



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

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THIS IS IT!



The party's over
It's time to call it a day
They've burst your pretty balloon
And taken the moon away
It's time to wind up the masquerade
Just make your mind up the piper must be paid

The party's over
The candles flicker and dim
You danced and dreamed through the night
It seemed to be right just being with him
Now you must wake up, all dreams must end
Take off your makeup, the party's over
It's all over my friend.

Words by Betty Comden and Adolph Green; Music by Julie Styne; Sung by Nat King Cole

This is it. The Kondratieff winter is now underway in earnest and nothing can stop it. The huge credit expansion initiated by the Maestro, the past Federal Reserve Chairman, Alan Greenspan, has now reversed. The ensuing credit contraction will be devastating. It will take down creditor and debtor alike and will result in a destructive and frightening deflationary depression.

During the roaring 20s (the previous Kondratieff autumn), the large credit expansion and accompanying stock market boom was pretty much an all American affair. The European economies were struggling to recover from the devastation and cost of World War 1. The Europeans, for the

most part, were not participants in the credit and speculative bubbles that so captivated their American cousins. However, when these bubbles collapsed following the 1929 stock market peak and October crash, no one, anywhere, could escape the horrendous depression that was its aftermath.

This time it is different. As the 4th Kondratieff winter unfolds, most of the world is party to the debt bubble and the congruent speculative mania. The sheer size of this situation is at least 100 times greater than 1920s. Thus, the repercussions are likely to be far more punitive than during the 'dirty 30s'.

This huge monetary expansion perpetrated by the Federal Reserve has contributed to the biggest speculation in every conceivable asset category and has been accompanied by unprecedented hubris, greed and outright fraud. This will be punished. The punishment is likely to fit the crime.

All cycles are forecasting a major peak not only in stock prices but in the economy as well. This includes, not only the Kondratieff cycle, but also Gann cycles such as the 100 year, the 50 year, the 20 year, the 10 year and the 5 year cycles and according to Gann years ending in 7 are also likely to be bad.

So, cycles are predicting a major stock market crash this year. That is right, this year-2007.

Gann wrote that when the time cycle was over there was nothing that anyone could do to alter the inevitable. President Bush, Secretary of the Treasury Paulsen and Federal Reserve Board Chairman Ben Bernanke and anyone else are powerless to control the approaching financial onslaught.

Regrettably, many people believe that their leaders can always positively control the future. It is a mistaken belief that always costs them dearly.

Every market move is always followed by a reaction. The bigger the up move the bigger the down side. There is no historical comparison with the sheer magnitude of the worldwide investment mania that is currently in force. Thus, the down side threatens to rock the very foundations of capitalism and democracy. As Epictetus put it, "the extreme of any position will ultimately become its opposite."

As night follows day, a boom is always followed by a bust; the bigger the boom the bigger the bust. The bust always catches the majority unawares, coming as it does from a zenith of apparent prosperity and speculative excess. At this time, the crowd is imbued with an impetuous fervour encouraged by the affirmations of its leaders. Caution is abandoned. Savings are depleted and copious amounts of debt are assumed. It is the set up. It mirrors the mad dash of the lemmings to the cliffs. In that mad dash the lemmings probably feel the same sense of exhilaration as do the speculators. Both are doomed.

Every great credit expansion has always been accompanied by speculative excess. The South Sea Bubble, John Law's Mississippi scheme, the great autumn bull markets of the Kondratieff cycle; all are fashioned by massive increases to the supply of fiat money.

None of these can compare in sheer magnitude and diversity to the autumn bull market that commenced in August 1982 when the Dow bottomed at 777 points. Everything and anything that could be packaged was sold as an investment. The sub-prime mortgage was just one of these new investment concepts. But the death of this market spells the death of the overall stock market. Confidence has been lost and a contagion of panic will likely ensue.

This bull market is now finished and cannot be resurrected as Alan Greenspan was to able breathe new life into the stock market following its peak in the winter of 2000. At that time there was no sub-prime mess to scuttle his efforts. His actions in lowering administered interest rates from 6% to 1% and flooding the banks with money were the very instruments to create the mess in which we now find ourselves.

The great Austrian School Economist, Ludwig von Mises wrote, "There is no means of avoiding the final collapse of a boom brought about by credit expansion. The question is only whether the crisis should come sooner as a result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved." There has never been any attempt to abandon the credit expansion. Indeed any crisis was simply an excuse to open the

monetary spigots. This, then, is the beginning of the total catastrophe of the American dollar, indeed the entire world monetary and financial structure.

My deceased friend, Teddy Butler-Henderson, met Alan Greenspan in the 1960's. They apparently discussed the Kondratieff Cycle. According to Teddy, Alan Greenspan confided that he hoped he could be Federal Reserve Chairman at the onset of a Kondratieff winter, because he felt he could defeat winter by substantially increasing the money supply and reducing interest rates to near zero. He had his wish and effected those actions following the 2000 stock market peak.

This effectively put winter on hold but massively compounded already excessive credit to the extent that people who should never have had access to loans were willingly given them. Now the credit bubble that Alan Greenspan initiated is beginning to unwind. The process will be horrific and cannot be reversed. Incidentally, Mr. Greenspan told Teddy during that same conversation that if he failed to thwart the Kondratieff winter, it would make what followed 1929 look like a 'Sunday school picnic.' This is what we have to expect.

The rapidly advancing monetary crisis centered on the dollar is reminiscent of the previous Kondratieff winter crisis, which was focused on the British Pound. The Pound's collapse in 1931 brought down the world monetary system and caused the abandonment of gold as a backing for money.

But in the coming financial and economic chaos that is characteristic of the Kondratieff winter, gold will reassert its traditional role as money.

The demand for gold, just as it was in the early 1930's, will be enormous. Since this crisis is much greater than the crisis of the 1930's and international in scope, the rush to own gold is likely to be far more pervasive than it was then.

***"It is well enough
that the people of
the nation do not
understand our
banking system, for
if they did, I believe
there would be a
revolution before
tomorrow morning."***

Henry Ford Sr.

The unfolding crisis has enveloped the globe. Central banks are pouring money into chartered banks in an effort to stabilize the situation. In the three weeks following the failure of the Bear Stearns funds and other hedge funds, the injection of cash by the world's central banks totaled almost half a trillion dollars. The cash infusions continue. ■



THE CREDIT CRUNCH

"The turmoil in global banking hit the streets of Britain yesterday as thousands of Northern Rock customers queued up to withdraw their savings from the UK mortgage lender after it was rescued by the bank of England."

([Financial Times](#), Saturday September 15th, 2007). It was rumoured that customers had withdrawn \$2 billion U.S. from Britain's fifth biggest mortgage lender. This was the first bank run in England since 1866.

The Bank of England has now injected almost 8 billion pounds into the floundering mortgage lender. In order to try and reassure the depositors, the British Government has guaranteed all the money on deposit at not only Northern Rock, but also at any British bank that experiences trouble.

In Germany, the IKB bank was saved from collapse when the value of its speculation in US sub-prime mortgage bonds and derivatives plummeted. Other German banks, encouraged by Peer Steinbrück, Germany's Finance Minister, guaranteed almost \$US 11 Billion worth of its debts and loans. Axel Weber, president of Germany's Bundesbank called this "an isolated, institution specific incident." But soon afterwards, Sachsen LB, a publicly owned Landesbank, or state bank also had to be rescued. The German banking crisis prompted Alexander Stuhlmann, chief executive of WestLB, another Landesbank to say that the situation was "not uncritical." "We sense a reluctance on the part of foreign partners to extend credit to German banks." ([Financial Times](#)).

Jochen Sanio, Germany's Financial Regulator, compared the evolving crisis to the banking crisis that developed in 1931, following the failure of the Credit Anstalt bank in Austria. This is an interesting comparison, coming as it did in the last Kondratieff winter. The failure of this relatively unimportant bank was instrumental in destroying the world monetary system after Britain abandoned the gold standard in 1931, and followed by the collapse of the entire US banking system after Roosevelt declared a banking holiday in March, 1933.

The trouble is that no one knows the value of the collateral that banks pledge against their inter-bank borrowing. It takes one back to 1932, when the great steel magnate, Charles M. Schwab, said, "I'm afraid, every man is afraid. I don't know, we don't know, whether values we have are going to be real next month or not." ([The Lords of Creation](#), P.418).

Altogether, Central Banks added \$320 billion, during the week ending August 11th 2007, to offset the emerging credit crunch. "Central banks can ultimately fix a liquidity crunch by shipping in boatloads of cash and they are effectively doing that," said Alan Ruskin of RBS Greenwich Capital. "There is very little doubt that they will come through in the end." ([The Financial Times](#), August 11th/August 12th, 2007).

There is hope that Federal Reserve Chairman, Ben Bernanke will right the ship, just as his predecessor had done on numerous occasions. He is injecting money into the overnight lending market and has

cut the Federal Funds rate by 0.5%. Today (September 18th, 2007), he reduced the Discount rate by 0.5%. Typically, the stock market responded in joyous fashion. The DJIA jumped 345 points.

Similarly, John Johnson interviewed on BNN (Business News Network) on September 11th, 2007, replied to one question submitted by the interviewer, "we've been here before and we've always gotten through it." But the truth is that we have only been here before in 1837, 1873 and 1929; all climaxes to their respective Kondratieff autumns. It is true that we did get through each of those times, but only after a debilitating deflationary depression had destroyed the wealth of many people.

That so many people trust in the power of their leaders to offset the natural progression from boom to bust in the economy is incredible. It can be demonstrated time and time again that leaders have always failed in their quest to arrest economic and financial decline. In fact, the more that these leaders believed in their power to maintain the status quo, the

greater the ultimate damage and the greater the suffering endured by the people who had blindly placed their trust in them.

"There seems to be a general conviction, cultivated not just by Mr. Greenspan, that the US economy has become virtually immune to recession. It is widely seen just as a bursting of strength due to ingrained 'flexibility' and 'dynamism'. In addition, of course there is unbound faith in the virtuosity of the Fed to avoid a serious recession." (Dr. Kurt Richebacher, [The Daily Reckoning](#), 3rd August 2003).

Of course, we should expect the Federal Reserve to respond in exactly the same fashion as it always has. After all, while reflation failed to work between 1929 and 1933, it has worked every time since then, particularly under Alan Greenspan's watch. But Alan Greenspan never faced the bursting of a credit bubble. He only knew how to manufacture them. In fact, no Federal Reserve chairman has been challenged with a financial problem of this magnitude since the 1930s. Indeed, the problems confronting the Federal Reserve after the stock market crash in 1929 were rather minor when compared to what not only faces the Federal Reserve Board, but, also all Central Banks today.



It is one thing for the Federal Reserve to inject cash into the banking system, but another to lower administered interest rates. In that regard, the Federal Reserve is caught between a rock and a hard place. In 1929, America was the world's largest creditor nation. Today she is the largest debtor. Managing administered interest rates in 1929 had no effect on her creditors, because America owed nothing outside the country. Today, she owes foreigners about half of her \$9 trillion total debt. Under these circumstances if the Federal Reserve acts to lower administered interest rates, market interest rates are, in fact, likely to rise when the US dollar slides and foreigners demand higher rates of interest to compensate for the risk of holding US dollar debt.

Anyway, lowering administered interest rates at this point is unlikely to have the desired impact. Banks must want to lend, and borrowers must want to borrow. But both lenders and borrowers have been badly burnt and neither is likely to engage at this point; particularly the banks. They are already beginning to feel a capital strain from the evolving crisis.

As the debt bubble unwinds and the world enters its Kondratieff winter depression, creditor nations will be forced to sell their US dollar debt to bring the money home in order to shore up their ailing economies and aid their failing banks. Under these circumstances, the effect on the US dollar and US interest rates in general, will be devastating.

These speculative manias only occur once in a lifetime and that is during the Kondratieff autumn. As noted above, these speculations are always initiated by a huge

expansion in the supply of fiat money. As the great bull market progresses, it draws everyone into its embrace. It becomes the centre of attention; the talk on the cocktail circuit and in the factory lunch-rooms. Everyone follows its progress on television and in the newspapers. In this milieu, a cadre of experts come to the fore and the investor herd leans on their every word. ■



“FAR FROM THE MADDING CROWD’S IGNOBLE STRIFE...”
-THOMAS GRAY

The psychology of crowds is an interesting phenomenon best described by Gustave Le Bon in his classic ‘The Crowd’. Needless to say, the behaviour of a crowd is very different from the individuals who compose it. For our purposes, we are talking about the investor herd, but its collective behaviour differs little from the behaviour of a crowd at an English football game or that of a mob hurling rocks and abuse at a police barricade. It is not rational.

“The most striking peculiarity presented by the psychological crowd is the following: Whoever be the individuals that compose it, however like or unlike be their mode of life, their occupations, their character, or their intelligence, the fact that they have been transformed into a crowd puts them in a possession of a sort of collective mind which makes them feel, think, and act in a manner quite different from that which each individual of them would feel, think, and act were he in a state of isolation.” (*The Crowd*. Pages 5-6). Or as Friedrich von Schiller put it, “Anyone taken as an individual is tolerably sensible and reasonable-as a member of a crowd, he at once becomes a blockhead.”

A year after the collapse of The Mississippi bubble, the South Sea bubble ensued with horrendous losses to its investors, including Sir Isaac Newton, who famously remarked, “I can measure the motion of heavenly bodies, but not the madness of crowds.” Initially he was content to take a 100% profit on his investment, but as prices raced upwards he re-joined the party investing even more money than he had done

“I can measure the motion of the heavenly bodies, but not the madness of crowds.”

Sir Isaac Newton

in his initial foray. That was his mistake. When the bubble collapsed, he lost the huge amount for that time of 20,000 pounds. Even he, a very wise man, could not resist the magnetism of the mania.

Strength in numbers gives a crowd a collective feeling of confidence, indeed invincibility, which allows it to do things, which the individuals comprising it might have considered

asinine. ‘The theory is, if everyone is doing it, it must be good,’ or ‘so many people just can not be wrong,’ well illustrated by the current non-bank asset backed commercial paper (ABCP) debacle. Hence the strategy of contrary investing, which proposes that when the masses are totally involved in any particular investment medium it is prudent to take an opposite tack. Such a strategy takes courage and an ability to detach oneself from the crowd.

The crowd is always dependent upon its leaders. Collectively, it displays a lack of confidence and desires its leaders to make decisions on its behalf. Le Bon put it this way, “A crowd is a servile flock, that is incapable of ever doing without a master.” (*The Crowd*. P.113).

“The leader has most often started as one of the led. He has himself been hypnotized by the idea, whose apostle he has since become. It has taken possession of him to such a degree that everything outside it vanishes, and that every contrary opinion appears to him an error or a superstition.” (*The Crowd*. P.113).

The crowd's leaders in a stock market boom are investment managers, investment advisors, stock analysts, economists and in particular the Federal Reserve Board Chairman.

According to Le Bon, affirmation, repetition and contagion are the means by which a leader instills a belief or idea in the collective mind of a crowd. "Their actions are somewhat slow, but its effects once produced are very lasting. (*The Crowd*, P.120). This is why it takes time for speculation to grow into a bubble.

Alan Greenspan constantly affirmed the superiority of US productivity to countenance high stock prices. Even when stock prices were reaching ridiculous levels by all past measures, stock analysts were touting that stocks were cheap or the old favourite 'this time it's different.'

To be really successful, affirmations must be constantly repeated and as far as possible in similar terms, such as "buy stocks for the long term." This is always the mantra in long and prosperous bull markets. The proponents conveniently forget or do not even know that it took 25 years for stock prices to regain their 1929 highs, or that stock prices went down between 1966 and 1982.

Once affirmations have been sufficiently repeated in order to attract the attention of the crowd, contagion intervenes. "Ideas, sentiments, emotions, and beliefs possess in crowds a contagious power as intense of that of microbes." (*The Crowd*, P.122). People do not have to be in the same place to be swept up by this contagion. Think of the worldwide demonstrations against the Iraq War. But within a crowd bound together with

similar goals, all emotions are rapidly contagious, which explains the development of financial bubbles around the world and the suddenness of panics. This is an example from March, 1929, "On Monday General Motors gained 2 ½ points more, on Tuesday 3 ½; there was great excitement as the stock crossed 150. Other stocks were beginning to be affected by the contagion as day after day the market made the front page." (*Only Yesterday*, P.295).

"The opinions and beliefs of crowds are especially propagated by contagion, but never by reason." (*The Crowd*, P.125). This is never more evident in reckless speculation. Walter Bagehot, an editor of the Economist and renowned financial commentator of the 19th Century said, "All people are most credulous when they are most happy."

In the latest real estate mania, affirmations were used to convince the masses that 'real estate was still cheap' and 'they are not making any more land' and that 'mortgage interest rates would never be this low again.' Mantras like these, constantly repeated, spawned a contagion of buying and the masses abandoned common sense in their emotional urge to own homes; in many cases not just one home, but several. Now the bubble has burst.

Once the crowd becomes totally immersed in the speculative game, it is blind to common sense and reason. It refuses to countenance any discerning views or contrary opinion. Indeed, it turns on those that reflect such dissension, by accusing them of 'sandbagging American prosperity.' This accusation was attached to Paul Warburg in

1929, after he advised that the orgy of speculation would lead to a disastrous collapse.

But the crowd reveres its leaders, who continue to affirm the glories of being fully invested in the bull market. This crowd adulation causes some of these leaders to assume delusions of grandeur. They bask in their glory and begin to believe in their own omnipotence and sagacity. ■



HUBRIS AND GREED

The Greeks had a word for this reckless arrogance, which inevitably leads nations and people to disaster. They called it 'hubris'. "It is the kind of supreme arrogance that causes an individual or a nation to boldly defy all the accumulated wisdom of the past, to ignore history, to break all the established rules and imagine themselves masters of fate. Or as the Greeks would put it, 'to defy the immortal gods.'" *The Kondratieff Wave Analyst*, April, 1988. P.37).

Hubris is always punished. In Greek mythology, those people or nations guilty of hubris were delivered to Ate, the goddess of infatuation and ruin. Her punishment was to confuse the judgment of her arrogant victims. The actions that they took, which they thought were good and could save them were, in fact destructive. Thus, those afflicted by hubris were deluded into becoming agents of their own ruin.

Consider the actions of the Federal Reserve Board's open market committee (FOMC) As soon as it appears that the U.S. economy might be facing a slowdown, the Central Bank lowers administered interest rates and increases the money supply. This response the Bank obviously thinks is good, but in fact it is bad, because it grows

debt. When the debt creation becomes unsustainable, the bubble bursts. This then leads to the abject poverty and despair of many people and they will turn on the perpetrators of their misfortune.

It is fitting that this catastrophe should begin during George Bush's Presidency, for he has much to answer for, especially the Iraq War, which has resulted in the death of many thousands of innocent people. The war may not be an issue to many Americans, but an economic depression will be. Those in power at its onset will be treated with contempt and loathing.

Perhaps, too, Henry Paulson as Secretary of the Treasury will experience the public's wrath as the budding financial catastrophe unfolds; much like his counterpart Andrew Mellon in the early 1930's.

While the Federal Reserve Board should be singled out for its collective hubris, no one individual more deserves the punishment that hubris brings on those that practice it, than former Federal Reserve Chairman, Alan Greenspan. By his actions he has set in place, perhaps the greatest financial catastrophe that the world has ever faced. Despite his direct

responsibility for this looming disaster, he was named a 'national treasure' by a groveling U.S. Senator, given a honorary knighthood by Queen Elizabeth and dubbed the 'Maestro' in a recently published book.

Still, Sir Alan's fawning fans lean on his every word. And his retirement has not dimmed his penchant for pontificating on current economic and other events. Indeed, one can reserve a table for 10 people at a cost of \$4,000 (CAD) to attend a luncheon presentation by Alan Greenspan at the Vancouver Westin Bayshore hotel on Thursday, January 24, 2008. This of course, all sponsored by the BMO Financial Group. Now he is an advisor to the British Government. His fall from grace is likely to be very painful.

"Prosperity has this property-it puffs up narrow souls, makes them imagine themselves high and mighty and looks down on the world with contempt."

Plutarch, 46-120 A.D.

There is plenty of hubris evident in the great stock bull markets, which are a once in a lifetime experience and always occur during the Kondratieff autumn. "Prosperity has this property-it puffs up narrow souls, makes them imagine themselves high and mighty and looks down on the world with contempt." (Plutarch, 46-120 A.D.). During the latter stages of these great bull markets, the investor herd, which has greatly benefited from the boom in stock prices ascribes



to their investment gurus great power and treats them with a reverence normally reserved for the gods. This hero worship goes to their heads. Many of them believe that they are solely responsible for the investment success that the crowd enjoys.

At these massive bull market peaks, these analysts continue to recommend the purchase of specific stocks and other newly contrived investment products. They believe that their advice is good, when in fact it is bad, because inevitably a terrible bear market follows and all the wealth that they take the credit for having created is destroyed.

While these analysts might have succumbed to hubris so too, did many of corporate leaders. Men like Bernie Ebbers, Denis Koslowski, Samuel Waksal, Kenneth Lay and Jeffrey Skilling and now Conrad Black have paid a humbling price for their undue arrogance. There will be more to follow as the next stage of the stock bear market gets underway.

Following the previous Kondratieff autumn stock bull market in peak in 1929, many former heroes paid dearly for their hubris.

Up to 1930, Andrew Mellon was touted as perhaps the greatest Secretary of the Treasury since Alexander Hamilton, who was appointed to that position in 1789. Thereafter, to save Mr. Mellon from possible impeachment, President Hoover appointed him as Ambassador to Great Britain in 1932.

During the later stages of the 1920s, Samuel Insull built an enormous empire of utility companies, which were connected in a complex pyramid and financed with massive debt. "His prestige was colossal. He was chairman of the board of directors of 65 different concerns and president of 11 others. His wealth was reputedly vast." (The Lords of Creation, P.281).

When the end came, the house of cards collapsed. "Investigation, flight, indictment, refuge in Greece, capture, and trial in Chicago were still to come-grimly underscoring the tragic conclusion of financial adventure in which a brilliant career had been wrecked, and American investors had lost nearly three-quarters of a billion dollars, and the economic system of the whole country had been gravely shaken." (The Lords Of Creation, P.286).

Richard Whitney, a scion of the Wall Street establishment, and acting President of the New York Stock Exchange at the time of the crash and in 1930 the President of the Exchange, resorted to embezzlement to make good his substantial losses during the crash.

In 1938, the NYSE comptroller reported to his superiors his proof of Whitney's theft. From that point events snowballed. Whitney and his brokerage company both declared bankruptcy. He was arrested, charged with embezzlement, found guilty and sentenced to a term of between 5 to 10 years in Sing Sing prison at Ossining, N.Y. His brother, George Whitney, a partner at J. P. Morgan, eventually made restitution on all the money that he owed.

Charles Mitchell, President of the National City Bank, who defied the Federal Reserve in 1929 and one the main cheerleaders of the stock market boom was investigated by the US Senate committee where he admitted to speculating in his own bank's securities and was fined \$1.4 million.

The Van Sweringen brothers, who built their fortune in rail-ways and in Cleveland real estate by forming holding companies built upon holding companies. Their companies were well managed. "But on this solid foundation of operating skill they had raised an immense financial pyramid built of debt and of hope." (The Lords of Creation. P.299).

"Then came October and November, 1929, and -worse than that the decline in values in the fall of 1930, and the slow avalanche of 1931 and 1932. An ugly time for borrowers and for lenders too." (The Lords of Creation. P.301).

"Not all the things done in those years of collapse make agreeable reading. Debt had hitherto weighed lightly on the Van Sweringens: now its burden was terrific. They had to have money." (The Lords of Creation. P.301). But there was not any to be had.

Ivar Krueger, the Swedish match king, did not limit himself to just matches, but also controlled most of the forest industry in northern Sweden. He was able to acquire the majority shares in the telephone company, Ericsson, the mining company Boliden and banks in Sweden and Germany. At the peak of his career in 1929 he controlled some 200 companies and his fortune was estimated to be 30 billion Swedish Kroner.

It all came crashing down in 1932. The claimed assets of \$250 million were non-existent. On March 12th, 1932 Krueger was found dead in his Paris hotel room; apparently from self-inflicted gunshot wounds.

This world-wide preoccupation with any investment scheme

dreamed-up by Wall Street is unprecedented. There is nothing to compare this experience with anything in history. Perhaps John Law's Mississippi stock scheme and its immediate successor the South Sea Bubble shares some comparisons such as the massive increase in the

*"Money has no
Motherland;
financiers are
without patriotism
and without
decency; their sole
object is gain."*

Napoleon

fiat money supply to fund share purchases and the huge increases in the respective share prices and the degree to which speculation engrossed lord and servant alike; or how the new found wealth gravitated to the purchase of luxury goods like carriages (automobiles today), gold and silver plate, furniture and lace. At the time the Regent's mother wrote: "It is inconceivable what immense wealth there is in France now. Everybody speaks in millions. I don't understand it at all, but I see clearly that the god Mammon reigns an absolute monarch in Paris." (Millionaire. P.148). ■

IN NEW YORK MONEY IS GOD AND GOD IS MONEY. LOUIS HENRY SULLIVAN, 1908

Today the god Mammon sits on two thrones in New York and London and to a lesser degree in most of the other financial centres of the world.

The two financial world capitals have enjoyed unrivalled prosperity during this unprecedented speculative fever. They too have developed massive hubris, which has allowed them to develop and sell all over the world huge swaths of questionable securities.

New York, however, takes the prize, because the investment firms housed in that city control many of the London firms. During these major investment bull markets, New York becomes the centre of the universe, or at least in the minds of most of those living there. The city pulsates on money. The great investment houses become the epitome of wealth. Some of this wealth is transferred to partners and key employees in the form of huge performance bonuses.

"Profits on Wall Street have been boosted by a surge in mergers, takeovers, as well as sharp increases in trading levels of stocks and derivatives. Figures suggest leveraged buy-out firms have attracted more than \$170 billion of new money so far this year, helping drive \$2,900 billion in announced mergers and acquisitions. In addition, more than \$110 billion poured into hedge funds in the first nine months, beating the last annual peak in 2002 and fueling demand for stocks, bonds, commodities and derivatives." (Gulf News, David Litterick and Katherine Griffiths, Saturday, November 25th, 2006).

In 2007, five of the largest US brokerages paid out \$36 billion

in bonuses based on 2006 performances. This was an increase of 30% over the 2005 payouts. The average annual pay cheque in New York is about \$300,000 or five times more than the average annual pay in the remainder of the United States.

Most of the people working in these investment firms attribute these enormous profits to the business acumen of the firms' leaders. Few of them give credit to the massive bull market. "We compulsively associate unusual intelligence with the leadership of the great financial institutions-the large banking, investment banking, insurance, and brokerage houses. The larger the capital assets and income flow controlled, the deeper the presumed financial, economic and social perception."- "Financial genius is before the fall." (A Short History of Financial Euphoria. P.15 and P.17).

Much as it might appear today that the amazing wealth enjoyed collectively in New York and London is a permanent affair, it is not. Investment bull markets do not last forever. And the bigger and more speculative the bull market, the greater and more devastating is the ensuing bear market- To this end we can anticipate that the mother of all stock bear markets is about to descend on New York and London. When it does, these two cities will bear the brunt. In 1975, the City of New York was forced to go hat in hand to the State and Federal governments to bail it out of bankruptcy; all because, stocks had been in a bear market since 1966, which had been exacerbated by a mini stock crash in 1974.

HERE TODAY



A DEALER IS READYING A U.S. \$150,000 FERRARI MODENA 360 FOR A CLIENT WHO WILL BE GETTING HIS FIRST BONUS SINCE GRADUATING TWO YEARS AGO.

NEW YORK TIMES AND GLOBE AND MAIL. NOVEMBER, 2006

The beginnings of Ate's punishment for New York's hubris are becoming evident. "—there are signs that the latest boom in New York -evidenced by a proliferation of high-end restaurants, up market boutiques sprouting in once gritty areas is grinding to a halt." (*Financial Times*, November 3rd/4th 2007). So far this year (2007), job losses in the financial services industry in the City total 47,000. This includes the recent firing of Stan O'Neil, the Merrill Lynch boss, after the company was forced to take \$8.4 billion write down related to the sub-prime mortgage fiasco. For his performance Mr. O'Neill was rewarded with a \$160 million severance package.

GONE TOMORROW



Economic disaster in the great crash that ushered in the 1930s Depression, Wall Street fell by more than 87 per cent in a three-year slide, and took almost 20 years to recover to its pre-crash high

PICTURE SOURCED FROM THE SUNDAY TELEGRAPH

Michael Bloomberg, New York's mayor has initiated municipal budget cuts and a hiring freeze in anticipation of reduced tax revenues.

While hubris is generally a domain of powerful individuals, greed can become the sin of lesser mortals. And nowhere is greed more apparent than during huge speculative markets.

Wealth disparity is most obvious in the United States, where 70% of that country's wealth is owned by a mere 10% of its citizens.

"Today the top 5% of Americans have all the money, while the bottom 95% seem to have all the debt. Why so much damn debt on the part of the bottom 95%? Well, they're to keep up their standard of living, and can't do it on what they make. So how do they manage? This is how...today both the husband and wife work, and they also do a lot of borrowing." (*Richard's Remarks – Dow Theory Letters Inc.*).

For the most part US consumers are in a hopeless position. Their debt obligations stretch as far as the eye can see. Their ability to honour these promises rests upon an economy that can only be sustained by even more debt. Their assets are pledged; their homes, their cars, everything. They have become slaves to the banks. Vast portions of their incomes are paid out in interest payments and debt reduction. Will they ever recover from this nightmare? Many will not. They will go to their graves in debt to the banks. Until that time, they will continue to make their onerous payments for fear that they will lose everything.

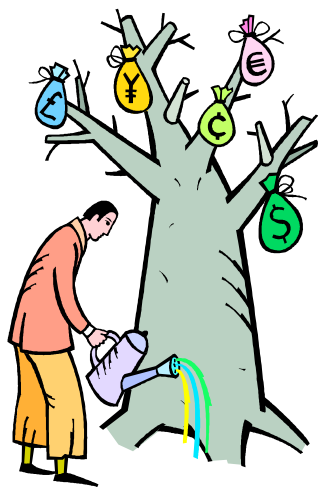
In the 1970's, corporate bosses earned about 40 times as much as the average worker. Today thanks to stock options, generous bonuses and pay, bosses earn about 370 times the average pay of their employees. There are 140 companies under investigation for back dating options, which was done to give the bosses cheap company stock.

A good example of this boss/worker wage disparity is the firing of Richard Nardelli as CEO of Home Depot. For this, he received the princely sum of \$210 million. His sacked underlings were, perhaps, lucky to receive a mere boot in the backside. You would think that with all that money in his jeans, Mr. Nardelli would quietly ride into obscurity. But no; "That's right, Cerebrus has confirmed that the disgraced former CEO of Home Depot, who became the poster child for excessive CEO compensation, has taken the reigns at Chrysler." (*Forbes*, August 6th, 2007).

In 2006, the top three US hedge fund managers drew more than \$1 billion in salaries. The top 25 managers received a total of more than \$14 billion, which is larger than the GDP of Jordan and Uruguay and would be enough to pay the salaries of the 80,000 New York public school teachers for almost three years. (Source-CNN, New York Times).

"The world is flooded with liquidity. Every central bank has been creating liquidity. Today the big money is made by bankers taking over companies, and by companies and venture capitalists taking over companies. It's a paper trading world-casino, run by big-time financiers and world-class investment bankers. It's quite a game, and it's not played by the middle class, it's played by Wall Street and the new entrepreneurs."

(Richard's Remarks – Dow Theory Letters Inc.).



THE FEDERAL RESERVE....WHAT HAS IT DONE FOR YOU LATELY?

Not long ago, Treasury Secretary, Henry Paulson was asked by a Chinese student at Beijing University what accounted for the great success of Goldman Sachs. He said that since he was no longer Chairman of the firm, he could not comment on the question. If he had answered honestly he should have stated that the firm's success and for that matter the success of all the major US investment houses and banks

"But if you wish to remain slaves of bankers and pay the cost of your own slavery, let them create money"

Joshua Stamp

was attributable to the beneficence of the Federal Reserve Board, which is partly owned by his ex-firm. The central bank has provided copious amounts of money and low administered interest rates to keep the great speculative game going; just as it did in the previous Kondratieff autumn between 1921 and 1929.

Joshua Stamp was appointed a director of the Bank of England in 1928. This is what he had to say about central banks—"Banking was conceived in iniquity and was born in sin. The bankers own the earth. Take it away from them, but leave them the power to create money, and with a flick of the pen they will create enough deposits to buy it back again. However, take it away from them, and all the

great fortunes, like mine will disappear and they ought to disappear, for this would be a happier and better world to live in. But if you wish to remain slaves of bankers and pay the cost of your own slavery, let them create money."

Creating money is exactly what the Bank is doing and it is creating money out of nothing. Amschel Mayer Rothschild, the son of Mayer Amschel Rothschild, the founder of the Rothschild dynasty is purported to have said in 1838, "Permit me to control the issue of money of a nation, and I care not who makes the laws." The family has controlled the issuance of money in Europe since the 1800s and the United States since the founding of the Federal Reserve Board in 1913.

In August 1911, John Moody wrote an article in McClure's Magazine titled 'The Seven Men.' "Seven men in Wall Street now control a great share of the fundamental industry and resources of the United States. Three of the seven men, J. P. Morgan, James J. Hill and George F. Baker, head of the so-called Morgan group; four of them, John D. and William Rockefeller, James Stillman, head of the National City bank, and Jacob H. Schiff of the private banking firm of Kuhn, Loeb Company, to the so-called Standard Oil City Bank group....the central machine of capital extends its control over the United States. Moody, John, The Seven Men, McClure's Magazine, August 1911. ([The Secrets of the Federal Reserve](#). P.47).

"What John Moody did not know, or did not tell his readers, was that the most powerful men in the United States were themselves answerable to

another power, a foreign power, and a power which had been steadfastly seeking to extend its control over the young republic of the United States since its very inception. This power was the financial power of England centered in the London Branch of the House of Rothschild. The fact was that in 1910, the United States was for all practical purposes being ruled from England and so it is today. ([The Secrets of the Federal Reserve](#). P. 47-48).

The Federal Reserve Board is not a US government institution, but a privately held corporation owned by shareholders, whose names were kept secret under the provision of the Federal Reserve Act. But, "In our circles it became widely known that the Fed's principal owners or stockholders as they prefer to be called were the ROTHSCHILD banks of London and Berlin; LAZARD BROTHERS Banks of Paris; ISRAEL MOSES SEIF Bank of Italy; Warburg Bank of Hamburg and Amsterdam; LEHMAN BROTHERS Bank of New York; and GOLDMAN SACHS Banks of New York; KUHN LOEB Bank of New York; CHASE MANHATTAN (The Rockefellers) Bank of New York. These interests own and operate The Federal Reserve system through approximately three hundred stockholders, all of whom are very well known to each other, and frequently related."

(Russbacher, Gunther, [The Short Road to Chaos and Destruction: An Expose of the Federal Reserve System](#). <http://www.worldnewstand.net/today/articles/chaos.htm>).

"I still can't get over the whole Federal Reserve racket.

Consider the following—let's take a situation where the US government needs money. The US doesn't just issue United States Notes, which of course it could. These notes would be dollars backed by the full faith and credit of the United States. No, the US doesn't issue dollars straight out of the Treasury."

"I still can't get over the whole Federal Reserve racket"

"This is what the US does— it issues Treasury bonds. The US then sells those Treasury bonds to the Fed. The Fed buys the bonds. Wait, how does the Fed pay for the bonds? The Fed simply creates money 'out of thin air' (book-keeping entry) with which it buys the bonds. The money that the Fed creates from nowhere then goes to the US. The Fed holds the US bonds, and the unbelievable irony is that the US then pays interest on the very bonds that the US itself issued. The mind boggles."

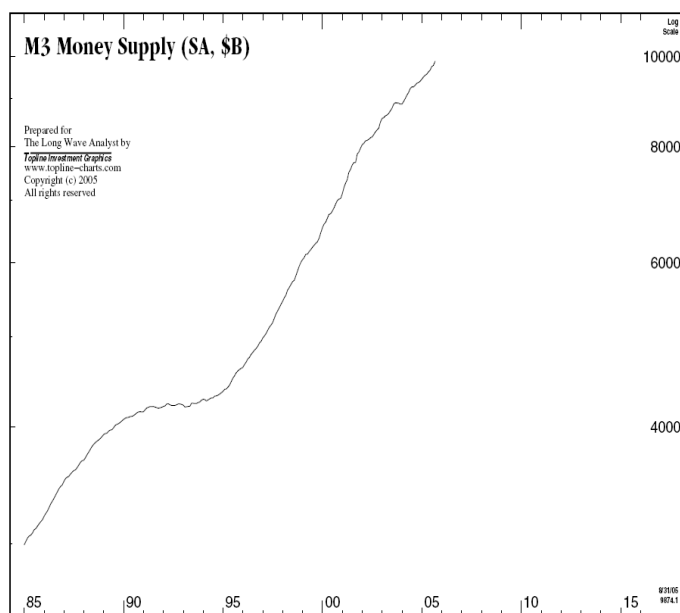
"The damnable result is that the Fed effectively controls the US money supply. The Fed is just an agency of the US, it's not even a branch of the US government. The Fed is not mentioned in the constitution of the United States. No constitutional amendment was ever created or voted on to accept the Fed. The constitutionality of the Federal Reserve has never come before the Supreme Court. The Fed is a private bank that keeps

the US forever in debt-or should I say in increasing debt along with ever rising interest payments."

"How did the Fed get away with this outrage? A tiny secretive group of bankers sneaked through a bill in 1913 at a time when many in Congress were absent. Those who were there and voted for the bill didn't realize (as so often happens) what they were voting for. (shades of the shameful 2002 vote to hand President Bush the power to decide on war with Iraq)"
(Richards Remarks-
www.dowtheoryletters.com.
March 27, 2007).

After Woodrow Wilson had signed the Federal Reserve Act into law he is purported to have told a friend—"I am a most unhappy man, I have unwittingly ruined my country. A great industrial nation is now controlled by its system of credit. Our system of credit is concentrated. The growth of the nation, therefore, and all our activities are in the hands of a few men. We have come to be one of the worst ruled, one of the most completely controlled and dominated Governments in the civilized world; no longer a Government by free opinion, no longer a Government by conviction and the vote of the majority, but a Government by the opinion and duress of a small group of dominant men." ([The Money Masters Video](#)).

A few days before the Federal Reserve Bill came to the Senate floor for a vote, Senator Henry Cabot Lodge wrote to Senator Weeks outlining his opposition to the Bill. ".....The Bill as it stands seems to me to open the way to a vast inflation of currency."



"I had hoped to support this Bill, but I can not vote for it as it stands, because it seems to me to contain features and to rest upon principles in the highest degree menacing to our prosperity, to stability in business, and to the general welfare of the people of the United States". (December 17th, 1913, Quoted by Congressman Lois McFadden in his speech to Congress denouncing the Federal Reserve on June 10th, 1932).

When the Federal Reserve Board wants to inject liquidity into the banks, it buys bonds from the banks and pays for its purchase with money it creates out of nothing. The banks in turn lend out this money and supposedly the economy expands. This scam has been going on ever since the inception of the Federal Reserve. It was done to fund the great stock market boom of the 1920s. The money creation since 1980 has been unprecedented and this has provided the fuel for the biggest speculative market ever.

The banks have reaped trillions of dollars in interest, while the American people for the most part have been sold into

slavery. "The millions of working families of America are now indebted to a few thousand banking families for twice the assessed value of the entire United States. And those banking families obtained that debt against us for the cost of paper, ink and bookkeeping. Emry, Sheldon, ([The Real Story of Money Control over America](#)).

President Thomas Jefferson warned, "If the American people ever allow private banks to control the issue of their currency, first by inflation, then by deflation, the banks will deprive the people of all property until their children wake up homeless on the continent their fathers conquered. The issuing power should be taken from the banks and restored to the people, to whom it properly belongs." (Money Masters Video).

Since its inception in 1913, the Federal Reserve Board has been responsible for an almost 95% devaluation of the U.S. dollar. All this has been achieved through its ability to continually inflate the money supply.

The only time when it failed to maintain inflation was from 1930 to 1934, during the onset of the Great depression, even though it tried mightily to do so.

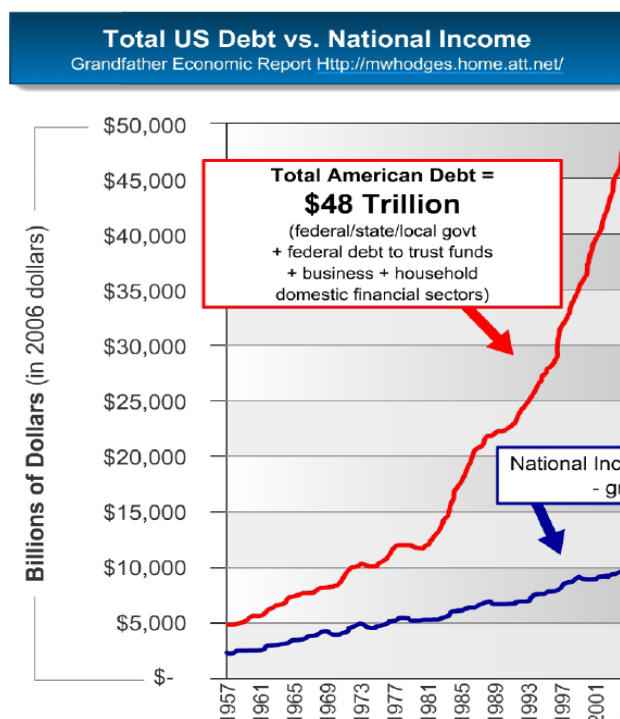
Between 1985 and 2005, the Federal Reserve Board has increased the money supply by five times. This extraordinary money creation is merely the catalyst for debt creation. In a fiat money system, money is debt.

The total debt in the United States today is approaching \$50 trillion and that does not take into account the huge amounts required for the federal funding of social security and Medicare.

There is absolutely no way that this money can ever be repaid except by continued inflation. Now that the credit bubble has blown up, inflation is no longer an option; bankruptcy looms.



Notice in the accompanying US debt chart where exactly debt begins to climb vertically. It is about 1982, which just so happens to be the onset of the Kondratieff autumn. Autumn is always the Kondratieff season during which there is massive speculation. This speculation requires monetary fuel to ignite it and keep it going. Excess monetary inflation goes hand in hand with excess debt. ■



This is the Problem!

• \$50 trillion unfunded liabilities – such as healthcare and retirement.

Total American debt is now 304% of GNP.

THE WHEEL IS COME FULL CIRCLE SHAKESPEARE, KING LEAR

Rhythm or cycles are common throughout nature. They are seen in the ebb and flow of the tide; the phases of the moon; the succession of the seasons; the beating of the heart. The rise and fall in population of the Canadian Lynx and Atlantic salmon follows a 9.6 year cycle. Lemmings in Norway dash to their deaths into the sea every 3.86 years. (We might add that stock speculators emulate the lemmings every 60 years or so.)

“Summer follows winter, new moon follows old, day follows night... The universe is not static; every component from an electron to a galaxy is continually moving and such movement cannot proceed forever in the same direction. Sooner or later it must complete a cycle, or stop and return in the opposite direction.” (J. L. Cloudsley-Thompson quoted in Cycles, P.33).

“It is fairly easy to accept the notion of cycles in plants and animals and even human beings, for many of these are well known and accepted by biologists and physicians.”

“But when it comes to the matter of meaningful cycles in economic affairs, we touch a nerve that initiates unusual reaction and definite rejection from a large group especially economists.” (Cycles, P. 78-79).

The propensity to believe in reason and the inevitability of progress makes it difficult for most people to accept the existence of economic and financial cycles. Leaders in these spheres seldom comment on cycles, except perhaps to dismiss their relevance. Like Edward Simmons, President of the New York stock exchange, who bravely announced in September 1929, the very month that the great bull market peaked, “We are apparently

finished and done with economic cycles as we have known them.”

Or, this story in the Japan Times on December 26th, 1989: ECONOMISTS BELIEVE THE COMING DECADE WILL BE A GOLDEN ERA- Many economists, and the Japanese Government as well, say that the classic theory of business cycles no longer applies to Japan, which has minimized instability factors and learned to drive slowly but steadily when necessary. Two days later the Nikkei Dow made its peak at just under 39,000 points (16,500 points-October 2007).

In an effort to squelch pagan beliefs, the followers of early Christianity were introduced to the idea of linearism, which promoted a confidence in perpetual self-improvement. St. Augustine cautioned, “only the wicked walk in circles.”

Linearists project the future in a straight line. For them history is irrelevant. They view the past as a set of random events or a mere compilation of facts.

"There can be few fields of human endeavor in which history counts for so little as in the world of finance. Past experience, to the extent that it is part of memory at all, is dismissed as the primitive refuge of those who do not have the insight to appreciate the incredible wonders of the present." (A Short History of Financial Euphoria: Financial Genius is Before the Fall. P.12).

But financial cycles do exist and are a means to anticipating changes in direction, for better or for worse.

"Economics is a branch of history. The rhythmical rise and fall of human activity is history in the making. The rise and decline of business in prosperity and depression is merely a part of the wider stream of human affairs, and constitutes a phase of the life history of the social organism." (The Great Depression and Beyond. P.8).

In other words economics and investment markets respond to natural law, and not man's law. This, too, was the belief of that superlative trader, W. D. Gann. "Every movement in the market is the result of a natural law and of a Cause, which exists long before the Effect takes place and can be determined years in advance. The future is but a repetition of the past, as the Bible plainly states: 'The thing that hath been, it is that which shall be; and that which is done is that which shall be done, and there is no new thing under the sun.'" ■

W.D. GANN CYCLES

Perhaps the greatest trader ever, W. D. Gann was an avowed user of cycles to masterful effect. He used his cycle knowledge to alert his readers of the impending crash in 1929.

"My calculations are based on cycle theory and on mathematical sequences. History repeats itself. That is what I have always contended that in order to know and predict the future of anything you only have to look at what has happened in the past and get a correct base or starting point.....Everything works according to past cycles, and that history repeats itself in the lives of men, nations and the stock market." (The Tunnel Through the Air. P. 75-76).

I have read everything that I could find written by Mr. Gann, because I am fascinated by his remarkable predictive ability. I even have some obscure manuscripts that he produced. Never the less, it is difficult to uncover much about his cycle work, even though it was central to his exceptional ability to predict market and individual stock movements. As he wrote in Tunnel Through the Air, "IT IS NOT MY AIM TO EXPLAIN THE CAUSE OF CYCLES (Capitals are his). The general public is not ready for it and probably would not understand or believe it if I explained it." P.78

But, he confirmed that the major cycles occur every 100 years, 1,000 years and even 5,000 years. He emphasized that it was necessary to look back at least 1,000 years to 'prove up cycles.'

In the shorter term, Gann considered the 20 year cycle to be the most important and

any derivatives based upon that time period; such as ten and five years and thirty years (20 + 10). "The most important time cycle is the 20 year cycle or 240 months and most stocks and averages work closer to this cycle than any other." (Method for Forecasting the Stock Market).

"Seven is a fatal number." Of course, this is the year 2007. Seven times seven is forty-nine. "The major cycle of stocks occurs every 49 to 50 years. A period of 'jubilee' years of extreme high or low prices, lasting from 5 to 7 years occur at the end of the 50 year cycle." (Method for Forecasting the Stock Market).

This how Richard Russell (www.dowtheoryletters.com) summed up 1957 or 50 years ago, in his historical stock market chart for that year: "The 1957 market collapse; false 'bear signal' given as second phase of the 1949-66 bull market ends and severe recession starts; pessimism on Wall Street rampant."

Fifty years before 1957, or 100 years from the year 2007 was of course the panic of 1907, which saw a drop in the Dow of 45% and a run on Knickerbocker Trust. The US banking system was brought to its knees by this collapse, which led to the creation of the Federal Reserve Board some 6 years later.

Three fifty year cycles ago is marked by the panic of 1857. This is how Graves describes it "From 1853 to 1857 speculation ran riot. During this time the number of banks doubled. A panic was precipitated on August 24, 1857, by the failure of the Ohio Life Insurance and Trust Company." (The Great Depression and Beyond. P.17).

The anniversary of the 20 year cycle is of course the 1987 stock market crash. The 10 year cycle is marked by the Asian crisis. The 5 year cycle coincides with the October 9, 2002 DJIA bear market bottom.

In November 1928, Gann published his outlook for the year 1929. This is his introduction to that forecast: "This year occurs in a cycle which shows the ending of the bull market and the beginning of a prolonged bear campaign. The present bull campaign has lasted longer than any previous campaign in the history of this country. The

So, all of Gann's cycles forecast a stock market crash for this year. Given his amazing propensity to predict, it would be unwise to bet against him.

fact that it has lasted longer and prices have advanced to such abnormal heights means that when the decline sets in, it must be in proportion to the advance. The year 1929 will witness some sharp, severe panicky declines in many high priced stocks."

"As long as the public believes that everything is all right they will hold on and hope, but when the public buying power has exhausted itself and the largest number of stock gamblers in history lose confidence and all start to sell, it requires no stretch of the imagination to picture what will happen. When the time cycle is up, neither Republican, Democrat, nor our good President Hoover can stem the tide."

"It is natural law. Action equals action in the opposite direction. We see it in the ebb and flow of the tide and we know that from the full bloom of summer follows the dead leaves of winter. Gamblers do not think; they always gamble on hope and that is why they lose. Investors and traders must pause and think, look and listen, and get out of stocks before the great deluge comes." (W. D. Gann, The outlook for 1929).

So, all of Gann's cycles forecast a stock market crash for this year. Given his amazing propensity to predict, it would be unwise to bet against him.



THE KONDRATIEFF CYCLE

Gann's cycles are time specific. The Kondratieff cycle on the other hand is event specific and time elastic. Each Kondratieff cycle last about 60 years, which is effectively one lifetime.

This is the fourth Kondratieff cycle and it has already completed 58 years. The Kondratieff winter is still in front of us. This means that this cycle is likely to be at least 70 years in duration. This is the first of the 4 cycles, which has been governed by a fiat monetary system. This has allowed the Federal Reserve Board to postpone winter, by an excessive increase in the money supply and a benevolent monetary policy. This has served to exacerbate the debt problem and ensures that the coming winter will be much colder than any of the three preceding winters.

Dividing the Kondratieff cycle into the four seasons is appropriate, because each Kondratieff season shares characteristics similar to the climatic seasons. The Kondratieff spring constitutes the birth of the economy. Summer is when the economy bears fruit. Autumn is the season of satisfaction. During the Kondratieff winter, the economy dies. In terms of time, each of the Kondratieff seasons last approximately one quarter of the cycle, or, approximately 15 years. Spring and summer in the current cycle both covered about 16 years.

I would argue that autumn ended with the stock market peak in early 2000, which was about 17 ½ years. Since that peak, Alan Greenspan was able to stimulate the economy again, through his panic interest rate cuts and increasing the supply of

money. Thus, winter has been very benign and essentially unrecognizable these past seven years, which means that what lies ahead, will be very severe.

Gann emphasized that it was important to recognize specific points in a cycle to be able to correctly identify the future. Fortunately, the Kondratieff cycle clearly identifies the beginning and end of each season. This is done through the recognition of bear and bull market bottoms or tops.

Thus, in the current cycle the beginning of spring was signaled by a bear market bottom in June, 1949 when the DJIA bottomed at 161. The end of spring and the beginning of summer was indicated by the bull market peak in February, 1966 when the Dow touched 995 points. The end of summer and the beginning of autumn was signaled by the bear market bottom in August, 1982 with the Dow at 777 points.

In addition to this bear market bottom at the end of summer, there are three additional identifiers, which substantiate the onset of autumn. These are a peak in interest rates, a peak in prices and a significant economic recession. The end of autumn and the beginning of the chilling Kondratieff winter is signaled by the euphoric bull market peak in the biggest bull stock market of the cycle.

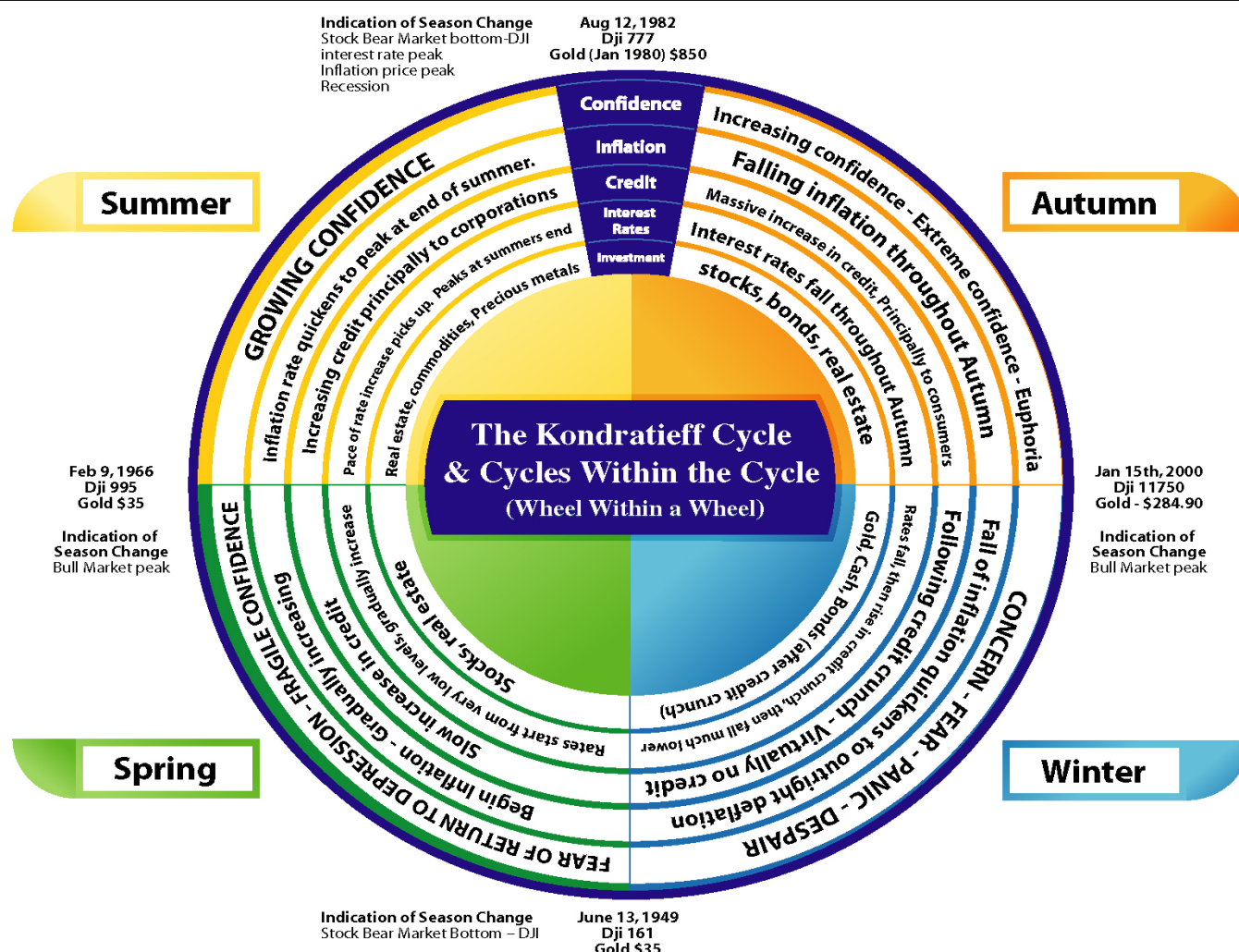
"In every law of nature there is a major and a minor; a positive and a negative, and a neutral. Therefore, in cycles there must be a lesser, a greater and intermediate cycle, or cycles within cycles. Like Ezekiel says: 'Wheel within a wheel.'" (The Tunnel through the Air. P.78).

Within the principal Kondratieff cycle, which is essentially an economic cycle of boom and bust, there are a multitude of different cycles which are closely linked and responsive to the principal cycle, and are also interactive with each other. All these cycles, too, have a greater, lesser and intermediate cycle within them.

The principal cycles contained within the Kondratieff economic cycle are an investment cycle; an interest rate cycle; a credit/debt cycle; an inflation cycle and a crowd confidence cycle.

"Panics have their beginnings in the boom that precedes them. Just as all hurricanes first develop over warm waters from pre-existing conditions, financial storms are spawned by surging growth in money, debt and speculation."

Chris Mayer



The above chart outlines each of the cycles within the Kondratieff cycle. Perhaps, the only cycle that requires some elucidation is the investment cycle, because it is so important to be in the right investments during each of the seasons.

Spring represents the birth or rebirth of the economy. Accordingly, it stands to reason that the best investments in this initial season of the cycle are those which benefit most from a developing economy; that is common stocks and real estate.

Summer has always been the inflationary season of the cycle, because there has been a war in each of the four Kondratieff summers, always financed by excessive monetary expansion. In the first Kondratieff summer, the war was the War of 1812; in the second summer, it was the US Civil War; the 1st World War (1914-1918) occurred in the 3rd summer and the 4th summer, the summer of the current cycle, it was the War against Viet Nam.

Real estate, commodities and precious metals are appropriate investments during the inflationary summer; so are 'things' like art, diamonds, antiques, stamps and coins.

Autumn is always the season during which there is massive speculation, particularly in stocks, bonds and real estate. Investment returns generated by these markets are a once in a lifetime experience.

This happens because monetary inflation does not stop once the summer war ends. In autumn, the availability of easy credit, based on falling interest rates and large infusions of the money supply to the banks, promotes speculation, principally in stocks and towards the end of the cycle, real estate. Rising equity prices attract more and more money for investment until, near the top, a feeding frenzy of mass speculation captures the imagination of the entire country.

In each of the four Kondratieff cycles, the autumn period has always followed a significant summer-ending recession, which led to a speculative boom based on an inordinate excess of credit.

1ST KONDRATIEFF AUTUMN - STOCK BULL MARKET 1821-1837

The U.S. summer ending recession of 1819 to 1821 was followed by a speculative boom fostered by the building of canals and high-ways, which were used to link raw material producers in the interior to manufacturing industries on the eastern seaboard. By 1836, a speculative land boom developed in Iowa, Wisconsin and Minnesota. "Undue amounts of money were sunk into wheat and cotton farms, also in grist and cotton mills, in canals and even in the beginnings of railroad construction. The number of banks in the West is said to have increased from 329 in 1829 to 788 in 1837." ([The Great Depression and Beyond](#), P 16).

Many wildcat banks were formed, which issued currency with little or no backing. "The first collapse came in New Orleans. The New York banks suspended operations on May 10th, 1837. While the worst of this depression was felt in 1837 and 1838, the entire period preceding 1845 was one of general depression." ([The Great Depression and Beyond](#), P.17).

2ND KONDRATIEFF AUTUMN - STOCK BULL MARKET 1866-1873

The post Civil War summer-ending recession occurred between 1865 and 1866. The autumn boom that followed was centred, particularly, on the trans-continental railways. Between 1867 and 1873, 3,200 miles of track were laid, more than doubling the previous mileage. Settlement of western lands grew rapidly, which prompted a significant increase in agricultural commodities.

During the Civil War manufacturing was rapidly expanded to service the needs of the Union Army. Since the factory system was introduced at this time, this period has been dubbed the dawn of America's industrial revolution. Enormous profits were generated and the usual problems of over-borrowing and over-expansion ensued.

There was also a huge monetary inflation. The war had, for the most part, been financed by fiat paper dollars, known as 'greenbacks'. Their value was enormously depreciated and this led to huge speculation in commodities and stocks.

"All of these forces of over-expansion and inflation resulted in a series of colossal failures in 1873, which ushered in one of the longest and most severe depressions in all history." ([The Great Depression and Beyond](#), P.18).

3RD KONDRATIEFF AUTUMN - STOCK BULL MARKET 1921-1929

The 1st World War summer-ending recession was precipitated by a violent break in stock prices in November 1919, which was followed by a steep decline in commodity prices. These events, and the peak in interest rates in 1920, collectively spelled the end of the third Kondratieff summer and the onset of autumn, which began at the bottom of the bear market for stocks in 1921.

The 'Roaring Twenties' were initiated, like each of the preceding Kondratieff autumns, by easy credit conditions. Like its predecessors, this credit became the engine which pulled the great autumn speculative stock bull market forward.

"The excess credit which the Fed pumped into the economy spilled over into the stock market- triggering a fantastic speculative boom." ([Gold and Economic Freedom](#)).

The Dow Jones Industrial Average completed the summer bear market bottom in August, 1921 at 63.90 points. The price gains through the remainder of 1921 and 1922 were steady. In 1923, stock prices were down. By May the next year, prices resumed their upward trend, which continued into 1925. During 1926, stock prices were mixed. In December 1927, the Dow Jones Industrial Average closed above 200 points. By December 1928, prices had reached above 300 points in celebration of Herbert Hoover's presidential victory that year. His victory ushered in, for the first time in its history, 5 million and 6 million share trading volume days on the New York Stock Exchange. During the first four months of 1929 prices were mixed, but from May that year prices increased almost 30% to reach their great bull market peak at 381.17 points, the day after Labor Day, September 1929. The percentage increase from the 1921 bear market bottom to the peak in September 1929 was just shy of 500%.

The great stock market advance captured the attention of America. "The boardrooms of large brokerages were jammed with speculators and people who did not own stocks, but were curious about the excitement. The atmosphere was light hearted and carefree. A year earlier people who had made fortunes on Wall Street were applauded; now they were commonplace. Speculators, both large and small, were beginning to accept continued advances as an expected occurrence. Not even a rise in margin requirements made by some brokers could dampen the enthusiasm.

The Saturday Evening Post printed a poem to illustrate this feeling:

'Oh, hush thee, my babe, granny's bought some more shares

Daddy's gone to play with the bulls and the bears, Mother's buying on tips, and she simply can't lose, And baby shall have some expensive new shoes.' (*The Great Bull Market: Wall Street in the 1920s. P.127*).

On the great ocean liners plying their way to and fro across the Atlantic, stocks were bought and sold via telegraph. Even the three week journey offered no limitation to those passengers, and that would be most of them, who wished to keep buying and selling stocks.

"On September 1 (1929) 'The Times,' convinced of the underlying strength of the market, wrote:

'One of the most striking features of the present chapter in Stock Market history is the failure of the trading community to take serious alarm at portents which once threw Wall Street into a state of alarm bordering on demoralization. In particular, the recent disregard of the succession of smashed high records for brokers' loans (margin) astonishes the older school of market operators. Undoubtedly the heavy margins required of traders by the commission houses have much to build up this assurance. Traders who would formerly taken the precaution of reducing their commitments just in case a reaction should set in, now feel confident that they can ride out any storm which may develop. But more particularly, the repeated demonstrations which the market has given of its ability to 'come back' with renewed strength after a sharp reaction has engendered a spirit

of indifference to all the old time warnings. As to whether this attitude may not itself become a danger-signal, Wall Street is not agreed.'" (*The Great Bull Market: Wall Street in the 1920s. P.127/128*).

This misplaced confidence is always apparent near a major bull market peak. Since the market advance has been lengthy, the thinking is that it will continue on forever. One only has to examine the current stock market action, in which stocks climb to new highs, in spite of the evolving credit crunch debacle. Investors still anticipate that further interest rate cuts by the Federal Reserve Board, will work as they have always done during this monster speculative market. There comes a time when they will not work. The experience of the early 1930s should be proof enough of this.

"Belatedly, Federal Reserve officials attempted to sop up the excess reserves and finally succeeded in braking the boom. But it was too late: by 1929 the speculative imbalances had become so overwhelming that the attempt precipitated a sharp retrenching and a consequent demoralizing of business confidence. As a result, the American economy collapsed." (Alan Greenspan, *Gold and Economic Freedom*). He knew what his actions would cause during the fourth Kondratieff autumn and yet he still preceded with inflating the money supply. What an irresponsible, despicable man!

***"The excess credit which the Fed pumped into the economy spilled over into the stock market - triggering a fantastic speculative boom."* (*Gold and Economic Freedom*)**

THE 3RD KONDRATIEFF AUTUMN BULL MARKET AND THE WINTER BEAR



Contrary to popular opinion, stocks do not always discount the future, at least not at major bear market peaks and bottoms. If they did, what were they predicting in August 1982, or what were Japanese stocks predicting in December 1989, or for that matter, what was the price of gold anticipating in January 1980 and of course what were the price of stocks telling investors on September 3rd 1929? These were all major turning points, but investors were betting with their money that the present would continue into the future as far as the eye could see and they were dead wrong.

THE 4TH KONDRATIEFF AUTUMN STOCK BULL MARKET 1982-2000

The post Viet Nam War and Kondratieff summer-ending recession began in July, 1981 and ended in November, 1982. It was considered the worst recession since the Great Depression. Unemployment reached 10.8%. There were 42 U.S. bank failures during this time, which was a post depression high.

A peak in the Fed Funds rate, which reached 19.1% by June

1981; an inflationary high of 13.5%; a stock bear market which had taken the Dow Jones Industrial Average down from a high of 1021 in April 1981 to a low of 777 in August 1982 were three other events that signaled the end of the Kondratieff summer and the onset of the Kondratieff autumn.

The ensuing stock bull market was destined to become the

the largest ever. Typically, like all other great bull markets it began without fanfare and with a large degree of apathy. The general public had little interest in stocks and little understanding about investing in the stock market.

Awareness began to gather steam as stock prices began to increase. Within two months, stock prices were at all time highs and by December 1982 the Dow Jones Industrial Average reached 1070. The following year stock prices had climbed into the high 1200s. During 1984, stock prices consolidated their rapid gains of the past two years. But in 1985, they resumed their uptrend reaching above 1550 in December of that year. By 1986 the Dow Jones Industrial Average had climbed above 1950 points. In 1987, prices continued their rapid advance, moving through 2000 points for the first time in January and reaching 2722 in August. By this time, public participation in the stock market was widespread and enthusiastic.

In September, 1987 stock prices corrected and then rallied a little into the beginning of October. Then they started a decline. The decline presaged the crash of October 19th, when the Dow Jones Industrial lost 508 points, which took the Average down to 1738 or almost 1000 points below where it had been in August.

The new Federal Reserve Chairman, Alan Greenspan, in the time honoured tradition of the Central Bank quickly cut administered interest rates and increased the supply of money to the banks.

The crash hurt investor confidence and they were somewhat slow to re-join the party; so stock prices recovered only

a little in 1988. By 1989, however the 1987 crash was already a distant memory and in that year prices reached above the point where they had been prior to the crash.

By 1990 prices touched 3000 points. In 1995 two milestones were attained. The DJIA passed through 4000 and 5000 points. In December the next year prices reached 6500.

In 1997, the Dow Jones Industrial Average breached 7000 and 8000 points, in spite of the Asian crisis. By July 1998 the index was above 9000 points.

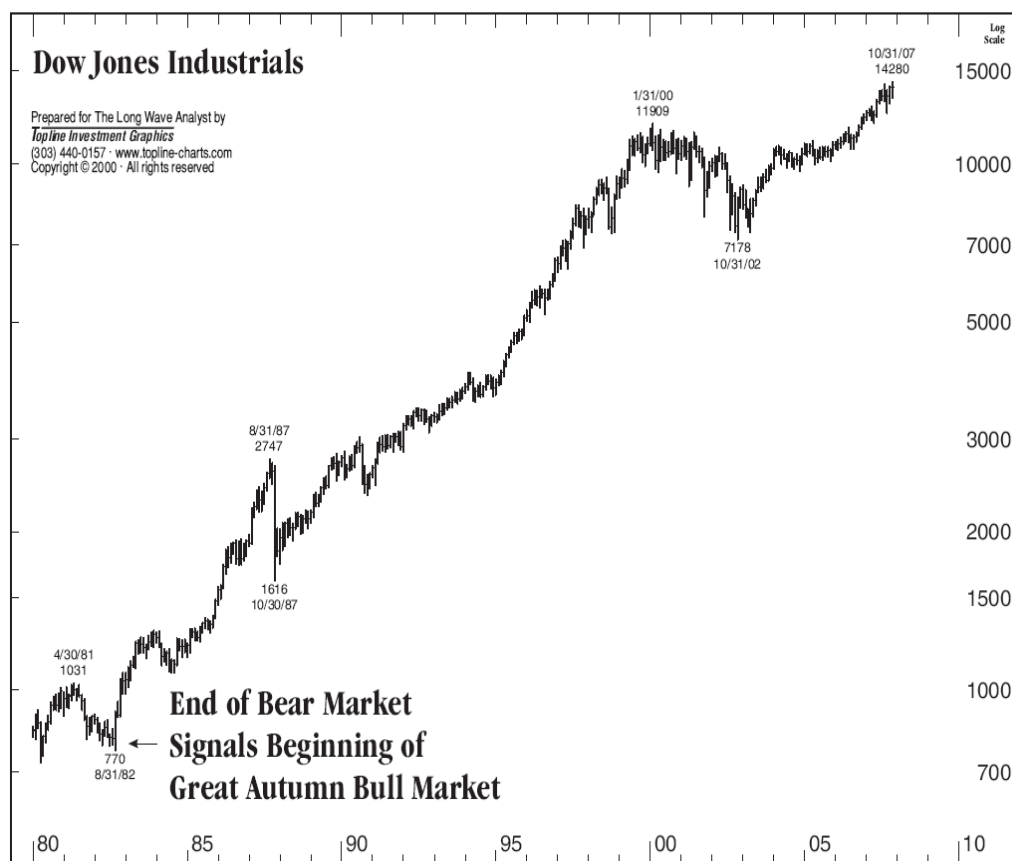
Then came the Long Term Capital Management bankruptcy, and of course the bailout by the Federal Reserve Board. Two Fed Funds rate cuts and assurances by Alan Greenspan righted the ship. By October stock prices were at all time highs.

In 1999 stock prices passed through 10,000 points and the DJIA closed the year at 11,483 points.

In January 2000, The Dow Jones Industrial Average touched 11,750 points. I consider this to be the Kondratieff autumn bull market peak. The rise in stock prices since

October 2002, are attributable to the panic actions on the part of the Federal Reserve. These actions have fostered the greatest credit (debt) bubble in history and the associated speculations in every conceivable asset that Wall Street could manufacture. We are just beginning to feel the repercussions for this gross mismanagement. ■

THE 4TH KONDRATIEFF AUTUMN STOCK BULL MARKET



Four Kondratieff Waves in the US June 1789 through September 2007

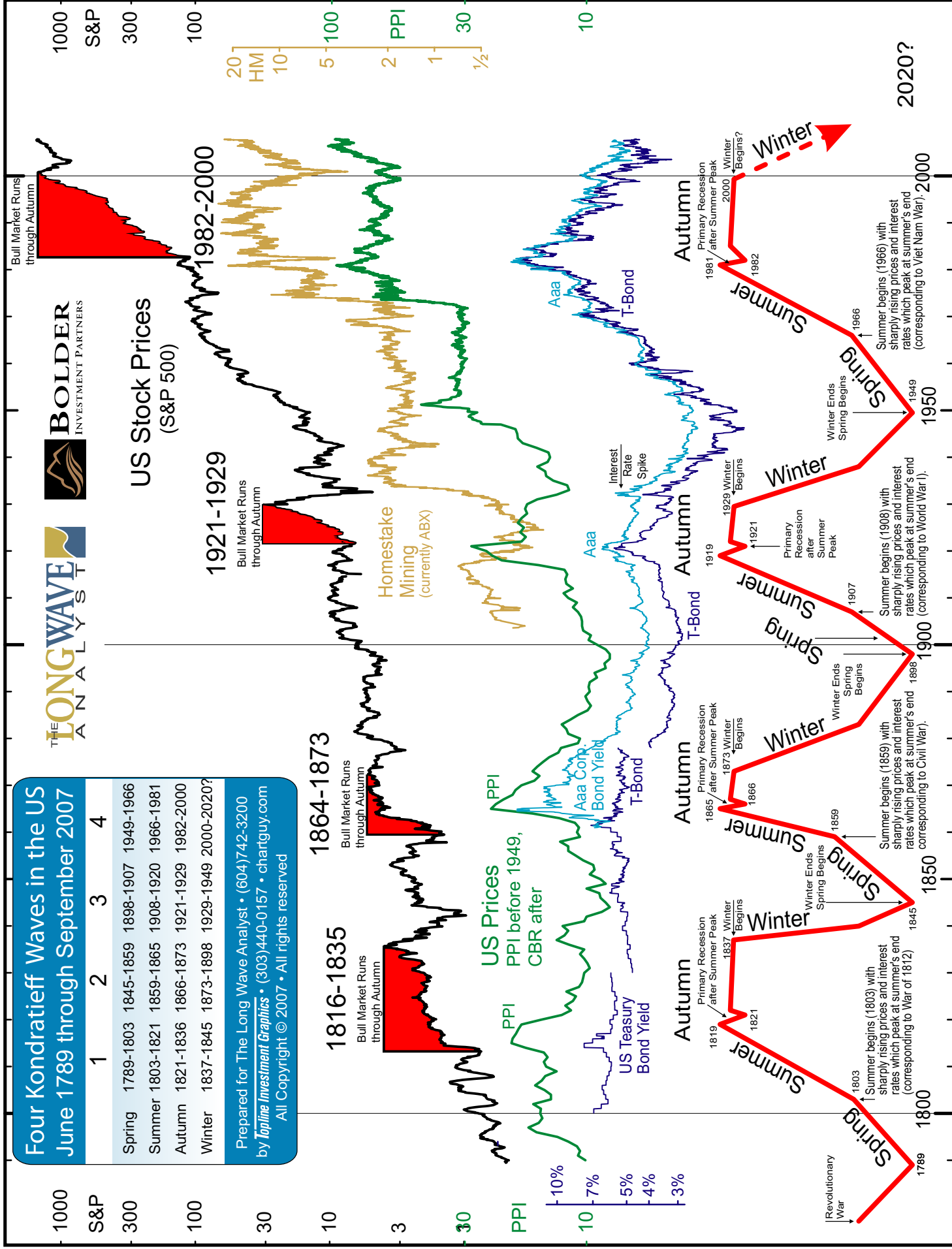
	1	2	3	4
Spring	1789-1803	1845-1859	1898-1907	1949-1966
Summer	1803-1821	1859-1865	1908-1920	1966-1981
Autumn	1821-1836	1866-1873	1921-1929	1982-2000
Winter	1837-1845	1873-1898	1929-1949	2000-2020?

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THE LONGWAVE ANALYST



BOLDER INVESTMENT PARTNERS



BULLS AND BEARS

It is a funny thing, but when a great bull market has advanced over a long period, nearly every body thinks that the rate of advance will continue into eternity, or at least as long as it matters to each individual who comprise the investment herd. Similarly, when a vicious bear market has cut stock prices by 90% as it did between 1929 and 1932, almost everyone thinks prices are going to zero. That is the nature of the market, when almost everyone believes in the perpetuation of the present it is likely, a turn for better or worse is in the offing.

A bull market is always followed by a bear and vice versa. Neither exists in perpetuity. A big bull market is always followed by a big bear market, and the latter lays the ground work for the next big bull market. It is the natural ebb and flow of the markets.

That is the nature of the market, when almost everyone believes in the perpetuation of the present, it is likely a turn for better or worse is in the offing

The price of gold rose from \$35 U.S. per ounce in 1971 to peak at \$850 per ounce in January 1980. That is a gain of better than 2000%. And what did investors believe about the price of gold in January 1980? They believed it was going a lot higher. So much so, that here in Canada, the Globe and Mail carried a picture, at about this time, of a large queue of people lined

outside the Bank of Nova Scotia in Toronto, waiting for the bank to open its doors so that they could buy gold.

The investment crowd is conditioned by routine to believe that whatever their most recent experience, they will experience something similar tomorrow and the next day and the next day and so on, far into the future. So it was with gold investors. From the price peak of \$850 in January 1980, the price dropped viciously to \$450 in March of that year, but the still believing gold investors, through their purchases, were able to bring the price all the way back up to \$730 by September 1980.

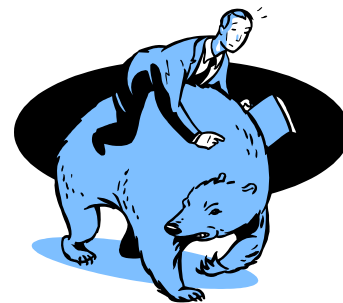
But that was all there was. By June 1982 the price of gold had dipped below \$300. The bear market that had begun in January 1980 following the spectacular bull market lasted into February 2001 when the bear market bottom price of \$255 was reached. The bear market lasted 21 years and lost 70%.

There are very few believers in gold now: perhaps a little more than there were in 2001 now that the price has risen to above \$800 per ounce. But nearly every one believes in the general stock market. Why so? Because they have been conditioned to believe that stock prices always go up and any downward blip will immediately be countered by the Federal Reserve.

Bull markets are like rugby players, the bigger they are the harder they fall. The gold bull market of the 1970's and the subsequent bear market discussed above is one example; so, too, is the Nikkei stock bull market of the

1980's. Japanese stocks reached a price high to close at 39,000 in December, 1989. It seemed they were destined to go higher, at least that is what every one believed, but that was not to be. Today almost 18 years later the Nikkei Dow trades at about 15,000 points, a mere shadow of its former self. In 2001, I was in Tokyo with Tammy Matsufugi, he would point to several different high rise buildings and remark-

"See that building, owner bankrupt, bank bankrupt." ■



ANATOMY OF A CRASH

The following excerpt is mainly drawn from an anonymous diary, which chronicles the peak of the Dow Jones Industrial Averages on September 3rd 1929 to the first crash low on November 14th. It is interesting to note how hard it was to shake bullish opinion and how much the investment crowd relied on the banks, their leaders, for encouragement, and how, conditioned by their experience of the bull market, each violent drop was reason to buy stocks. (The paragraphs in quotation marks without attribution are attributable to this document)

Who could acknowledge on **September 4th 1929** that there was anything different from everything else that had occurred throughout the big bull market? It is true that stocks were down that day but only marginally. On **Thursday September 5th** they were down a rather large 12 points. But Friday they recovered more than half of Thursday's losses and Saturday was another small gain. On **Monday 9th of September** the Dow lost 2.63 points and the next day another 7.63 points. But on **Wednesday 11th September** stock prices rose again.

This pattern of downs and ups, but in favour of the downs, continued throughout September. **September 30th** was another down day with the market losing 3.72 points to close the month at 343.45, or nearly 38 points, or 10% below where prices had stood the day after Labor Day.

The pattern continued. But on **Thursday 3rd of October**

The stock market dropped 14.55 points and a further 4.78 points the next day.

On **Saturday, October 5th** the market rebounded, gaining a little better than 16 points. One report read, "The clouds of pessimism which hung over Wall Street all week drifted away over night and stocks rallied in one of the swiftest rebounds the Stock Exchange has ever experienced."

Stock prices continued to meander until **Wednesday 16th of October** when a sharp break in prices took the DJIA down to 336. Another fairly sharp drop of 9.42 points occurred on **Saturday 19th of October**.

"The sharp decline of October 14-19 did not cause a panic; it was no worse than the bearish weeks in previous years, and after each of these, the market had recovered." (The Great Bull Market, P.133).

Wednesday 23rd of October

...”opened calmly enough. Many prices were higher. Trading was quiet in mid-morning, but featured by a sudden and unexplained wave of liquidation in the motor accessory issues...By 1 o'clock the decline had reached large proportions, but it was not until the last hour that the full force of the storm was felt.”

“Frightened by the decline in stock prices during the last month and a half, thousands of shareholders dumped their shares on the market during the afternoon in such an avalanche of selling as to bring about one of the wildest declines in history.” The Dow Jones Industrial Average lost better than 20 points to close at 305.85.

“From Washington came President Hoover’s comment that ‘the production and distribution of goods and services-is on a sound and prosperous basis.’ Newspaper advertisements pointed out that not a single bank had fallen, not a single major concern was in trouble. Indeed, record earnings were reported by several large businesses, and it seemed certain that there would be a fine crop of year-end extra dividends.” (*The Great Bull Market*, P.137).

The next day, **Thursday 24th of October**, “The early market gave no hint of the smash that was to follow. Stocks opened moderately steady although on big volume that forecast trouble.....Stocks were thrown in, in tremendous volume, for just what they would bring at forced sale. The greatest damage and the lowest prices were reached between 11.15 and 12.15.”

“Wall Street gave credit to its

banking leaders for arresting the decline of the N.Y.S.E at a time when the stock market was being overwhelmed by selling orders. The conference at which the steps were taken that reversed the market’s trend was hurriedly called at the offices of J. P. Morgan & Co 12.00 noon.”

“... Wall Street was convinced that the bankers had agreed to bring to bear upon the market the immense support of their buying power.”

“The rally in US Steel was started by a 25,000 share buying order placed in the hands of Richard Whitney Of Richard Whitney and CO, a brother of George Whitney, who is a partner in J. P. Morgan and Co. His bid at \$205 electrified the group around the Steel post and communicated buying enthusiasm to other parts of the floor.”

“Steel got the first recognized support. Then strength spread to all section of the list and by 2 o'clock the market had turned vigorously and definitely upward. Fainted hearted stockholders, on the verge of selling out, withdrew their orders, a vast amount of bear covering was started, and pivotal issues rebounded in strong fashion.”

Stocks that day closed down only a little more than 6 points bringing the DJIA down to 299.47.

The actions of the large banks to prop up the market in October 1929 is similar to the Working Group on Financial Markets, aka The Plunge Protection team, which was established after the 508 point drop in the Dow Jones Industrial Average on October 19th 1987. This group is comprised of The Secretary of the Treasury, The Chairman of the Federal Reserve Board, The

Chairman of the Securities and Exchange Commission and The Chairman of the Commodity Futures Trading Commission. Investors, therefore consider the activities of the Plunge Protection Team as a permanent safeguard against a panic. But as we shall see the Banks were powerless to intervene against such an event in 1929. Anyway, markets respond to natural law and when the time cycle is up no one can turn back the tide.

Following the intervention by the banks on **October 24th, 1929**, the stock market held steady on Friday and Saturday.

On **Monday the 28th of October**, “The second hurricane of liquidation within four days hit the stock market. It came suddenly and violently after holders of stock had been lulled into a sense of security by the rallies Friday and Saturday. ‘That the storm has blown itself out, that there will be organized support to put an end to a reaction which has ripped billions of dollars from market values appeared certain from statements by leading bankers.’”

“It was not so much that the little speculator who was struck by the cyclone; it was the rich men of the country, the institutions which had purchased common stocks, the investment trusts and investors of all kinds. The little investors were mostly blown out of their accounts by the long decline from early September. Thousands went headlong out of the market on Thursday.”

“One prominent banker definitely asserted that he knew of buying on a large scale planned for Tuesday and among informed members of the financial district the opinion prevailed that the banking group which had come to the rescue of the market last Thursday

had made definite plans to support stocks.”

The crash dropped the Dow by 35.33 points to 260.64.

The next day, **Tuesday 29th of October**, “Bankers stood aside at the opening as blocks of 10,000 to 30,000 shares were thrown into the market for whatever price they would bring.” The Dow lost a further 30 points to close at 230.07.

“Two meetings of the bankers were held during the day. At the noon meeting Owen D. Young, director of the Federal Reserve Bank of New York joined the group. It is thought the question of lowering the rediscount rate may come before the Federal Reserve Board shortly.”

“Some observers believe that a reduction in rediscount rates might have a strongly psychological effect not only upon business, but the market as well.”

On **Wednesday the 30th of October**, “Stocks came back with a rush, and as the wave of terrified liquidation of the past two days subsided, the market regained its poise and stability. It was a vigorous, buoyant rally that lasted from bell to bell. The authorized statement of John D. Rockefeller that ‘he and his son believe that there is nothing in the business situation to warrant the destruction of values which has taken place during the past week and that they are buying and will continue to buy common stocks which represent sound investment value,’ had an electric effect on the market.”

“Rich men bought stocks heavily, poor men bought, too, as evidenced by the tremendous odd lot business

transacted. The men of medium means, with surplus cash rushed it to the market. Most of the big wire houses did the biggest business in their history, and the purchasing orders came from every section of the country. Many investment trusts and insurance reported that they were using their cash reserves to purchase issues which they believed were selling at bargain prices."

"Bankers declared it the most remarkable celebration of confidence in the country's prosperity and of its future they had ever seen."

On **Thursday 31st of October**, The New York Federal Reserve cut the discount rate by 1% to 5% and "The postponement of the security market's opening until 12 O'clock gave ample opportunity for investors in all parts of the country to pick the securities which financial, industrial and political leaders had declared to be sound and at investment levels."

"The tremendous overnight accumulation of odd-lot buying orders was ascribed by many bankers as the cause for the wide advances that the leading stock exchange issues scored."

"Such a tremendous torrent of buying power was released at the market's start that the scramble to buy stocks was just about as disorderly and wild as had been the scramble to sell stocks just two or three days before."

"E. F. Hutton and Co. after the close reported 'It is hard to imagine any reasons for selling high-grade securities at these levels and there seems to be every fundamental and technical justification for buying.'"

The Dow Jones Industrial Average closed the month of October at 275.51 points, down 68 points from the September close.

The New York Stock Exchange resumed trading on **Monday 4th November, 1929** and in anticipation of this opening an unprecedented amount of buying orders had accumulated. "Chicago stock brokers reported to day no small part of the unprecedented flood of buying orders that had been pouring into their offices during the two day market holiday had been coming from the working classes."

"Iron workers and truck drivers, white collar office employees and even domestic servants had drawn their savings from banks, invaded Chicago brokerage houses with orders to buy lots from five to fifty shares."

"The course of trading on the security exchange was exactly opposite of what had been predicted. A factor contributing to the downtrend at the opening, according to the impression on Wall Street, was the sale of large blocks of 'support stock' which had been accumulated when through the most acute phases of reaction last week and the week before."

The market closed down 15.83 points on the day taking the DJIA to 257.68.

Wednesday 6th of November, "Wall Street was again enveloped in gloom as the ticker told the story of the market's latest collapse." The market lost 25.55 points.

The next day, **Thursday 7th of November**, "After a sensational opening during which a tremendous volume of liquidation was absorbed on

declines of 2 to 12 points, the stock market rallied on the first effective buying support seen this week."

"The upswing in the market, which served to dispel much of the gloom which hung over the financial district, was ascribed to an inflow of buying orders attracted by lower levels of stocks as well as to organized support by banking interests. It was believed that the banking consortium furnished a substantial part of this support, although there was no authoritative intimation to that effect." The market closed up by 6 Points.

"To wall Street the quiet trading on the Stock Exchange suggested that possibly the condition of tranquility which had been so ardently wished was approaching. Prices moved irregularly lower in a dull market." The market ended that day, closing the week's trading, off a little more than a point.

The American Bankers Association Journal reported "Numerous constructive elements now enter the business picture. A genuine bond market promises to return. Building construction should revive as funds are again available for purchasing real estate and mortgages. Commercial enterprises should be stimulated with the burden of high interest rates removed. Foreign loans can again provide credits with which to build up our export trade."

On **Monday 11th of November**, "Starting as a gentle slide soon after the opening of the New York Stock Exchange, security prices dropped with increasing speed as the three hour session progressed. In a final burst of liquidation in the final hour of trading most stocks reached their lows for the day." Stocks gave up 16.14 points.

"Puzzled by the waves of selling, the senior partner of a leading Broadway commission house telephoned late in the afternoon to members of a dozen or more large firms in quest of information. The other brokers were as mystified as was the man making the enquiries. All of them reported that most of the weak margin accounts had been eliminated, either through forced liquidation or through furnishing of additional funds. It was apparent from his enquiries, the broker said, that the selling was not originating in the brokerage houses."

"The American Bankers Association reported that savings were down for the first time in 20 years. There is scarcely any reason to doubt that one of the important factors in draining away savings deposits and decreasing the number of depositors has been the lure of profits to be made in stocks."

Tuesday 12th of November the market was down another 10.65 points. "Wall Street was frankly puzzled by the market's action. There was no news to account for the fresh slide."

"For every stock sold there must of course be a buyer and Wall Street was pondering as to the identity of the buyers. The outside public is not a great factor at the moment, being thoroughly frightened at the damaging propensities of the market. Bankers were buyers to a considerable extent, it was reported, but without bidding for stocks."

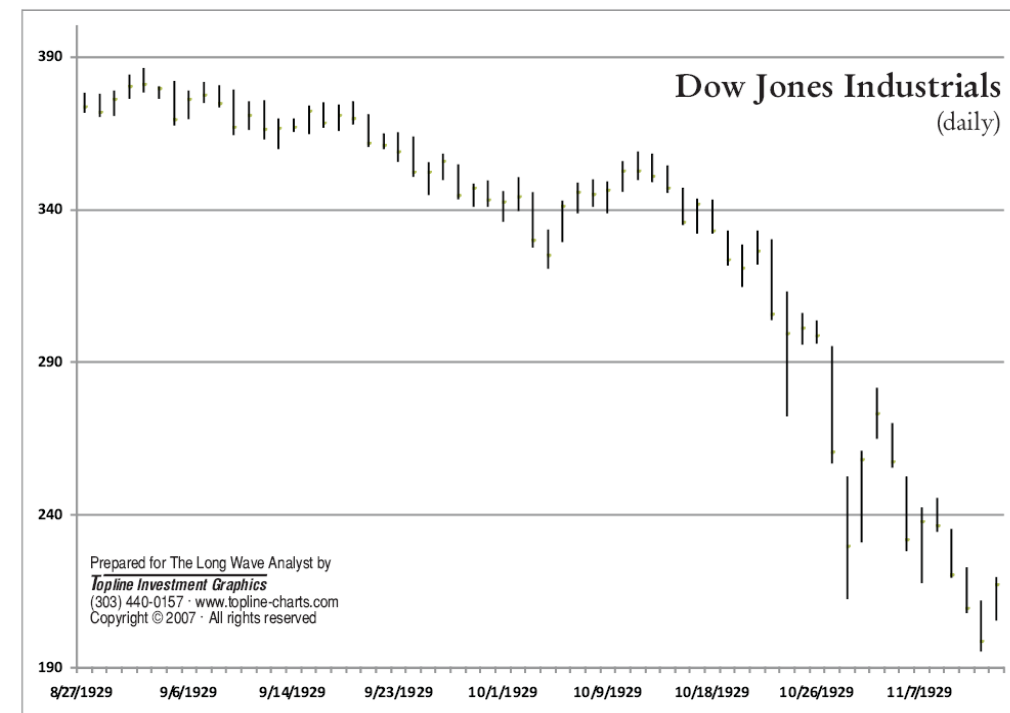
The next day **November 13th**, stocks were again down and the Dow Jones Industrial Average closed below 200 points; which was at the level that the market had been in early 1928.

The Stock Market Crash: September - November 1929

"The source of liquidation continued to mystify Wall Street and this selling as in the previous day, was in shares of the first grade. Institutional liquidation of collateral behind loans and the forced selling of many more accounts were believed to be the sources of a large measure of the selling."

On **November 14th**, the stock market made its initial bear market low. The Dow Jones Industrial Average closed down less than a point to settle at 198.69. In just two and a half months the Dow Jones Industrial Average lost 48% of its value. This wiped out billions of dollars of equity value and for the most part destroyed the savings of a huge swath of individual investors.

Much like to day, the Federal Reserve at that time attempted to save the day. Administered interest rates were cut dramatically down to 4.5% by November 14th from 6% where they had been at the peak of the market in early September. And the banks were inundated with money. "If the Federal Reserve had an inflationist attitude during the boom, it was just as ready to try and cure the depression by inflating further. It stepped in immediately to expand credit and bolster shaky financial positions. In an act unprecedented in its history, the Federal Reserve moved in during the week of the crash-the final week of October- and in a brief period added almost \$300 million to the reserves of the nation's banks. During that week the Federal Reserve doubled its holdings of government securities, adding over \$150 million to reserves, and it discounted about \$200 million more for member banks. Instead of going through a healthy and rapid liquidation of unsound positions, the economy was feted to continually bolstered by



government measures that could only prolong its diseased state. This enormous expansion was generated to prevent liquidation on the stock market and to permit New York City banks to take over the brokers' loans that the 'other,' non-banks, lenders were liquidating. The great

"If the Federal Reserve had an inflationist attitude during the boom, it was just as ready to try and cure the depression by inflating further."

bulk of the increased reserves-all 'controlled'-were pumped into New York. As a result, the weekly reporting

member banks expanded their deposits during the fateful last week of October by \$1.8 billion (a monetary expansion of nearly 10 per cent in one week), of which \$1.6 billion were increased deposits in New York City banks, and only \$0.2 billion were in banks outside New York. The Federal Reserve also promptly and sharply lowered its rediscount rate, from 6 per cent at the beginning of the crash, to 4.5 per cent by mid-November. Acceptance rates were also reduced considerably." ([America's Great Depression](#). P.191).

"By mid-November, the great stock break was over, and the market falsely stimulated by artificial credit, began to move upward again." ([America's Great Depression](#). P.191).

Stock prices rose into April 1930. The Dow Jones reached a peak of 294.07, which regained about 50% of the losses incurred from September to November 1929. By December 1931 the Dow Jones had fallen to 73.79 points; reflecting what has been called 'The Tragic

Year.' By late June, 1932 the bear market reached a bottom when the Dow Jones Industrials traded at 41.22 points. This price level was almost 90% below where the Dow Jones Industrial Average had been on that sunny day, the day after the Labor Day holiday 1929. The bear market low was about 30% lower than the price from which the great bull market had started in 1921.

It was not until November 1954 or 25 years after the September 1929 peak that the Dow Jones surpassed 381 points again. The old adage; 'buy stocks for the long term' in this case should have read 'buy stocks for the very long term.'

Contrary to popular opinion prevalent at this time, stocks are not an appropriate investment for a lifetime, as many people will shortly find to their cost. 📉

"DEPRESSION IS THE AFTERMATH OF CREDIT EXPANSION" LUDWIG VON MISES

The causes of all panics, crashes and depressions can be summed up in only four words: the misuse of credit. When credit is not covered by tangible assets it becomes fiat credit. The final years of the long wave plateau (autumn) are characterized, not only by a reckless expansion of credit, but by the widespread delusion that there is no limit to the availability of such credit." (*The Kondratieff Wave Analyst*, July, 1986, P.76).

All these massive speculative markets, whether it is the four autumn Kondratieff markets, the South Sea Bubble, John Law's Mississippi scheme, or even the Tulip Bulb mania,

Never in the history of the world has there ever been a credit bubble of the recent magnitude. All made possible by a worldwide fiat monetary system, which has been grossly mismanaged by the exorbitant use of the printing press.

are utterly dependent upon an abundant supply of money. Most of this money takes the form of credit. The opposite side of which, of course, is debt. "For whatever form the credit may assume, it is

always in the nature of a loan." (H. D. McLeod).

The Kondratieff cycle is an inflationary/deflationary cycle. During spring, inflation is benign. In summer consumer price inflation increases in line with the monetary expansion which finances the summer war. Price inflation reaches its peak at the end of summer. During autumn the rate of increase in inflation falls. This is disinflation. Conversely, in autumn, asset prices (stocks, bonds and real estate) are inflated to gargantuan levels on the back of a massive expansion of credit. This speculative excess reaches its peak at the end of autumn. In winter prices for stocks, bonds, real estate and debt plummet. The fall in asset prices and the massive contraction in credit lead to a frightening deflationary depression.

Never in the history of the world has there ever been a credit bubble of the recent magnitude. All made possible by a worldwide fiat monetary system, which has been grossly mismanaged by the exorbitant use of the printing press. But nowhere more so than in the United States, which had a moral responsibility to temper her fondness for debt, because of the extraordinary privilege accorded to the dollar as the world's reserve currency.

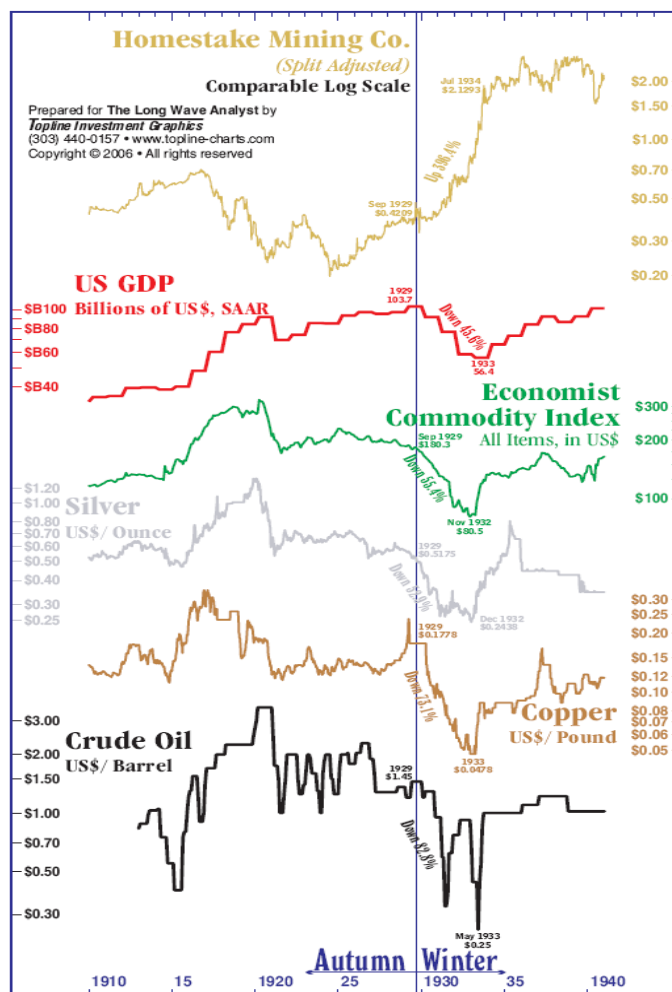
Now the chickens are coming home to roost. The credit bubble is rapidly losing air. It can not be re-inflated, much as the Federal Reserve will try. The sheer size of the bubble and the attendant speculative excesses makes the task impossible. These speculative excesses include a

derivatives market valued at approximately \$525 trillion, a US stock market valued in excess of \$17 trillion, a housing market currently valued at about \$21 trillion, but now rapidly depleting in value, a host of packaged debt instruments with little or no value. The banking system is already beginning to show signs of strain from the initial credit problems.

When credit can no longer be expanded, it contracts. Credit contraction is deflationary because the economy collapses without the continued sustenance of debt. Deflation is further exacerbated by a

collapse in asset prices.

Following the October, 1929 stock market crash, the great credit bubble of the 1920s began to loose air. Nowhere was this more apparent than the gathering pace of banking collapses throughout the United States. In 1929, 600 banks failed. In 1930, that number increased to 1350, of which 188 were Federal Reserve member banks. In 1931, the number of failures rose to 2293 banks, which included 516 banks which were members of the Federal Reserve. In 1932 there were 1453 bank failures.



In March, 1933, shortly after assuming office, President Roosevelt closed all the banks. In effect he was acknowledging a de facto situation, because State governors had already issued moratoriums and state closures. So that by that time the US banking system had already almost come to a complete halt.

The national closure placed all banks under Federal control. Examiners were sent into every bank. Within a few weeks they discovered that a third of the banks were solvent and could be re-opened without Federal assistance. Another third were re-opened with loans from the Reconstruction Finance Corporation. The remaining third were permanently closed. This amounted to some 4000 banks, of which 2734 were Federal Reserve member banks. Some \$9 billion in deposits were lost, which would be the equivalent of some \$500 to \$600 billion today. There was no deposit insurance at that time. This safeguard was introduced a little later.

In total almost 10,000 banks, including approximately 4000 Federal Reserve member banks closed their doors between 1929 and 1933. Depositors' losses were astronomical. This loss of money was, of course, deflationary. The banks had learnt a very hard lesson and those that were still in a position to lend refused to lend except to their most credit worthy customers, but these of course did not need to borrow. The credit markets all but ceased to function.

By 1932 stocks were down almost 90% from their bull market high, effectively destroying the savings of millions of Americans. Real estate prices were down about the same, which threw many families onto the streets.

"Corporate profits which had reached \$9.6 billion in 1929 fell to \$3.3 billion in 1930. In 1931 American corporations lost \$800 million, a further decline to a \$3 billion loss followed in 1932" ([The Great Bull Market](#), P.151).

Over the same period, salaries dropped by 40%, dividends by 56.6%, and wages by 60%. Between 1929 and 1933 the economy contracted by 45%; the jobless number reached 25%. Commodity prices collapsed as worldwide demand shuddered to a pittance of where it had been in 1929.

Under these circumstances, deflation was inevitable.

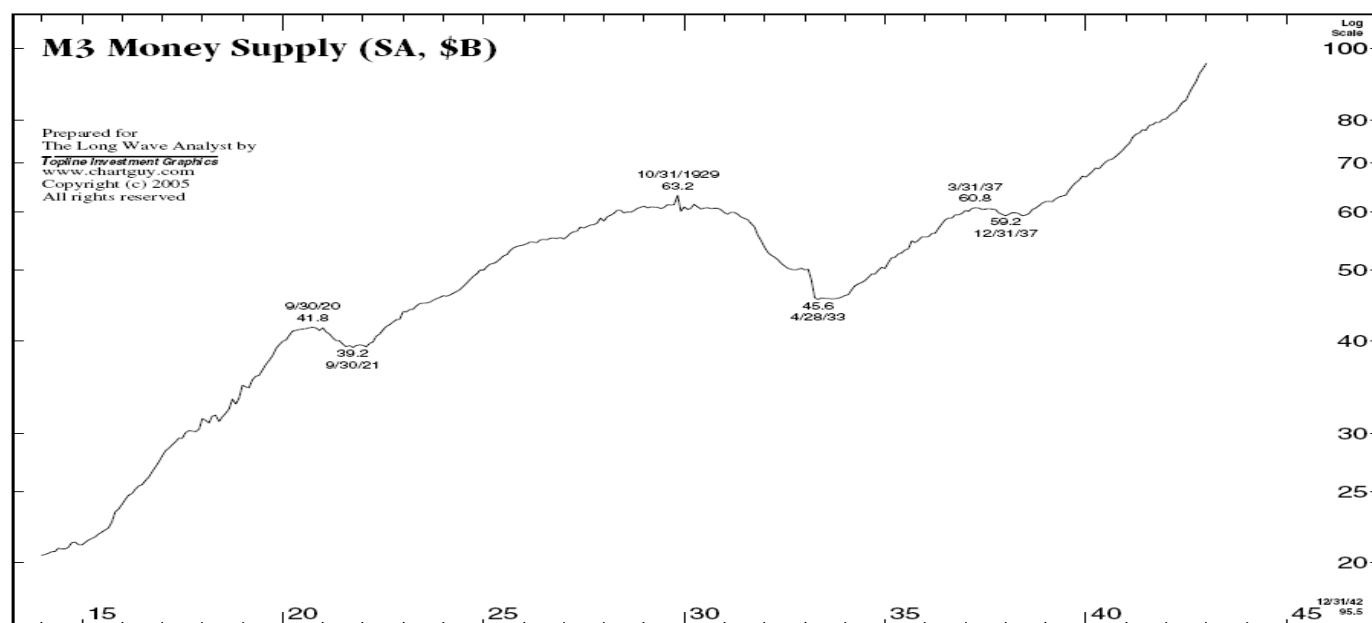
In the face of all this, try as it might and it did, the Federal Reserve Board was powerless to re-ignite the inflationary bubble in the face of this deflationary onslaught. It continued to activate the printing presses. The Bank attacked the problem from another source, administered interest rates. Following the stock market crash the Fed Funds rate was reduced from 6% to 4.5%. By year end 1930 the rate stood at 2% and by mid-1931 the rate was further reduced to just 1.5%.

As the depression deepened and banking failures increased, frightened citizens withdrew their money from those banks which were still solvent. They buried it in their backyards or

turned it into gold, which they also hid. From its peak in October 1929, money supply contracted, in a deflationary spiral, by 30% into April 1933.

Typically, this Kondratieff winter is beginning to repeat the experience of the previous Kondratieff winter of the 1930s. The credit bubble is losing air and banks are in trouble. Credit is contracting in the face of the deflating housing bubble. The economy is teetering on the brink of recession, which given the enormity of the autumn credit inflation is almost certainly going to become a depression.

Depressions, as we have just demonstrated, are always deflationary. In a depression the economic contraction is very acute and unemployment is unmanageable. Demand, for all but the essentials of life, is almost non-existent. The values of assets, like stocks and real estate, which have been bid up to absurd levels during the autumn of the cycle, crash. Money and credit become very scarce.



In order to fight the approaching deflationary depression, the United States is in a quandary on account of the massive debt already owing, much of which is to foreigners. The choice is 'to hell with dollar, let's open up the printing presses and bring down the interest rates.' Or, 'to hell with economy, let's save the dollar. Option one promises a massive sell off in US debt, which will mean much higher interest rates in general and thus a depression anyway. Option 2 promises a depression very soon, but eventually a sell-off of the dollar anyway as foreigners abandon the United States. It is a tough choice. The United States appears to have selected the first option, which is to sacrifice the dollar. The Federal Reserve Board has poured copious amounts of money into the banks and cut administered interest rates two times already. 📉

THE WORLD MONETARY CRISIS; LAST WINTER THE POUND THIS WINTER THE DOLLAR

During the last Kondratieff winter the world monetary crisis had its beginnings in Austria. The Boden-Kredit Anstalt bank, which was Austria's largest bank, suffered a run in May 1931. This was the second time that the bank had been in crisis. Like many other banks it had over expanded in the 1920s and it faced a run in 1929. At that time it received support from a banking syndicate headed by the Rothschild bank of Vienna, with assistance from J. P. Morgan of New York and Schroeder bank of England.

The run in mid-May 1931 prompted immediate support from the Bank of England, the Austrian Government, Rothschild, the Bank of International Settlements and the

Federal Reserve Bank of New York, all of which granted the pressured bank many millions of dollars, which were insufficient. In a last ditch effort the Austrian Government guaranteed the failing bank a \$150 million. But Austria's credit was worthless and the guarantee was withdrawn. Shortly thereafter, Austria declared bankruptcy by going off the gold standard, and the Kredit Anstalt bank collapsed.

American banks held almost \$2 billion worth of German acceptances. It has been suggested that the support given by the Federal Reserve to the Kredit-Anstalt bank was an effort to bail out New York banks holding these frozen foreign assets. This is eerily familiar to today's Central Bank actions in support of their banks. They are pumping money into the banks, because these banks are holding assets, such as sub-prime, for which there is no definable value.

Following the Austrian collapse, investors and, unkindly, the French Government turned on the British Pound.

After the defeat of Napoleon in 1815, The British government moved formally

to peg the pound at the rate of 123.25 grains of gold. In celebration, the pound itself acquired a new face in the form of the gold sovereign. This new monetary unit became the standard bearer of British economic ambitions through out the 19th Century. This adoption of the gold standard assured a level of price stability and an international confidence in sterling, which, in effect, made the pound the de facto international reserve currency.

Following the outbreak of the 1st World War in 1914, Britain abandoned gold. With gold backing for the pound out of the way, the British Government was able to resort to the monetary printing presses to finance the Country's war efforts.

In 1925, Winston Churchill, the Chancellor of the Exchequer returned Britain to the modified gold standard system. In a moment of pride, rather than common sense he established the pound at the same level against the dollar as it had been before the war. Clearly by this time, given Britain's massive war debts, the valuation was too high.

This overvaluation was to be the Pound's undoing. Following

Austria's default from gold, it quickly became apparent that the overvalued pound might itself be taken off gold. So, investors and the French government apparently in retaliation for Britain's support of the Austrian Kredit Anstalt bank started to swap pounds for British gold. This drain of British gold forced the Country to abandon the gold standard in September, 1931.

In effect, the entire world monetary system collapsed when the senior currency, the British Pound, opted off gold.

Today the senior currency is the US dollar and like its counterpart in the previous Kondratieff winter, it will come under increasing attack as the massive debt bubble unwinds. Comparable to the Pound of the 1930's, the dollar will almost certainly lose its reserve currency status; that distinction always goes to the currency of the largest creditor nation. The turmoil in the dollar will likely throw the world monetary system into chaos. As in the 1930's, all perceived weak currencies may be pressured. This is a world of fiat money; these attacks may be against all the major national currencies.

US Dollar Index. High \$121-7/7/2001. Current-\$74.94

Source-Bridge/Reuters



These anticipated attacks on fiat currencies are very bullish for the gold price, which is the ultimate international currency.

Following Britain's opt off gold, even the mighty dollar came under suspicion. People, not only in the United States, but in Europe too, began to doubt American support for the gold standard. They swapped their dollars for American gold to the extent that towards the end of his Presidency, President Hoover was warned by his Treasury Secretary, Andrew Mellon that the drain on gold had been so large that there was insufficient to cover the Country's adherence to the gold standard. ■

GOLD IS MONEY

This propensity on the part of Americans and others to own gold was brought about by the economic crisis, the evolving monetary crisis and the collapse of American banks.

The Wall Street crash in 1929 was followed by the implosion of the debt bubble and the subsequent banking crisis. The first stage of the crisis saw a panic out of collapsing securities, both stocks and bonds and into short-term financial assets like bank deposits, T-Bills and even paper currency. Note that this is happening now.

As the crisis deepened (between April 1931-March 1933) and the bank failures multiplied there was a huge rush to own gold. "Foreigners cashed in not only their American stocks and bonds, and also their dollars and hauled American gold away by the boatload. Americans converted their paper dollars and bank deposits into gold coins and stashed them in

mattresses, hid them in basements or attics or took them on one way trips to Bermuda or the Bahamas." (The Kondratieff Wave Analyst, January 1986, P.8).

This monumental desire for gold, threatened to destroy American US gold backing for the dollar.

One of Roosevelt's first acts on assuming the Presidency was to place an embargo on gold. He issued the following proclamation on Sunday, March 5, 1933. (Just one day after assuming office.)

"Whereas there have been a heavy and unwarranted withdrawal of gold and currency from our banking institutions for the purpose of hoarding; and

Whereas continuous and increasingly extensive speculative activity abroad in foreign exchange has resulted in severe drains on the nation's stocks of gold; and

Whereas these conditions have created a national emergency; and

Whereas it is the best interests of all bank depositors that a period of respite be provided with a view to prevent further hoarding of coin, bullion or currency or speculation in foreign exchange and permitting the application of appropriate measures to protect the interests of our people; and

Whereas, it is provided in Section 5 (b) of the Act of October 6, 1917 (40 stat.L.411) as amended, "that the President may investigate, regulate or prohibit, under such rules and regulations as he may prescribe, by means of licenses or otherwise any transactions in foreign exchange and the export, hoarding, melting or earmarkings of gold or silver coin or bullion or currency * * *;

Whereas, it is provided in Section 16 of the said act "that whoever shall willfully violate any of the provisions of this act or of any license, rule or regulation issued thereunder, and whoever shall willfully violate, neglect or refuse to comply with any order of the President issued in compliance with the provisions of this act, shall, upon conviction, be fined not more than \$10,000 or, if a natural person, imprisoned for not more than ten years or both* * *;

NOW, THEREFORE, I, FRANKLIN D. ROOSEVELT PRESIDENT OF THE UNITED STATES OF AMERICA, IN VIEW OF SUCH NATIONAL EMERGENCY AND BY VIRTUE of the authority vested in me by said act and in order to prevent the export, hoarding or earmarking of gold or silver coin or bullion or currency, do hereby proclaim, order, direct and declare that from Monday, the sixth day of March, to Thursday the ninth day of March. Nineteen hundred and thirty-three, both dates inclusive, and there shall be maintained and observed by all banking institutions and all branches thereof located in the United States of America, including the Territories and Insular possessions, a bank holiday, and that during said period all banking transactions shall be suspended.

During such holiday, excepting as hereinafter provided, no such banking institution shall pay out, export, earmark or permit, the withdrawal or transfer in any manner or of any devise whatsoever of any gold or silver coin or bullion or currency or take any other action which might facilitate the hoarding thereof; nor shall any such banking institution or branch pay out deposits, make loans or discounts, deal in foreign exchange, transfer credits from the United States to any place abroad, or transact any banking business whatsoever. During such holiday, the Secretary of the Treasury, with the approval of the President and

under such regulations as may be prescribed, is authorized and empowered (a) to permit any or all of such banking institutions to perform any or all of the usual banking functions, (b) to direct, require or permit the issuance of clearing house certificates, or other evidence of claims of assets of banking institutions, and (c) to authorize and direct the creation in such banking institutions of special trust accounts for the receipt of new deposits which shall be subject to withdrawal on demand without any restriction or limitation and shall be kept separately in cash or on deposit in Federal Reserve Banks or invested in the obligations of the United States.

As used in this order the term 'banking institutions' shall include all Federal Reserve Banks, national banking association banks, trust companies, savings banks, building and loan associations, credit unions, or any other corporations or persons, engaged in the business of receiving deposits, making loans, discounting business paper, or transacting any other form of banking business.

IN WITNESS THEREOF I have hereunto set my hand and caused the seal of the United States to be affixed.

Done in the City of Washington this 6th day of March, 1 AM., in the year of Our Lord One Thousand Nine Hundred and Thirty-three, and of the Independence of the United States the one hundred and fifty-seventh.

(SEAL)
FRANKLIN D. ROOSEVELT
By the President:
CORDELL HULL
Secretary of State.

Source: The New York Times.
Monday, March 6th, 1933.

The enormous urge to hoard gold during the deflationary depression was simply recognition that gold is the ultimate money and during the ravages of deflation the value of everything else is suspect.. John Exter's inverse pyramid portrays asset liquidity during a deflationary depression. Clearly gold stands as the most liquid of assets during such times

During the inflationary summer there are a multitude of different assets that an investor can choose from, including gold to protect against a decline in the purchasing power of the currency. In the deflationary winter, gold becomes the sine qua non asset.

This is because gold is the only financial asset that is not someone else's liability. It is the currency of last resort and as such thrives during financial and economic crisis. Unlike a fiat currency, it can never be devalued or repudiated.

In the deflationary winter, gold becomes the sine qua non asset

Even before the great stock bull market collapsed in 1929 shrewd contrarians were moving to invest in gold in anticipation of such an event. In 1928, Bernard Baruch "started buying gold from Alaska Juneau Mines, and told friends to watch economic statistics with care, for a crash might be in the making. (The Great Bull Market, P. 113-114).

GOLD: The Ultimate Store of Value During the Kondratieff Winter

John Exter's - Inverse Pyramid (Liquidity)



"...in the early months of the Depression, astute investors began to move some of their funds into gold mining stocks, even though the devaluation of the U. S. dollar was not even considered imminent or even a possibility. The floating of the British pound in September 1931, however, and the worsening of the Banking crisis, which caused a sharp increase in gold hoarding in the US and shipments of US gold abroad, marked the beginning of a major bull market in gold mining stocks." (The Kondratieff Wave Analyst, October 1987, P.115).

At the same time there was a new gold rush, certainly in North America, but perhaps worldwide. Many new gold discoveries were made at this time. In Canada, these discoveries occurred in British Columbia and in Ontario, specifically in the Rainy River district, Red Lake and along the famous Abitibi Greenstone gold belt stretching from Northern Ontario into Quebec. These discoveries were funded by investors, who

were keen to be passive participants in this new gold rush.

Thousands of American and Canadian unemployed drifted into the northern mountains, the western deserts and the central Canada greenstone belt, hoping to strike it rich or at least eke out a living panning or prospecting for gold.

"By 1940, there were, according to the Bureau of Mines, some 9,000 operating gold mines in the US alone. Many of them were small, marginal operations, but some of the new mines were substantial." (The Kondratieff Wave Analyst, October 1987, P.116).

Speculators achieved substantial profits in the face of a collapsing stock market. Two of the largest gold producers were Dome Mines and Homestake Mining. The following table summarizes their stock performance and the substantial dividends they paid.

The price of Dome Mines increased by ten times from its 1929 crash low to its 1936 high, whilst Homestake Mining's performance was slightly less than that. During the great stock bull market mania of 1921 to 1929, the Dow Jones advanced about half as much as gold stocks did in the Great Deflationary Depression.

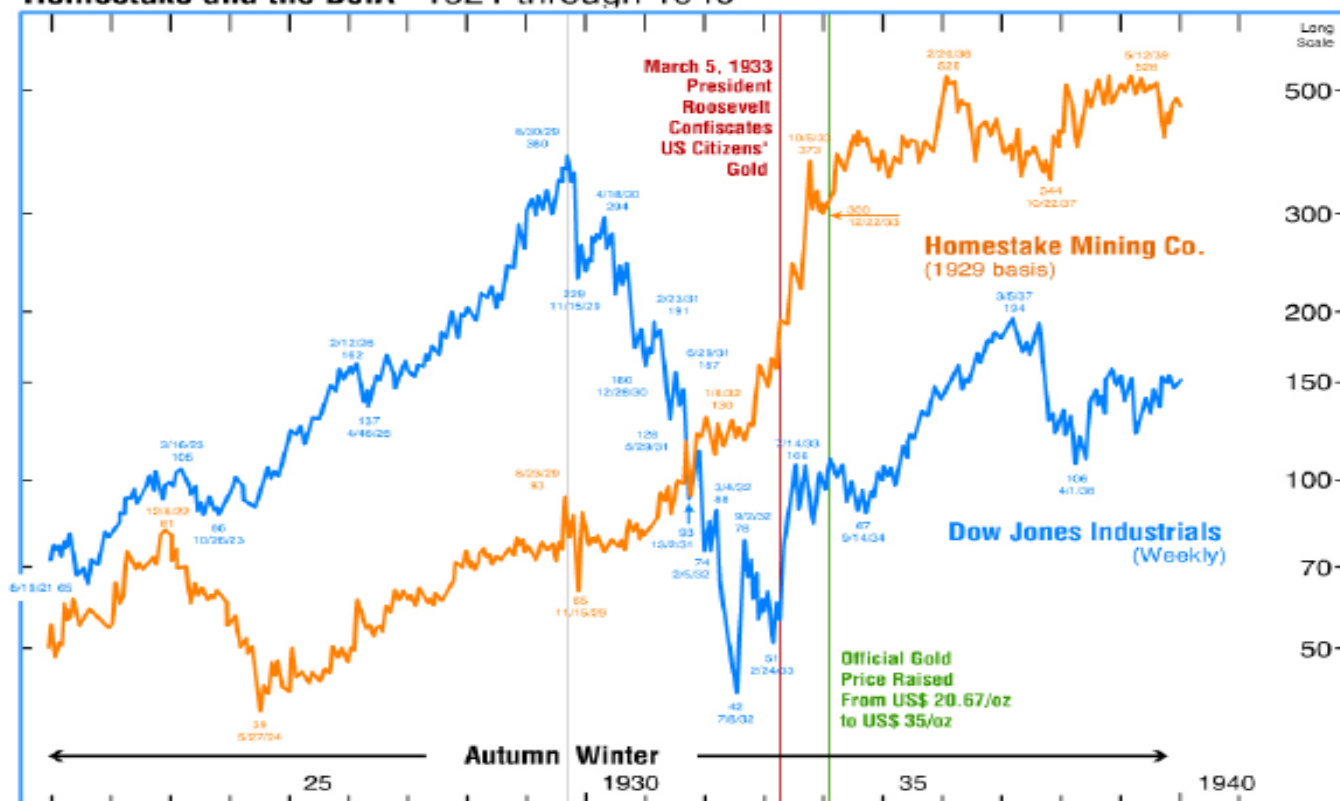
"To have gold is to be in fear, and want it to be in sorrow." Dr. Samuel Johnson

	Homestake Mining	Dividend	Dome Mines	Dividend
Low 1929	\$65	\$7	\$6	\$1
High 1930	\$83	\$8	\$10.375	\$1
High 1931	\$138	\$8.45	\$13.50	\$1
High 1932	\$163	\$10.60	\$12.875	\$1.30
High 1933	\$373	\$15	\$39.50	\$1.80

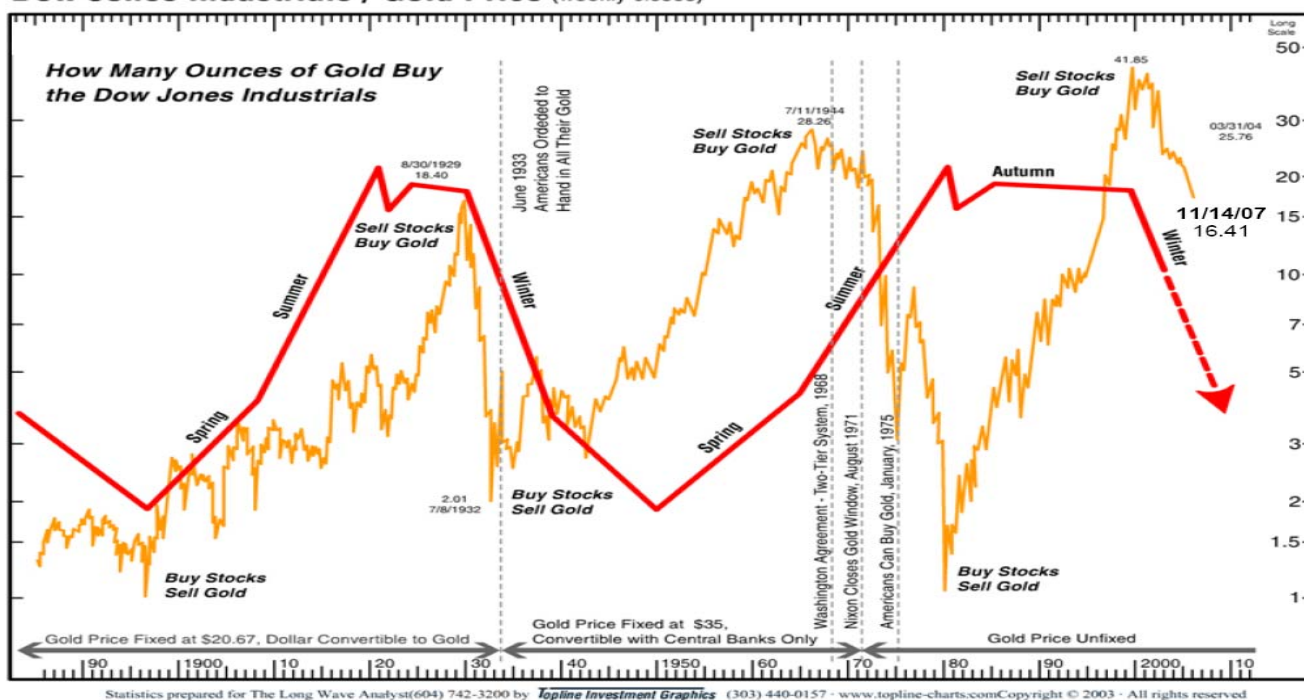
1934 President Roosevelt raises Gold Price from \$20.67 to \$35.00 per ounce

High 1934	\$430	\$30	\$46.25	\$3.50
High 1935	\$495	\$56	\$44.875	\$4
High 1936	\$544	\$36	\$61.25	\$4
High 1937	\$430	\$18	\$57.25	\$4.50

Homestake and the DJIA 1921 through 1940



Dow Jones Industrials / Gold Price (weekly closes)



Gold and paper assets are an antithesis to each other. When one is thriving the other is out of favour. The one in favour like stocks in the Kondratieff spring and autumn and gold in summer and winter always reach an extreme in value relative to the other. This extreme is the tip-off that the tide is about to turn.

In 1929 the Dow could buy 18 ounces of gold. In 1932 the Dow Jones was only worth two ounces of gold. In 1966, at the end of the Kondratieff spring the Dow was worth 28 ounces of gold. At the end of the inflationary summer the Dow was worth an ounce of gold. At the height of the great autumn stock bull market the Dow Jones Industrial Averages could buy 42 ounces of gold. Today the Dow's gold value has dropped to 16 ounces.

What is the likely Dow/Gold ratio when stocks have reached their bear market bottom and gold has attained its bull market peak during

this Kondratieff winter? We can confidently predict that both prices will be at extremes. Under these circumstances the Dow might only be able to afford a fraction of a gold ounce. ■

**"BERNANKE
FORSEES
WINTER OF
DISCONTENT"**
GLOBE AND MAIL,
NOVEMBER 9TH

While the sub-headline read, "Fed Boss fears slowing U.S. economy may not bottom out until spring; gives no hint of further rate cuts." In all respects the Chairman's fears are appropriate. But we presume that his fears for discontent were applicable to the winter of December 2007 to March 2008 and recovery in the spring of 2008. But the discontent, and we expect there to be plenty of that, will last the Kondratieff winter or perhaps another ten years or so. Yes, if things have not been completely blown asunder by the ravages of winter,

we expect an economic recovery in the Kondratieff spring, like there always has been.

The primary purpose of the Kondratieff winter is to cleanse the economy of debt. That process is always painful to both creditor and debtor. It results in major bankruptcies on both sides of the ledger.

We have already traced the impact of the collapse of the debt bubble during the early years of the previous Kondratieff winter, and its impact on US banks. About ten thousand banks failed at that time, because they had made so many bad loans during the roaring twenties.

The same holds true today, banks all over the world have made many, many bad loans on the assumption that the expansion of credit can continue ad infinitum. Now they are finding to their cost that that is not the case. This is the very early stages of the credit implosion, which always happens during a Kondratieff winter. Far worse is yet to come. To

quote one of my favourite people, Eric Sprott, "Make no mistake. The credit markets are clearly and unambiguously saying that the game is over." ([Sprott Asset Management](#), Nov 2007).

Of course, the official view that we will receive, is that the credit cancer has been cured and that the powers that be have just found a miraculous cure for the disease. That cure will only be more of the same, which is to throw worthless paper at the problem. The trouble is that the markets have already figured that the paper is worthless. That is why it has gone 'no bid.'

***Banks all over the
world have made
many, many bad
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expansion of credit
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infinitum***

The United States economy and for that matter the economies of many other countries, particularly the Anglo Saxon countries like the United Kingdom, Australia and Canada have grown over the past twenty years or so on a mountain of debt. As von Mises says, there comes a time when it becomes impossible to keep the expansion going through the issuance of more debt, because debt starts to go bad. When debt goes bad, banks refuse to lend and credit contracts. Debtors are cut off from extending their loans, which forces them into bankruptcy and creditors get hurt because the loans are not repaid.

Debt and the economy work together, each feeding off the other. During the expansionary phase of the Kondratieff cycle (spring and summer) debt provides the leverage that bolsters economic expansion. In the Plateau period, the autumn, debt provides very little to the economy, because corporations can raise capital through equity, as the great autumn stock bull market flourishes. During the autumn, therefore, debt is used to finance speculation in stocks and real estate. These assets are pledged as collateral. At the end of the Kondratieff autumn the prices of stocks and real estate grow exponentially, which results in a similar increase in the amount of debt.

As long as the values of these assets continue higher, debt is sustainable. When the prices of stocks and real estate start to fall at the end of autumn, the collateral can no longer support the debt. The debt bubble begins to unwind; slowly at first, but gathering speed in line with plunging prices for stocks and real estate.



BROWN-THE NATIONAL POST

The onset of winter of all previous Kondratieff cycles has been signaled by the peak in the great autumn stock bull market. So it was this time in early 2000. But Alan Greenspan refused to allow a relatively orderly unwinding of the bubble to occur at that time. He panicked by reducing interest rates to 1% and pouring money into banks. This not only re-ignited the stock market, but built a new bubble in real estate. It is the real estate bubble that has burst first. The debt associated with that bubble is collapsing. The crash in stock prices can not be far behind.

Initially as the debt bubble unwinds it leads to an economic recession, but as the unwinding gathers momentum, the recession becomes a depression.

An economic depression is always deflationary. The bursting of the debt bubble causes major bankruptcies to both creditor and debtor; the banking system faces collapse and money becomes very scarce; unemployment rises exponentially, causing demand for all but the essentials of living to crash and prices to collapse; trade protectionism rises and world trade comes virtually to a standstill; asset prices fall to a fraction of where they were

at their peak. Under the circumstances, it is impossible to inflate.

The Kondratieff autumn is always the season when there is huge speculation in stocks, bonds and real estate, made possible by an abundant supply of money. In the Kondratieff winter, which is signaled by the peak in the autumn stock bull market, the prices of stocks, bonds and real estate are crushed. It is hard to think that anyone would think otherwise. Prices can only be pushed up so far. They can not go up forever. When the positive fundamentals, which are the driver of the price rise, change for the worse, price must follow.

The fundamental driver leading to the exorbitant prices of stocks, bonds and real estate during this Kondratieff autumn, and all the preceding autumns, too, has been a massive increase in money.

Money is now getting scarce. The credit bubble has burst. The prices of stocks, bonds and real estate will reflect this new truth. Ultimately, too, their prices will reflect the reality of a collapsing economy. Prices are likely to return to their starting point at the beginning of the Kondratieff autumn. That will be devastating.

In the midst of all this darkness, gold shines. It takes on its traditional role as money, because the values of all other paper such as stocks, bonds, real estate (mortgages) and even money becomes suspect.

The trust in paper, which has been so evident during the Kondratieff autumn, is lost, as winter unfolds. The scramble to own gold and the companies that produce it and explore for it will be as strong as was the scramble to own paper during the Kondratieff autumn.

'Be careful out there' 🚧

WRITTEN BY:

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The Long Wave Analyst is an investment strategy based upon historical analysis and interpretation of the "Kondratieff Cycle."

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