THE INTERNATIONAL INVESTMENT LETTER 17 pdf

(April 2008)

The arrival of the recession can be postponed by issuing additional
credits that are unbacked by real savings in an ever-increasing rate.
However this strategy is condemned to fail and once the recession
hits, it will be much deeper, more painful and prolonged
Keynes is death and so is his theory….brace for massive
Hyperinflation and a continuation of the Credit Crunch!

The author: Francis D. Schutte graduated (Master in Applied Economic Sciences) in 1972 at the Antwerp UFSIA University. He soon became an active member of the Belgian financial world. Initially, he operated with a Belgian broker, subsequently with a renowned Canadian research house and with an American Bank. At that time, he became a registered representative with the Montreal and the New York Stock Exchanges. It was only when he was operating with the First Continental Bank of Illinois, that he added technical research to the fundamentals. A couple of years later, he started his own business, became a member of the Belgian Stock exchange and a well know figure in the Belgian financial world.
As founder and first President of the BFTA (Belgian Federation of technical analysts and past-vice president of the IFTA (International Federation of Technical Analysts), he managed different Common Investment funds and even ran a successfully an open portfolio in a financial magazine. Weekly, he published his own market letter and his international advice could be read in many financial publications.
In 1989, he was one of the few predicting the Great Crash of the Japanese stock and real estate markets. He travels all over the world and has a sharp insight of the actual geopolitical and economic situations.

I.GENERAL

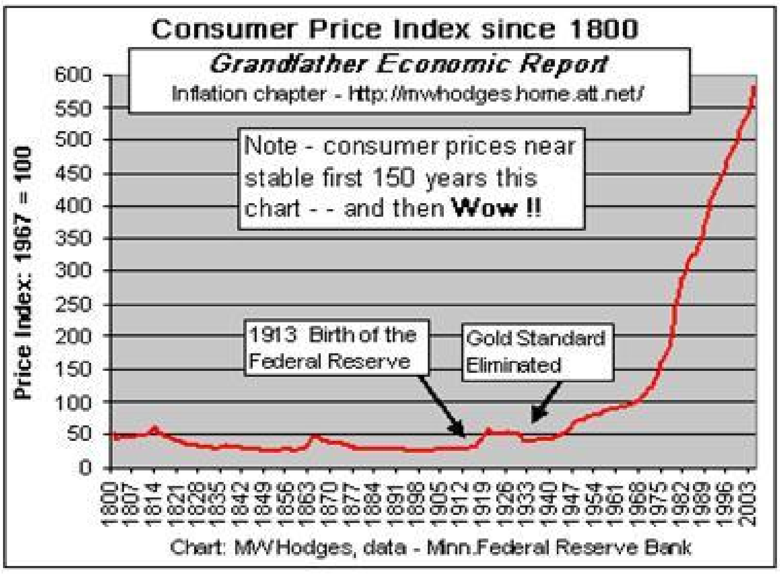
1. Recession (stagflation) – Depression (Deflation) or Hyperinflation?

Only a Recession and Depression can cleanse and correct the misallocation of funds of the last decennia.
Recession has started 3/4 months ago and Governments and Banksters are lying like hell about it. It is clear the bubbles have stopped to make anybody rich, and that we have initiated a cycle of Hyperinflation.
I advise people that have problems in understanding the actual situation to book a holiday in Zimbabwe. It won't take them a lot of time to understand that Mugabe, Ben Bernanke and Trichet are one and the same bunch of gangsters, or whatever you wish to call them!

> *This first stage of the inflationary process may last for many years. While it lasts, the prices of many goods and services are not yet adjusted to the altered money relation. There are still people in the country who have not yet become aware of the fact that they are confronted with a price revolution which will finally result in a considerable rise of all prices, although the extent of this rise will not be the same in the various commodities and services. These people still believe that prices one day will drop. Waiting for this day, they restrict their purchases and concomitantly increase their cash holdings. As long as such ideas are still held by public opinion, it is not yet too late for the government to abandon its inflationary policy.*
>
> *But then finally the masses wake up. They become suddenly aware of the fact that inflation is a deliberate policy and will go on endlessly. A breakdown occurs. The crack-up boom appears. Everybody is anxious to swap his money against "real" goods, no matter whether he needs them or not, no matter how much money he has to pay for them. Within a very short time, within a few weeks or even days, the things which were used as money are no longer used as media of exchange. They become scrap paper. Nobody wants to give away anything against them.*

It was this that happened with the Continental currency in America in 1781, with the French mandats territoriaux in 1796, and with the German mark in 1923. It will happen again whenever the same conditions appear. If a thing has to be used as a medium of exchange, public opinion must not believe that the quantity of this thing will increase beyond all bounds. Inflation is a policy that cannot last. (Ludwig Von Mises).

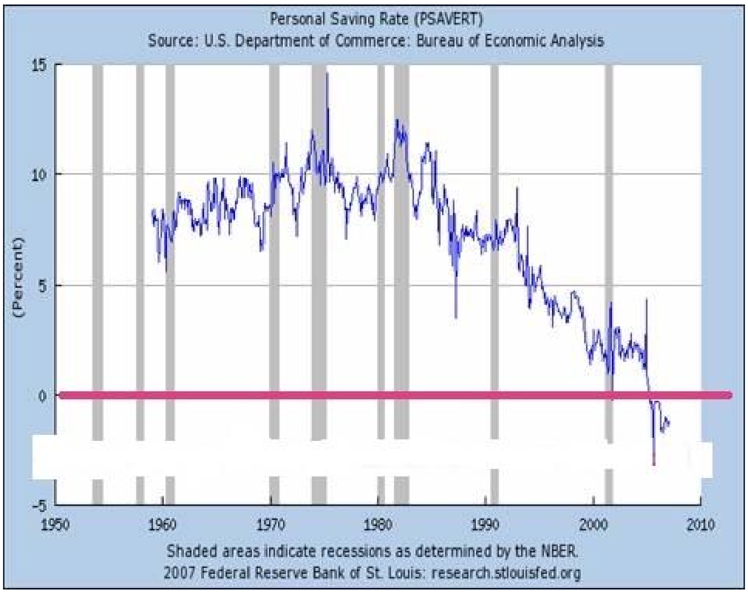
Hyperinflation, Recession and Depression are real. Although it is at this point extremely hard to forecast how much time politicians and Banksters will be able to buy, and what the scenario will be, it is a fact that the Credit Crunch is unfolding.



"Credit expansion without an increase in savings that is at least equal to the newly created credit Banks extends from nothing, <u>always</u> does result in a crisis and economic recession".

The actual savings rate for the USA is negative. For Europe it is declining to historically extremely low levels. Trillions have been, are, and will be injected into the financial system in order to try to keep it liquid. But as the savings rate continue to come down under pressure of disinflation, the situation is becoming more critical each day.

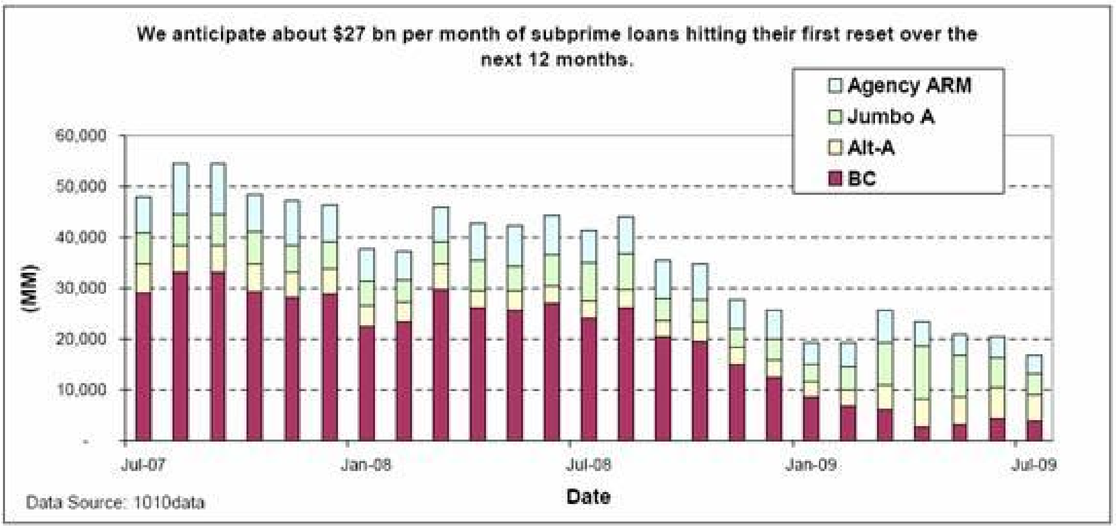
<u>Chart:</u> savings rate for the USA



Logically no one can predict exactly when and how the crisis will develop, and I have no doubt most entrepreneurs will be "surprised" (otherwise we would not have a crash) by the event when it does happen and that they will at that time encounter serious difficulties. Today, only experienced and honest financial specialists that can read the Stock Markets (and Real Estate Markets) in an appropriate way are able to make a correct forecast. Because it would be a contradiction is se, don't expect to find such specialists operating within a financial institution (banks, brokers, insurance co's, mortgage co's, e.o.).

2. The suprime market (CDO)

The American Real Estate Bubble continues to deflate hereby deleveraging the balance sheets of the financial institutions. Television issues daily warnings about the way Foreclosures figures are rising. Presidents and other big names keep on incorrectly reassuring the economy is healthy and well. Those people that borrowed money and/or are sitting on 2 mortgages and more get into trouble because interest rates are picking up and/or they are losing their income or get into a position where they are unable to serve their debts. Stocks of builders and financial institutions are crashing. Vast amounts of liquidity have and are injected both in the US and in Europe as Mortgages have been resold by the financials that contracted them all over the world. By doing this, even the judicial link between the borrower and lender has been broken.



What we see now is a school example of how Von Mises' theory becomes reality: a shift away from HOCG (high order capital goods like i.e. Real Estate) that have falsely been inflated by the unhealthy growth of Credit issued by banks from thin air, and the huge growth in Money Supply that has kept for years the interest rates at an artificial low level.

This is a direct consequence of political decisions made entirely on a short-term basis in order to receive support (votes) needed to guarantee a victory in the elections. These policies have done nothing more but aggravating the coming recession and make sure a swift recovery becomes impossible.

Today, the American politicians are in a pre-election mode and prepared to do anything to keep the bottle floating until after the elections. Republicans have reached a point where they know they probably will loose the next presidential elections. They keep on relaxing on the creation of credit, hereby leaving the next President (Democrats, Obama?) with a HUGE MESS to clean up. Today, this is unfortunately what politics are like.

"The problem" is far bigger then believed (so far, we've only seen the tip of the iceberg) and problems are also unfolding outside the USA. Central banks in both Europe and the USA have been injecting TRILLIONS in the system (money out of nowhere…does this ring a bell!?) in order to keep the financial markets afloat. Europe and Japan are traditionally, doing a much better job than the USA in window dressing the situation.

The Subprime Crisis is Just Starting
by Daniel R. Amerman, CFA | March 20, 2008

As the author of three books on mortgage finance and related derivative securities, and speaking as someone who first turned mortgages into rated securities in 1983, I'm going to let you in on an unfortunate little secret – the real subprime mortgage securitization crisis may not have even started yet. But, there is a good chance the real crisis will arrive soon.

This assertion that the crisis could just be getting started may seem absurd and extraordinarily out of touch. What about the approximately 45,000 homeowners losing their homes to foreclosure in the United States every month? What about the 8.9% plunge in nominal housing prices in 2007, the largest decline in over 20 years? What about Bear Stearns losing 94% of the value of its stock in 2 days, with even the remaining 6% in value being based on an unprecedented loan from the Fed before JP Morgan would agree to the acquisition? How much worse could it get?

To understand the full extent of the danger requires moving beyond current headlines to take a brief and simple look at how mortgage securitizations actually work. These securitizations are based on what are known as "stress tests", or the ability of a security to withstand an adverse economic change and still pay principal and interest on schedule. The heart of the subprime problem is that no major stress tests happened in 2007 – and the market still blew up. Which brings up the question of what will happen to subprime and other mortgage derivative securities in 2008 if actual stress tests do occur in such possible forms as recession, increases in interest rates, or a further plunge in housing values? Given that the safety margins have already been stripped bare? As we will explore, should one of those stress tests occur – or worse, if two or three occur together – then we may look back at 2007 as being a mere stroll in the park in comparison.

Last year the biggest private German bank "Bankhaus Sal. Oppenheim" and a French bank, "the BNP Paribas" stopped trading several Common Investment funds because of inherent CDO problems. This year some weird things happened in France with the Societe Generale. Apart from Northern Rock, I haven't heard about problems in the UK and Japan yet. But be sure that any country holding Dollars, CDO's and derivatives have them.

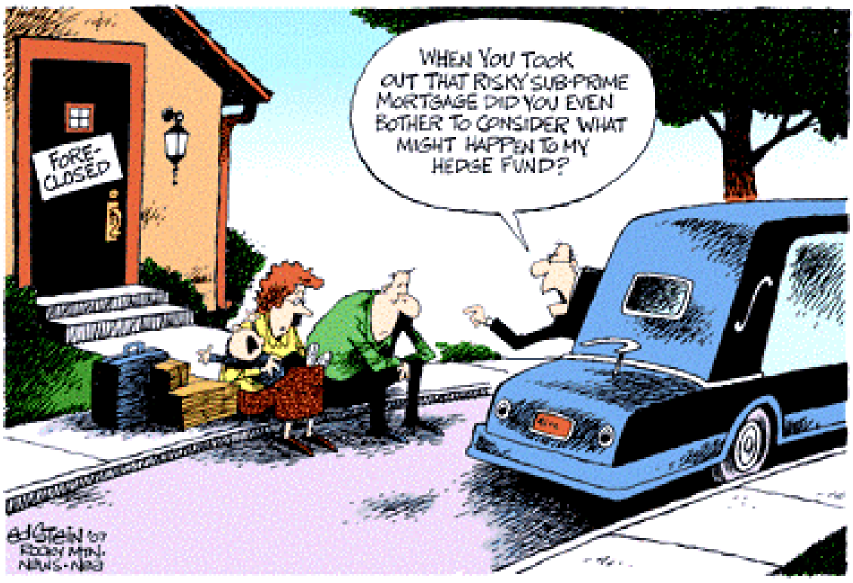
Last year problem after problem surfaced in sequence. It sometimes looked like it was all quite well orchestrated.

During the 1970's and 80's Common investment funds did exist on a much smaller scale than they do now. Today, Banks are literally flushing the market with hundreds, thousands of them. Most of these funds are NOT even quoted on a stock market (in other words, they are simply ILLIQUID). Each day, the bid-ask is communicated by the managing bank and the investor has little or no control on how the fund is managed. This way, banks can almost pack anything they want, stick a AAA label to it and sell it wrapped with a nice colorful ribbon.

The problems of the Subprime and Hedge funds are now resulting in a CREDIT CRUNCH, a massive injection of fiat money that is the base for a monetary Hyperinflation and a deflationary spiral that will to follow in due time.

One will need to follow up the financial markets on a daily basis in order to get confirmation whether this long bull market is being reversed into a secular Bear market. But in all cases, I advise for the utmost prudence. The game has become deathly serious.

The way the CDO cancer is unfolding shows clearly which countries have been infected and which have not!
Over the last months at least $/€ 300 billion fiat money have been injected in the system in an effort to stem the Credit Crunch.
Unfortunately, the magicians don't seem to understand the remedy is not working



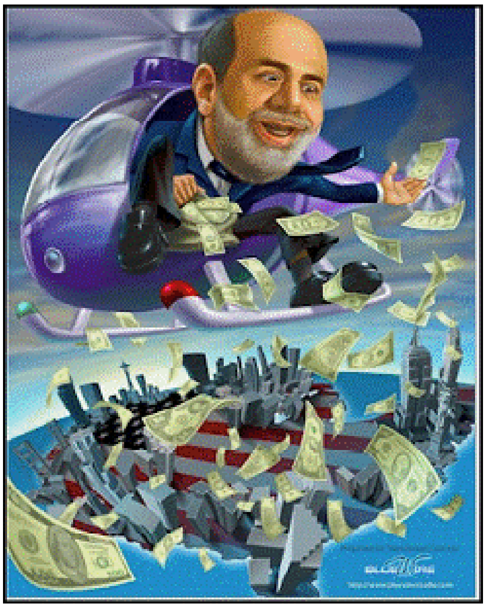
Because of the drop of the value of Real Estate assets, the balance sheets of the banks have to be cleaned up and the amount of credits delivered to the Hedge funds have to be reduced.

3. Fractional Reserve banking as the origin of all problems:

With free capital markets, investment capital flows in increased amounts to the more profitable industries and producers, and in decreased amount to the less profitable declining industries and producers. Thereby the unencumbered free market also regulates the allocation of capital to meet the changing needs of the consumers.

In an economy with fractional reserve banking, where commercial banks are guaranteed against failure by central banks and receive credit at below market interest rates, the market restraints are replaced by opposite forces. This theory is exactly the opposite from the Keynesian monetary one which is followed by most modern economists and politicians.

The so created new money goes first to government, then to government employees, subsidy-beneficiaries (war industry) and suppliers. They are the ones who benefit from inflation, to virtually else's detriment. Private enterprises and savers are the ones most victimized. They pay the highest prices and are the most damaged by the false signals and distortions caused by inflation.



Artificially low interest rates motivate businessmen to increase their investments; simultaneously, they discourage savings on the part of the public. And these savings are in fact badly needed for a sound economy and healthy financial system. Additionally, financial (Banks) entrepreneurs manufacture new leveraged (leverage works in two directions) financial products (CDO's) to attract the investors. As long as the boom is in place, all goes well and the leverage improves the results. However, once the a recession starts, the leverage works against the financial entrepreneurs (read Hedge funds and Bankers)

Note: The situation in Zimbabwe is a clear example of the former. They have entered the final cycle. The last attempt to reflate the economy has failed. The result is astronomically high prices and continued depression – hyperinflation and a destruction of the whole economy!

note: At least some honesty here: There is no "in God we trust" printed on these bills. Also, it says Bearer Cheque.

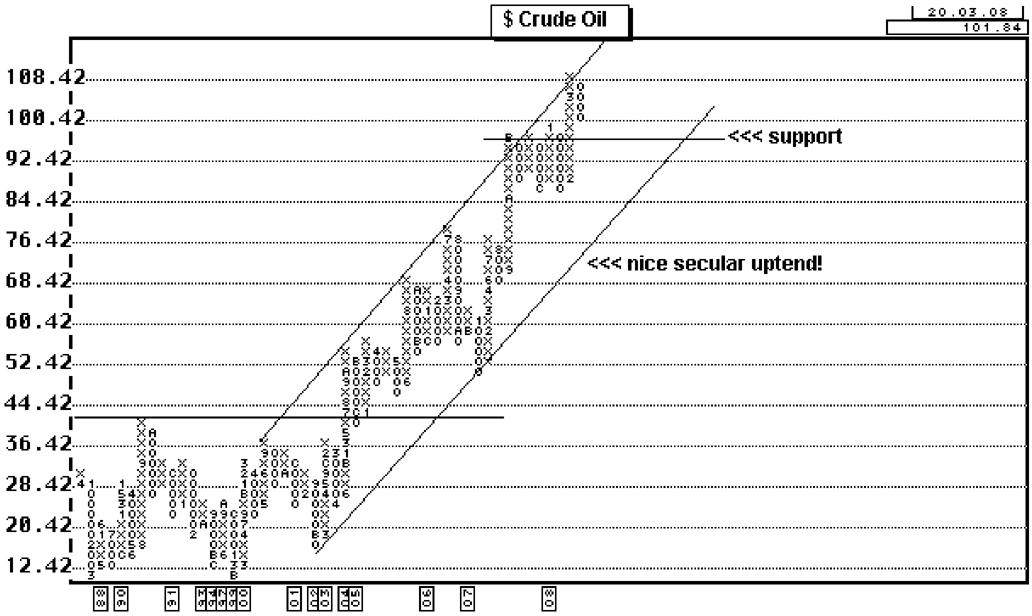
II.COMMODITIES

1. Crude Oil ($ 100 per barrel) and energy

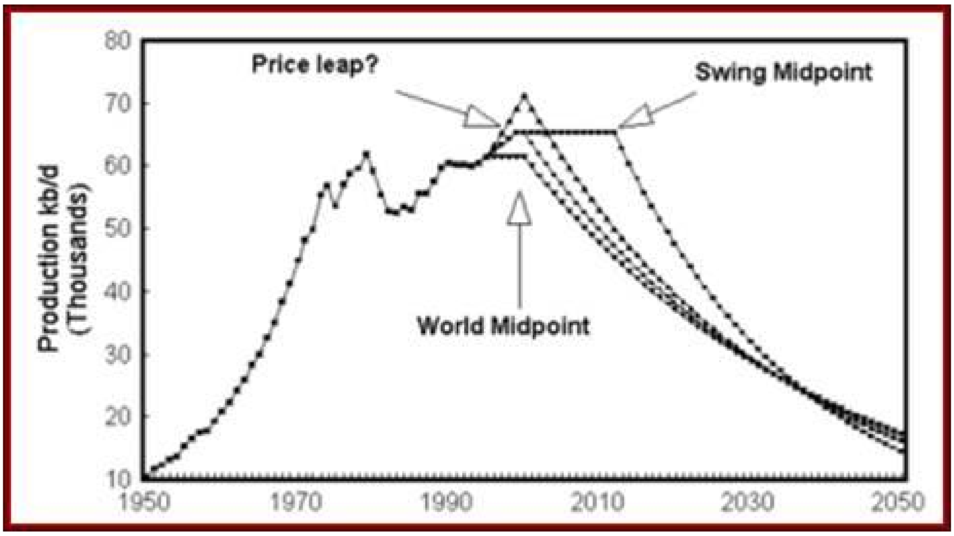
Last year, Crude Oil broke out of a reversed Head and Shoulder formation and reached its 1st objective of $ 80. Next, it consolidated and during the last week of 2007/1st week of 2008, it broke out and reached the $ 100 level. Next price objectives are $ 109 and $ 120.

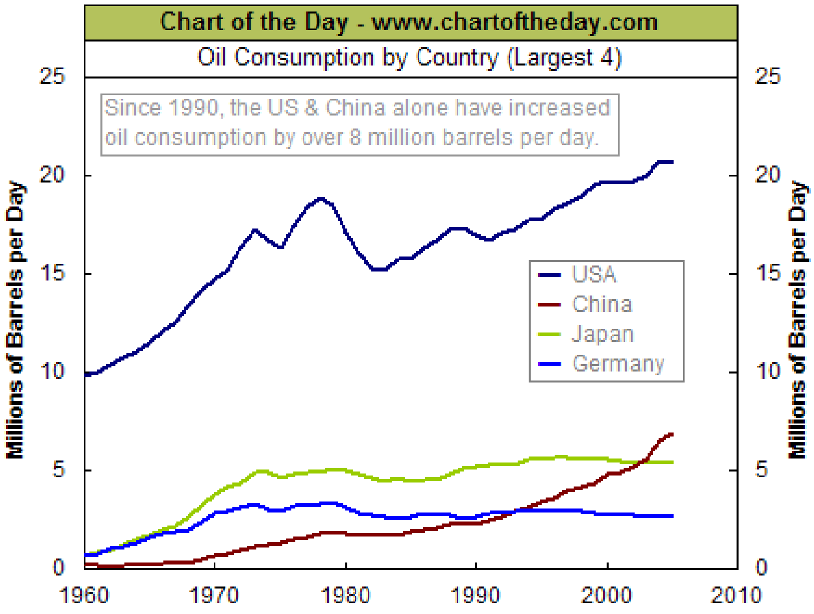
The fundamentals and the long term price objectives for Crude Oil haven't changed at all. Be advised that as long as we don't see the expected Credit Crunch and even during the Credit Crunch itself, the price of most commodities that are in limited supply, including Crude Oil will probably continue to go up. The price inflation – will be the highest in those countries (USA) where the creation of money has been or is the largest.

Chart: inflation adjusted price of crude oil



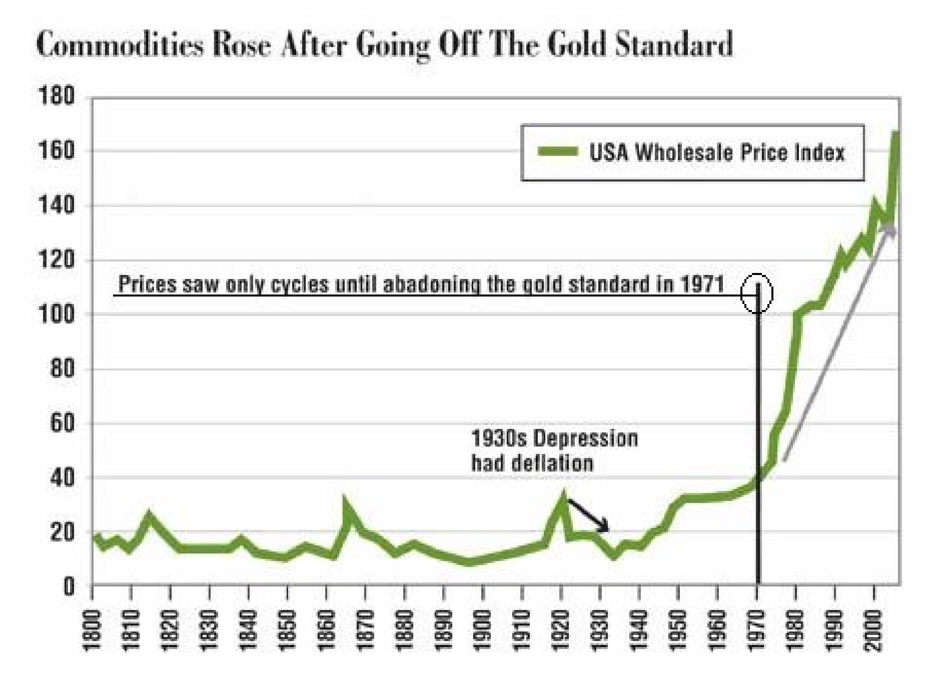
Note: Each spike in Crude Oil prices has been followed by a recession. Today will not be different. During the recession and potential pull back of the Oil price, I DO NOT foresee a price lower then $ 80 per barrel. And worst case scenario, certainly not below $ 40. This statement has huge implications. The charts for Supply and Demand for oil below show it clearly. My opinion is that, because of peak oil production, I would be extremely surprised to see a substantial price correction over the next year or so.



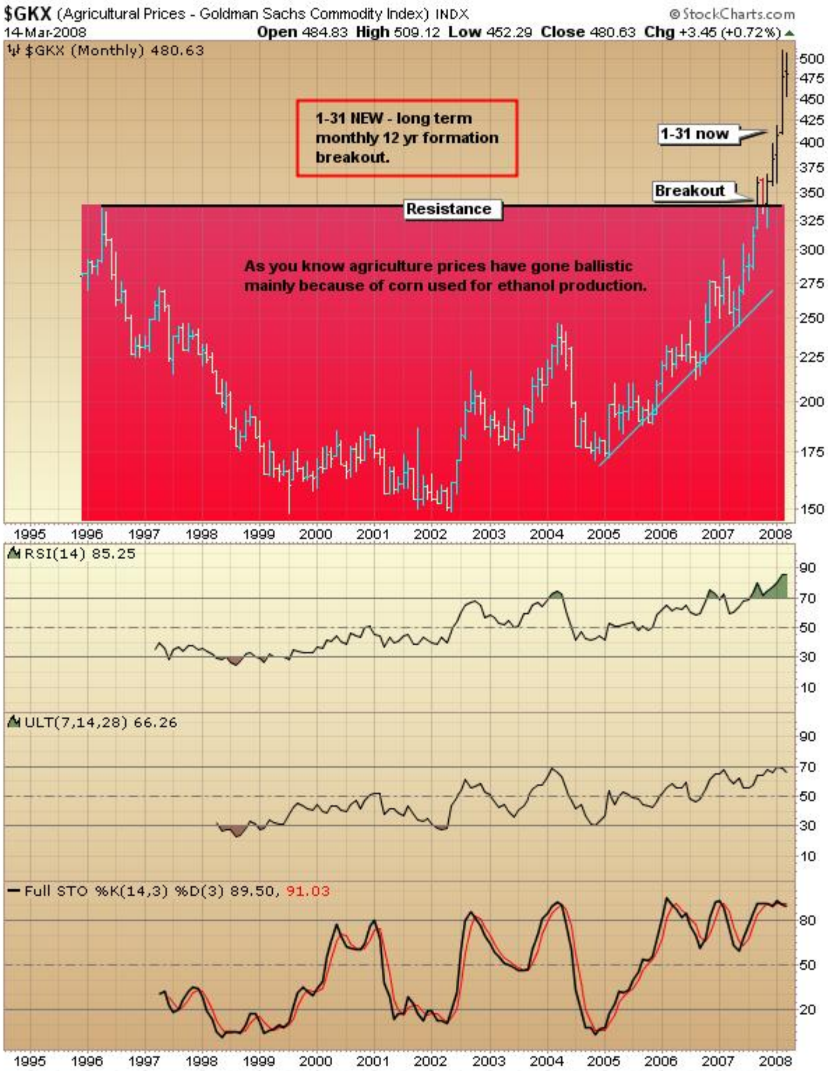


Note: The chart doesn't show, however we have the largest increase of demand of Crude Oil and Gas in the Middle-East (Saudi Arabia).

2. Agricultural Commodities



Prices of most commodities have and are still going up (certainly when expressed in Dollar, and in a lesser extend when expressed in € and other currencies) showing the Hyperinflation monster is alive. Those who don't believe we have landed into a cycle of HYPERINFLATION should take a closes look at following charts. Even the reaction seen towards the end of March, hasn't fundamentally changed the Secular Bull trend.



<u>Corn, Soybeans, Wheat and Rice</u>: I have previously written about the bullish prospects for corn. The longer term fundamentals for Soybeans, wheat and rice are no less bullish. Rough rice, the least spoken about among the four, has gone up the most in the last 6 months. Our current food stocks are the lowest ever in terms of days supply. When shortages of food appear and hoarding starts does the system survive?

Food and energy are not one-time occurrences. Their prices will continue to rise for years to come. This is due to increased demand for energy to fuel world growth and increasing demand for more expensive food and more meat in the diets of people becoming more affluent overseas. The supply of food is not growing fast enough to make up for the increased consumption of meat (it takes about 8 pounds of feed grain to produce one pound of beef for example), and for the increased production of ethanol. The food price increases we are experiencing are not one-time events, but will continue. As for energy; energy demand is rising and the supply is fixed and even declining (peak oil). Therefore we expect higher energy prices to continue to filter through the value chain for products and services globally.

Note: The issuing problem with food is that Government will, in order to appeal to the Herd, try to contain the price rises. Such an action will debase the food producers even more.

Example: In Zimbabwe, the shop keepers could not and were not prepared to reduce the price tags on food. Even when arrested by the police nothing changed. This simply doesn't work. People that lived in the East under the Communists know this and haven't forgotten the empty shelves in the stores! I remember being there just after the collapse of the USSR. A friendly CEO of a yarn factory offered to drive me to a warehouse to buy some film (in those days, we had not seen a single digital camera). He put just as much gas in his Skoda as necessary for the trip. What I found, was 3 feet of 35 mm black and white film rolled in aluminum paper).

3. Other commodities: copper, cobalt, zinc, uranium

Do NOT expect to see the prices of commodities to come down as the recession unfolds. The very reason why we see these huge price increase of most commodities, is because they are being depleted (peak production), as a result of the monetary inflation (exponential growth of M3) and because China and India are becoming fresh consumers (increase in demand).

III.CURRENCIES

1. Gold & Silver (the ultimate currencies): 950 $ and $ 17

Continue to accumulate the only real currencies as Gold and Silver on price weakness!

For roughly 200 years, since Sir Isaac Newton put Great Britain on a de facto Gold Standard in 1717, and right up until 1913, when the US Federal Reserve System was formed, the gold price remained fairly constant at roughly $18 - $20 an ounce. The only exception was during the period of the Napoleonic Wars. The reason that the gold price remained constant was that under a Gold Standard, the amount of money that could be printed or minted was a function of gold backing. Money in circulation had to be backed 100% by gold. Since 1971 there virtually is not a single currency backed by Gold and/or Silver. Therefore a 1920/30 style American depression will not be seen again. The Weimar revolution in Germany and the Hyperinflation in Zimbabwe are far better examples of what can happen in the near future.

Gold broke out expressed in ALL WORLD CURRENCIES. Assuming the huge up channel stays intact, once gold brakes out (and it has), $ 1,020 will be the next target. The stops ($ 720 and $860) on this route have been burned.

Think Long Term and Buy on weakness.

THE MEDIUM TERM GOLD BULLION PRICE TARGET IS $ 2,400/OZ!

Gold and Silver are the only existing REAL MONEY. Their value is constant. Each time Gold and Silver go up, you basically see the value of FIAT MONEY FALL. (Economists that see Gold as a commodity don't know what they are talking about)

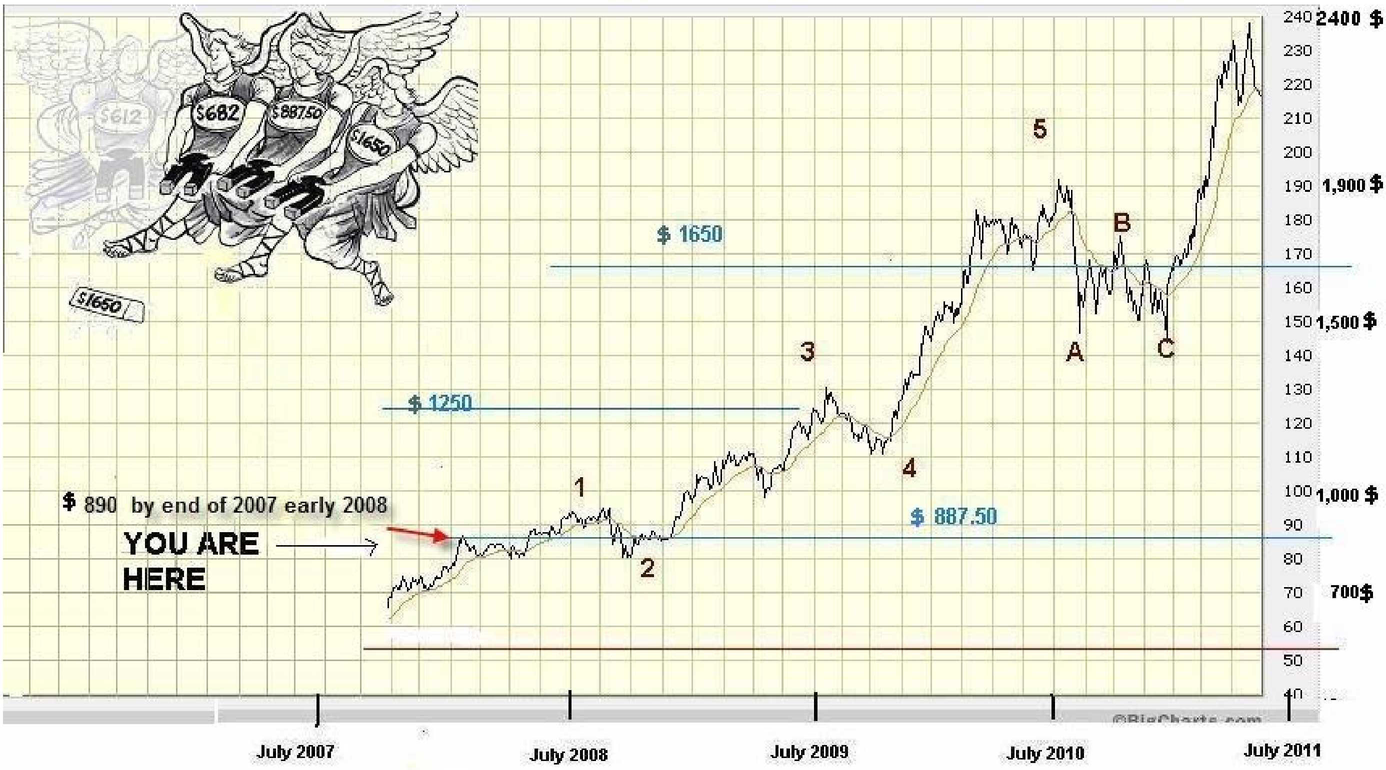


Chart: Gold as of Jan 2008 with next objective of $ 1,020, $ 1,250, $ 1,650 and $ 2,400

Currency in circulation within the USA as at November 2007 was backed 9.34% by gold in Fort Knox. This is down from the 100% backing that presumably prevailed on December 23rd, 1913 – the day before President Woodrow Wilson signed the Federal Reserve Act into law. By this measure, the price of gold would have to rise to $865/9.3% = $9,258.66 an ounce if the US were ever to go back onto a Gold Standard.

I have seen different explanations as to why we saw the March reaction on Gold and Silver occurred. Without going into details, one has to understand that NOTHING has changed, and that the creation of Credit and Money out of thin air hasn't been halted. On the contrary, it has increased! It is not abnormal to see a reaction of 10 % to 20 % in a Secular Bull trend. Such a movement must be used to accumulate one's position. This is certainly so as nobody is able to forecast as to when exactly the financial system will collapse (ex. Argentina) and because the actual uptrend happens for reasons totally different from those that prevailed in the 1970's and 80's .

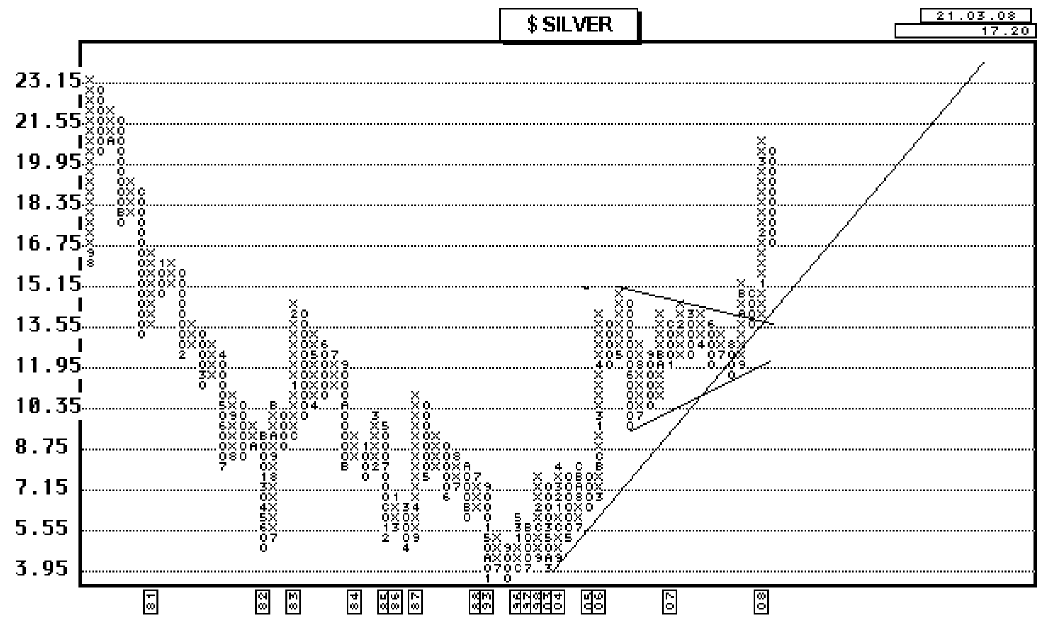
<u>The price of Silver</u> follows in the wake of Gold and is, as usual, more volatile. Here the same applies as for Gold. Technically a reaction to $15 is possible and this should also be used to increase the overall exposure.

<u>Note:</u> Both for Gold and Silver, I strongly advice to take physical delivery and to store the bullion into a safe place away of the hands of the banking and political system. Also, one should rather buy COINS instead of bullion. Certain coins have little premium over the bullion. Coins are easier to handle in case of a crisis.

One day, a friend of mine explained that from 1939 to 1946, by using a 'Gold chain' he was able at all times to buy meat. For each purchase, the butcher clipped part of the chain as payment.

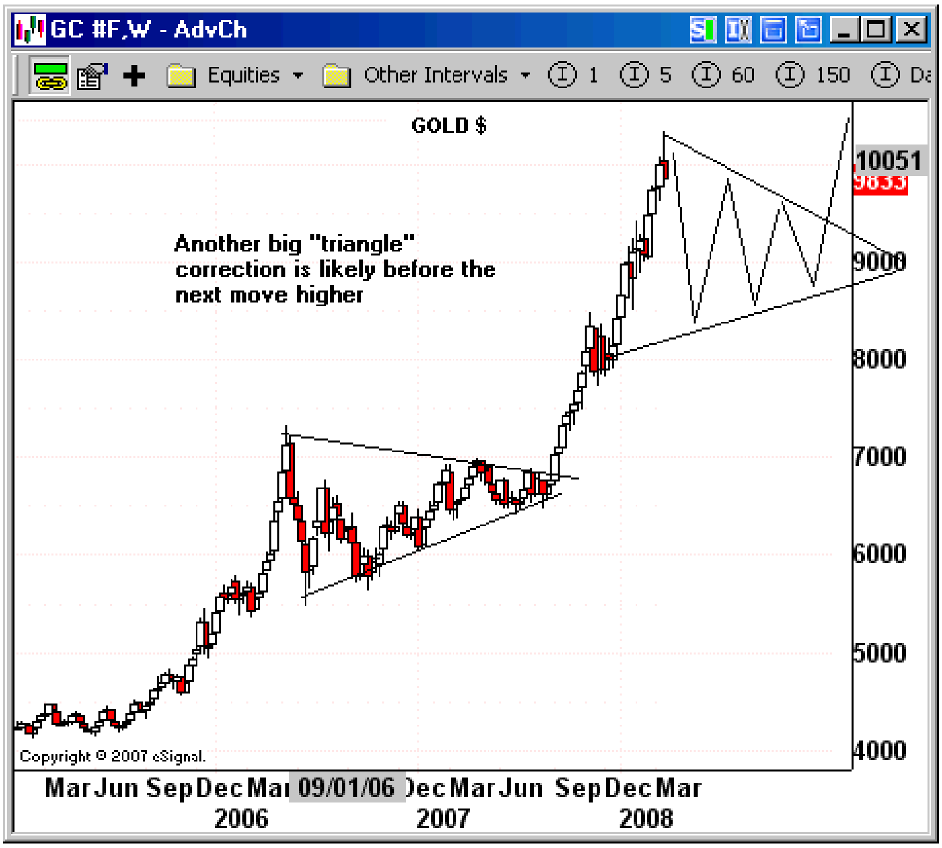
Silver's diverse set of uses make the system particularly vulnerable to it's unavailability. Although silver mine production lags world consumption, a silver crisis is likely to be triggered in a US dollar collapse scenario rather than as a pure supply side situation. Flight into physical precious metal by even 1% of US households would cause marked silver shortages. Say goodbye to all electronics.

<u>Chart:</u> The Silver chart starts in 1981. And is once more a screaming buy!



The price correction of Gold end of March and beginning of April is typical for moving from the 1st initial accumulation faze into the second Institutional investment faze.

Chart: Scenario for the Gold price evolution over the next months



2. Dollar versus the Euro: € 1,54-1,57

I remain bullish for the €uro and bearish on the $ollar and the **£terling!**

"The day will come when foreign investors simply say 'no' to this arrangement - refusing to fund America's consumption binge without getting a meaningful concession on the terms of financing. That's when the dollar collapses, and the Stock and Real Estate markets plunge. Under such a crisis scenario, a US recession would be all but inevitable. And a US-centric global economy would undoubtedly be quick to follow. Unfortunately, with

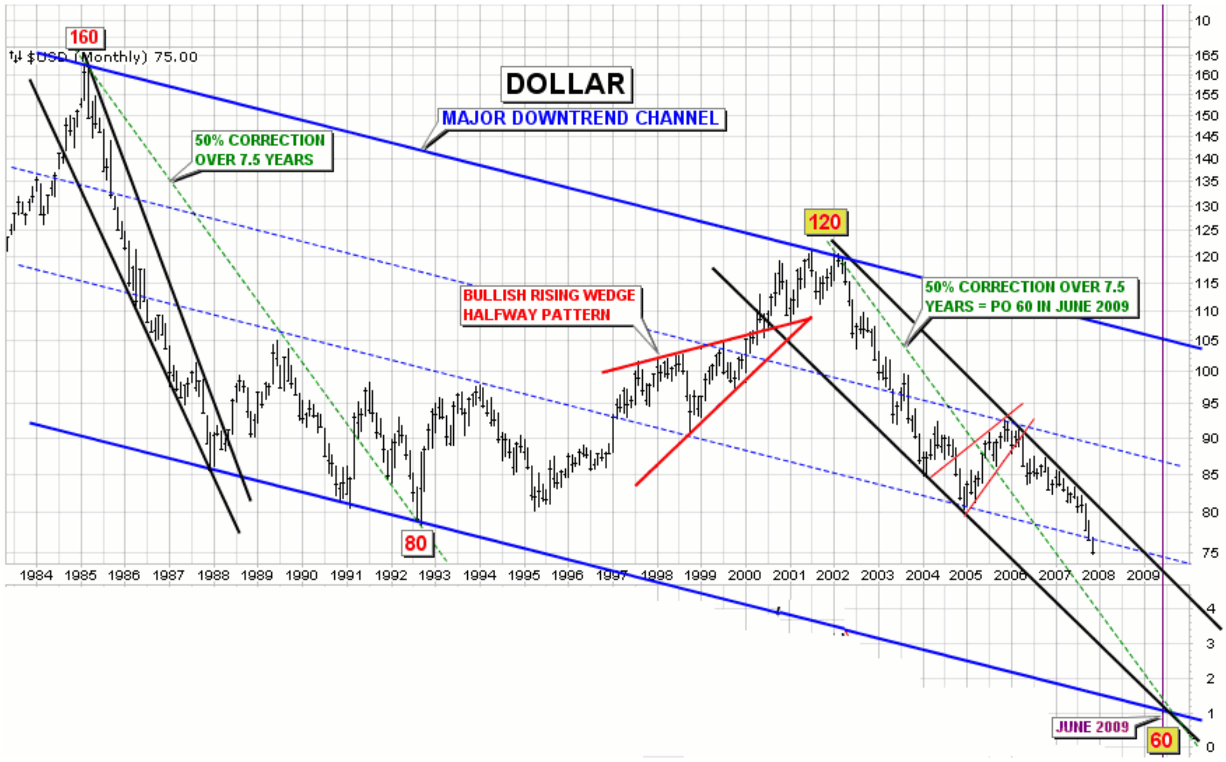
America's current-account deficit now in the danger zone, that day of reckoning could well come sooner rather than later."

"One cannot believe the arrogance of the Americans towards the Chinese. After outsourcing (the action is called Profit Maximalization) most of America's manufacturing power to China, after putting themselves (for nothing more then greed) in an impossible situation, they dare to blame the Chinese for the consequences of their own stupid actions".

<u>This is the death Dollar walking!</u>

The billions of Dollars injected needed to keep afloat the financial system, the billions spent each week in Iraq all add to the devastation of the Dollar.

So much debt is hold by foreign institutionals that today the real Dollar fixing is probably made outside the USA! We have reached that point, where the Dollar will already suffer as "those foreigners" just buy "less" debt. When the Dollar decline started in 1985, little debt was hold by non-



Americans. Today more dollars are kept overseas then within the US. It has become so bad that the Chinese are in a position to dictate their will to the USA. This is the direct result of the premeditated action of banks and politicians. One country after another is unpegging its exchange course against the Dollar.

The end of 2007, beginning of 2008 again was a technical decisive month for the Dollar/Euro. Plenty of indicators continue to point into the direction of a weaker Dollar. The technical reaction end of 2007 was very weak and, the last support (75) of the Dollar Index has given way. Today, next objective that comes into play is 60 to 55. In other words, one must brace for a level of $ 2 for € 1!

Europe, Australia, Canada, England, Russia and South Africa without any doubt also have their problems. However, the Dollar's status as Reserve

Currency is over. Don't expect that the American military machine will bring an ultimate protection. The era of the American Empire is over.

2. The Yuan and the Yen: The Yuan creeps up slowly against the US dollar. However, its rise is slowed down by the Multi-Nationals (Globalism) and agreements made between the CEO's of American and Chinese (don't forget China has a state controlled economy!) companies (Oligopolies and Monopolies).

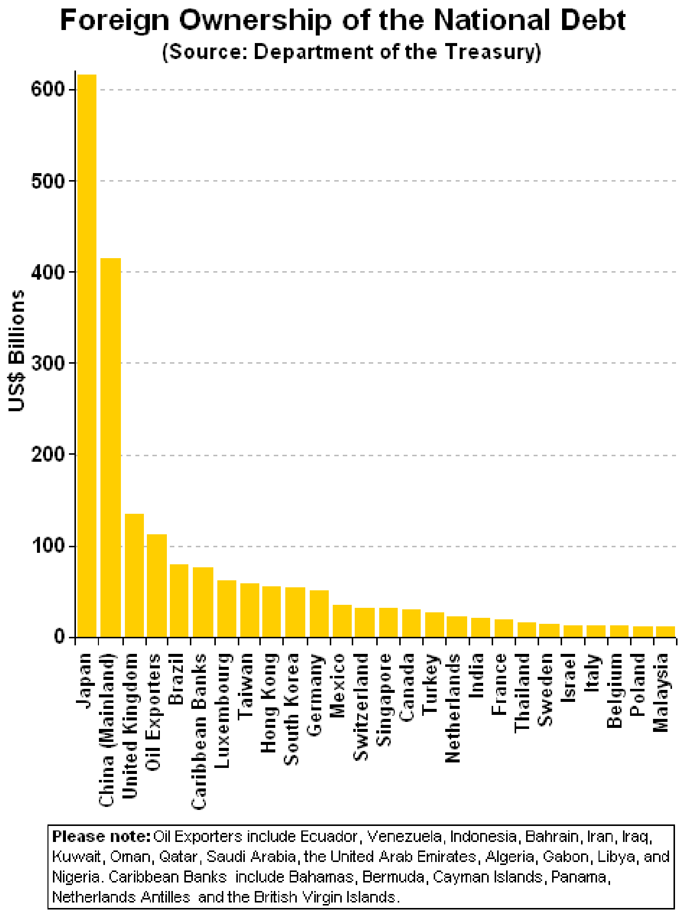
Today the Yuan is getting stronger against the Dollar, but it all takes a lot of time and the revaluation of the Renmimbi against the Dollar is extremely weak…To get some kind of natural balance, the Chinese should revalue their currency with at least 100 % .

A stronger Yuan and/or a weaker Dollar will have the same results as import taxes on Chinese and other imported goods. It will push up the existing domestic American inflation to new highs. Higher prices will make it harder for the consumer to survive in this STAGFLATION faze. Tax income will fall and interest rates will go up.

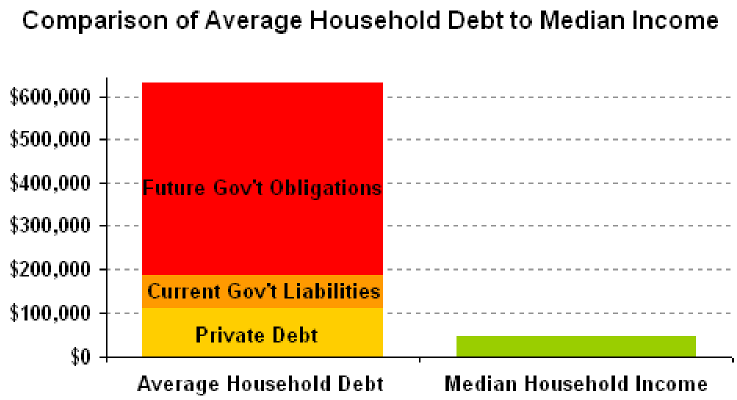
Once the Dollar falls through the actual level, it could come into freefall. Do not expect this to happen without some fierce resistance.

The fundamentals for the Dollar are just bad: One can see that the debt has started to rise exponentially after Nixon closed the Gold window on the Dollar after the French (Remember General De Gaulle?) wanted GOLD to be delivered instead of Dollars.

As one can see out of following chart, a major part of the debt is in the hands of the Chinese and the Japanese. In other words, those 2 countries decide about the fate of the Dollar and no more the Americans.



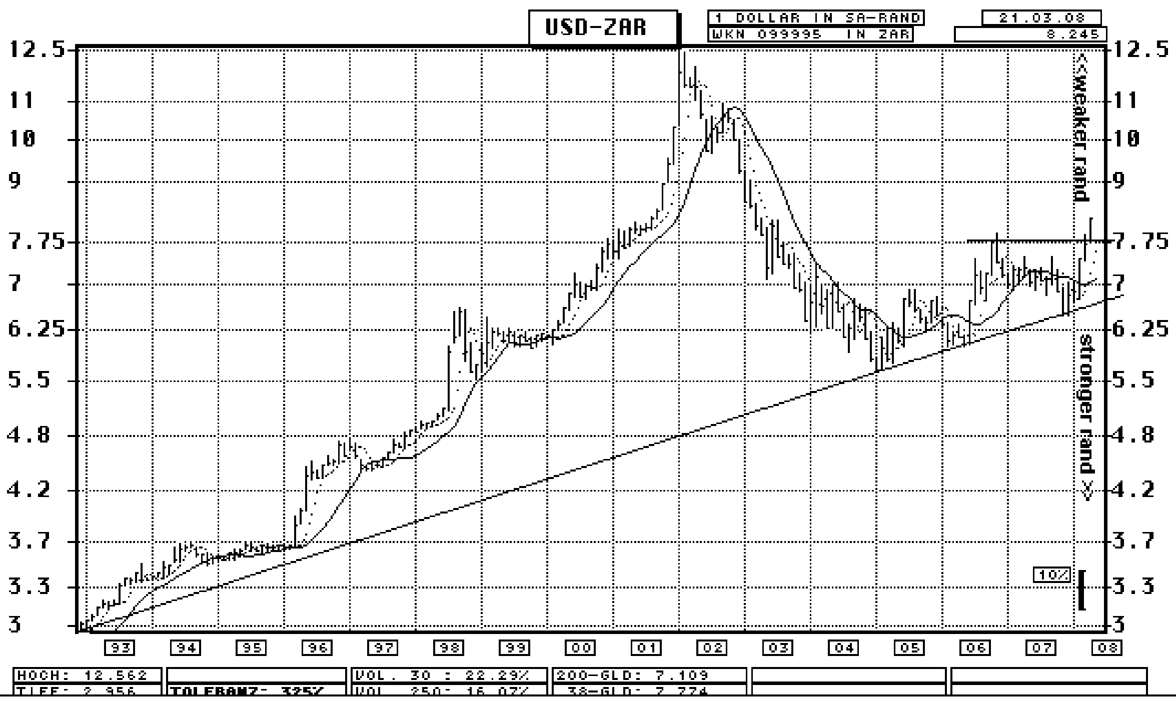
<u>There is NO WAY this debt can be paid off in a normal way!</u>



> Thomas Jefferson
>
> "Lenin is said to have declared that the best way to destroy the Capitalistic System was to debauch the currency. . . Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million can diagnose."

<u>3. The South African Rand:</u> The situation in South Africa again starts to become tense. I'll never forget the words of Brian, a friend of mine and a Rhodesian veteran: "give or take 10 years or so and you'll see everything that happened in Zimbabwe also unfold in South Africa. Zuma (the new Zulu president of the ANC) has all it needs to become the South African Mugabe. Since we have entered an era of Hyperinflation in Zimbabwe, 3 to 4 millions of Zim's have crossed the border with South Africa in quest of life basics that are no more available in their country. Crime and AK47 have come with them. Problems have been seen with Escom (the country's electricity supplier), and roads are badly maintained.

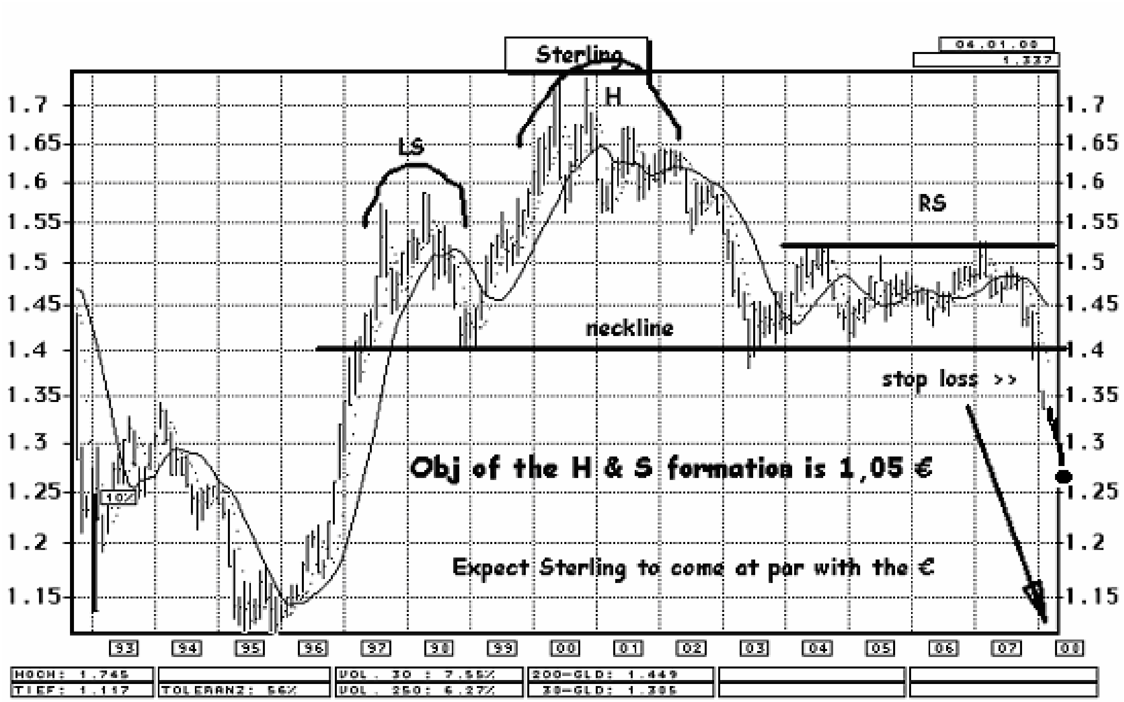
<u>Chart:</u> ZAR versus $



4. The Swiss Franc: marginally weakening against the Euro. Long term no more one of my favorites. It more and more looks like the Swiss has become 'old glory'. Since the Liechtenstein bribery story, it is clear that other solutions are needed.

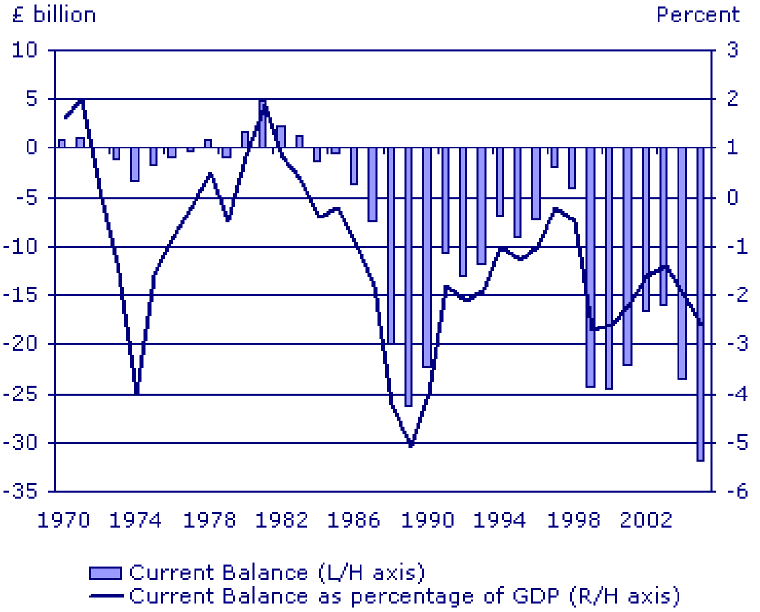
5. The Sterling : PEAK NORTH SEA OIL

Note that we now have also seen North Sea oil peak



The Sterling has fallen through its double bottom resistance against the Euro. The UK is running into similar problems as the USA is. Real Estate has started to fall in Cornwall, the UK and even in London where it has traditionally has been extremely resistant. The Northern Rock story shows us how critical the situation has become. The weakening British real estate market will, together with the high debt situation of the Brits also have its impact on Real Estate in France and Spain where they have traditionally been big buyers.

My view is that the British politicians are fully aware of the coming debacle of the Dollar and have decided (typical British) to exchange the Dollar sphere for Europe. The catch is that now the £ will have to come at par with the Euro.



6. The Euro: one of the stronger currencies for time being. I still think the Euro could take over the role of World Reserve Currency. China and the Yuang will as suppliers and manufacturers of goods probably run into extremely heavy problems once the Depression hits the western world. As China is the manufacturing engine (the HOCG) center of today's world, economically it is logic that it will be hurt more then the Western world. Moreover China still is a state regulated (read communist) country where free market competition is inexistent. *In the shadow of the unfolding Credit Squeeze, the Euro might weaken temporarily as American financial co's repatriate overseas assets back home in order to cover for the losses.*

A technical correction to a maximum level of 1,35 to the Dollar is possible, however far from certain.

7. Iceland krone:

Wednesday, 26 March 2008
Iceland has been forced into a surprise interest-rate hike in what its central bank called a "crucial" move to reverse the country's weakening currency and battle rising inflation.
The Central Bank of Iceland yesterday raised interest rates by 1.25 percentage points to 15 per cent after an emergency meeting. The move is bad news for the country's largest banks, some of whom have thousands of customers with savings accounts in the UK. It represents a U-turn of the policy outlined in November, when Iceland's central bank said it would leave rates alone until June at the earliest.

8. Zimbabwe:

1 Zimbabwe Dollar (ZWD) = 0.00002103 Euro (EUR)
1 Euro = 47.558 Zimbabwe Dollar

For those of you that want to read more about how things unfold in Zimbabwe and experience how things will be when Hyperinflation sets is, follow this link:

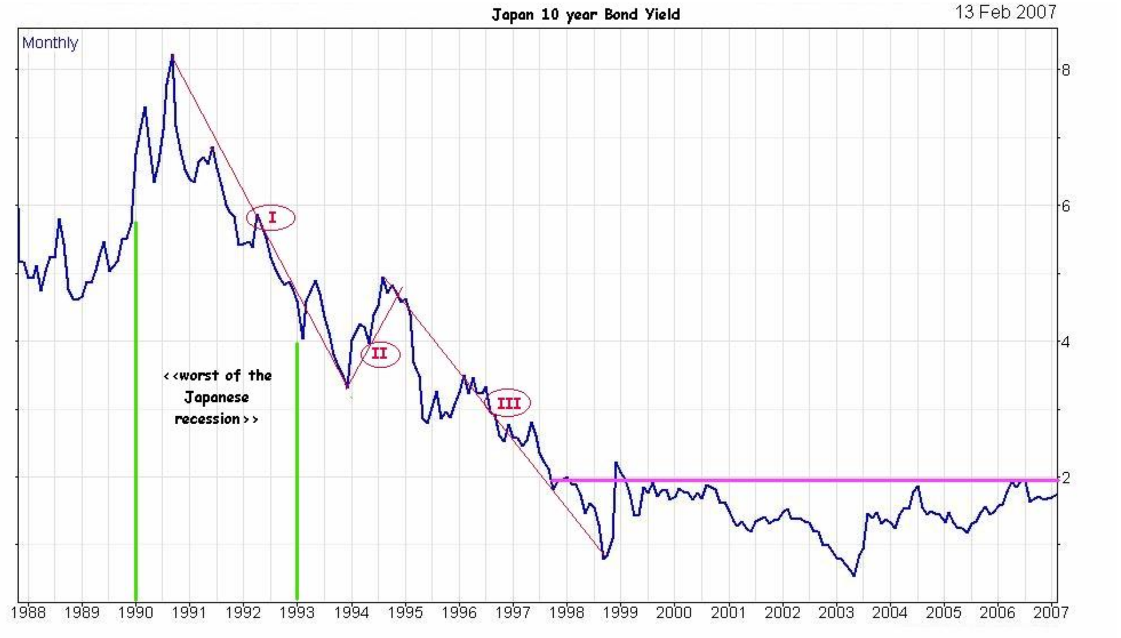
Click here for ZIMBABWE

Zimbabwe's stock market was the world's best of 2007. It increased by more than 700,000 % as a result of the locals investing all their cash into stocks in order to limit the losses that would occur as a result of the hyperinflation.

http://www.youtube.com/watch?v=Vv2UbL-oFnI

III. INTEREST AND BOND MARKETS

Interest Rates and the Bond markets are and will be the key to the financial markets and the economy for the coming years. In other words, these markets are the tea leaves that will show us what to expect.



A Japanese style depression (1990 to now) may at first give the impression to be a lot less painful. However in the long run, we first need to cleanse out all the misallocation of funds before a new cycle will be started. Obviously, in Japan this still has not happened. As the Credit Crunch unfolds, the Fed is pushing down the credit cost as little as possible. Expect to see initially the Prime Rate and short term interest rates to come down in 2008. Don't expect them to come down a lot, for there is little room left!

In the USA, over the past weeks, interest rates have fallen to extremely low levels. I call it the flight into security. Exactly the same occurred BEFORE the big crash of 1929 ! However, once the Hyperinflation kicks in, I expect to see sharp rising interest rates that could well originate a Bond market collapse.

Chart: the 1929 – 1933 scenario is repeating itself

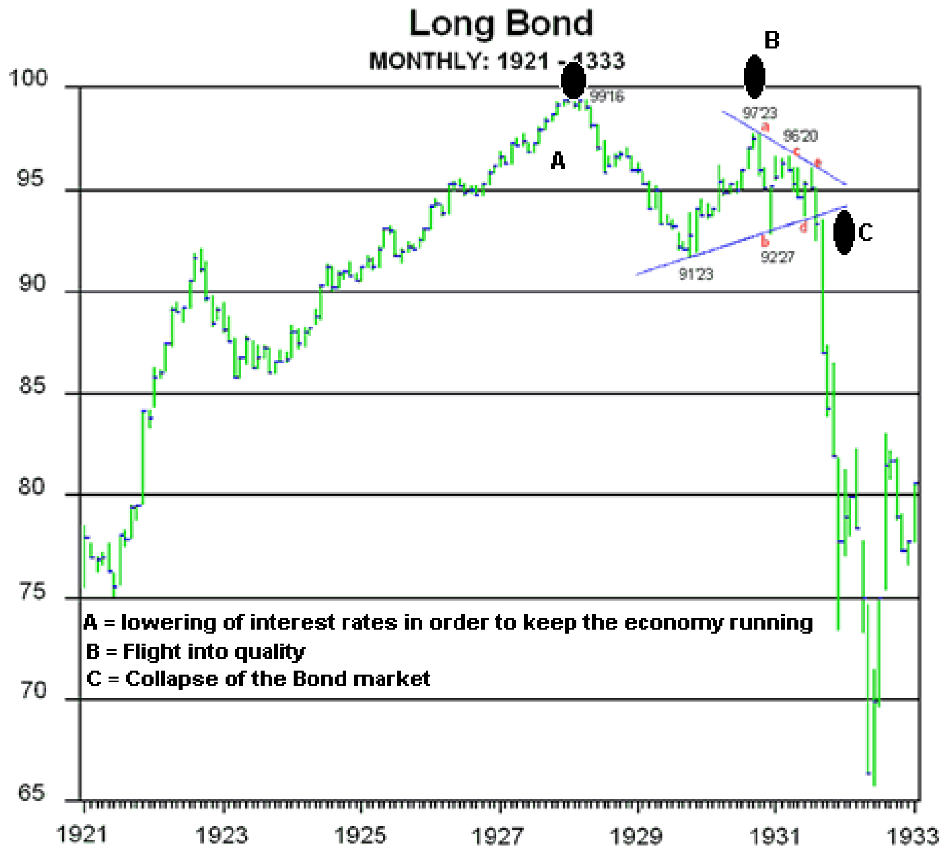


chart below: see how the banks have been financial dependent upon the goodwill of the Fed. Even the 1920's and 930's haven't seen this. Off course, in those days, there were no such things as CDO's, and Hedge funds.

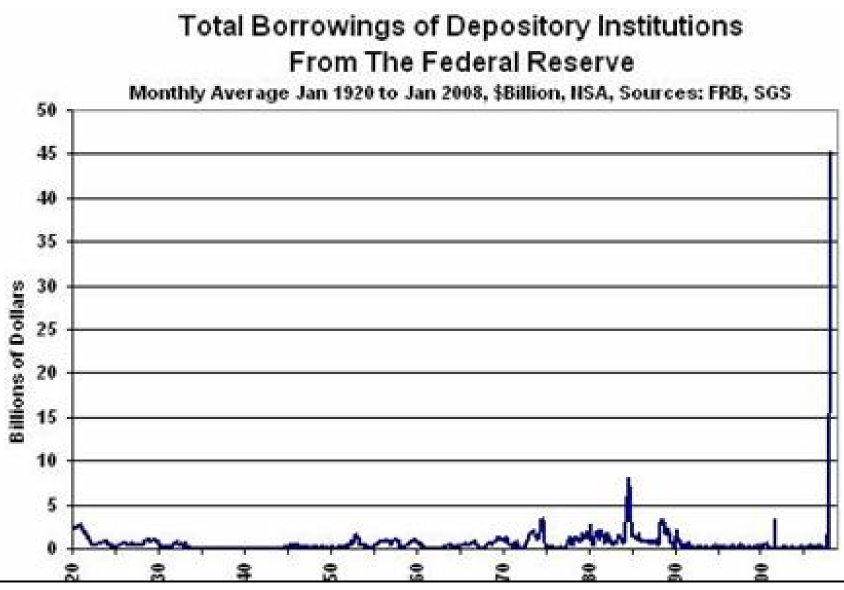


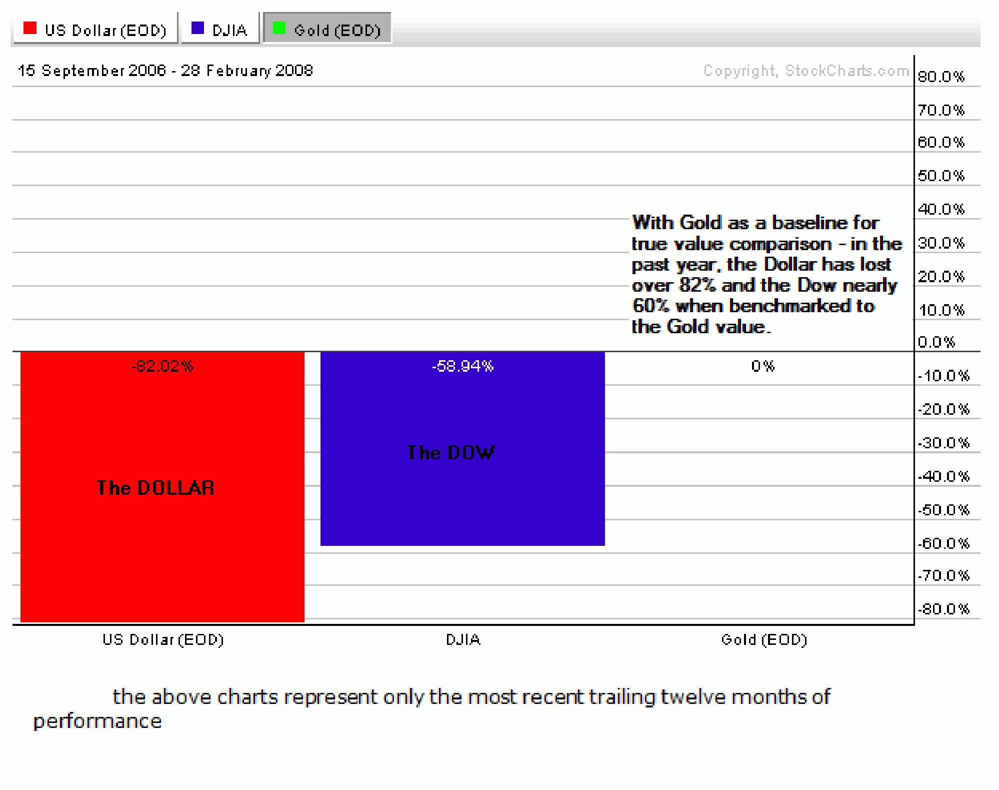
chart above: Unnoticed by many. Detail of the result of the flight into security!

I have no idea what the short term interest rate expectations are for the Euro. The ECB remains as usual quite mysterious. In all cases, the EU has like the USA little interest rate maneuvering room. I have no doubt that they will keep up the margin of the actual level with 0 % as long as possible and that the European interest rates start to fall, the same scenario as in the USA will unfold.

We have come into a position where government and Banksters cannot be trusted anymore. I am against keeping liquidities in CD's, Treasuries, Gilts and similar short term money instruments issued by Governments. These have in fact two huge disadvantages: Because of the coming Hyperinflation, their real value will erode and additionally, because bearer certificates disappear (how coincidal!?) there is a real possibility for confiscation in the Argentinean style. They have done it before, haven't they?

As the Credit Crunch unfolds and the Dollar continues to come down, the Stock market and the Real Estate markets will follow in line. So will the European Stock markets.

[Chart:](#) those that have persisted in holding on to the Dollar and $ denominated securities during 2007 (= a HUGE loss!).



Hopefully further retreat will happen in order and without further accidents. Be aware that derivatives, CDO's and Hyperinflation conditions can hold dangerous surprises. One must be advised that in all cases, *the Credit Crunch will bring Hyperinflation, Recession and Depression until all of the misallocated funds have been washed out of the market.* It will either be swift and painful or take years and years as it does in Japan. But no sustained recovery of the economy is possible until all the misallocation has completely been washed away.

However, I really don't hold a repetition of the Japanese situation for possible. Reality is different. In 1989 just before the action started in Japan, the 10 year interest rate level was fluctuating around 8 %; hence, there was plenty of room to come down to 2 % and lower (they fell by 6 % - and short term interest rates even became negative). However, this fall did not stem the fall of the Real Estate and Stock markets. Bond holders lost because of the retreat of the Yen. On top, there has been an additional 30 years of misallocation of funds.

Contrary to what politicians make us believe, they have no power to regulate 'Real Interest Rates'. They can only try to influence momentary the money supply and the interest rates. However, in the end, the market forces always take over.

At the time where this letter is written, the Bank of England and the Swiss national bank are injecting fresh money into the financial markets. The German Reserve Bank is probably doing the same as the Deutsche Bank also has run into problems.

Basically the problem is universal because all bank action (fractional reserve banking) is interrelated!

Chart: 10 year € bond yield

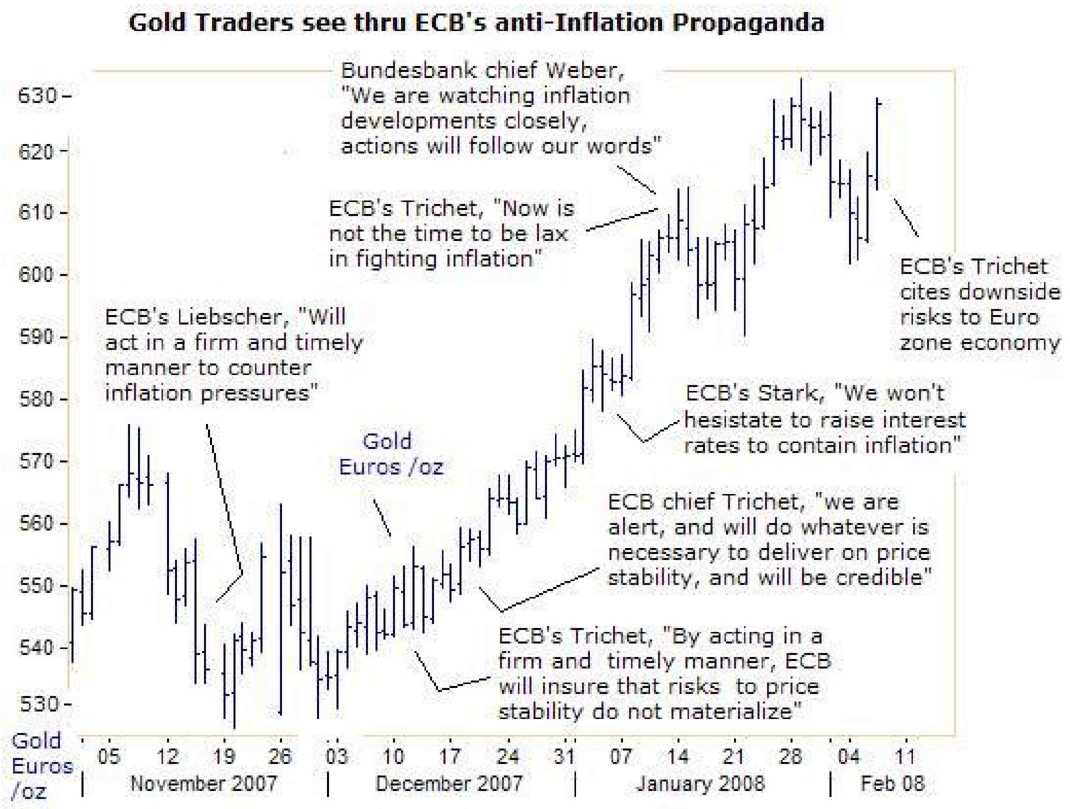
For the USA and Europe, the 10 year rates are fluctuating around the 4 %. In other words, they can come down by no more than 4 %. Additionally, the Reserve banks need to watch out for an inversed yield situation. Inversed it already was for months! In other words, the actual situation for the USA and Europe is a lot worse then it was for Japan in 1989. This because Governments of the western worlds have since 1990 done all they can (by creating money out of thin air) to postpone the actual recession.

According to Von Mises, any fresh injection of credit can postpone a recession, but eventually it will break through. The longer it is delayed, the worse the readjustment will be. Looking at the situation of the Bond market and interest rates, it appears that we have come extremely close to this breaking point.

Charts showing long term yield (10 and 30 year) for the Dollar, the Can Dollar, the Pound Sterling, the Aussie, the Swiss and the Euro 'ALL' show long term reversal patterns. In some cases, distinct reverse Head and Shoulder patterns are or have been built. All these charts 'Clearly' spell an INCREASE in long term interest rates! This in turn spells a crack-up boom, Hyperinflation, and finally Deflation. It will be the readjustment of the misallocation of funds that has been happening for years and years; a shift away from High Order Capital Goods to Low Order Consumer Goods.

The expected rise of Interest Rates will further deflate the Real Estate markets and bring down many financial institutions. Hence, the possibility that we see an Argentinean or Zimbabwean scenario instead of a Japanese one is a lot higher and plausible. Better keep your pots and pans ready!

Part of the problem resides with the extreme debt position of the USA. This debt could be accumulated under the Bretton Woods agreement after WW II and because the Dollar took over the role of Reserve Currency of the Pound Sterling. The accumulated debt has now become a liability for the Americans and limits any assertive action.



<u>Note</u>: That the Republican presidents at each time increased the net US debt position during their presidency. The Democrats rather tried to curb it and instead increased domestic taxes. Basically, the end result is about the same: *politicians take your money away either by taxation or by inflation; most of the time it is used to finance Wars!? (Remember some history?)*
<u>Important is to understand is that both taxation and inflation are limited.</u>

<u>Last but not least, expect to see more and more of this problems:</u> Stay away from these instruments issued by banks and sell them if you have some!

Here is a prime example of how investments today are not like yesterday. The problems are not coming to an end, they are only beginning. Every economic act results in an economic consequence which is unforeseen even by the professional public. The more extreme the economic act, the more extreme the economic side effect will be.

UBS Gives Haircuts

Vidya Ram, 03.28.08, 5:00 PM ET

In its advertising, UBS tells clients "it's you and us," but on Friday it told investors "you're on your own."

The Swiss bank told clients it was reducing the value of auction-rate securities in their accounts, by an average amount of 5%. It also refused to buy the bonds back from investors who bought the securities, thinking they were getting an easy-to-sell, higher-yielding alternative to money market funds but instead found themselves stuck with illiquid securities and capital losses, courtesy of the global credit crunch that began in the U.S. subprime mortgage market.

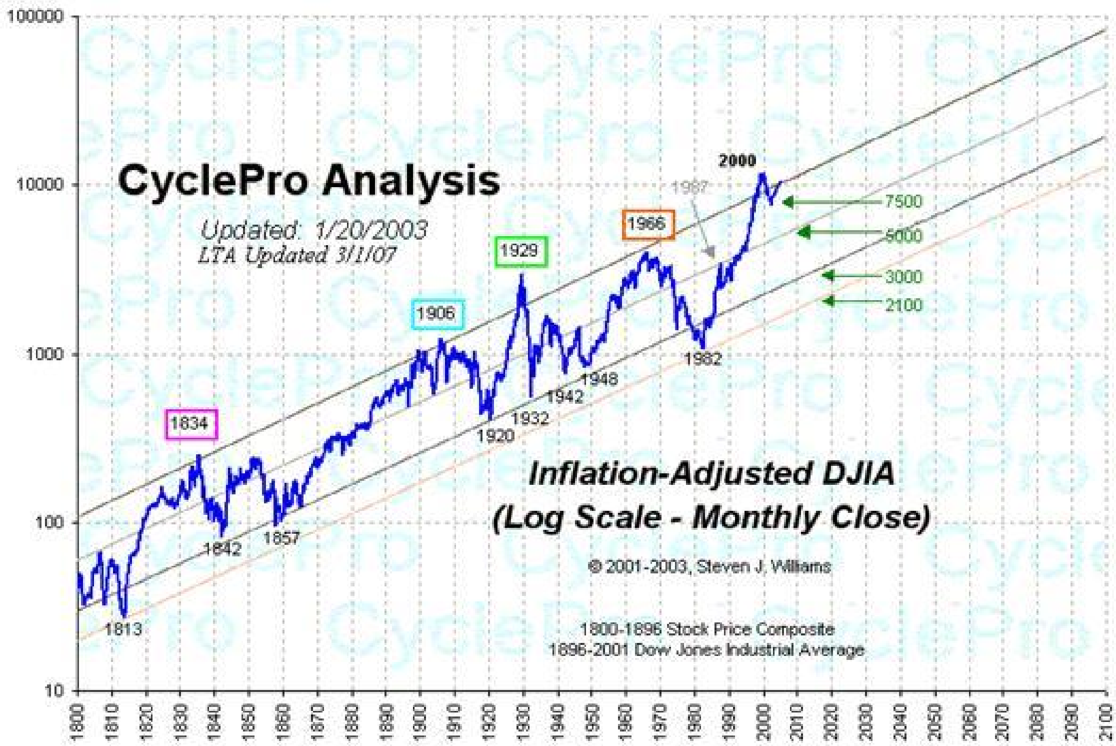
"This is the right thing to do," said a UBS (nyse: UBS - news - people) spokeswoman. "This is in the best interest in our clients regarding our accounts. Given the current market dislocation this is the next logical step for any committed wealth manager."

Auction-rate securities are long-term bonds issued by local governments, agencies, or corporations but sold in periodic auctions, say every 7 to 28 days, to set the interest rate. Firms that handle the auctions, like UBS and most of the big Wall Street concerns, used to step in and buy in the auctions if there weren't enough bidders.

IV. THE STOCK MARKETS

1. General:

All Western World Stock markets have entered a secular Bear Trend.

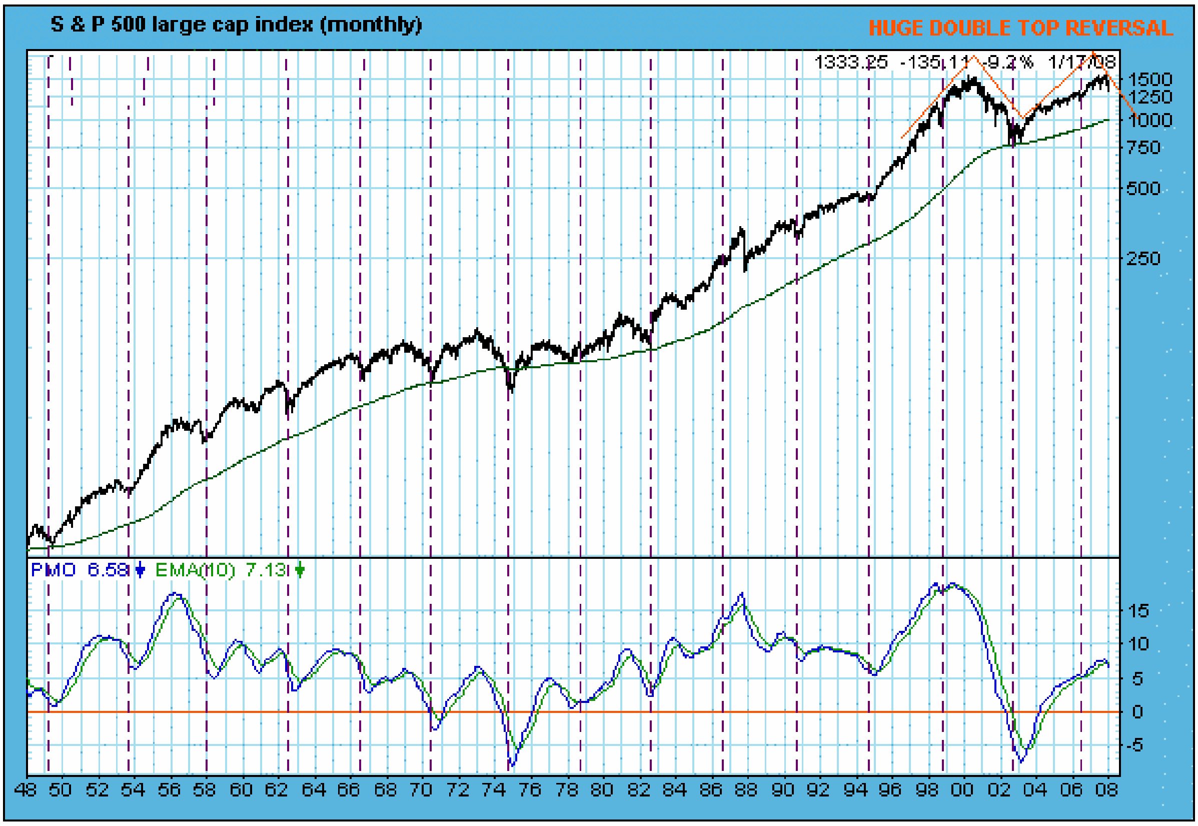


Thanks to the continuous money injections of the FED and actions of the Plunge Protection Team (PPT) the Dow is still alive. Each time we have a collapse of the market by 200 or 300 points, the recoveries appear to come out of nowhere and the markets go up again as by magic. Just like in the years preceding the Big Crash, presidents and other Public figures are confirming that the American and European economies are strong, alive and well and the unemployment is falling.

Reality however, is a lot bleaker. The Emperor has no clothes. Like in the 1920's I expect at a certain point all these efforts to fail: the Dollar will come down, earnings will decrease, structural unemployment will rise exponentially, foreclosures will jump and stock markets crash.

<u>THE GARAGE SALE HAS STARTED:</u>

Investors tend to forget that the billions injected in 2007 by the Federal Reserve (and also by the ECB) are loans and that banks have to refund these by selling assets. Investors also forget that because of falling prices (ex. Real estate), banks have to sell assets in order to keep their balance sheets decent. The problems of the Banksters have a DIRECT impact on the financial and more precisely on the stock markets.



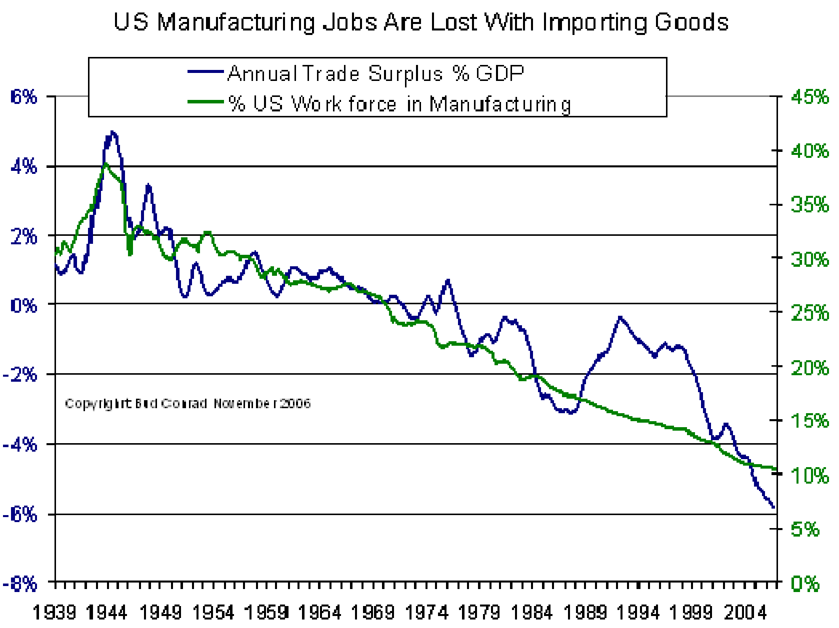
The more politicians and big heads shout that all is healthy and well, the closer we are to the point of no return. <u>For most people, because they have absolutely no interest nor vision in politics and economics, the end game will</u>

come as a complete surprise. The rotten door is about to fall open during their favorite football game or Britney show. Assuming the Banksters succeed in keeping the system afloat, measured against GOLD, we've come to a point where the Stock Markets will come down – even if it has to happen in Zimbabwean style!

Note: Zimbabwe was the best stock market for 2007. It went up by about 300,000 %. Expressed in Gold, however, the result is dramatic.
Virtually ALL stock market indexes show huge technical (reversal, distribution) Top Formations and/or have entered a secular bear trend.

One would expect that the market mechanism would improve the American economy as the Dollars falls against the foreign currencies like the Euro and the Chinese Yuang. Unfortunately, during years, the Americans have been incorrectly applying the Theory of profit maximalization: American domestic manufacturing is death and the quality of the goods manufactured by the survivors is extremely low.

Chart below: few items are manufactured in the USA; today everything is made in China and grown in Central and South-America



2. Financials:

The Federal Reserve keeps on fighting the illiquid markets by injecting billions of dollars of fresh money. However, the shares of banks, brokers, insurance co's and other financial institutions keep on falling. Builders continue to plunge. And more recently, Retailers are also about to join Financials and builders in the secular bear market. Only Gold (and commodities in short supply) and Oil (energy) shares are holding well.

Bear Stearns went belly up and if it was not for a massive intervention of the Fed Lehman Bros and others would have followed. We cannot say that Bernanke and his officers are not watching the situation closely.

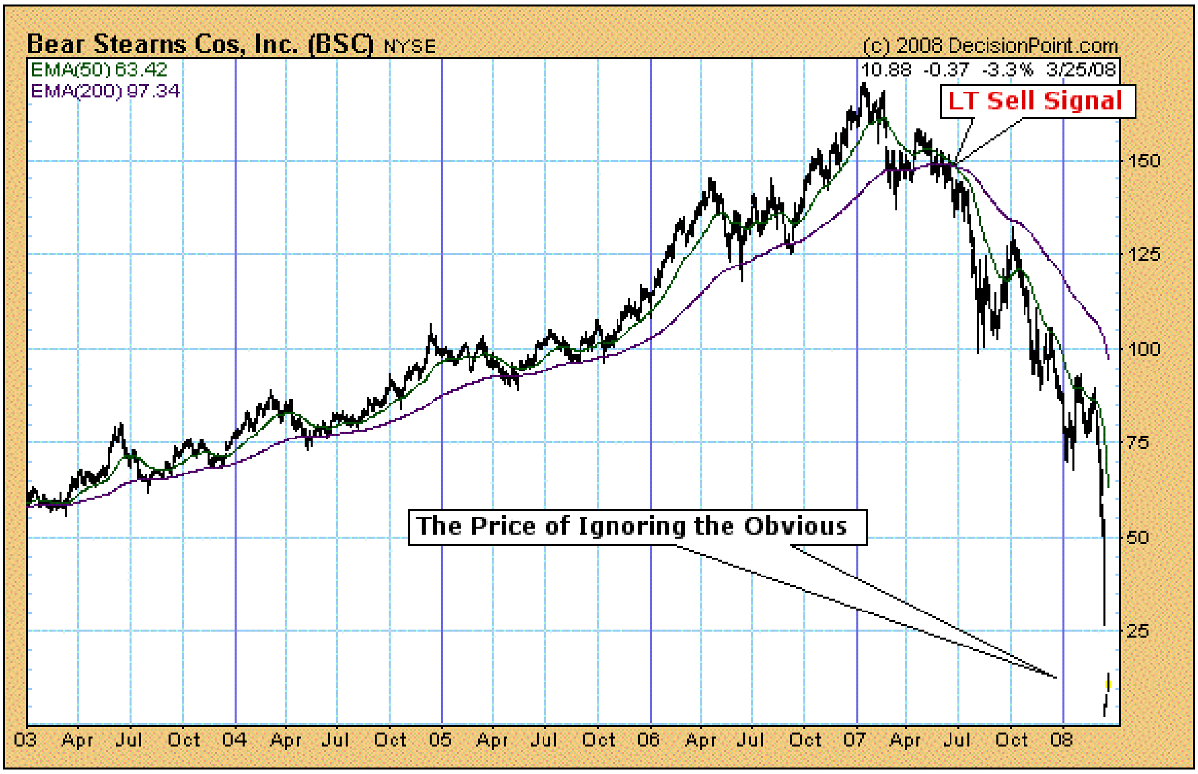
In Europe, apart from the Northern Rock debacle, "they" so far managed to keep most problems covered. Deutsche bank, UBS, Credit Suisse, Société Générale,...

Chart: the silent crash of the banks

[The financials and premeditated theft in the Argentinean or the Zimbabwe way]()

"But if you wish to remain slaves of bankers and pay the cost of your own slavery, let them create money."
Joshua Stamp, Director, Bank of England, 1928

Fractional Reserve banking is seen as immoral by the Muslim, the Jews and it also used to be banned by the Bible. Fractional Reserve Banking is the first step towards Creation of Money out of thin air.
More control and regulations by the Fed and Paulson are obvious, but they are unable to solve the problem! In all cases, the rules would in all cases only be enacted once the current troubles have passed. A long, long way to go!



CITIBANK is now, after limiting electronic transfers also limiting ATM withdrawals in New York City, blaming it on "isolated fraudulent activity." We the people are convinced: "It's our money. We should be able to take out any amount we want, when we want." This statement tells me how ignorant the general public is regarding their accounts at a bank. Depositors are really *lending* their money to a bank. The deposit (loan) to the bank then *becomes an asset* of the bank, a unique power granted to banks alone. These "assets" are then used as the basis for loans through credit cards, auto loans, commercial loans and mortgages.

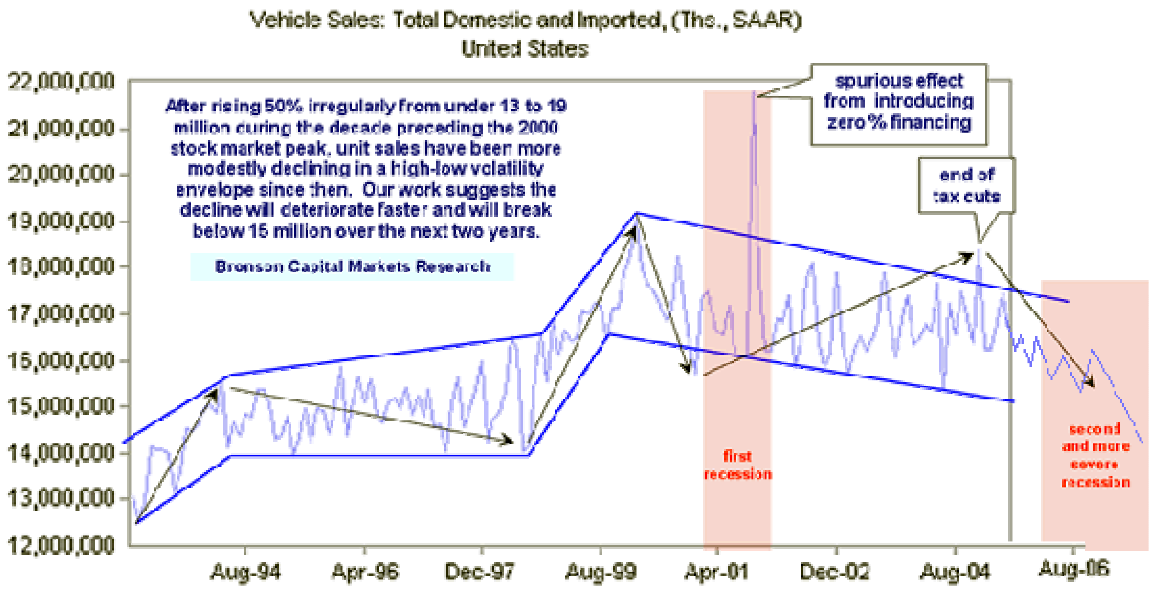
Where it gets dicey is that banks are on a fractional reserve system where they may lend up to ten times the amount they have on deposit. So, in reality, the money may not be there. You're thinking of this place all wrong. As if I had the money back in a safe. The money's not here. Your money's in Joe's house...right next to yours. And in the Kennedy house, and Mrs. Macklin's house, and a hundred others. Why, you're lending them the money to build, and then, they're going to pay it back to you as best they can. Now what are you going to do? Foreclose on them?" Today's version is a bit more complicated than that. The old-time banks knew who their debtors were. The loan officer made a moral and financial decision every time he granted a loan or a mortgage. In today's securitized economy, there is no telling where the loans went. In addition, securitized mortgage portfolios <u>may not have the proper executed assignments</u> that grant the power to the lenders to foreclose. Very dicey, indeed. I call it premedidated theft, nothing less, nothing more!

After President Wilson signed the Federal Reserve Act into law in 1913, he reportedly said, "I am a most unhappy man, I have unwittingly ruined my country…a great industrial nation is now controlled by its system of credit…the growth of the nation, therefore, and all of our activities are in the hands of a few men…"

Now that all EU banksters have simply BANNED fysical delivery of ALL SECURITIES, they have (of course with the cooperation of Government) immidiate full access to all of our savings.

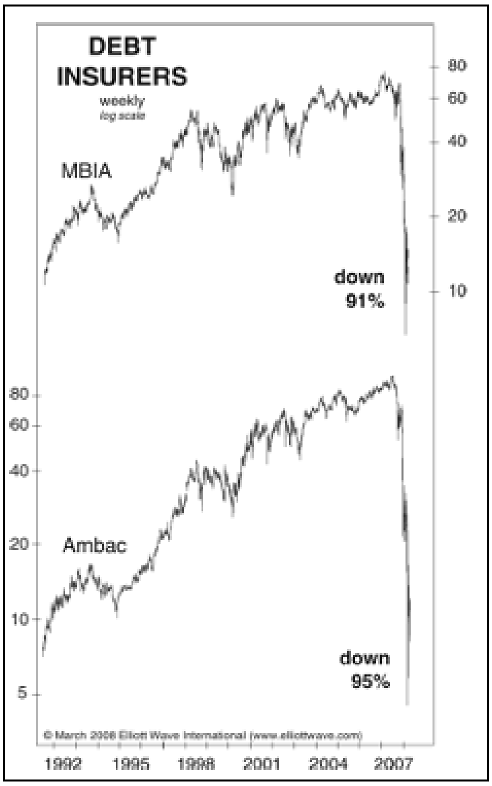
<u>2. Car manufacturers:</u>

<u>Chart:</u> car sales are the canary in the cage of the economy



3. Insurance companies':

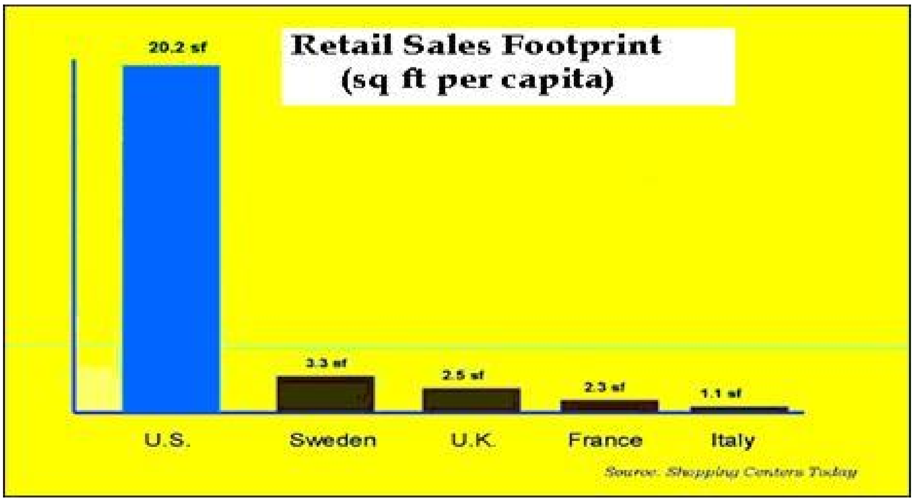
Chart: This chart is worth writing a book. Right now, I do not want to comment it!



Other insurance companies are in or have fallen out of a top heavy distribution. Some are still building the last shoulder of a Head and Shoulder formation: Humana, Aetna, Progressive…

4. Retailers:

Very interesting is the chart below of the sq. ft Retail Sales footprint per capita. It is a school example of the Misallocation of funds because of Creation of Money out of thin air. Because of better credit ratings, money and/or credit have been granted by preference to the larger and global companies that are traded on Wall Street. The CEO's, working out their mathematic and econometric models have concluded that they needed to extend the Retail Sales Footprint. However, since the beginning of the Credit Crunch companies like Macy have been forced to close down unprofitable shops. Expect these actions to continue in the future. Meantime, that part of the Retail surface that hasn't been closed down will ensure earning figures for 2008 will continue to fall.



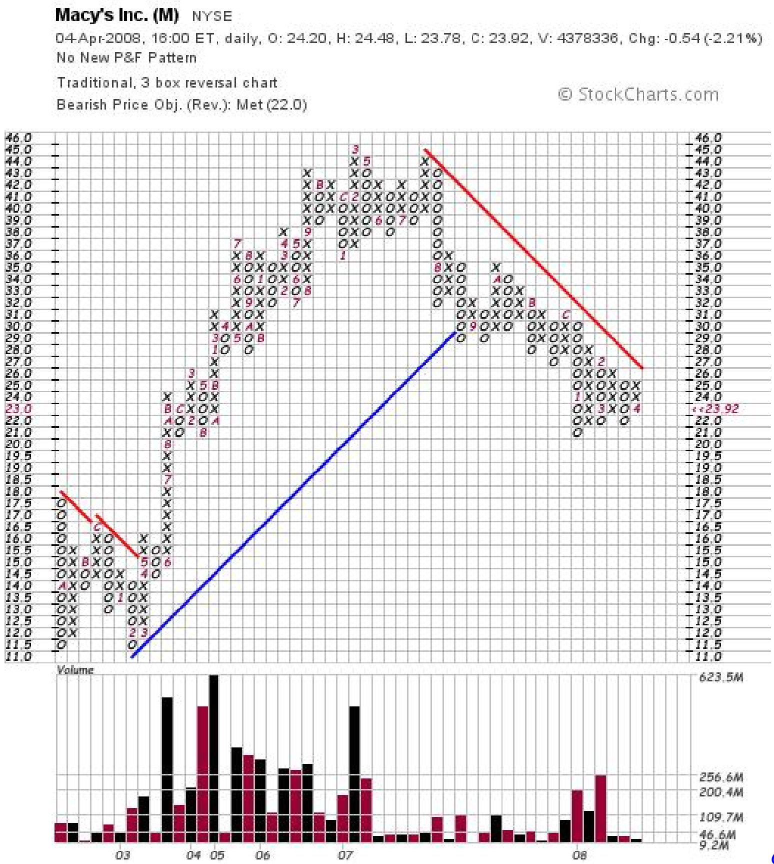


chart: Macy department stores

5. Oil, oil service and oil exploration (liquid energy)

The Exxon chart is a good example of how most of the charts for Oil companies look like. They just consolidate.
We have peak oil. Oil is rapidly becoming a scarce commodity. People don't realize that 97 % of our transportation system runs on LIQUID ENERGY. Solar, wind, electricity will never be able to solve this problem. The only thing GREEN energy does (ethanol) it to push up the price of food commodities. It takes at least 7 years before an alternate system can be developed. Even if Hydrogen cars are being manufactured, it will take years before the world fleet is renewed and before a refueling system is set in place!

6. Gold and Silver shares

Phase I: initial accumulation by strong hands
Phase II: recognition of the cycle by the institutional investor
Phase III: the Herd moves in and the price goes up exponentially

It takes about 7 years before a Gold or Silver mine becomes productive. It takes as long before the CEO's of the Gold and Silver mines become convinced that Gold and Silver have entered a secular bull trend. So long, most of them will systematically hedge (sell foreward) their production. Only, when the price of the commodity starts to rise, the operation becomes a loss. Hence, one needs to be extremely picky in choosing Gold and Silver stocks. The hedging stops once the Institutionals acknowledge that there is a secular Bull market and start to acquire positions. Specialists call this phase II of the bull market.

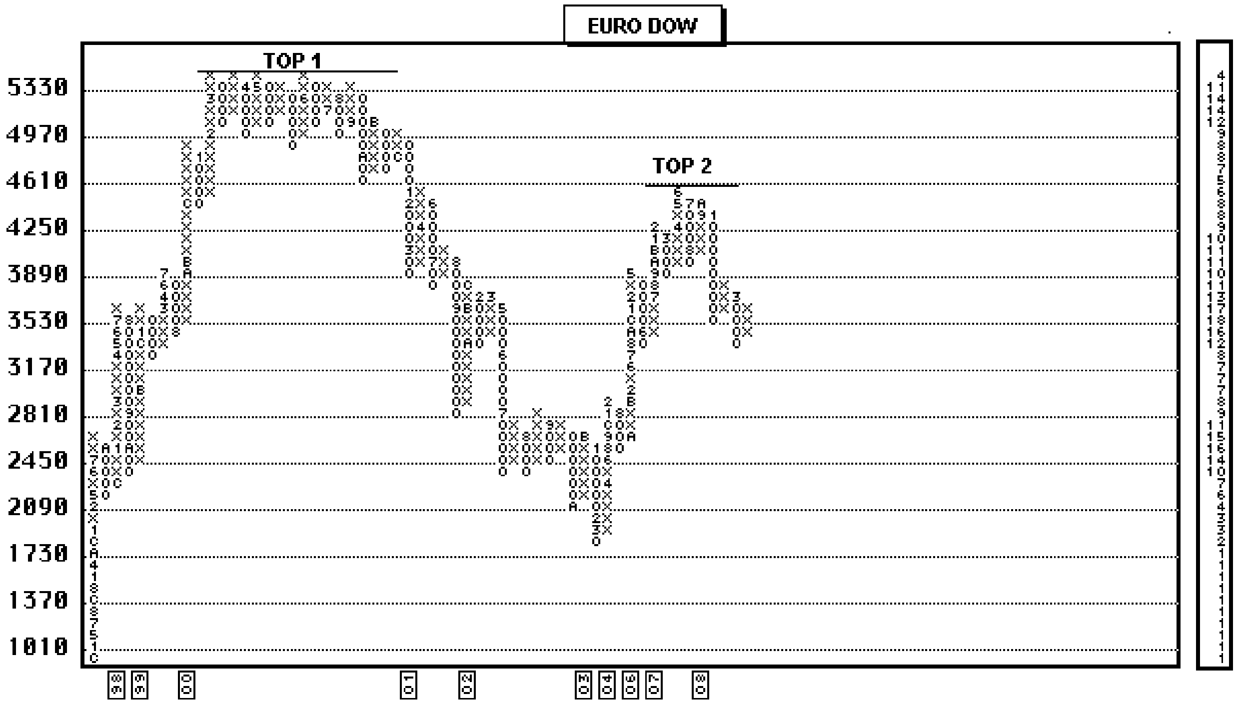
The Gold Juniors are still extremely cheap. So are a lot of major ones. Canadian Gold mines are the safest ones. Once Escom manages to repare and upgrade its distribution system, South African will traditionally again become part of to the game.

---

7. Europe:

Just like in the US, the billions that Santa Trichet borrowed to the financial system will have to be repaid. Just like in the US, European financials have started the Garage sale.

Most European Stock market indexes are showing HUGE reversal formations. Mostly double tops. The countries that are in the worst shapes are Spain, Italy and Greece.



8. East Europe and South Africa:

As Iceland goes, so go the Baltics, the Balkans, Hungary, Turkey, and South Africa. All are living far beyond their means, plugging the gaping holes in their accounts with fickle flows of foreign finance. All have let credit grow far above the safe "speed limit", some exceeding 50pc a year.

Turkey is first in line for any stress test, said Neil Schering, an East Europe expert at Capital Economics.

"I wouldn't want to keep any money in the Turkish lira: the puzzle is how it has stayed so high for so long. There are huge imbalances in the economy. The current account deficit is nearly 8pc of GDP, and the chief prosecutor is trying to shut down the government," he said, referring to last week's court move to ban the ruling Islamic AKP party, as well as the president and prime minister, for alleged breach of the country's secular laws.

Turkey has a foreign debt of $276bn. The Istanbul bank YapiKredi says Turkish companies may have great difficulty raising some $48bn of fresh loans needed this year to stay afloat.

Until now the country has been the darling of the yen 'carry trade', offering irresistible yields to Japan's army of investors. But the yen's surge in recent weeks has played havoc with these flows. The unwinding of yen positions has undoubtedly been key factor in the sudden capital flight from Iceland this month.

Countries that run current account deficits above 10pc of GDP for any length time almost always come to grief. East Asia's debt crisis in 1997 erupted before any state reached double digits. Iceland's deficit is now 16pc of GDP. Latvia is at 25pc, Bulgaria 19pc, Georgia 18pc, Estonia 16pc, Lithuania 14pc, Romania 14pc and Serbia 13pc. The region will need $337bn in foreign loans this year.

Borrowing in foreign currencies was all the rage in the heady days of the credit bubble. Most mortgages in Hungary over the last two years have been in Swiss francs, with the Balkans and Poland not far behind. This is now turning into slow torture. The franc has risen 5pc against the euro since October. The real level of the debt is ratcheting up.

The foreign debts have reached 122pc of GDP in Latvia, 101pc in Estonia and 73pc in Lithuania, mostly in euros. For now the debtors are shielded by fixed exchange rates in Europe's ERM system, but this could make the shock even worse should the currency pegs start to snap.

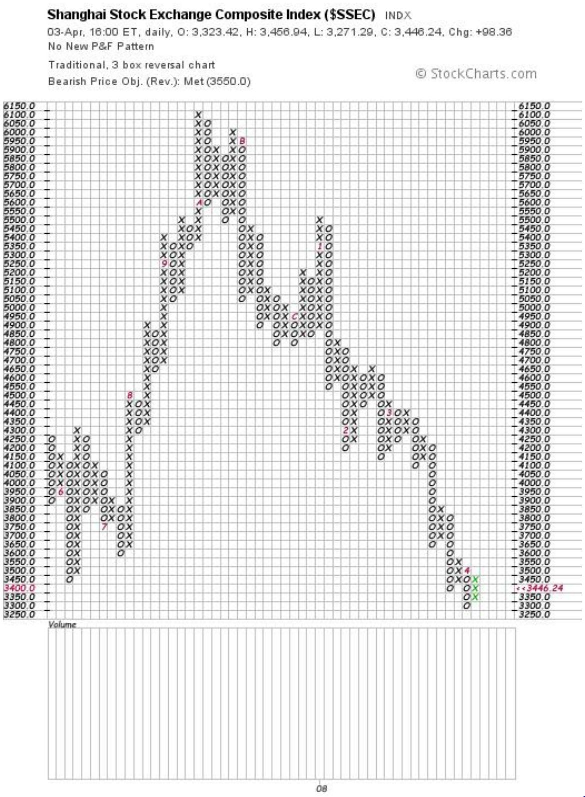
"It's all looks like a pretty ugly cocktail," The good side is that the Baltic banks are not exposed to toxic mortgage securities, and a lot of them are owned by foreign banks, so they are protected.

Ed Parker, head of Fitch for Eastern Europe, said the agency had already downgraded Latvia to BBB+ and issued a further alert in January. Turkey is even lower at BB-.

The growth of the Russian Money supply is probably the highest but one (numero 1 is Zimbabwe) with a figure of about 50 %.

9. The Far East:

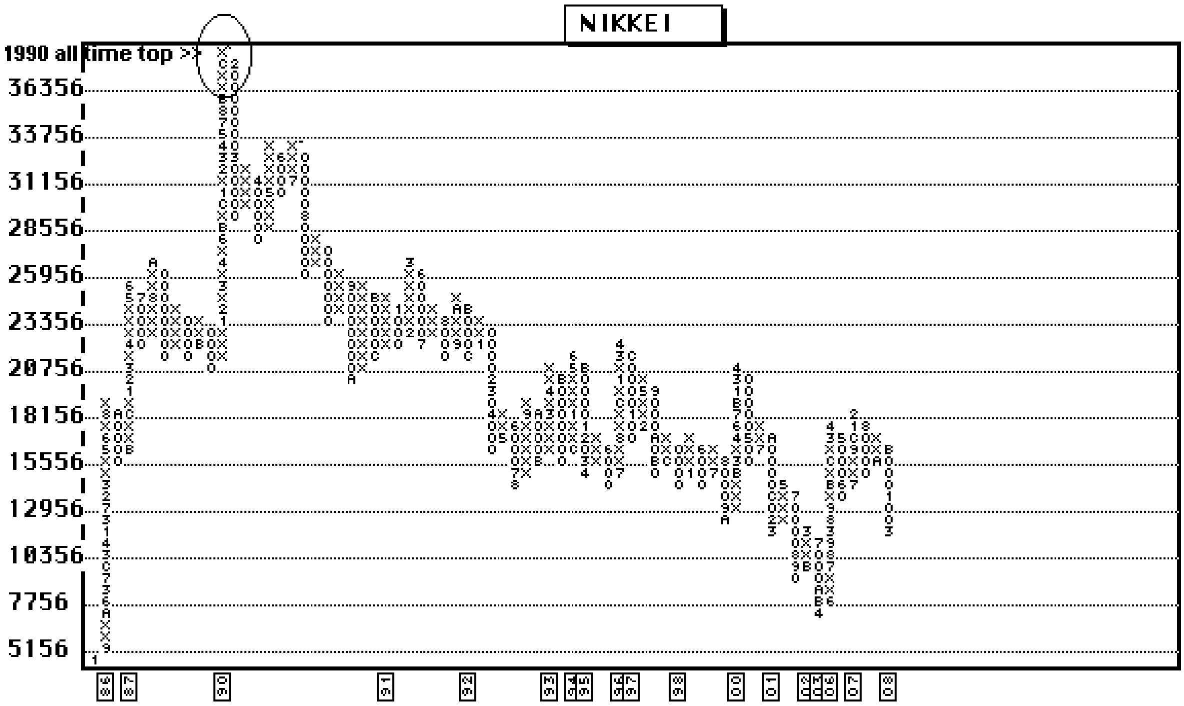
1929 crash of Wall Street in fact originated in London. Likewise, the crash of the Far East markets can originate in Wall Street. (Price/earning levels of the Far East stock markets are extremely high compared to the American and the European one).



In all cases, I get vertigo looking at the chart of the indexes of the Far Eastern markets. They have already come down, but still look dangerously high. I have my reservations about those investment advisors and bankers screaming India, China and the Far East. These markets all look extremely promising; however the Far West was not conquered without a lot of drama.

China's inflation is now spilling over into its export sector and threatens both internal unrest and a hit on their exports and growth. PLUS, come Olympics time, there is going to be a huge gap internationally in goods shipped as the country shuts down for a month. Huge contractionary shock.

The Japanese stock market is still in a secular downtrend and the Chinese coming down. The enormous secular uptrend has to be removed from the Shanghai Chart in order to get it decently in this newsletter.



<u>Conclusion:</u> Use the bear market rally that started on April 1st to modify the structure of your portfolio.

Following gives an idea of the market's incorrect pulse. If the markets REALLY go into a renewed secular bull trend from present level, it will be as a result of the Zimbabwe virus. In other words, because fiat money is rapidly becoming worthless and people favor stocks to printed paper (at least in Zimbabwe, Mugabe had the decency not to print the words "in God we trust" on the Zimdollar):

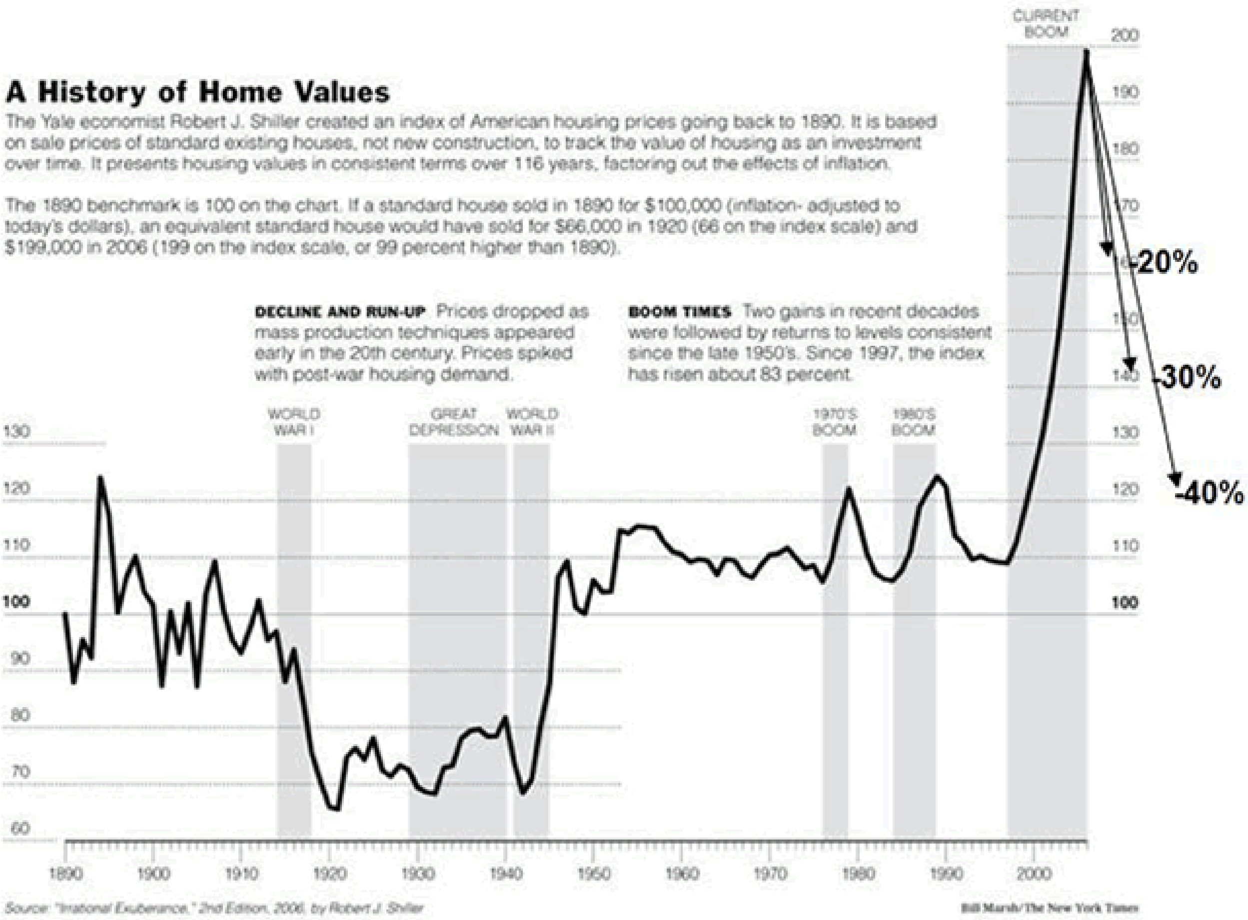
Stunning technical action today for stock markets in Europe and the Americas - Today's action validates bullish sentiment indicators and reaffirms support from the January and March lows for stock market indices. Increasingly, the ranging chart patterns that we see look like base formation development prior to upside trending action. Inevitably some will recover more quickly than others.

USA (Transportation) - Note the upward dynamics since 23rd January. There is some lateral and psychological resistance near 5000 but a close beneath 4590 would now be required to question current scope for sideways to higher ranging.

Banks - The January and March lows continue to hold and today's upward dynamic is consistent with support building. However, until this underperformer becomes an outperformer, upside progress on Wall Street will be characterized by more sideways than higher trending action.

Inflation 1923-24: A German woman feeding a stove with currency notes, which burn longer than the amount of firewood they can buy.

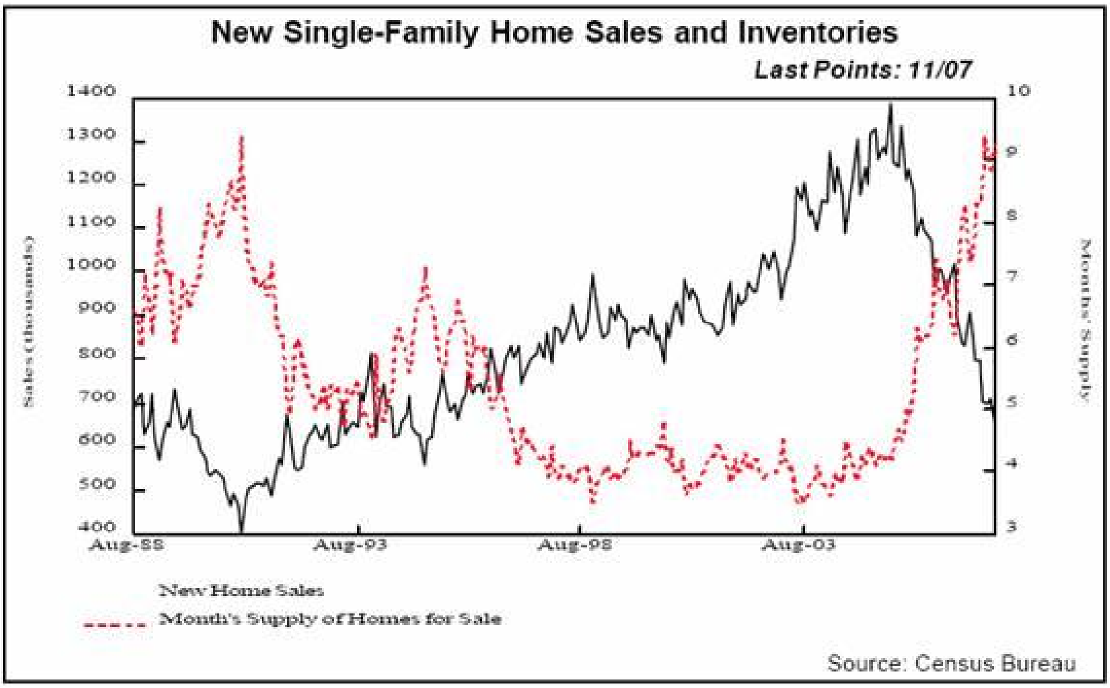
V. THE DEFLATING REAL ESTATE BUBBLES



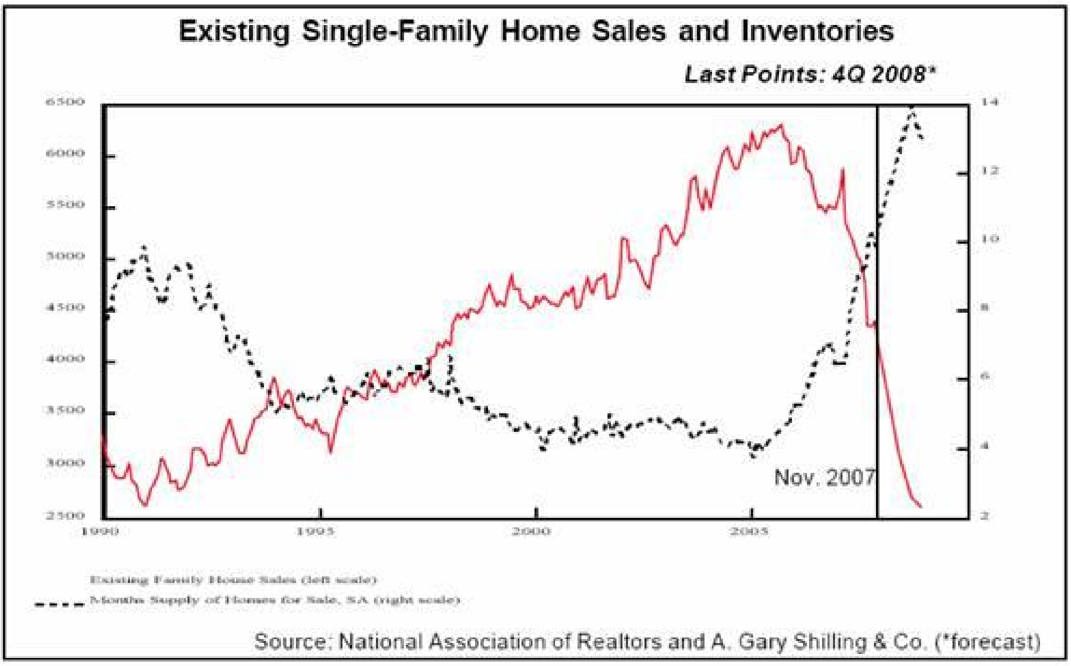
Massive oversupply, raising interest rates, hyperinflation, the credit squeeze, expensive energy, low and negative savings rate, and an inversed age pyramid are all forces that are pulling the Real Estate market down.

1. USA:

Notice that the inventory of new homes is continuing to rise. Also, that new home sales have not fallen to the level of 1991. There is still significant potential downside for new home sales. Separate work by Shilling suggests that some 2,000,000 excess homes have been built over the past decade.



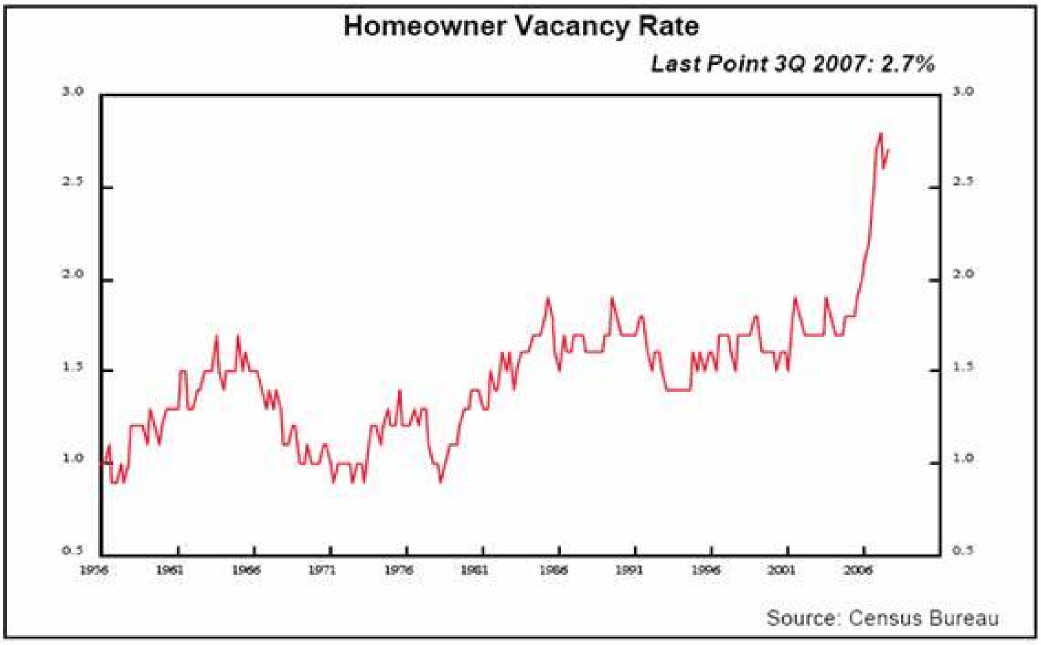
These have been bought by speculators and people who we are now discovering they cannot afford to make the payments on the homes. Low rates, rising prices, and reckless lending standards spurred an irrational rush into housing speculation, and sent the wrong signals to builders, who responded by overbuilding.



Shilling projects housing prices to drop by about 25%. And remember, that is a national average. Some areas in California, Nevada, and Florida where speculation was particularly rampant could see drops of up to 50%. A rule of thumb is that the price of Real Estate must fall till the purchase price equals 100 times the average rent.

The life cycle of a small home

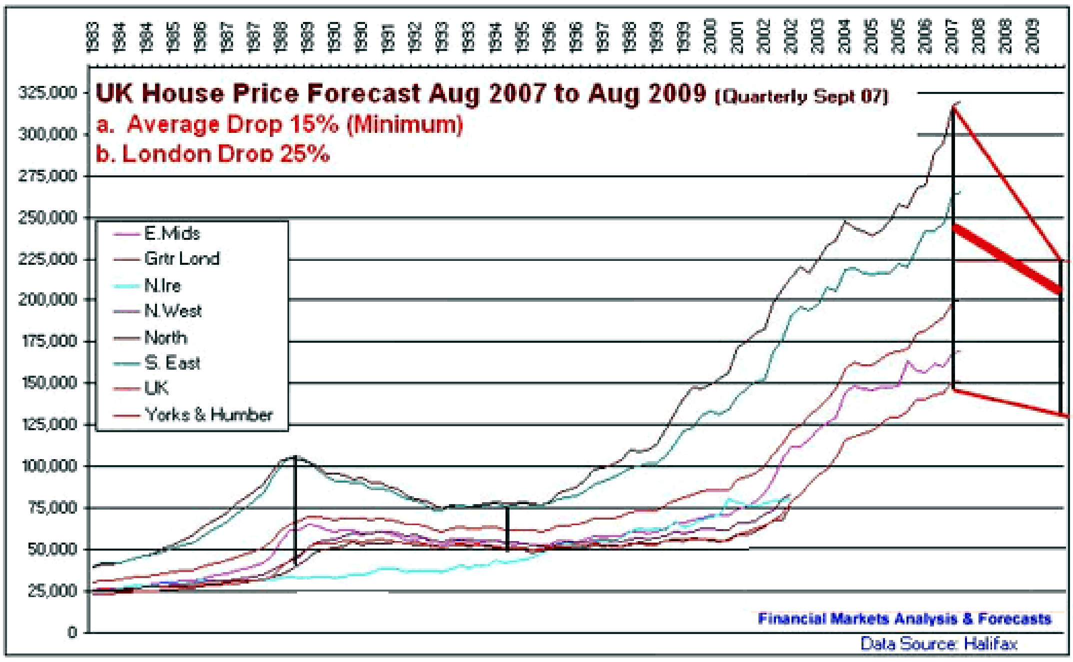
July 1994: a couple purchases the home for $230,000, borrowing $218,000 at 6.75% from Jon Douglas finance.
March 2003: They refinance. Borrowing $313,000 from Downey savings and Loan at an adjustable rate of 3.5%
July 2005: They sell to a flipper for $815,000. He borrows $570,000 from loan center of California at 6.75% and an additional $244,000 from the same lender (piggyback loan) from the same lender. He spends $115,000 on remodeling.
March 2006: The house is sold for $1.29 million. The Buyer borrows just over $1 million form First Franklin, now a unit of Merrill Lynch at 7.5% and an additional $259,000 from the same source. (Obviously Merrill used their securitization arm to package and sell the loans to gullible investors)
August 2006: On behalf of mortgage investors (holders of the CMO's). The house is foreclosed on. It is listed by RE/Max at $900,000. Broker Kenneth Davis says an offer has been accepted at "close to asking". Thanks Dennis.
Think of it, a small home for a million dollars, up 400% in ten years, it has a long way to fall, even after this most recent pullback



One last chart: vacant properties are at an all-time high. Speculators who bought homes to flip are now in a cash crunch. They can either rent at a loss, or see their homes foreclosed. This is going to create a real oversupply of homes for at least several years.

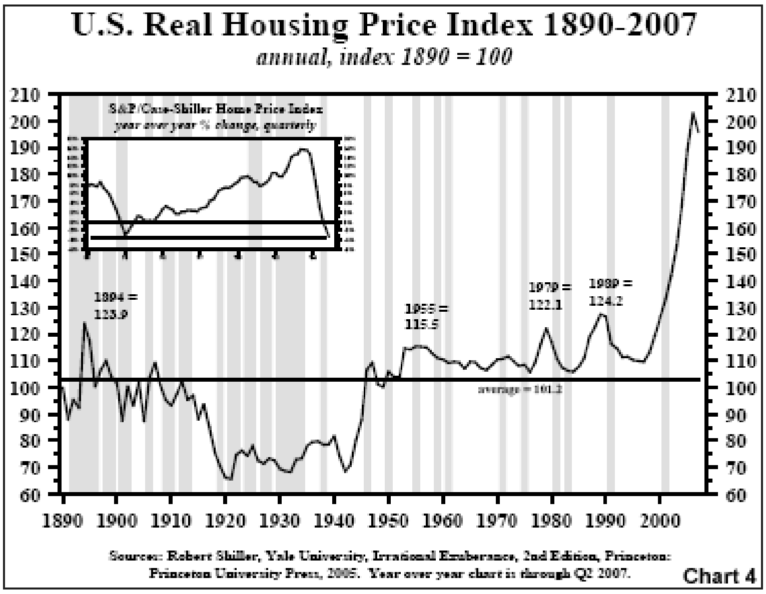
2. UK:

Apart of Northern Rock being nationalized (the wet dream of each politician) under the cover of a win-win situation of restoring the public's trust into the banking system, Real Estate starts to rock down. Even London where the city traditionally outperformed is affected. Because of the Credit Crunch, the banking system is off laying thousand of employees. Today, one sees "For Rent" signs all over the City.



The repossessions (foreclosures) are already hitting the likes of Northern Rock with expectations of a tripling in the rate over the next 6 months as compared with the same period last year. This surge in repossessions will impact the earnings of the UK Mortgage banks as they make every larger bad debt provisions and issue profit warnings.

Note that in the UK, more than 90% of ALL mortgages are adjustable rate or floating rate mortgages.



3. Spain:

35 % fall in construction rate confirmed in the province of Andalusia. This confirms a tendency observed during the previous two years. Official figures for Torremolinos are -74%, and for Estepona -73 %, Manilva – 85 %. Official Spanish figures still pretend incorrectly that the price of Real Estate is still rising whereas some research clearly shows the opposite. Real Estate activity has simply completely dried up. A couple of months ago, realtors like Viva Estates have closed down 5 of their offices and one of the major builders has fired 900 workers. This year, mortgage readjustments are to kick in and increase drastically the monthly payments for a lot of people which already bought their roof at an over inflated price. Builders and promoters sold 50 Square meter flats at prices as high as € 200,000!?

Cost of living on the Costa del Sol has become higher then in Germany, Austria and the Netherlands. In the past each similar economic disparity was compensated by a devaluation of the Spanish peseta. With the instauration of the Euro this has become impossible. Hence, this imbalance will be compensated in a different way: by a recession and by a depression. The stubbornness of the Spanish people (they traditionally believe that the Real Estate trees grow all the way into heaven and disbelief that a correction is due) will delay and worsen the corrective process. However, we have come to a point where the Spanish at least admit that prices start stop rising and are falling.

Additionally, although the Spanish national bank issued several warnings against during the last couple of years "The Treasury situation" of banks has become dangerously overexposed to Real Estate (up to 70%).

Spending slump on the Costa del Sol:

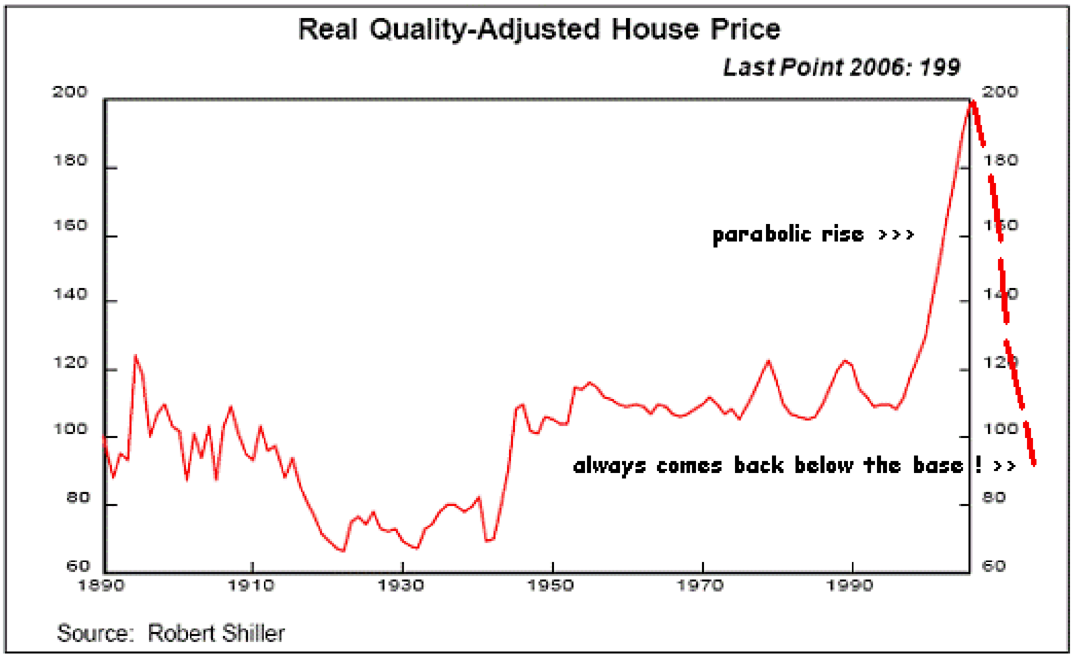
It was last year that the industry noticed a slump in spending for the first time since 2003. The average spending per tourist per day in 2006 was 36.51 euros, compared to the 37.17 of 2005.

"There are a lot of people on the beaches but not in the restaurants, except for Saturday and Sunday", confirms Arrabal, who adds: "We daren't put our prices up even though we have to pay more".

According to the Costa del Sol Tourism Observatory, tourists who spend less are those who have a second home here (29.33 euros per day). However more and more hotel guests are finding cheaper solutions. One of these, for example, is to book an "all inclusive" holiday so they don't have to spend anything in bars and restaurants, or at least to go "half board", a small snack being sufficient to keep them going between their hotel breakfast and dinner.

As Marbella tourist Manoli Arias points out: "With the peseta we came here for our holidays and could afford to do much more. Now everything is so much more expensive."

Chart 2



4. France and Belgium:

Keep in mind that for Government, Real Estate is an extremely easy tool for taxation: it is difficult and most of the time impossible to move and is visible to all. It is such an easy tool that Napoleon used it to guarantee his 'Assignats'. We have come to a point where the fact that each Belgian is born with a brick in his hand, could now well become a disadvantage instead of an advantage!

The IMF just published a report showing that the price level of Real Estate in Belgium is 17 % higher than the level of RE in the US and A. Also, recently, new tax legislation was passed seriously adjusting the tax level on all purchases. Combined with the inverted age pyramid, this spells not a lot of glory.
It is estimated that for 2008 Belgian government will, as a direct consequence of the economic recession, see a € 900 million windfall of tax income. Tax income that will need to be compensated in another way!

5. South Africa, Eastern Europe and the Western world:

Important to know is the Real Estate sucks 'ALL OVER THE WORLD' and there is no such a thing as 'A SPECIAL SITUATION' (I have heard this argument over and over again. It is simply used by stubborn people that have an extremely limited vision). Where ever I go, from Morocco to Cape Town, from New Foundland over Manhattan to Caracas; the picture is exactly the same: it is a market in crisis! The 75 year secular bull market has become a Secular Bear Market. A lot of people are in a state of denial because they have never seen it occur.

The Credit Crunch is universal, so was the misallocation of funds and so will be the adjustment. A Real Estate cycle takes 75 years. Therefore, for most of us, the present one will be a unique experience.

Important legal message enforced by the bankers lobby some years ago:

Note:

A. The newsletter:

Is published 6 times per year. The content of each publication is function of the prevailing market conditions and can sometimes be a repetition of a former one. The publication of a new letter can be postponed insofar no important changes occurred or are to be expected. The newsletter is electronic and emailed. Under certain conditions a hard copy is to be mailed by post.

The annual subscription price for the newsletter is calculated in function of the current price of 1 troy onz. of Gold expressed in €uro. As of January 2008, it amounts to € 570 =

B. Personal consultations fees:

For each 1st appointment:

* 1 troy onz. of gold + 1 troy onz. for each additional fraction over 30 minutes.

Portfolio Analysis:

* Pro rata according to time and research requested with a minimum of 2 troy onz.

Portfolio Management:

* Pro rata the size and versatility of the portfolio with a minimum of 4 troy onz. of gold per annum (payable in advance).
* An additional 5 % of the yearly growth at the end of each operational year

Financial/Technical analysis Seminar:

Price on request

VI. INVESTMENT ADVICE

Don't expect the inflation to come down because the economy comes down!

FOR THE NEXT SEVERAL YEARS: AVOID LEVERAGED ASSET CLASSES and HOCG (high order capital goods)!

- Financial stocks, including stock brokers, banks, mortgage lenders, insurance companies, and real estate.
- Highly leveraged businesses, and companies who grow by acquisition.
- Avoid leveraged markets which are tied to leveraged economies that must borrow to grow. For example, the U.S. and Europe plus other countries with balance of trade deficits and balance of payments deficits.

FAVOR UNLEVERED, SELF FINANCING MARKETS, ECONOMIES AND COMPANIES and LOCG (low order consumer goods)

Favor countries and industries which generate cash internally without borrowing a great deal.

Gold, silver, agriculture and energy related stocks and base metals are getting a correction. We plan to use declines to add to positions.

2009 to 2012 the coming storm and Oil will probably trigger the financial mechanism into the final faze!

__Oil Crisis:__ Starting in 2009 we will run into an oil crisis where the past ones will look like a walk in the park by! Peak oil will lead to skyrocketing oil prices, shortages and geopolitical tensions. The actual price rise times 5 (from $ 20 to $ 100) still has to work its way through the economy.

Liquid fuel problems are not understood neither by the media nor the politicians. These guys still think one can make a plane fly using solar energy. Ethanol is another aberration. If these idiots continue to favor the green energy, in 2 years time from now, we will have to choose between eating and driving!

Retirement plans: What worked for your father is not going to work for you!

Buy:

- Hybrid cars, low fuel and energy consumption cars.
- Alternate energy: solar, wind
- Buy only oil reserves that cannot be nationalized: Canada, USA

- Commodities: we now live a secular bull trend for Commodities. Each secular bull trend has 3 sub cycles:

1st Faze: Accumulation by Smart Money; a shift from the 1st to the 2nd faze is confirmed by a price reaction. This is what the markets live right now!
2nd Faze: Institutional acceptance; investors start to recognize the bull market and now also start to accumulate. A price reaction will in due time confirm the shift to the 3rd faze.
3rd Faze: Public acceptance and the most explosive price rise.

Gold, Silver, oil and some other commodities are having the spring flu. The actual reaction has in fact to be seen as a SALES PERIOD and is to be used to accumulate positions.

Sell: Most stock markets are about to confirm their Secular Bear Market

I expect the engineered bottom (by the PPT) to give birth to a 3 to 4 month bear market rally, possibly all the way into the summer. However, bearing in mind the fragility of the market and further potential accidents, I am not prepared to take the risk to accumulate short term positions. I positively advice to SELL in MAY and to STAY away! See the list for advised shot positions. However, be aware that your counter party is the PPT!

Our portfolio as of April 1st

Oil and liquid energy related (oil reserves of a lot of integrated oil companies are still valued at $ 40 per barrel):

Name	Symbol	Price April 1st	Fib. Buy 38,2 %	Objective
Baker Hughes	BHI	$ 63	$ 60	
BP	BP	$ 60	$ 60	
Conoco	COP	$ 76	$ 76	
Diamond offs	DO	$ 112	$ 112	
Exxon	XOM	$ 87	$ 88	
Imperial Oil	IMO	$ 50	$ 55	
Marathon oil	MRO	$ 45	$ 45	
Nabors	NBR	$ 34		
Occidental	OXY	$ 75		
Schlumberger	SLB	$ 89	$ 80	
Smith int.	SII	$ 65		
Total	TOT	$ 75		
Transocean.	RIG	$ 138		
Noble drilling	NE	$ 50		

Gold and Silver related:

Name	Symbol	April 1st	Buy limit	Objective
Anglo American	AAUK	$ 30		
ASA	ASA	$ 80		
Agnico Eagle	AEM	$ 70		
Barrick	ABX	$ 45		
Coeur d'Alene	CDE	$ 4		
Goldcorp	GG	$ 40		
Goldfields	GFI	$ 14		
Harmony	HMY	$ 12		
Durban Roodepoort	DROOY	$ 9		
Kinross	KGC	$ 20		

Pan American silver	PAAS	$ 40		
Hecla mining	HL	$ 10		
Yamana gold	AUY	$ 15		
Kimber resources	KBX	$ 1 1/2		
Eldorado Gold	EGO	$ 7		
Miranda gold	MRDDF	$ 0,65		
Silver	$SILVER	$ 16		$ 50
Gold	$GOLD	$ 900		$ 2.600

Miscellaneous:

Name	Symbol	April 1st	Buy limit	Objective
Arcellor Mittal	MT	$ 80	Stop buy	
US-steel	X	$ 130	Stop buy $ 125	
General Electric	GE	$ 38		
Halliburton	HAL	$ 40		

Warrants:

Name	Symbol	April 1st	Buy limit	Objective
Gold C1100 dec. 09		0,85		

Short candidates:

Name	Symbol	April 1st	limit	Objective
Apple	AAPL	$ 150	Short @ $ 160	
Best buy	BBY	$ 42	Short @ $ 43	
Lowes	LOW	$ 24	Short @ $ 26	
Starbux	SBUX	$ 18	Short @ $ 18	
Macy's	M	$ 22	Short @ $ 25	
Merck	MRK	$ 37	Short @ $ 40	

Bank of America	BAC	$ 40	Short @ $ 40
Bank of New York	BK		Short @ $ 41
Chase	CCF		Short @ $ 20
Lehman bros	LEH		Short @ $ 42
Morgan Stanley	MS		Short @ $ 50
Progressive	PGR	$ 17	Short @ $ 17