PASCAS FINANCE

HOUSING BUBBLES

Housing crisis recovery has broken down again

"Peace And Spirit Creating Alternate Solutions"

PASCAS FOUNDATION (Aust) Ltd
ABN 23 133 271 593
Em: info@pascasworldcare.com
Em: info@pascashealth.com
Pascas Foundation is a not for profit organisation
Queensland, Australia
www.pascasworldcare.com www.pascashealth.com

PROPERTY FACES SILENT CRASH

Story: Ben Power P.30 Charter September 2011

Is the property bubble in Australia about to burst? While overseas observers warn of problems, local experts are more sanguine.

A debate is raging as to whether Australia's housing market is a bubble about to burst. The debate, which has split the property industry, has been triggered by price falls in most capital cities. The falls have raised the question – is this the start of something bigger?

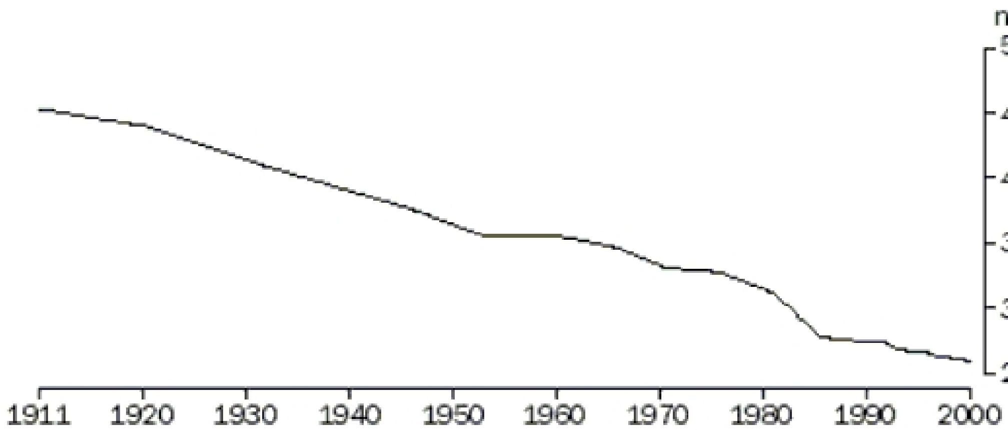
Some say the market is up to 40% too high and could plummet if the Reserve Bank of Australia hikes rates steeply or the commodities boom ends. Others say the market is fairly valued and China and population growth have created unprecedented prosperity, meaning another leg-up in prices looms.

Note: Australia's commodities boom is driven by China's exports to USA – see following article.

To Lawrence Roberts, a US-based real estate blogger, investor and author of *The Great Housing Bubble*, such a debate is nothing new. He was one of the few who predicted the housing crash in the US, which has seen house price declines of 30%. Prices there are still falling. "The parallels between the debates in Australia and the debates here in the United States are remarkable," he says. "Everyone here in the US was in denial because so many people were benefiting from the run-up in prices that nobody wanted to see the truth."

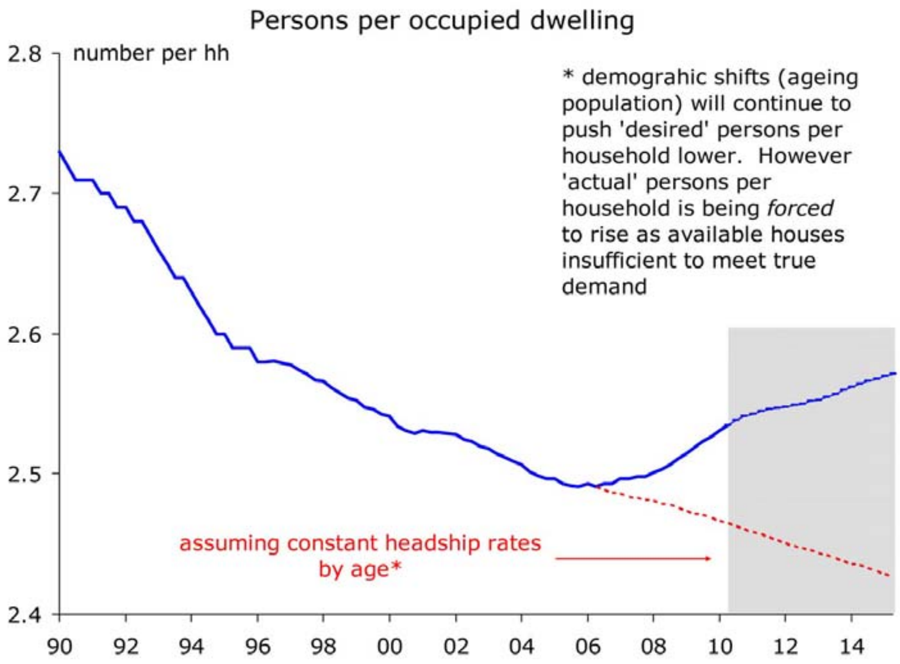
At the very least, overvaluation means that Australian property is unlikely to be a good investment for years to come.

Persons per household, in recent months, has started to trend upwards:



This adjustment reduces the need for existing and additional housing.

Roberts says from what he has seen and heard, price-to-income and the price-to-rent multiples in Australia are far outside historic norms. Other outside observers, including US investor Jeremy Grantham, have argued Australia's housing market is a bubble. But many local analysts say if you factor in low unemployment, the impact of a second commodities boom and interest rates being at reasonable levels, it means housing is not overvalued.



STRONG FUNDAMENTALS

There is no doubt that fundamentals remain strong in Australia. But it is difficult to avoid the cold hard fact – Australia's house prices are significantly overvalued. While the strength of our economy may prevent a nightmare crash scenario with steep falls, there is the likelihood of a second more insidious longer-term event: a silent crash where prices stagnate for years while inflation slowly erodes the value of Australians' homes. It happened in Sydney from 2004 to 2009 where prices flat-lined, but in real terms (which factors in how inflation eats away the value of money) prices slumped as much as 15%.

A period of long stagnation "is a possible scenario," says Angie Zigomanis, senior project manager at BIS Shrapnel. "There could be declines or an extended period of stagnating prices where they drift for a while or fall by a few per cent here or there and in real terms prices drop."

At the very least, overvaluation means that Australian property is unlikely to be a good investment for years to come. Some advise home owners to take the radical step of selling their house and renting, others caution against taking on too much exposure to property.

Australia has not been immune from property crashes in its short history. "It has happened a number of time," says Louis Christopher, who runs independent property advisory and forecaster SQM Research. He says the first major crash was in the 1890s when there was a major bubble and a major bust. There was another slump in the Great Depression in the early 1930s when house prices fell around 30%. A mini housing crash in Sydney in the early 1940s followed, amid concern about war damage and invasion.

But while many housing markets around the world posted steep falls or crashed after the Global Financial Crisis (GFC) and have since remained weak, Australia's residential markets have bounced back strongly. From 2002 to the end of 2008 house prices surged 74%, according to the Australian Bureau of Statistics (ABS). They weakened from December 2008 to September 2009, then rebounded – rising 20% to the December quarter of 2010 – on the back of a boost to the first home buyers grant and interest rate cuts. House prices have now almost doubled since 2002.

Chief economist at Morgan Stanley, Gerard Minack, thinks Australia's housing is significantly overvalued and is forecasting prices to fall 5% in 2011 and be negative to flat in 2012. He says Australia avoided a crash because we didn't experience broad-based job losses. "We also still have a bullish mentality," he says. "When rates were cut and the government offered the first home buyers grant, rather than popping, the bubble inflated".

Australia didn't suffer from the complete abandonment of lending standards that happened in the US, but Minack says housing bulls incorrectly set up the US as a straw man. "They say, 'we're not the US'," he says. "There are important differences but the fact is this was a global housing bubble and the bubble has burst in a whole range of economies, many who share the same characteristics as ours. What most people think about here is the place is different, that somehow the rules of overvalued assets and basic commonsense for whatever reason don't apply to Australia and I just think that's wrong."

CLASSIC SIGNS

US-based Roberts agrees that talk of a new paradigm and 'it's different this time' are classic signs of a bubble. He says when reading about Australia's housing market he sees news stories contain the same denials that were common in the US as the market topped. "When time-tested methods of valuation no longer work, rather than accept the obvious fact that prices are in a bubble, market watchers make up new valuation metrics which ultimately turn out to be completely wrong," he says.

This goes to the heart of the matter: are Australia's houses wildly overvalued?

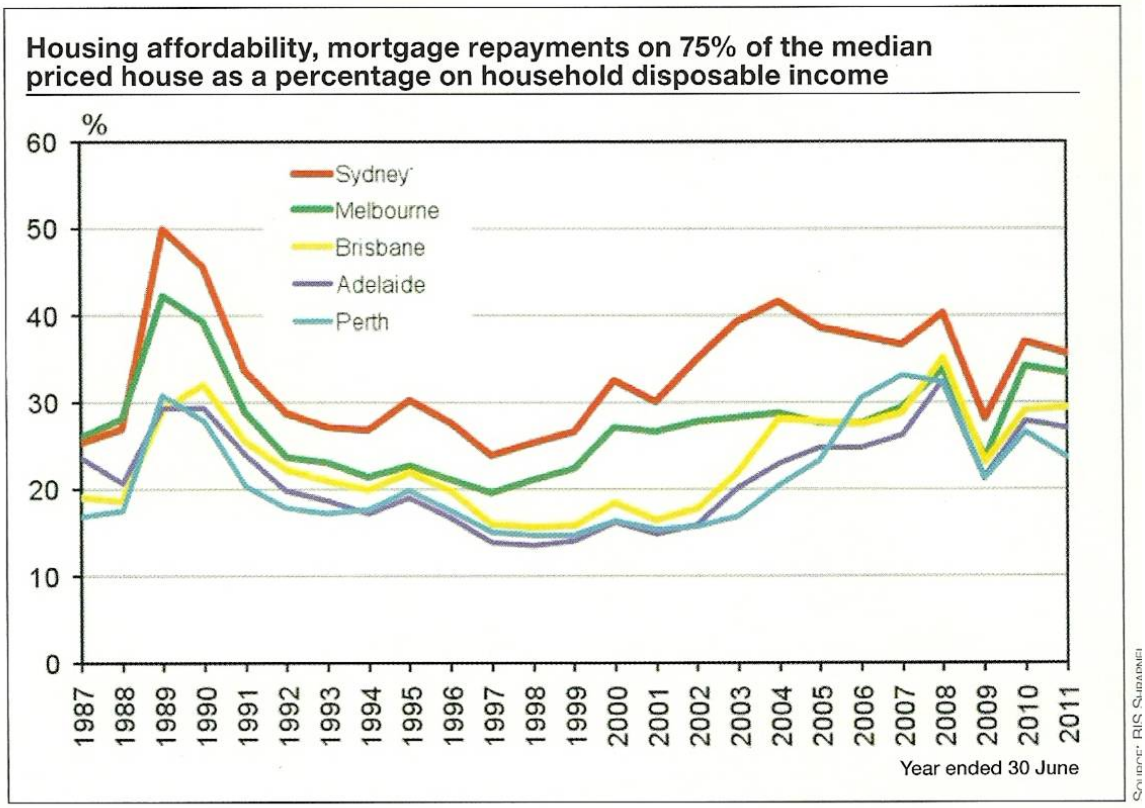
"The metrics I look at all send a similar signal – prices are 30% to 40% above the long-run average," Minack says. "The metrics include average house prices to GDP (Gross Domestic Product), per capita value of the total housing stock to total household income and rents relative to prices – the reverse rental yield."

Minack says that looking at key metrics also undercuts the argument that Australia's inflated house values are justified by recent economic factors such as population growth and the commodities boom. "Importantly for me, all the measures suggest the real period of overvaluation started in the late '90s and early noughties (2000 – 2010)," he says. "That's important because the counter-argument is we have expensive houses because of population growth or because we have large houses or the last refuge of the scoundrel – that we all live in coastal cities and coastal cities tend to be expensive. But they don't explain why prices went up so much in the late '90s and early noughties."

Minack says the bullish argument struggles to explain why Australia's second-most expensive city is Canberra, a land-locked city and why Sydney, the city where most immigrants moved and which has the most constrained supply, was the worst performing city over the last decade. He says the most plausible explanation for overvaluation is the increasing willingness and ability of people to leverage up. "They were willing to leverage up because they thought house prices would always go up, which is the classic symptom of a bubble."

SQM's Christopher agree the market is overvalued in an historical sense. "It's right at the top end now relatively speaking in terms of private household debt to GDP," he says. "It's at the level that Ireland has at the moment. Fortunately we have a stronger economy and very low public debt profile, unlike Ireland."

BIS Shrapnel's Zigomanis – who is forecasting flat prices in 2011 but a bounce back in 2012 and 2013 – also says that if you look at historical measures there are affordability strains there. But he doesn't think the picture is as dire if you factor in things like interest rates. Zigomanis prefers to look at mortgage repayments on a median-priced home as a percentage of income (see BIS Shrapnel report). "If you take that as a measure, prices are more affordable than in 2008 when interest rates peaked at 9.5% and more affordable than in 1989 when interest rates peaked at 17%," he says. "There are previous times where housing has been a lot less affordable."



RENTAL PARITY

Year	House Price as Multiple of Wages p.a. – Australia
1970	3.3
1975	3.7
1980	4.0
1985	3.5
1990	4.7
1995	4.6
2000	5.6
2005	7.4

The Great Housing Bubble author Roberts believes the fundamental value of real estate is rental parity. "When people are paying more for their total cost of ownership than a comparable rental, valuations are too high," he says. "For instance, here in the United States, it was common in 2006 for people to be paying $2,000 per month in payments, taxes, insurance, etc, for a property they could rent for $1,000 per month." While falling in the past few years, Australia's house price-to-rent ratio is still significantly above average.

What is certain is that house prices have recently been falling. At the start of this year (2011), house prices weakened. According to the Australian Property Monitors, house prices fell 0.6% in the March quarter, with falls in most capital cities. Melbourne was flat and Canberra rose just 0.2%. But even those who argue our houses are significantly overvalued and in bubble territory are reluctant to say the falls signal an imminent crash.

Christopher says he is looking at the current falls as a correction rather than a crash. But he says the question is not whether we are in a bubble, but what would trigger a significant increase in the cost of debt, banks rationing access to debt, a slump in employment triggered by weakness in China and commodities and building oversupply (he says we don't have that except for pockets of south-east Queensland).

"If all those variables turned negative it would create a significant and sizeable crash in this country," Christopher says. "At the moment we don't have all factors working against us. A number are working for us. At the moment it's a correction, we don't see it as a big housing price crash."

Is there a possibility of a crash? "There is but it's limited," says Zigomanis. "At the moment economic conditions are still fairly weak. We haven't had the full kick-in effect from the upcoming resources boom. That will gain traction over the next 12 months. At the moment sentiment is till pretty weak. If the Reserve Bank of Australia (RBA) tried to pre-empt aggressively, it could hurt the market before any confidence would re-emerge."

"If you've got a big fall in commodity prices then potentially a lot of projects about to start may be put on hold or paused and some in early stages cancelled," Zigomanis adds. "That could result in a much weaker economic climate as well and weaker jobs growth. But if the economy weakens significantly the RBA has still got a significant buffer on interest rates. They could potentially go down to a point where they could kick-start the housing market again, similar to what we saw in early 2009."

Minack, despite believing the market to be significantly overvalued, also doesn't see a crash soon. He says Australia is different from other housing markets, including having floating rate mortgages and full recourse mortgages. "That matters because lower official interest rates flow quickly into mortgage rates," Minack says. "Full recourse loans means that Australia doesn't see jingle mail (keys of the house mailed to the bank) – homeowners walking away from properties because the value has fallen below the mortgage."

"That means for prices to fall back to fair value the most likely catalyst is broad-based job losses," he says. "Unless you're willing to forecast broad-based job losses, I can't see big outright declines in major metro markets. But we will see big outright declines in second homes – places two hours out of the capital cities – the most egregiously overvalued part of the market. I can see those prices halving." Minack says the government could also intervene and prop up the market again.

LOWER RETURNS

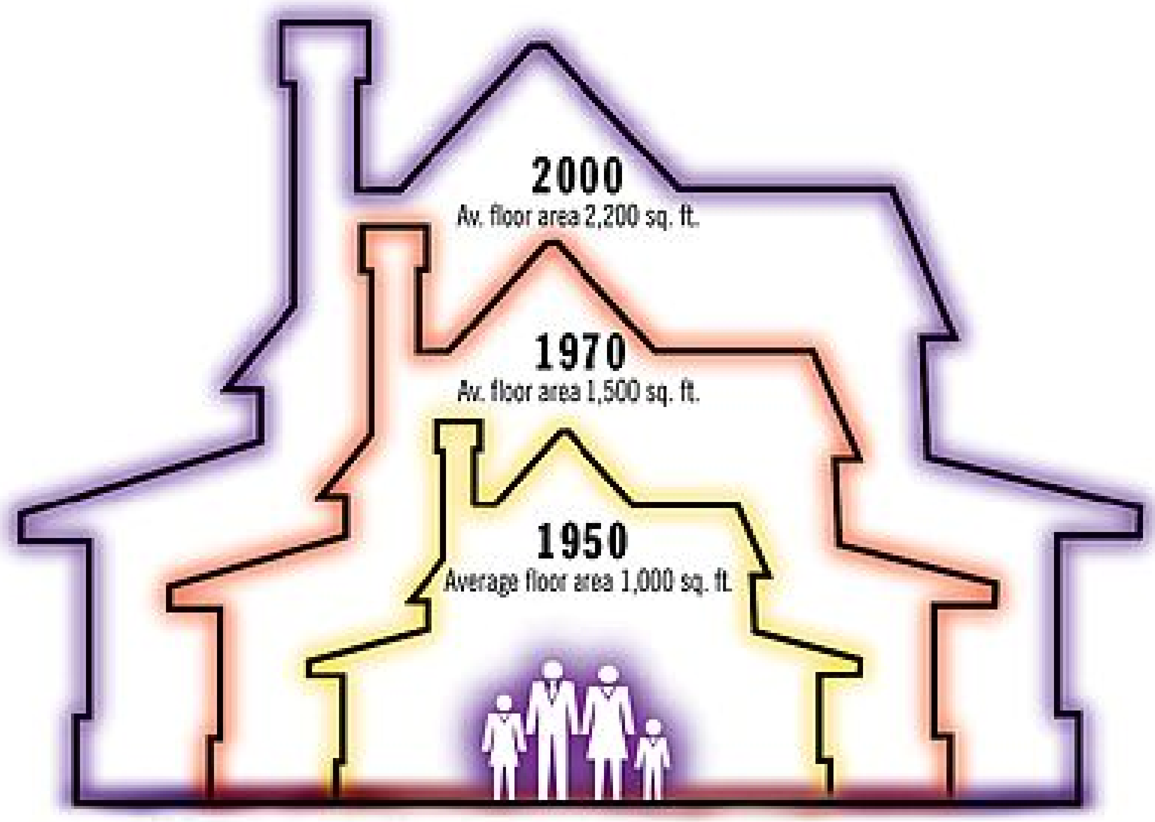
But whether the housing market does or doesn't crash doesn't mean there isn't pain in the form of lower returns from housing. Minack says that any financial asset above fair value is going to give you a terrible investment return. "We will also see very, very low nominal growth – zero in real terms – for the next five to six years," he says. "And that will get – depending on income growth and other measures – the property market back to fair value with more significant outright price declines outside the capital cities. You get more bearish if you see broad-based job losses. I do think that's a risk next year; it's a risk but not a base case."

If rates stay on hold and the global economy goes relatively well, Christopher says we will probably see falling house prices through the course of this year, with a possible bottoming in 2012. But it's what follows 2012 that is interesting. Christopher says we could then see an extended period of price stagnation on average. There is a recent precedent for this; from 2004 to 2009 house prices in Sydney stagnated. At the same time inflation was rising 3% per year. So in real terms prices slumped 15%. "It's a very likely scenario," Christopher says. "The most likely at this stage."

The danger of the silent crash is that wealth is eroded slowly but surely, limiting the popular backlash and making government intervention less likely.

Zigomanis says whatever happens he expects lower growth into the future. "In the longer run historically prices in real terms are 3% to 4% above inflation," he says, adding that has been driven by the shift from a high interest rate environment to a lower interest environment, strong population growth, strong income growth and strong productivity growth. "Those factors are no longer as prevalent," Zigomanis says. "We won't necessarily be getting strong rises in working age population, which has also helped underpin those rises. Long-term prices growth should be slightly lower in real terms than it has been historically."

The most likely scenario is low growth or stagnation and the risk of a crash if the nation's fortunes change dramatically. So what should home owners and investors do? Minack notes that housing transaction costs are incredibly high. "Houses are not things you flick around like a listed security," he says. "I think if you've got an investment property the returns are going to be terrible. Regarding the house you live in, it may make financial sense to rent rather than buy but ultimately there's a lot more than the financial aspect of owning a house."



Year	# in HH	Sq Ft	Sq Ft/Person
1950	3.38	1,000	296
1960	3.29	1,200	365
1970	3.11	1,400	450
1980	2.75	1,570	571
1990	2.63	2,080	791
2000	2.59	2,200	849
2007	2.55	2,400	941

Source: Census Bureau

AUSTRALIANS are piling on sitting rooms, family rooms, studies, media rooms and extra bedrooms at the fastest rate in the world, with the size of our homes overtaking those in the US as the world's biggest.

Average Size of New Homes Across the Globe, m

Australia	214.6
United States	201.5
New Zealand	196.2
Denmark	137.0
Greece	126.4
Belgium	119.0
Netherlands	115.5
France	112.5
Germany	109.2
Luxembourg	104.1
Spain	96.6
Austria	96.0
Ireland	87.7
Finland	87.1
Sweden	83.0
Portugal	82.2
Italy	81.5
United Kingdom	76.0

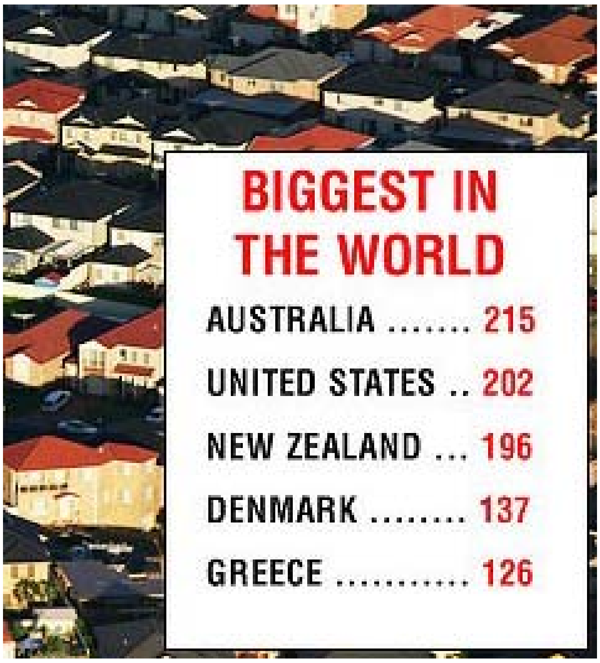
Source: Unaffordable Housing, Fables & Myths Alan W Evans & Oliver Marc Hartwich Policy Exchange 2005; US Census Bureau ABS, Statistics NZ, CommSec

The typical size of a new Australian home hit 215 square metres (2,314 square feet) in the past financial year, up 10% in a decade, according to Australian Bureau of Statistics data compiled for Commonwealth Securities.

US figures show the size of new American homes shrinking from 212 square metres before the financial crisis to 202 square metres (2,174 square feet) in September.

New homes in other parts of the world are far smaller, with Denmark the biggest in Europe at 137 square metres and Britain the smallest at 76 square metres (818 sq ft).

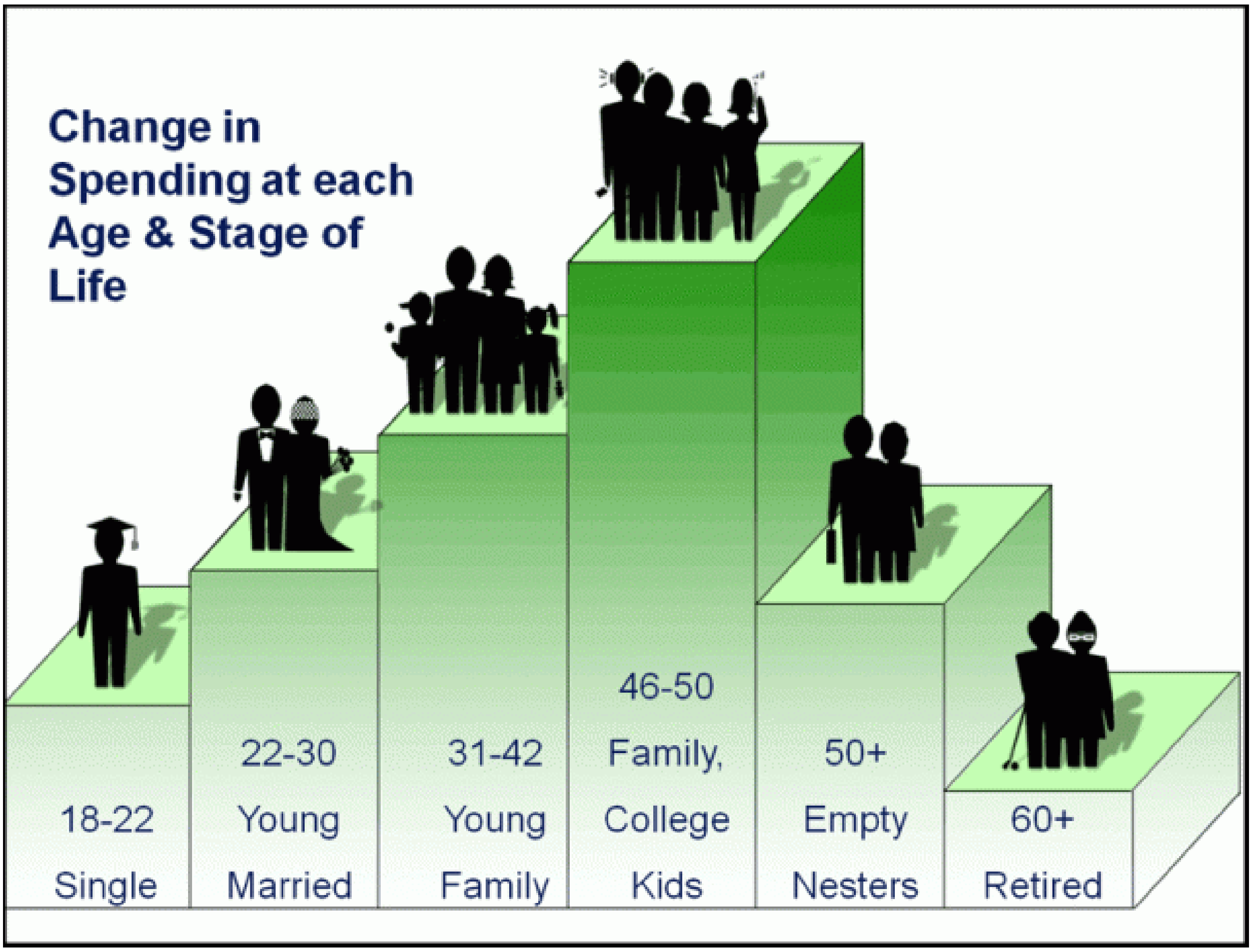
Sydney houses are by far the nation's biggest with new free-standing houses typically spanning 263 square metres – providing more than 100 square metres (1,076 sq ft) of indoor space per person.



But the high proportion of townhouses and apartments in Sydney pushes the average dwelling size down to 205 square metres, just below the Australian average and about the same as in the US.

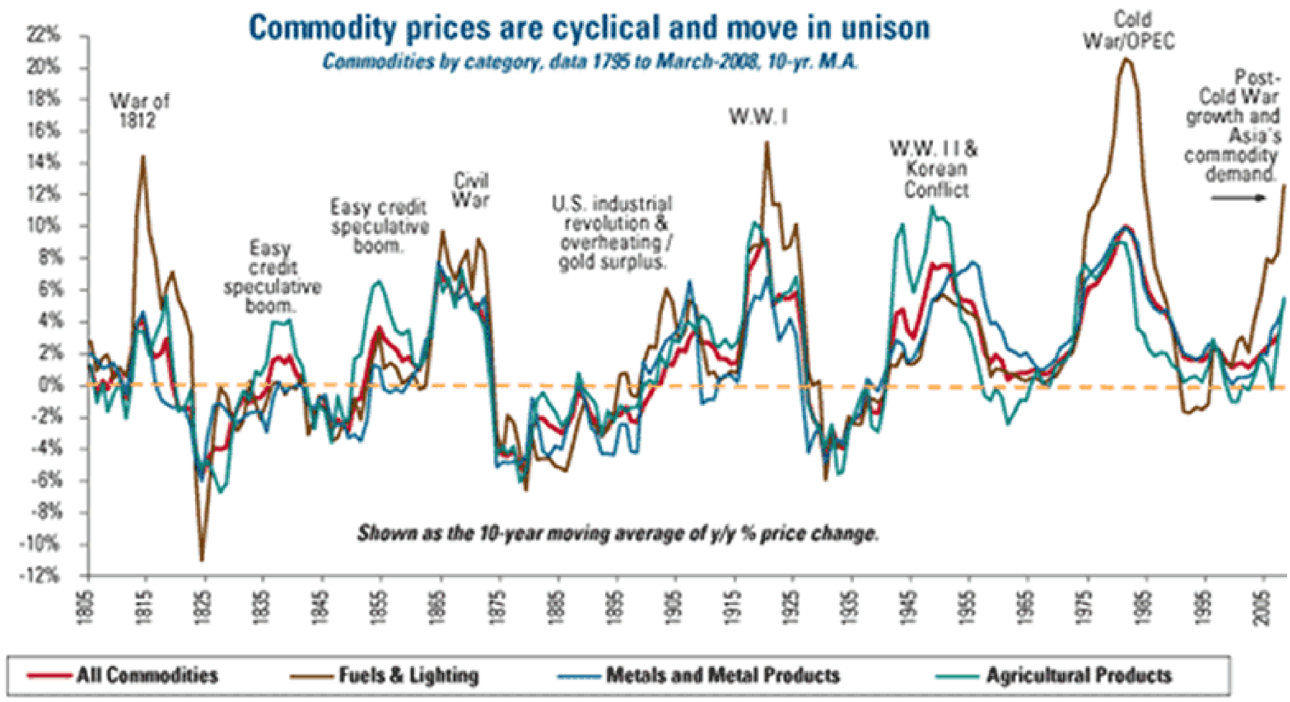
"Around 20 years ago only one in every six homes had four or more bedrooms. By 2006 it was one in every 3.5 homes."

Mr. James is encouraged by a slight increase in the number of Australians living in each home. **The average household size has crept up from 2.52 to 2.56** people in 2007-08. The key question is whether it's permanent or temporary. **If sustained, it will save us building 166,000 homes."**

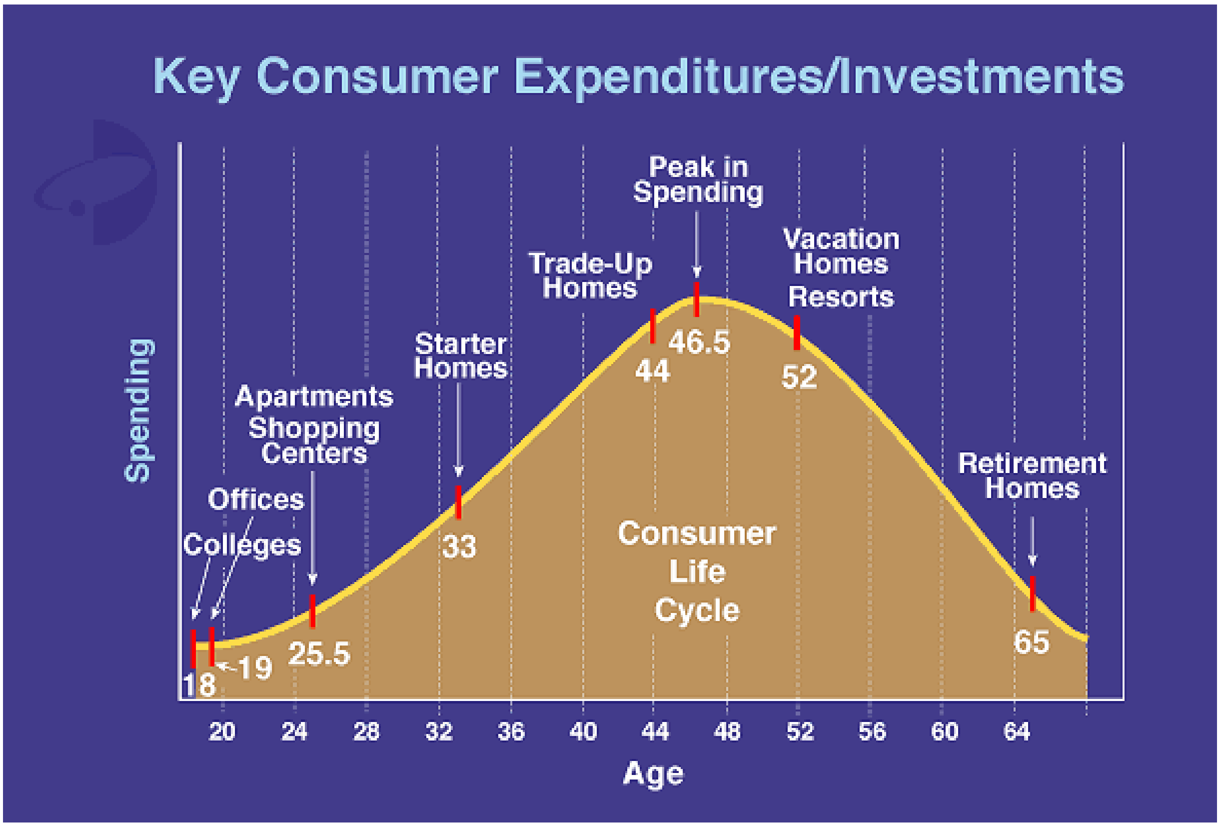

Change in
Spending at each
Age & Stage of
Life
18-22
Single
22-30
Young
Married
31-42
Young
Family
46-50
Family,
College
Kids
50+
Empty
Nesters
60+
Retired

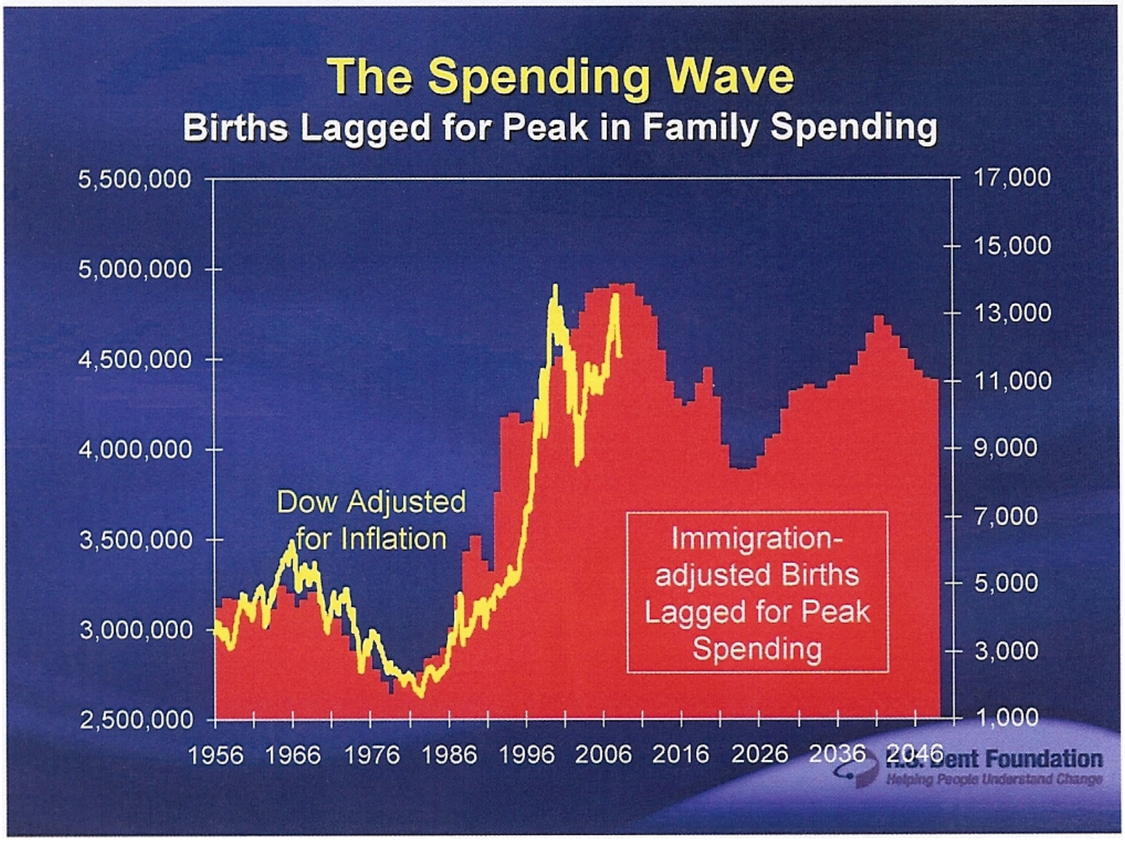
1

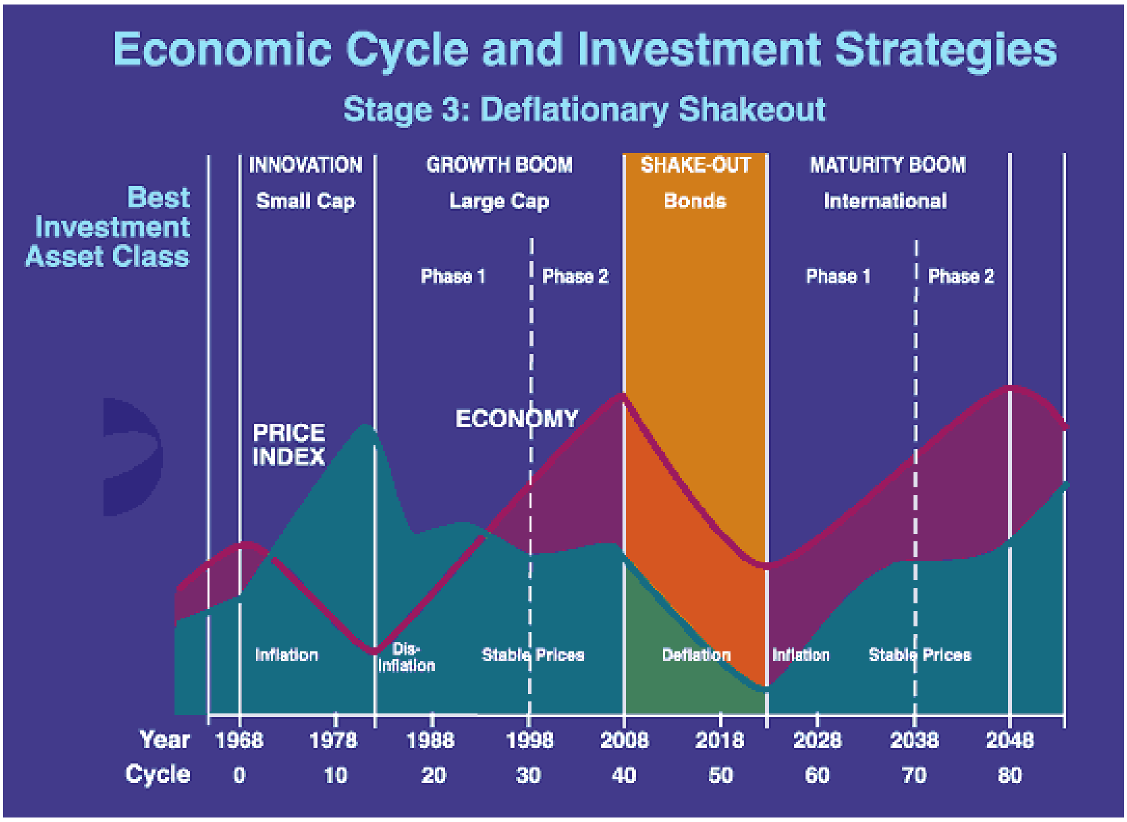

Labor Force Growth/Inflation Forecast
Annual Labor Force Growth
Annual Inflation (%)
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
18
16
14
12
10
8
6
4
2
0
-2
-4
-6
-8
-10
-12
-14
1950
1970
1990
2010
2030
74-75
80-82
90-91
86
Inflation
19 Year-Olds Minus
62 Year-Olds
on a 2-Year Lag



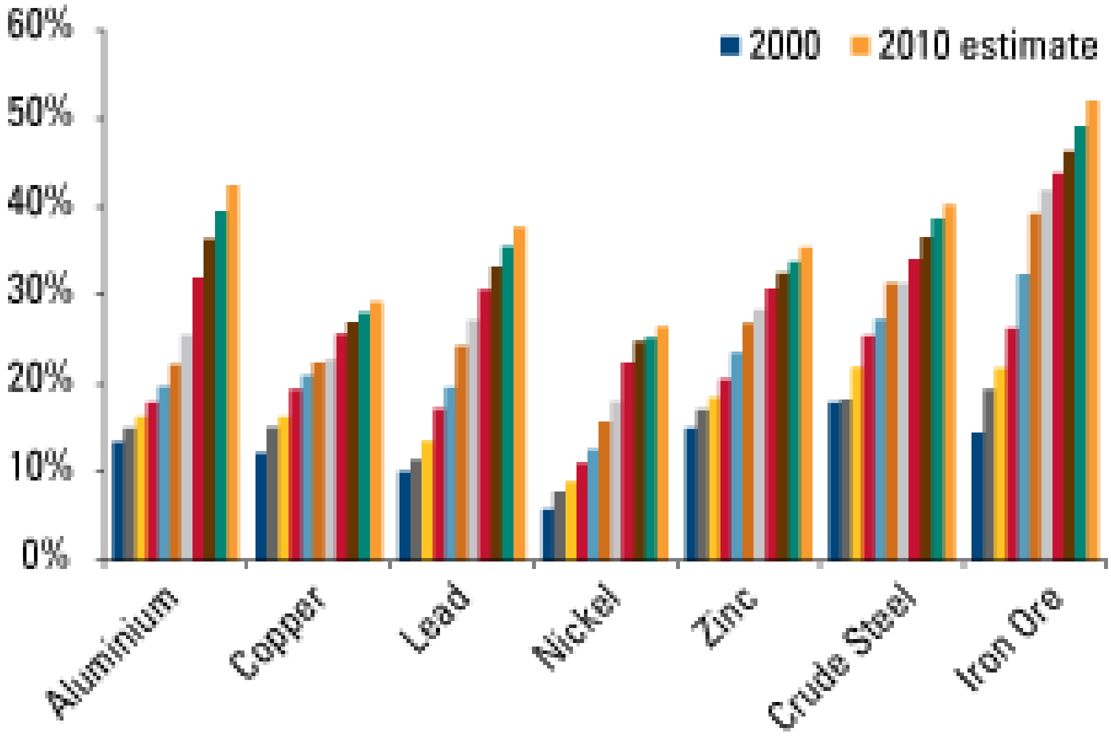
Source: Stifel Nicolaus & Co., Stifel Nicolaus format, data Historical Statistics of the United States, a U.S. Census publication, EIA, USDA. 2008E data point incorporated into the last 10-year moving average was March-2008 over March-2007.




The Spending Wave
Births Lagged for Peak in Family Spending
5,500,000
5,000,000
4,500,000
4,000,000
3,500,000
3,000,000
2,500,000
17,000
15,000
13,000
11,000
9,000
7,000
5,000
3,000
1,000
Dow Adjusted for Inflation
Immigration-adjusted Births Lagged for Peak Spending
1956 1966 1976 1986 1996 2006 2016 2026 2036 2046
H.S. Dent Foundation
Helping People Understand Change

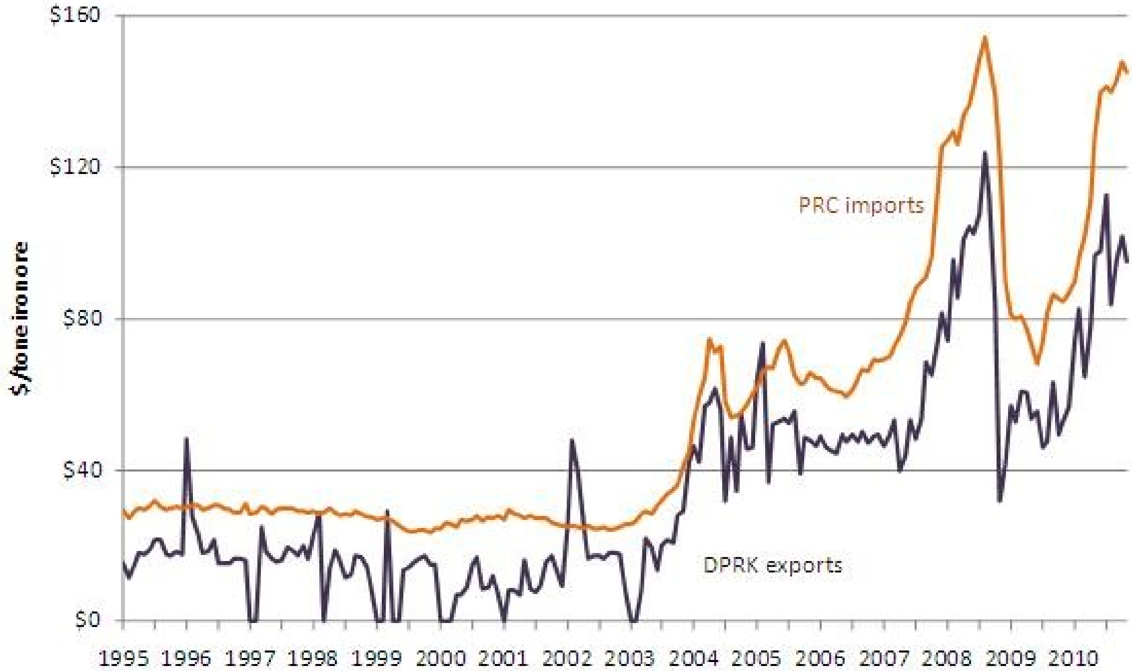

Economic Cycle and Investment Strategies
Stage 3: Deflationary Shakeout
Best Investment Asset Class
INNOVATION
Small Cap
GROWTH BOOM
Large Cap
SHAKE-OUT
Bonds
MATURITY BOOM
International
Phase 1
Phase 2
Phase 1
Phase 2
PRICE INDEX
ECONOMY
Inflation
Dis-Inflation
Stable Prices
Deflation
Inflation
Stable Prices
Year 1968 1978 1988 1998 2008 2018 2028 2038 2048
Cycle 0 10 20 30 40 50 60 70 80

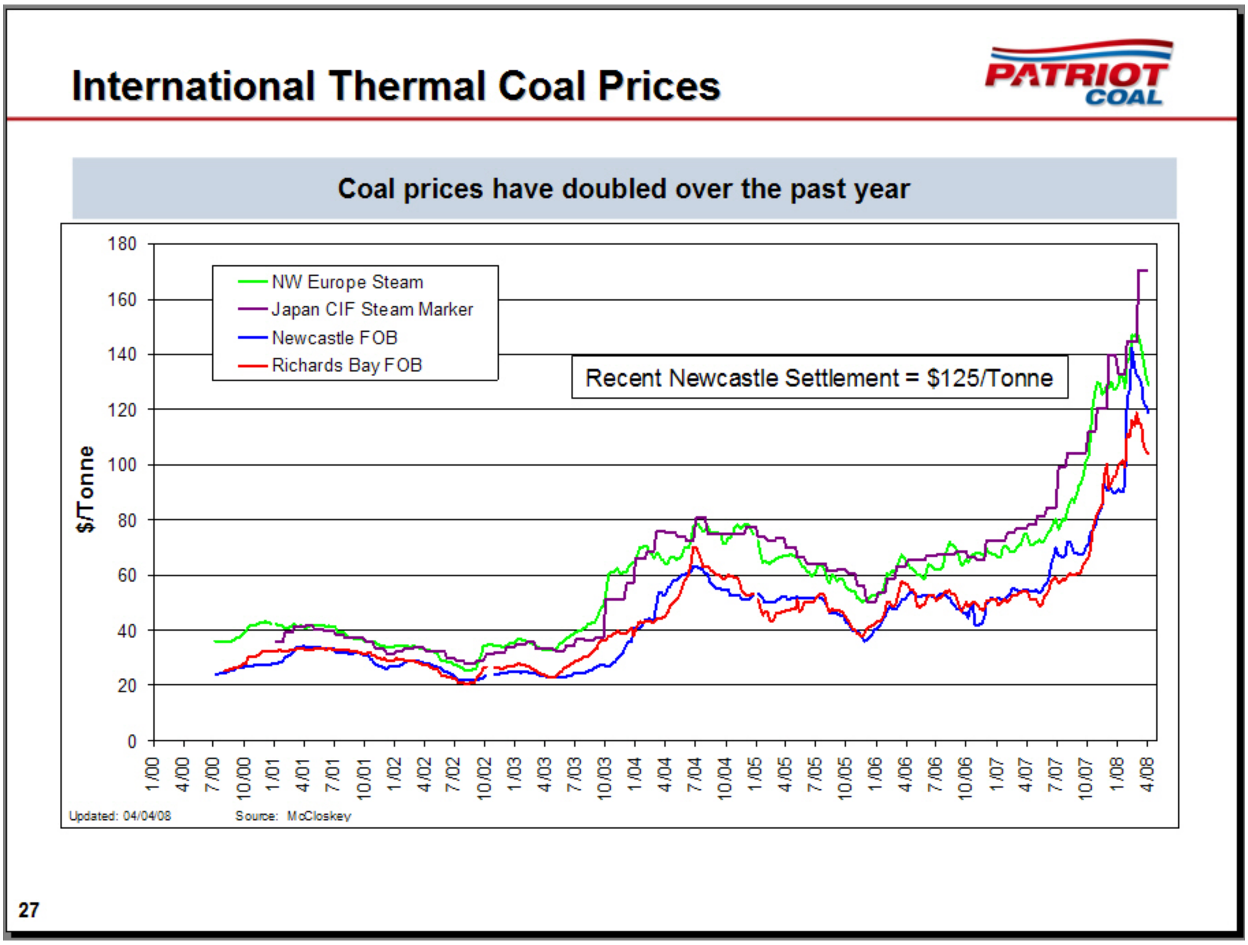
Chinese consumption as a percentage of world demand



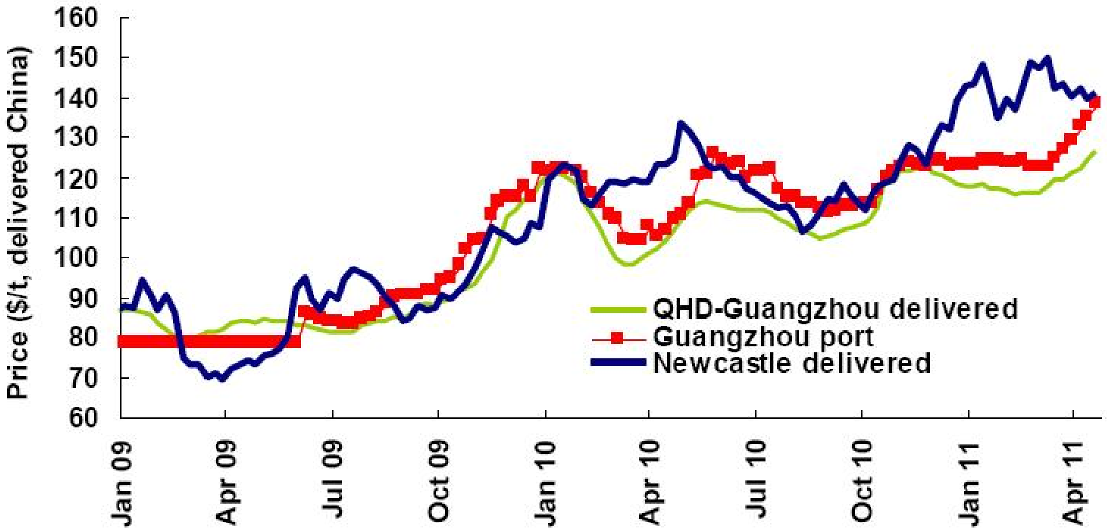
Source: Deutsche Bank, CEIC, Brook Hunt

International iron ore prices rose and became more volatile after 2007. The average price of Chinese iron ore imports rose from \$80 to \$127 per tonne between 2009 and 2010





Thermal coal prices for 5500kcal at Guangzhou port is almost flat to Newcastle imported (value adjusted)



Source: China Customs, Macquarie Research, April 2011

Year	House Price as Multiple of Wages p.a.
1970	3.3
1975	3.7
1980	4.0
1985	3.5
1990	4.7
1995	4.6
2000	5.6
2005	7.4

Do you remember when:

The rents on homes equated to 7% of the value of the home.

With a 20% deposit, as was required, the rents covered the interest costs and rates, etc.

Now what is it?

Do you remember when:

The rents from commercial property represented 10% of the value of the property.

Now what is it?

Do you remember when:

Business valuations were based on 4 times profits and Public company valuations were 6 times profits;
now they factor in up to 7 years future profits in valuations, resulting in PE ratio of 10 to 20 times.
Well folks, it is at this time that we may be reverting

back to the old drawing board.

We have entered an era of re-adjustment as the leveraged capital is cancelled out and we start a new 60 or 80 year cycle.

Fast talk on slow growth

P.22 Gold Coast Bulletin 5 Sept 2011

Finance expert Jane Diplock sparked an economic debate with her speech last week on the Gold Coast (south east Queensland, Australia).

There was no doubting Ms Diplock's business credentials: she is former chairwoman of the Executive Committee for the International Organisation of Securities Commissions and current director of the Singapore Stock Exchange.

But when she predicted there would be no return to economic boom times and growth would be conservative, several people at the Bond University Business Leaders lunch were left shaking their heads.

There has been so much talk about the goings on in India and China that it was hard for people to agree with a future view of slow growth for markets.

It seems Ms Diplock's opinion, from where Australia is sitting, was more wishful thinking than global reality.

SHOULD CHINA CURTAIL PRINTING MONEY THEN THE WORLD ECONOMY WILL CONTRACT – DRAMATICALLY!

It appears to have caused a 9 times increase in Beijing property prices in the last 8 years. While China is focused on growing its economic engine, the damage it is doing to itself is increasing.

China's growth is fundamentally linked to USA's imports, a contraction of the USA economy will lesson the demand for imports from China and subsequently, China's needs for raw materials will lesson, impacting upon Australia's major growth industry, the mining industry.

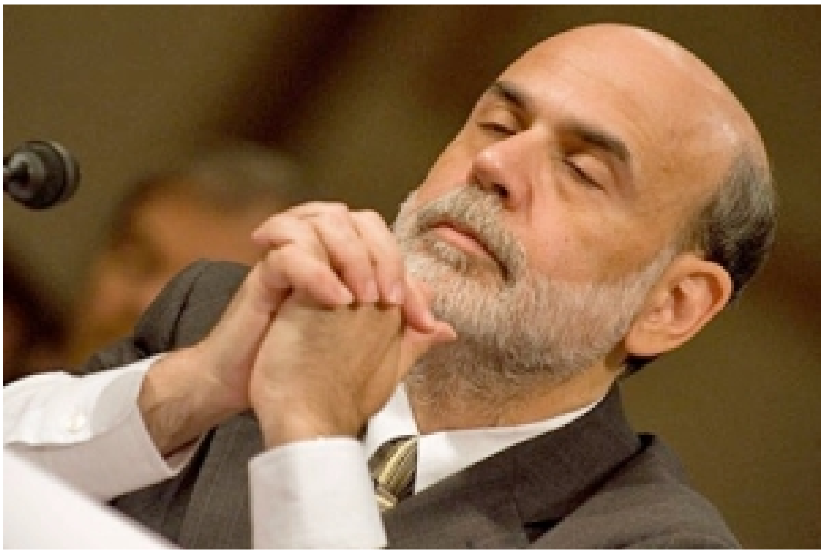
Few around the world have recognised and accepted that the major economic driver of the developed economies is the volume of the population around the age 46. The major spenders and drivers of these economies are the consumers aged between 40 – 50. This age group is diminishing in population size as the numbers moving up into this age bracket are no where near as large as the numbers moving into the retiring age brackets.

The age demographics of the developed economies are no longer conducive to growing their respective economy.

Illusion of Stable Currency Vortex

By Dr. Jim Willie 31 August 2011
http://thedailygold.com/commentaries/illusion-of-stable-currency-vortex/?p=7749/

The Jackson Hole Conference was a dud. To the astute student observer, something happened never seen before. The US central bank chief admitted failure, if only people could properly interpret and translate his words of helplessness and disappointment. A more apt description was that US Fed Chairman Bernanke used the forum to announce on stage that the central bank failed and is powerless to react to the current lapse into recession. Many watchers no longer believe that a Quantitative Easing chapter #3 will be announced. Surely it will come sooner or later. Watch the US Treasury auctions for the best clue. The QE2 program was about prevention of auction failure, not economic stimulus. A quick review of monetary policy and its effect is horrifying for its utter complete failure. The Fed Funds rate has been under 0. 5% for three years, yet neither the US Economy nor the US housing market have recovered. That is a first in history. The US Fed gobbled up over US$1 trillion in toxic mortgage bonds and related derivatives, also with no resulting rebound in the housing or mortgage finance markets. The QE2 debt monetization program averted US Treasury auction failures, but the bold monetary inflation gesture sustained for several months did cause a backfire. It lifted the entire cost structure to the US Economy in painful fashion. The profit margin squeeze and household spending squeeze have been radically evident and deeply damaging.



Chairman Bernanke admitted on stage before his peers, in full admiration of his failure and lost leadership, that the US Fed has no more tools at its disposal, and that the US Economy must recover on its own. For the first time he mentioned tools at his disposal without delineation what they were. He has none. His heavy doses of liquidity to treat insolvency have not succeeded in achieving anything except higher costs without job growth. He even attempted to point the finger of responsibility to the US Govt for its budget extravagance and intractable deficit. Big Ben has crashed his helicopter without any cash drops on citizen homes. Worse, he has shown all on stage that he has nothing under the hood, and that the bulge below is nothing but a massive paper wad in his pocket. The US Fed is impotent. Its board members are in open dispute on the chosen path for QE3, even the scored success of QE2. The US Federal Reserve is a failure, its franchise system a failure, its monetary policy a failure, its balance sheet a failure, its analysis chronically incorrect, its initiatives in backfire, its tool bag empty. Perhaps it is time for the US Fed to resign its contract with the US Congress. The crowning blow should have been the US$16 trillion in unauthorized loans to global banks, given cloud cover by the TARP Fund and its confusion. This is a syndicate fortress with its own agenda, nothing more.

THE WAITING GAME WITH EUROPE

In past analysis, a Jackass viewpoint has been shared concerning the Competing Currency War. A sense of stability can be achieved, if only the European mess can be equated with the American mess on equal footing. For the past two years, the bounces and jumps in the US Dollar have often come by wretched comparisons to the Euro currency. The Euro is uglier, therefore the US Dollar looks better. But Europe has a huge distinction. Their many broken sovereign bonds from member nations trade at different bond yields, thus differentiating them. The Euro currency thus trades on interest rate expectations, rather than what Wall Street compromised analysts believe. Euro CB head Trichet is the object of language dissection also. His latest utterance indicated no longer a concern over inflation, thus prompting forecasts of no more ECB rate hikes. The European banks have a colossal problem as an extension of the rate differential Trichet brought about with the official rate hikes this year. The European inter-bank lending is in the process of seizure, as in the money market funds. Call it an unintended consequence from the Euro CB attempting to make distance from the reckless US Fed monetary policy. Just another casualty in the Competing Currency War. The Euro Central Bank did not want to follow the US Fed into the monetary hell-hole in 2009. The US Fed went down to 0%, but the Euro CB chose not to follow. The Euro currency rose too high as a result, up to the 150 level, harming the German import trade. Just another casualty in the Competing Currency War. In fact, the war kills all economies and destroys capital uniformly.

The corps of sell side analysts seem never to factor in the bond yield effect, choosing to paint Europe with a single broad brush incorrectly. My theory is that the US Fed is waiting for Europe to announce and come to a more firm agreement on bailouts of the expanding sovereign debt crisis. The EUR 850 billion pledge to the European Financial Stability Fund hit the rocks quickly, as German bankers pulled their support. The Europeans must contend with contagion, as the sovereign bond toxicity has moved across the borders into Italy and France. Funny how Spain has avoided the axe, but France has been thrust onto the firing line.

The US Fed is waiting for the Euro Central Bank to take action. The key is the Euro CB debasing its Euro currency in the next move, which will give the US Fed permission to debase its US Dollar currency in its next move. They require coordination. Japan and Switzerland are doing their part in monetary debasement, having learned much from the Americans. The inescapable truth is that in the larger context it does not matter since both the Euro and US Dollar are doomed. When Greece or Italy or Spain defaults on sovereign debt, or France is bailed out on sovereign debt, all of which are inevitable, the landscape will see 20 Lehman-type bank failures, perhaps some in London and New York. The strategy is clear. The central banker rats are cornered. The US Fed is tangled in a US$ straitjacket. It cannot continue on its QE2 or advance into QE3 without a dance partner in Europe capable of stepping in the quicksand at a matching pace. If Bernanke Fed goes it alone, then the puss from the US Dollar will break through the FOREX skin surface. That would cause a rash of rising costs in the entire commodity sector, from gasoline to food to cotton to metals to paper to scrap. The myopic wrong-footed analytically incompetent Bernanke, still widely revered for his leadership to ruin in a sequence of direct iceberg hits, would prefer that European monetary authorities dispense trillions more Euros to save their wrecked banks. The tragedy lies in the fact that neither the large American nor European nor London banks can be saved. Ample or accelerated liquidity does not fix their insolvency. The key is the falling housing markets, still on a downward course. The key is lost industrial bases, handed to China as part of the grand plan. That plan pertains to designed ruin, gold leases, and consolidated power.

LACK OF OPTIONS

The US Fed, like the US Dollar, is cornered. The historically unprecedented nearly US$2 trillion in debt monetization fixed nothing. Take a look backwards at the lack of options that the US Fed faced. In 2007, debate was over whether the US Fed should drop the interest rate. The mortgage crisis was erupting from its subprime core. The US Fed openly admitted its reluctance to lower rates, since doing so would invite inflation to the dinner table. After crisis struck the banks, after the stock market dived, after the recession was obvious, the US Fed took action with sharp sudden big rate cuts. They were suddenly heroes whose elbows rested over the liquor cabinet. They are as lousy at policy delivery as with economic analysis topped by forecasts. In early 2010, the US Fed was again cornered without options. It was pressured to keep the near 0% steady, since the housing market was so fragile. They openly spoke about an Exit Strategy from the ZIRP jail. The Zero Interest Rate Policy, for adept students, is a permanent prison, something American economists refuse to comprehend or believe, due to blindness, incompetence, intellectual compromise, and syndicate devotion. So instead of exiting from the 0% corner, then doubled down with a Quantitative Easing enema, both forecasted by the Jackass. Being in a straitjacket is compounded by massive bloat of liquid infusions. The excrement is played out on the US Economy directly, but the global economy as well, from the rising cost structure.

Questions abound while for almost five years, the US Fed has been out of options. Should they pop the housing bubble they so eagerly created in 2006 by hiking interest rates? Should they instead encourage price inflation by lowering rates below the prevailing inflation rate, as in free money? Should they prevent a galloping recession, or encourage more asset bubbles? Should they lap up the excess liquidity, or rely upon inflation as a growth engine? Should they take away bank loan loss reserves, or leave the Fed balance sheet exposed as wrecked? Should they go it alone with QE3, or enlist the aid of other central bankers in a Global QE? Should the primary bond dealers be hung out to dry as they swallow huge US Treasury Bond supply, or continue the 3-week roundtrip to FOMC coverage to hide the complete auction farce of indirect backdoor bond monetization? Should the stock market be used as a justification for massive QE3 liquidity infusions in a departure from the Fed charter, or permit the stock indexes to settle at lower levels in synch with the reality of recession and profit squeeze? Should they attempt to let the banking system run without crutch props and intravenous lines, or continue them in a manner that displays the US Fed acting as the entire banking system intermediary octopus? Should they let the US Economy falter badly in order to encourage US Treasury Bond demand in a stock fund migration, or stand aside and not crowd out the bond market which is vital to capital formation? Should they permit a large already dead US bank to fail, in order to gain more emergency powers and earn the side benefit of a black hole to lose more data? Should they simply continue doing what they wish, and simply lie much more?

It is extremely safe to conclude that the US Fed has no good choices. It is without alternatives or tools. The deception is topped off by decisions to deploy the powerful leveraged Interest Rate Swaps. They enabled the 10-year US TNote yield to fall to 2.0% and paint a billboard to contradict the risk of US Govt credit worthiness. Soon the Office of the Comptroller to the Currency will not report such derivative data, since it is so clearly the tool to keep long-term interest rates down. The IR Swap not only pushes down rates, but creates artificial end demand for bonds that covers the US$ trillion bond fraud committed by Wall Street firms. They lost their investment banking business, but found a ripe channel with US Govt cloud cover. All hail the resilient US Treasury Bond asset bubble. It is a sponsored Black Hole. It will starve the US Economy for capital. Its supply will grow from even larger deficits. Its appetite will grow. Its funding needs will grow. It will demand QE to Infinity. The US TBond bubble will destroy the US Dollar. It will destroy the entire fiat monetary system. The pathogenesis will require the passage of time before conclusion, more than the Sound Money advocates believe, but not as much time as the Powerz believe. The pace of internal systemic devastation has turned rapid.

The language to cover their actions is full of deception and veiled intrigue. The US Fed never discusses the risk to US Treasury auctions, the real reason they instituted QE1 and QE2, and the actual reason they will be forced to institute QE3. They further cloud the stage with their nonsense about deflation. The pendulum moves from inflation to deflation over the many years and back whenever the US Fed must justify its destructive policy. The ringtones of deflation were frequently heard a year ago when QE2 was announced. They actually said that with higher risk of falling prices, the need for QE2 was urgently pressing. The latest ringtones direct attention to an economy denied as showing signs of recession. Bear in mind that the Bernanke Fed has not correctly assessed breakdown risks, has not correctly analysed any risk of bond contagion, has not correctly anticipated any price shocks, and has dutifully channelled US$ trillions to big banks in the open and in large quantities shrouded by secrecy.

OBVIOUS RECESSION IN THE USECONOMY

Last week the Jackass was on high alert for the trigger for a US Stock market rebound. Anything reasonable would serve the purpose. It arrived with vivid deception and full banner. The durable goods report was the road car decided upon to wave the green flag on the track. The headline number was sufficient to paint on the pace setter car. It stated a **4.0% rise in durable goods orders for July.** Yippie!! But please do not bother to read the details, since the audience was both mathematically challenged and in desperate need of good news. **The quick hint was given when the huge Boeing order was a key item on the supposedly positive news.** The durable goods order figure excluding transportation was up only 0.7%, not good, not bad. Those big one-time aircraft orders do skew the data indeed. Another item skews the data, basic weapon system orders required to sustain the endless sacred wars. They are devoted to destruction and fraud, not nation building, at home or abroad.

Since the Hat Trick Letter began, the focus has been given to the real CAPEX order statistic. It is defined as the ex-defence, ex-transportation capital goods orders. For July this figure came in at MINUS 1.5%, heavily watched by competent economists. The revision for June was plus 0.6% growth. The competent economists were either drowned out, or decided to swallow their integrity. Their voices were not heard, or their mouths were covered. Often they do speak about the more meaningful CAPEX orders. Much more additional extra weight of recession and its pressure comes from the federal and state budget slashing and immediate job cuts. This is basic science that escapes the compromised majority.

Alcoholics Anonymous has a wonderful principle put to practice, which cuts through the maze, the nonsense, and the denials. If a US Economic recession was not painfully obvious even to the street bums and bank parasites, then why is the question asked 38 times per day? At the household level, if the chronic question of Uncle Albert being a drunk keeps being asked and repeated in discussion, even at the dinner table, then the question itself is a confirmation of his alcoholic condition. The other rationalization tools often relied upon by the denial experts have been brought forth in the financial press. The bad weather from the spring rains in the Plains and Midwest were a drag. The Japanese supply chain disruption from their earthquake and tsunami disasters, followed by the Fukushima nuclear meltdown, they too were a certain drag. Then came the freeze in business decisions and commitments from the stalemate on the US Govt budget impasse. It also contributed to the drag. Lately, the crutch is Hurricane Irene which slammed the entire eastern seaboard, causing floods and power outages. The storm and its damage are an unmistakable drag. To be sure, monetary policy, fiscal policy, stimulus policy, and economic policy are all fine and dandy. The problem is all the one-off exogenous factors. What a crock!

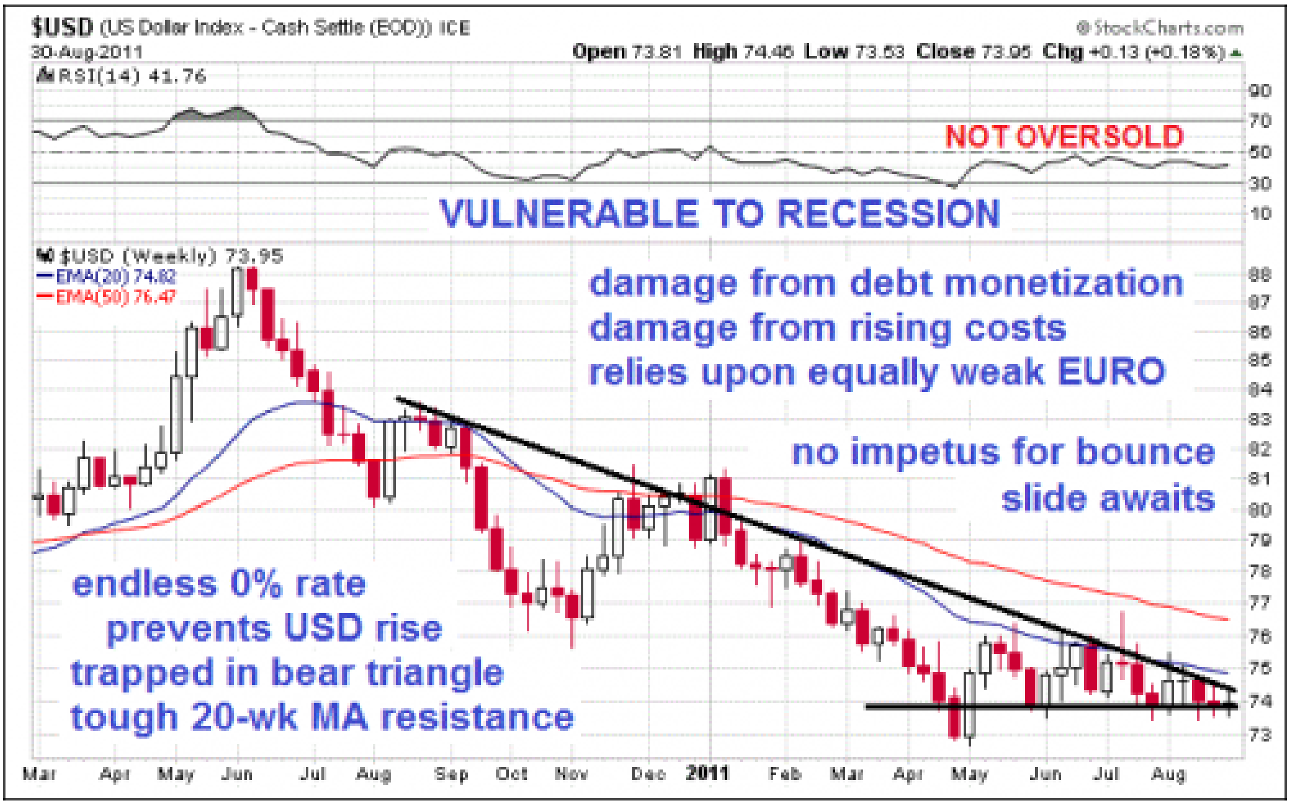
A truly perverse dynamic is at work. The expectation of economic recession is widely seen as a by-product extension of the major US Stock indexes. This is backwards, since the painted tapes and high frequency trading and foreign subsidiary profits and doctored economic statistics are the norm. The S&P500 stock index has become a quintessential leading indicator, and thus the object of manipulative control, a major piece to Management of Perceptual Expectations. The pre-occupation with consumer spending dominates the distorted attention span. In a healthy system, the focus would be on capital spending instead. The nation continues to be stuck in false ideology preached by heretical high priests, a strong remnant from the last decade. The US Economy was believed in 2001 through 2006 to be dominated by assets as engines, rather than industry and factories. The blockheaded called it the Macro Asset Economy, the latest chapter in their Book of Ruin. Just check the recent data.

- Philly Fed logged in at minus 30. 7 after recently careening into negative ground
- Richmond Fed logged in at minus 10 after treading near zero for two months
- Dallas Fed logged in at minus 11. 4 after a minus 2. 0 the previous month
- Empire State logged in at minus 7. 72 after a 3. 76 the previous month
- CAPEX business investment down 1. 5% in July
- Jobless claims stuck at 400 thousand per week
- Gross Domestic Product at 1. 0%, after a 5% lift from corrupted inflation adjustment
- West Texas oil price at $89. 14, but European Brent at $114. 80

THE US DOLLAR LOOKS VULNERABLE

The US Dollar appears vulnerable from two fronts. Since mid-2010, the US$ DX index has been under siege due to the heavy debt monetization of US Treasury and US Mortgage Bonds, during a hyper monetary inflation exercise of grand debasement. The threat from the other side is a US$ DX decline from a return slide into the quicksand of another US Economic recession. A recession, whether recognized or not, will result in another round of stimulus initiatives of equally questionable effectiveness. More US Dollars will be wasted, used, with certain debasement the outcome. Regardless of the next US Fed move, or no move, the US Dollar is extremely vulnerable. The only factor keeping it up is the ruin in Europe. Given the double barrelled threat of an Inflationary Recession (my forecast), the US Dollar is dangerously vulnerable.

The biggest upcoming beneficiary to the US Dollar and major currency debasement will be **Silver.** The Gold price made its summer run impressively, reaching 1900. Huge profits are in the process of being switched from gold to silver positions. The 44:1 ratio in price enables sizeable new silver positions to be leveraged. Look out for a significant upward price move in Silver, as its technical's are showing a very positive bullish signal. The simple Moving Average is set for a crossover, an event noticed by thousands of commodity and FOREX traders. Silver is unique, being both an industrial metal in shortage deficit, and a monetary metal pursued as a safe haven during a time of crumbling monetary



system and rancid sovereign bonds. Always remember that Gold fights and wins the political battles, but Silver rides through the broken phalanx on a white horse to take triple the gains.

THE DEAD PRAISE THE DEAD

A hilarious display of vested interest, lifting of fellow broken brethren, and market props of bank stocks came last week. The flagship Deutsche Bank has been a primary player with the London, Wall Street, and Swiss bankers for two decades, working diligently to keep the fiat paper game going, to conceal the gold leasing, and other sundry duties like **money laundering with the US agencies**. The mighty D-Bank was caught in the toxic US mortgage bond trap, was caught in the housing toxic asset trap, was caught in the naked gold shorting trap, and has been caught in the Southern Europe sovereign bond toxic bond trap. Embattled CEO Josef Ackermann might continue his ruinous tenure until 2013, but that will not remove the criminal charges that lurk over his head. The hilarious display last week came in the form of D-Bank giving a strong recommendation to Barclays and Royal Bank of Scotland, two giant banks in deep throes of insolvency. So a dead bank recommends other dead banks. Perhaps intrepid Barclays' analysts can recommend Deutsche Bank, and RBS analysts too. Maybe analysts at Bank of America can recommend Barclays, RBS, and D-Bank all. They surely all participate in flash trading to lift in rapid round robin their exchanged stock shares.

Closer to home, Bank of America is a wreck of a diseased hollow tree, a reflective symbol of the irreparably insolvent US bank sector. A quick glance is useful. BOA is very busy selling off its best and only viable assets. It will be left with the hollow tree incapable of withstanding even a mild storm. They took in the Berkshire Hathaway US$5 billion in funds from Warren Buffet. Regard this as a second payment toward syndicate membership for Buffet, the first being the Goldman Sachs preferred stock purchase two years ago. Membership has its privileges, avoided scrutiny, and protection from Wall Street ambushes. Then BOA sold its 5% stake in the Chinese Construction Bank, reaping US$8.3 billion. The funny part was that BOA executives claimed they did not need the money. Neither does any dying man need food or water. The latest blow was the Federal Deposit Insurance Corp and their rejection of the US$8.5 billion cap on the mortgage bond fraud case payoff. This is the bond fraud restitution ring fence, as BOA rounded up its favourite fraud victims, and attempted to strike a deal to limit its liability. The list of plaintiffs in the accord included Blackrock, MetLife, and the New York City. The only problem is that several important mortgage bond fraud victims were not included, like American Intl Group, the US Govt adopted dead orphan. AIG has filed a US$10 billion lawsuit against Bank of America. But never fear, the putrid "BAC" stock shares from the grotesquely insolvent bank are rising. Apparently the whiff of Pine Sol and Glade fresheners can produce a short cover stampede, followed by moronic go-go speculator types. The fact of the matter is that 475,000 jobs have been lost among Wall Street firms, but not enough for executives. European banks have shed 40,000 jobs in just the last month. BOA has cut all non-essential businesses. Unfortunately, they cut all lines from profitable businesses. They are left with the more pure rot.

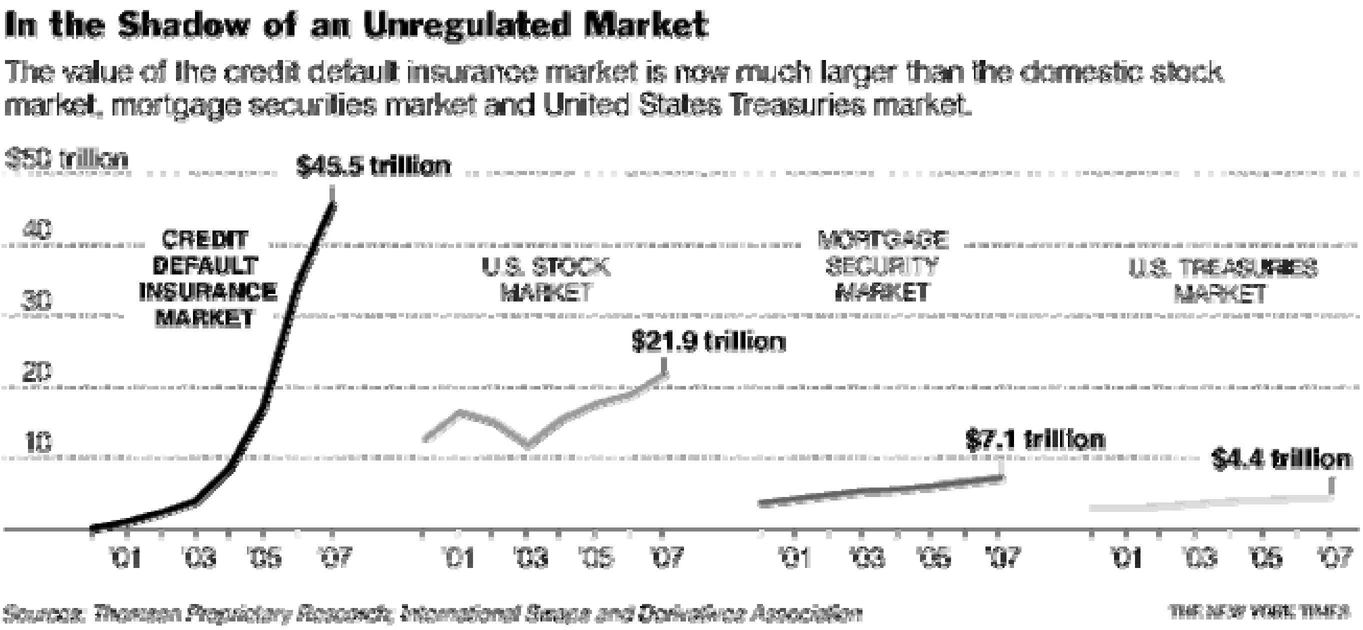
TWO BASIC RECOVERY REQUIREMENTS

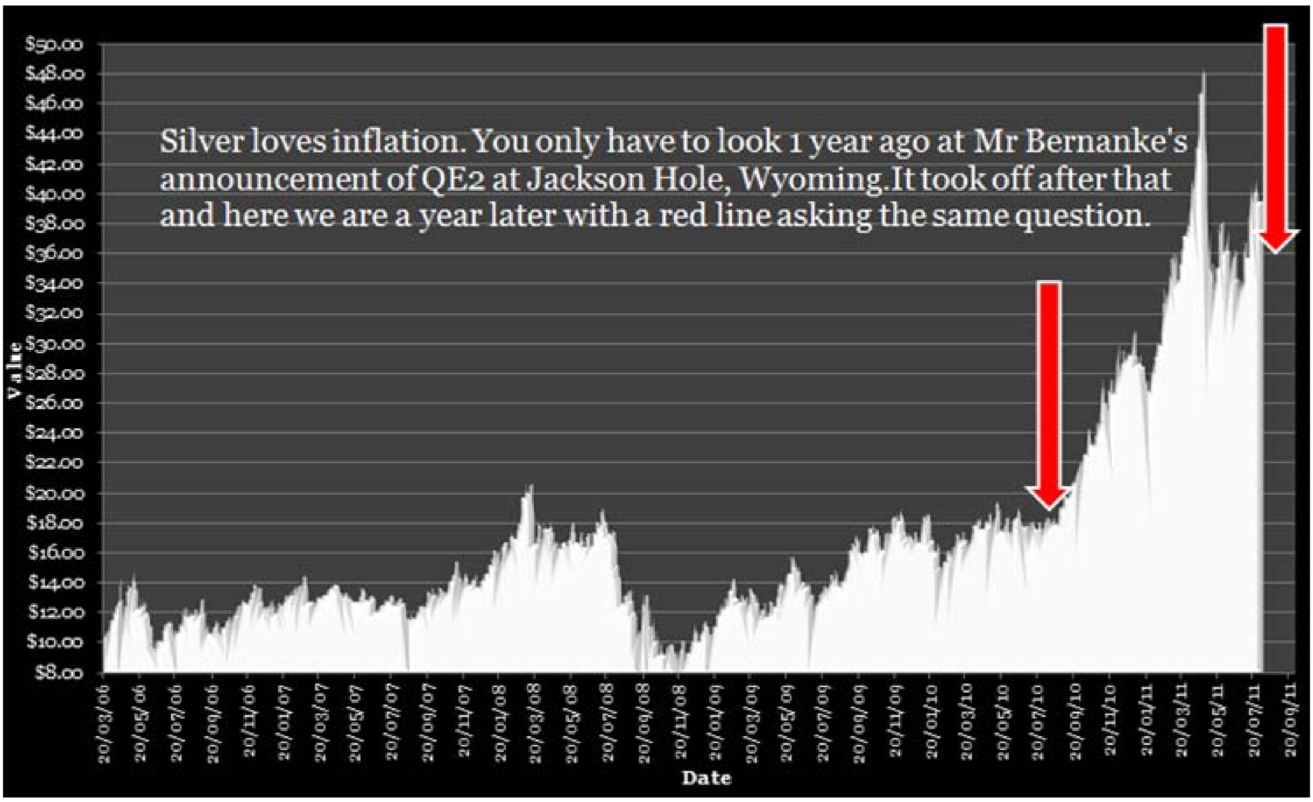
The path to recovery seems so elusive. The obstacles are obvious to any competent economist, of which there are few. To be an American economist in recent years requires great compromise, since the employer doling out the paycheck or research grant has deeply vested interests to protect. One could provide a long recital of principles of capital formation, of tangled control lines extended to US Govt finance ministries, of profound fraud engrained in programs old and new, but suffice it to be simple. Two requirements are basic in fostering a recovery, apart from necessary tax reform or regulatory reform. Neither required step will remotely occur, since doing so would remove from power the bankers who control the US Govt, the bankers who control the US Dollar printing press, the bankers who profit from counterfeit and fraud. They will never order their own removal from power, their own ruin financially, their own exposure to criminal prosecution. Therefore the system will march along down the edges of the abyss. The irony is that with each major bank bailout or bond buy program or organized regulatory lapse or blessed accounting hypocrisy, a new deeper crash bottom potential in the abyss is defined. Here are the two requirements for recovery:

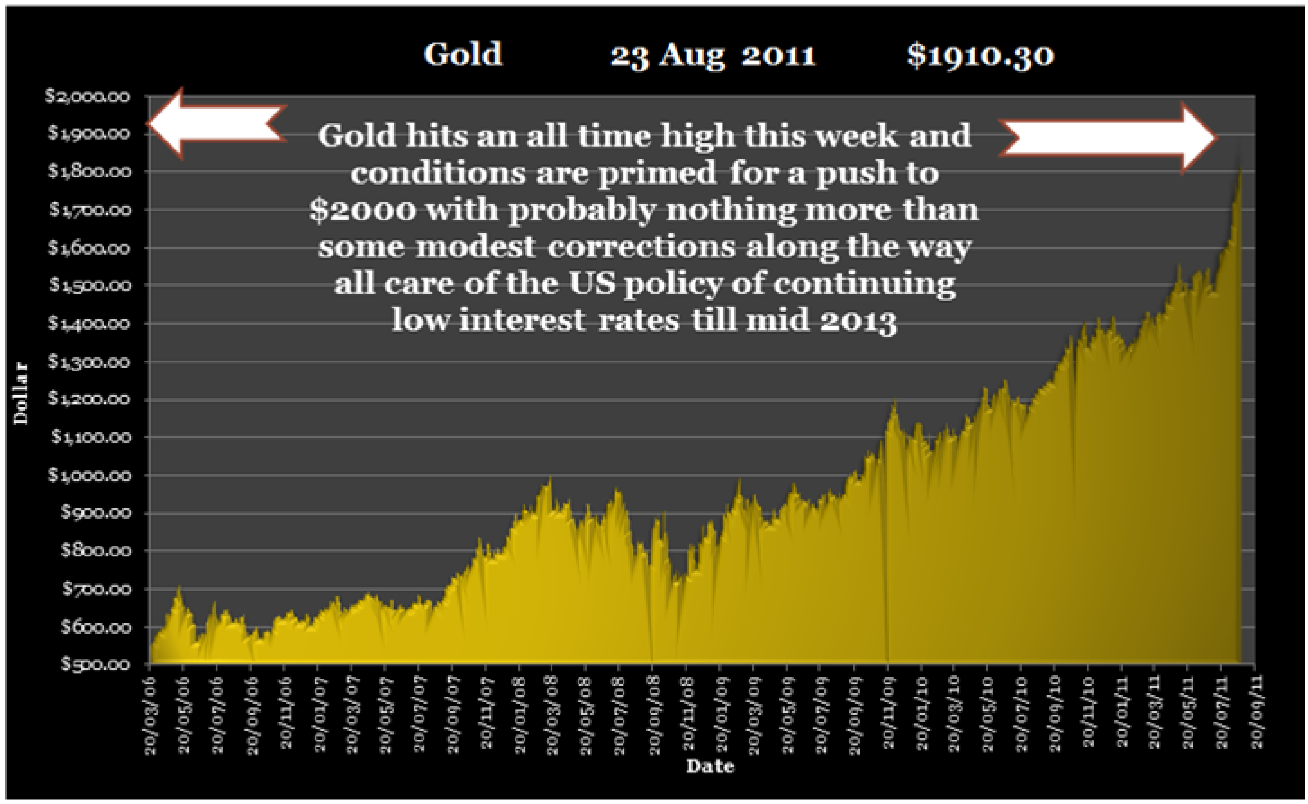
- Liquidation of big US banks deemed too big to fail, since rotten and loaded with toxic paper that inhibits their ability to function as credit engines, while they require unlimited funds to perpetuate their garden of ruin.
- Liquidation of big housing inventory, since bloated and hanging over the entire market, preventing a price stability situation for another two years (2013), and whose continued bank held inventory expansion assures two more years (2015) on top of that, a result of deep distress if not internal chaos, voluntary loan defaults by homeowners, job insecurity, and property title challenges in court (i.e. permanent market decline).

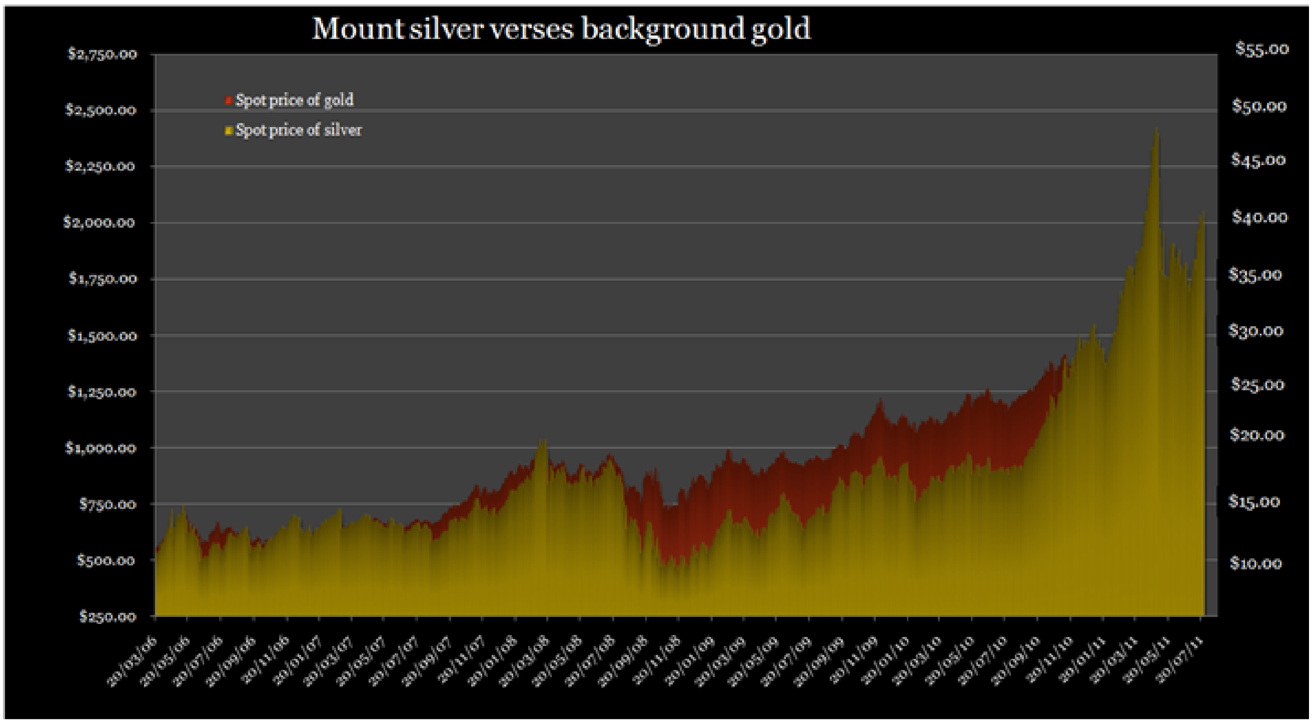
Any bank liquidation would cause the biggest ten US banks to enter a disruptive failure, much worse than Lehman Brothers. The fallout would take years to clean up, complete with a derivative meltdown nuclear chain of events. Any housing liquidation would result in at least a 20% to 30% additional home price decline, sufficient to topple another 500 midsized US banks. So neither liquidation will occur, not even close. All attempted solutions save the broken zombie banks, perpetuate their propped insolvent structure, waste new money, debase the currency further, and require 0% rates to continue. The deep distortions continue to rip apart the nation. None of the current steps taken are sincere, legitimate attempts to remedy the system. The countless captains of the ship, mostly wearing Goldman Sachs and JPMorgan uniforms, have no vested interest in remedy. It is as simple as that. Just recently the Standard & Poors head was replaced by a Citigroup vice president. No end to the club tokens used to seat members of the clan.

Jim Willie CB is a statistical analyst in marketing research and retail forecasting. He holds a PhD in Statistics. His career has stretched over 25 years. He aspires to thrive in the financial editor world, unencumbered by the limitations of economic credentials. Visit his free website to find articles from topflight authors at www.GoldenJackass.com. For personal questions about subscriptions, contact him at JimWillieCB@aol.com


In the Shadow of an Unregulated Market
The value of the credit default insurance market is now much larger than the domestic stock market, mortgage securities market and United States Treasuries market.
$50 trillion
40
30
20
10
$45.5 trillion
CREDIT DEFAULT INSURANCE MARKET
U.S. STOCK MARKET
$21.9 trillion
MORTGAGE SECURITY MARKET
$7.1 trillion
U.S. TREASURIES MARKET
$4.4 trillion
'01 '03 '05 '07
Sources: Thomson Proprietary Research; International Swaps and Derivatives Association
THE NEW YORK TIMES


Silver loves inflation. You only have to look 1 year ago at Mr Bernanke's announcement of QE2 at Jackson Hole, Wyoming.It took off after that and here we are a year later with a red line asking the same question.
Value
Date


Gold
23 Aug 2011
$1910.30
Gold hits an all time high this week and conditions are primed for a push to $2000 with probably nothing more than some modest corrections along the way all care of the US policy of continuing low interest rates till mid 2013
Dollar
$2,000.00
$1,900.00
$1,800.00
$1,700.00
$1,600.00
$1,500.00
$1,400.00
$1,300.00
$1,200.00
$1,100.00
$1,000.00
$900.00
$800.00
$700.00
$600.00
$500.00
Date


Mount silver verses background gold
Spot price of gold
Spot price of silver
$2,750.00
$2,500.00
$2,250.00
$2,000.00
$1,750.00
$1,500.00
$1,250.00
$1,000.00
$750.00
$500.00
$250.00
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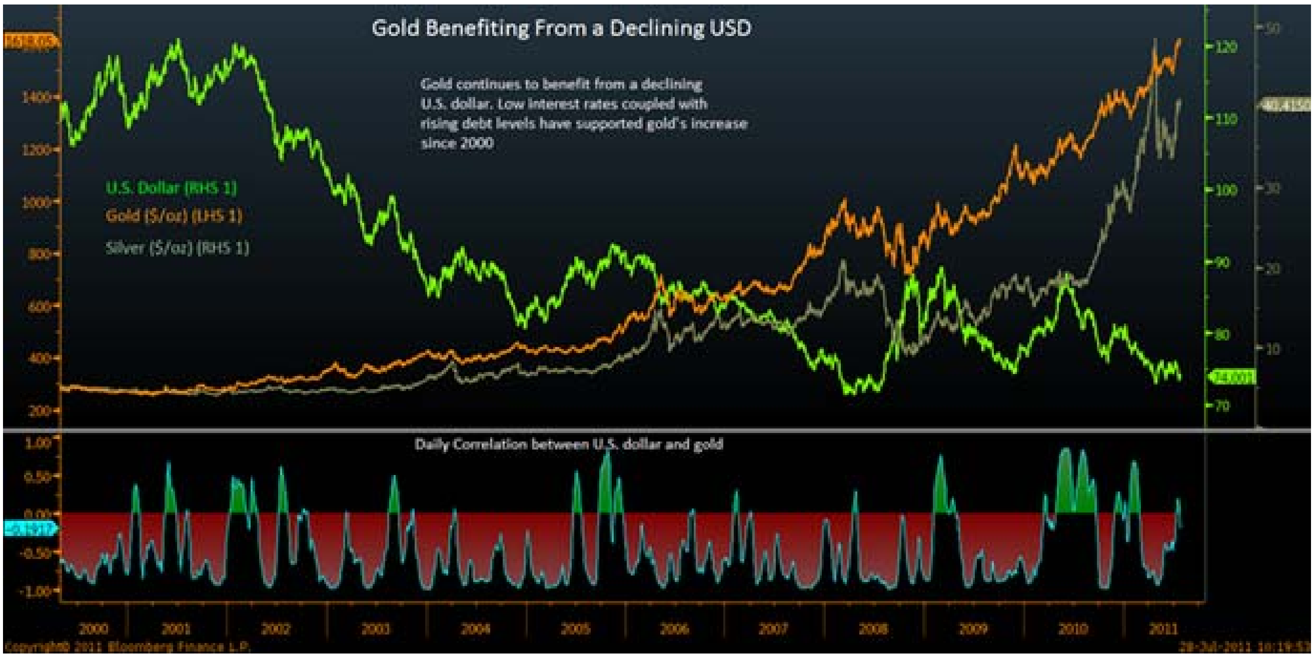
$20.00
$15.00
$10.00


Gold Benefiting From a Declining USD
Gold continues to benefit from a declining U.S. dollar. Low interest rates coupled with rising debt levels have supported gold's increase since 2000
U.S. Dollar (RHS 1)
Gold ($/oz) (LHS 1)
Silver ($/oz) (RHS 1)
Daily Correlation between U.S. dollar and gold
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
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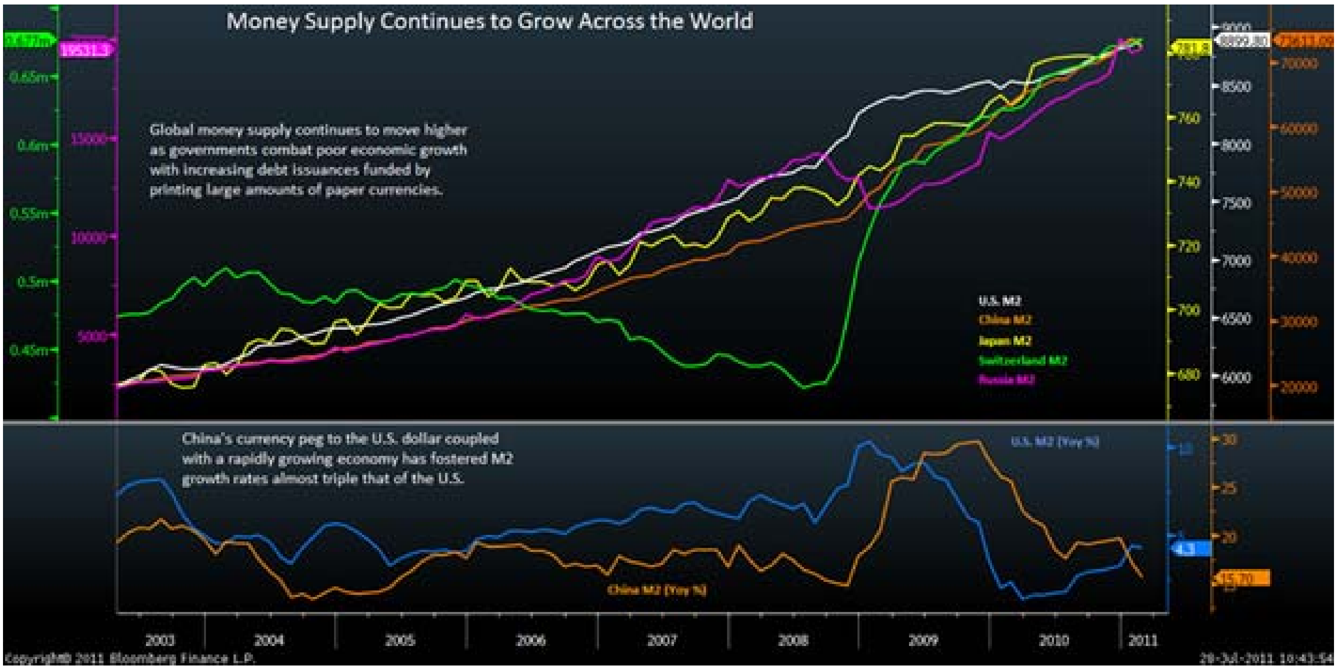

Money Supply Continues to Grow Across the World
Global money supply continues to move higher as governments combat poor economic growth with increasing debt issuances funded by printing large amounts of paper currencies.
U.S. M2
China M2
Japan M2
Switzerland M2
Russia M2
China's currency peg to the U.S. dollar coupled with a rapidly growing economy has fostered M2 growth rates almost triple that of the U.S.
U.S. M2 (Yoy %)
China M2 (Yoy %)
2003
2004
2005
2006
2007
2008
2009
2010
2011
Copyright© 2011 Bloomberg Finance L.P.

Homes that are at risk to Major Weather and Earth Events

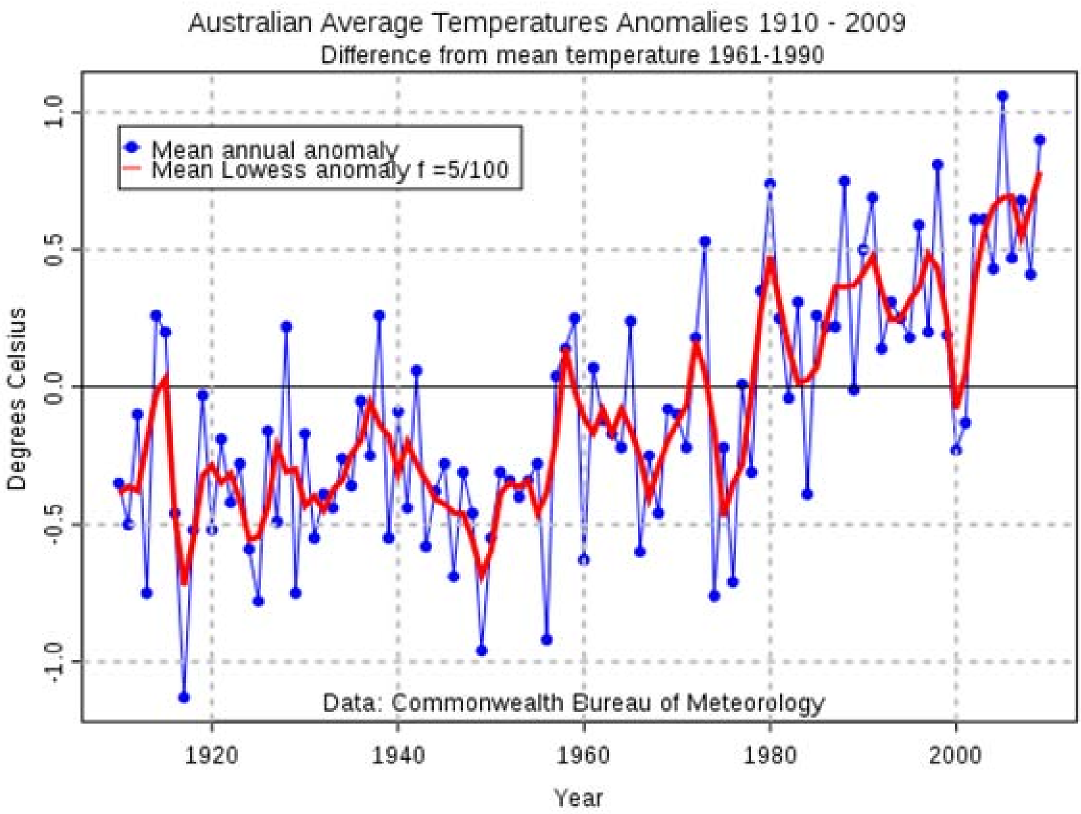
Weather events and Earth events will continue to escalate in intensity and frequency as the population continues to grow and demand an ever increasing amount of resources from her.

The problem with trying to create a paradise here on Earth is one needs to be aware of the fragile balance within nature and understand the limits of the various resources in order not to get burned alive.

Effects of weather and Earth changes on Australia

Predictions measuring the **effects of global warming on Australia** assert that climate change will negatively impact the continent's environment, economy, and communities. Australia has been designated as one of the countries most vulnerable to climate change, according to the Stern report and others, due partially to the importance of its agricultural sector and the prominence of its coast.

Australia is vulnerable to the effects of global warming projected for the next 50 to 100 years because of its extensive arid and semi-arid areas, high annual rainfall variability, and existing pressures on water supply. The continent's high fire risk increases this susceptibility to change in temperature and climate. Additionally, Australia's population is highly concentrated in coastal areas, and its important tourism industry depends on the health of the Great Barrier Reef and other fragile ecosystems. Impacts of climate change will be complex and to some degree uncertain, but increased foresight may enable the country to safeguard its future through planned mitigation and adaptation. Mitigation may reduce the ultimate extent of climate change and its impacts, but requires global solutions and cooperation, while adaptation can be performed at national and local levels.



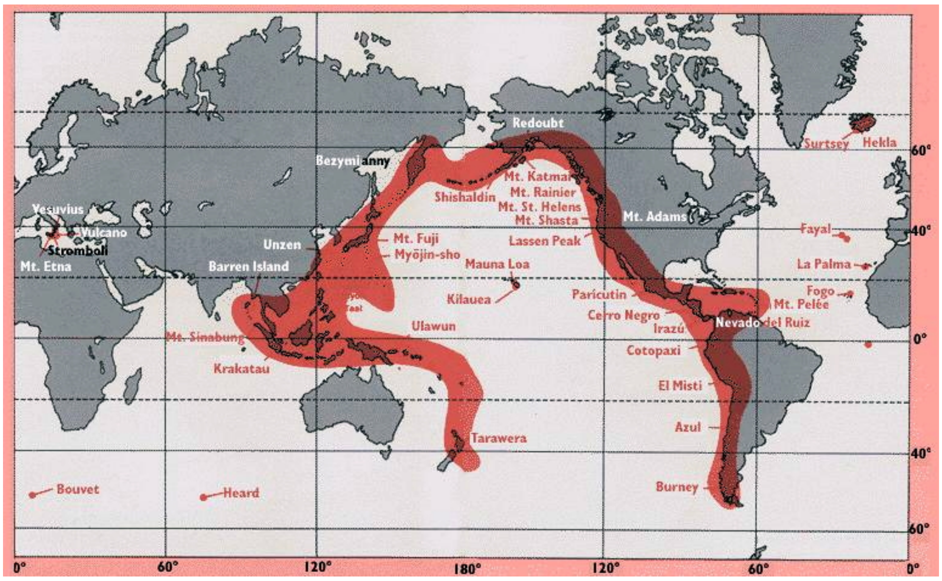
Below is the site of an international airport – potentially permanently submerged – hot property!

Earthquake Facts and Earthquake Fantasy

Earthquakes are sudden rolling or shaking events caused by movement under the Earth's surface.
FACT: An earthquake is the ground shaking caused by a sudden slip on a fault. Stresses in the Earth's outer layer push the sides of the fault together. Stress builds up and the rocks slips suddenly, releasing energy in waves that travel through the Earth's crust and cause the shaking that we feel during an earthquake. An earthquake occurs when plates grind and scrape against each other. In California, for example, there are two plates the Pacific Plate (which extends from western California to Japan, including much of the Pacific Ocean floor) and the North American Plate (which is most of the North American continent and parts of the Atlantic Ocean). The Pacific Plate grinds north-westward past the North American Plate along the San Andreas Fault at a rate of about two inches per year. Parts of the San Andreas Fault system adapt to this movement by constant "creep" resulting in many tiny shocks and a few moderate Earth tremors. In other parts, strain can build up for hundreds of years, producing great earthquakes when it finally releases. Large and small earthquakes can also occur on faults not previously recognized; recent earthquakes in Alabama and Virginia are good examples.

Can "Mega Quakes" really happen?

THEORETICALLY, YES. REALISTICALLY, NO. The magnitude of an earthquake is related to the length of the fault on which it occurs -- the longer the fault, the larger the earthquake. The San Andreas Fault is only 800 miles long. To generate an earthquake of 10.5 magnitude would require the rupture of a fault that is many times the length of the San Andreas Fault. No fault long enough to generate a magnitude 10.5 earthquake is known to exist. The largest earthquake ever recorded was a magnitude 9.5 on May 22, 1960 in Chile on a fault that is almost 1,000 miles long. The magnitude scale is open-ended, meaning that science has not put a limit on how strong an earthquake could be, and scientists can't rule out a "Mega Quake" because they've only been measuring earthquakes for 100 years, a blink of an eye in geologic time. However, scientists agree that "Mega Quakes" of magnitude 10 or more are implausible.



Who knows what the future holds….???

10% of the world's population live below 10 metres above sea level.

40% of the world's population live within 100 kilometres of the sea.

http://sedac.ciesin.columbia.edu/es/papers/Coastal_Zone_Pop_Method.pdf
Presently about 40% of the world's population lives within 100 kilometres of the coast.

http://www.npr.org/templates/story/story.php?storyId=9162438

Study: 634 Million People at Risk from Rising Seas

Balk and some colleagues used satellite data to map out places along the coast that have low elevations — less than 30 feet above sea level. Then, to find out who lived there, they looked at census figures from 224 countries.

The numbers showed that low-elevation areas are home to 634 million people.

"Roughly one in 10 persons in the world lives in this low-elevation coastal zone," Balk says.
Some of the countries have very large populations: The 10 countries with the most people in the low coastal areas are China, India, Bangladesh, Vietnam, Indonesia, Japan, Egypt, United States, Thailand, and the Philippines.

The countries with the largest share of their populations living in low-elevation areas are Bahamas, Suriname, the Netherlands, Vietnam, Guyana, Bangladesh, Djibouti, Belize, Egypt, and Gambia.

It turns out that two-thirds of world's largest cities — cities with more than five million people — are at least partially in these low areas. That's important, because people are increasingly moving to cities.

Some low-lying places will be more at risk than others because of weather patterns and geography. For example, here in the U. S., the southern Gulf Coast is more vulnerable than the West Coast. Still, Balk hopes this study will help encourage people to start thinking more about the potential risk to coastal areas, especially in poor countries.

PROPERTY LOCATION MAP

Now, with that all said and done, yes, we have needs to attend to and that frequently involves acquiring homes.

Previously, we were little concerned about weather and Earth events, however, as the demands of an ever increasing global population put pressure upon this Earth, our home, then the frequency and intensity of weather and Earth events need to be considered in choosing the location of a family home.

Location Map - Your Home

Preferred age demographic profile within the area for your investment:

Median age 46 = highest value growth
Median age 22 or 60+ lowest growth

CBD or Major Commercial Centre to your home

Less than 6 kilometres

Distance to Public Transport
Less than 800 metres

Distance to Shopping Centre
Less than 800 metres

We all would like to live close to our work and living facilities such as entertainment, sports, etc.

Industrial & Commercial Developments in 6 K radius: Greater than $2 Billion
This drives property values as it creates local employment, etc.

1. **Position**
2. **Employment**
3. **Population Trend**
4. **Developments**
5. **Valuation Trend**
6. **Transport**
7. **Site & Zoning**
8. **Rentals & Amenities**
9. **Occupancy**
10. **Timing**