and banks will not be able to keep pace with the rate of destruction brought about by fundamental problems in our markets and economies. The charades and schemes will give way, and the crowd will rush for the exit.

With that said, starting in March of 2008, we will begin to produce *Short Reports* in the hopes of alerting our readers to issues which might otherwise remain undetected. These will be issues that rarely, if ever, show up in major trading publications. In short, as we produced *Riders* and continue to produce *The Investor's Mind*, we have not been able to include all of the information at our disposal, and we have not been able to get it out in a timely manner. Going forward, we will leverage this unused information in a timelier manner through the use of Short Reports.

Specifically, we will cover 1 issue that we've come across, of which our readers may not be aware of from an angle that they may not have considered. Since deception *grows* during a market declines, you may not have time to explore each of these topics, but at least you will be aware of them. Our longest standing subscribers are most often individuals who are willing to critically appraise any piece of information. While many individuals, lacking insight and clarity, will be crushed, our hope is that these *Short Reports* will help to further reduce your risk level and increase your probability of success. While we may wish this were a nice game, the events of the last few years are more akin to financial warfare than the "let's-all-hold-hands-and-get-rich-together" myth, in which most investors have been lead to believe.

With this in mind, let's dive in. Click [here](#) to login to our secured area and download our first *Short Report*.