

The Collapse of Managed Markets Stocks Rally As Collapse Nears

The stock market surged upwards upon hearing the US Federal Reserve may cut interest rates to save the economy. This is tantamount to heroin addicts rejoicing their morphine will be increased because doctors are concerned about their rapidly failing health.

Recently, Bloomberg News noted:

U.S. Stocks Rally for Second Day; Citigroup, Google Shares Gain
By Elizabeth Stanton

Nov. 28 (Bloomberg) -- U.S. stocks staged the biggest two-day rally in four years, led by financial shares, after Federal Reserve Vice Chairman Donald Kohn reinforced expectations for another interest rate cut.

The record 331 point gain in the Dow reinforced the fact that the fundamental driver of today's markets is not productivity, profitability, or growth but rather the availability of cheap credit.

Prices depend on buyers and when buyers depend on credit and credit becomes dear, prices collapse.

page 3, *How To Survive The Crisis And Prosper In The Process*

Since August, central banks have been pouring credit into financial markets in Asia, Europe and the US in the hopes of containing a credit contraction that is threatening the stability of capital flows and global finance. It is not working. The current credit contraction is the beginning of the end of credit-based capital markets as we know them.

ALL MANAGED MARKETS COLLAPSE
COMMUNIST MARKETS COLLAPSE SOONER
CAPITALIST MARKETS COLLAPSE LATER

In August as credit markets were beginning to fail, I spoke at Professor Antal E. Fekete's Gold Standard University Live (<http://www.professorfekete.com/gsul.asp>) in Szombathely, Hungary. In my speech (available at <http://www.dr Schoon.com/media.asp>), I pointed out that **capitalist and communist markets are not free markets—both are managed and both are destined to collapse.**

Communist and capitalist markets, while fundamentally different, are both managed markets—though for different ends and in very different ways. Communist markets are managed by governments setting production goals and price controls. Capital markets are managed by central banks issuing credit in the form of debt, thereby indebting producers, savers, and governments with unsustainable levels of debt—which is where we are today.

WHAT WE DON'T KNOW ABOUT HISTORY EXPLAINS IT

Capitalism, *sic* credit-based economies, first appeared in England in 1694 when King William III chartered the Bank of England, the world's first central bank. The legal issuance of credit-based money by private bankers via a central bank enabled England to dominate global commerce and world power for the next 200 years.

But by 1900, even the spoils of imperialism could no longer pay for England's mounting debts and expenditures. In the 1870s, increasing military costs combined with a negative balance of trade began to drain England's treasury of its gold and England's reign as a world power was over.

England was then succeeded by the United States whose economy, at the time, was savings-based, not debt-based. However, in 1913, this changed. In 1913, private bankers accomplished in the US what they had previously achieved in England—the creation of debt-based money by a central bank and the implementation of a national income tax now necessary to pay for America's increasing debts. Mike Hewitt's revealing article on this subject, *America's Forgotten War Against Central Banks*, is a must-read and is available at http://www.dollardaze.org/blog/?post_id=00255.

Also on this subject, movie producer Aaron Russo (*Trading Places*, *The Rose*, etc) made a stunning documentary, *America: Freedom to Fascism* which can be viewed at <http://video.google.com/videoplay?docid=-1656880303867390173>. Russo's film is as chilling it is disturbing; and just as Hewitt's article is a must-read, Russo's documentary is a must-see.

HOW HIGH DOES A BALLOON RISE WITH A HOLE IN IT?

W. Edwards Deming

The cheap credit made available by the Federal Reserve was to soon ignite the largest speculative bubble in history, a bubble so large its collapse was to bring down the entire global economy; something that had never happened before in the history of the world—for the Great Depression of the 1930s was caused by the collapse of the 1920s US stock market bubble fueled and inflamed by cheap credit provided by the US Federal Reserve Bank beginning 20 years before in 1913.

Today, in 2007 we are in a similar situation. The cheap credit policies of the Fed under Chairman Alan Greenspan in the 1990s created the spectacular rise and collapse of the US dot.com bubble in 2000 and the subsequent rise of the US 2002-2005 real estate bubble—a bubble which is now collapsing and destroying investor confidence in debt-based capital markets all over the world.

This collapse of capital markets is soon going to become far worse as defaulting subprime CDOs are joined by defaulting corporate debt. *The Next Dominos: Junk Bond And Counterparty Risk* by Ted Seides from www.peterbernsteininc.com available at http://www.investorsinsight.com/otb_va_print.aspx?EditionID=619 is an insightful and

excellent read on newly emerging risks as enormous and once safe capital markets implode. This extraordinary collapse of capital markets presages perhaps another global great depression.

GOLD & THE COLLAPSE OF MARKETS

The role of gold in the collapse of credit markets is clear. The unraveling of today's credit markets is due to the erosion of investor confidence in debt-backed assets. Falling confidence in debt will give way to chaos in the markets; and gold in its role as a safe-store of value has been the ultimate hedge against monetary chaos in any form at all times.

The growth of debt since 1913 when central banking was established in the US has exceeded belief. Global debt markets, i.e. treasuries, asset-backed securities, munis, etc. and its derivatives are far larger than today's equity markets. This is because the end result of a central bank debt-based system of money is debt, more debt, and even more debt.

As credit markets collapse, wealth previously invested in interest-bearing debt will seek liquidity and safety no longer to be found in debt instruments dependent on constant economic expansion for repayment.

It is here John Exter's inverted pyramid models our expected future. According to John Exter, the former central banker who passed away last year at 95, gold will be the ultimate destination for wealth and savings when the economy implodes.

CAPITALISM DISTORTS COMMERCE

Now, almost 100 years after the US adopted England's debt-based money system, we are learning the expensive lesson that capitalism's cheap credit comes at a far higher cost than expected.

In the end—an end that is rapidly approaching—cheap credit undermines market stability giving rise to speculative excesses that destroys the balance between producers and consumers and savers and borrowers, a balance that exists naturally in free and open markets.

The collapse of communism's managed markets happened in the 1980s. Twenty-five years later, capitalism's managed markets are now also collapsing. The collapse of capital markets is going to be difficult and painful and will bring hardship and heartache in its wake. But have faith, for the reappearance of free markets may follow—and with them, the return of gold and silver currencies.

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