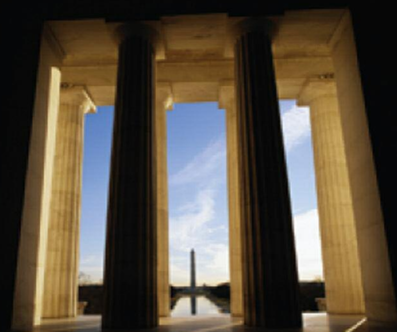
FULLY REVISED AND UPDATED 10TH ANNIVERSARY EDITION

FINANCIAL RECKONING DAY FALLOUT



SURVIVING TODAY'S GLOBAL DEPRESSION

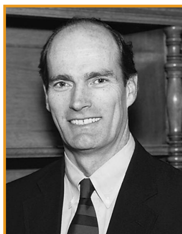
BESTSELLING AUTHORS OF
I.O.U.S.A. AND *EMPIRE OF DEBT*

WILLIAM BONNER AND ADDISON WIGGIN

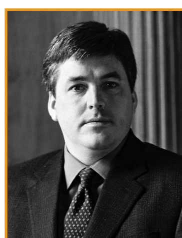
When the first edition of *Financial Reckoning Day* was published more than six years ago, many critics felt that maverick financial writers Bill Bonner and Addison Wiggin were overly critical of the United States increasing debt and the start of what seemed to be foreshadowing of economic concerns. Fast-forward to 2009, and much of what the authors predicted has come true — high unemployment rates, record setting foreclosures and bankruptcies along with the near global collapse of the financial institutions once thought to be so secure.

With the second edition of *Financial Reckoning Day*, Bonner and Wiggin bring you even more down-to-earth wisdom. This timely guide reveals that the hazards of democratic consumer capitalism and the financial follies of history are not a thing of the past — but an ongoing issue with no end in sight. With this book, you'll gain a better perspective of what's really going on and discover the steps you need to take to survive the difficult times ahead.

Written in conjunction with the tenth anniversary of the authors' popular financial newsletter — *The Daily Reckoning* (www.dailyreckoning.com) — this fully updated guide effectively explains that the hazards of democratic consumer capitalism and the financial follies of history are not a thing of the past, but an ongoing issue with no end in sight. Along the way, it also explores what's really going on beneath the surface and outlines the steps you need to take to survive the growing global depression. Honest and accurate, *Financial Reckoning Day Fallout* offers you the best chance to protect your assets and grow your portfolio in these difficult financial times.



WILLIAM BONNER is President and CEO of Agora Inc., one of the world's largest financial newsletter companies (www.agora-inc.com). He is the creator of *The Daily Reckoning* (www.dailyreckoning.com), a financial newsletter that has more than 500,000 readers in the United States, Great Britain, and Australia, and is translated daily into French and German. Mr. Bonner is also the coauthor, with Mr. Wiggin, of the international bestsellers *Financial Reckoning Day* and *Empire of Debt*.



ADDISON WIGGIN is the Executive Publisher of Agora Financial (www.agorafinancial.com). He is also the Executive Producer and a writer of the feature-length documentary film *I.O.U.S.A.*, which was nominated for the Grand Jury Prize at the 2008 Sundance Film Festival. Mr. Wiggin is the author, with Mr. Bonner, of the international bestsellers *Financial Reckoning Day* and *Empire of Debt*, and author of *The Demise of the Dollar… And Why It's Even Better for Your Investments*.

Financial Reckoning Day Fallout

Second Edition

Surviving Today's Global Depression

William Bonner
Addison Wiggin
with Kate Incontrera

Foreword by Jim Rogers

WILEY

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ADDITIONAL PRAISE FOR PREVIOUS EDITION

"The authors have crammed so much thought-power into the pages of this book it's a challenge to describe or summarize…They explain how the world *doesn't* work, quite remarkably, which helps us see how it *does* work, perhaps. Markets are judgmental, they say, not mechanistic. Amen! They say Japan's decades-long bust proves both the major economic theories are wrong and that the West is destined to follow. They rightly, in my view, claim this is a crisis point in modern history. This book just might help us cope with it. *Worth a try!* "

— Harry D. Schultz, editor of the International Harry Schultz Letter

"Bonner sometimes makes me feel like a house painter staring at a Rembrandt. He is that good. *Financial Reckoning Day* is guaranteed to make you think. It will help you understand why we go from boom to bust and how you can profit from that change. It will open your eyes to a new way of seeing the world and make you a better investor. And it will be one of the most pleasurable reads you have had in a long time."

— John Mauldin, Millennium Wave Advisors, editor of *Thoughts from the Frontline*

"Forwards and backwards in time, up the alleyways of one theory and down another, often soiled by the sorry sludge of historical missteps…the often-disastrous results of the hopes and dreams, needs and wants of all the people in all of history coalesce into a Grand Unified Theory that one cannot adequately define or explain, but by the end of the last sentence, on the last page, of the last chapter, one knows that, surely, this book is something to behold."

— Richard Daughty, editor of The Mogambo Guru Economic Newsletter

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Foreword

Some people want to buy baseball teams or chase women, but I'm told the number one dream that comes to mind when young people are asked is: "I want to see the world."

I've been around the world twice now: Once on a motorcycle. Once in a Mercedes. So I guess that means I'm crazier than most people.

The reason that I love doing it, other than the sense of adventure, and I certainly love the adventure, is it's the only way I can figure out what's going on in the world. I don't trust the newspapers, TV stations, or government pronouncements. That's what everyone else knows. I want to see it for myself, close to the ground.

You learn much more about a society by crossing a remote border, finding the black market, and changing money or talking to the local madam than by talking to bureaucrats or economists at the IMF and the World Bank…or by watching CNBC.

By the time I cross the border in the jungle, I know 25 percent to 30 percent of what I need to know about a country. I know the bureaucracy. I know the infrastructure. I know the corruption. I know the status of the economy and its currency. And I know whether I stand to make money investing there or not.

The only other way to know what's going on is to study history. When I teach or speak at universities, young people always ask me: "I want to be successful and travel around the world; what should I study?"

I always tell them the same thing: "Study history."

And they always look at me very perplexed and say,

“What are you talking about…what about economics, what about marketing?”

“If you want to be successful,” I always say, “you’ve got to understand history. You’ll see how the world is always changing. You’ll see how a lot of the things we see today have happened before. Believe it or not, the stock market didn’t begin the day you graduated from school. The stock market’s been around for centuries. All markets have. These things have happened before. And will happen again.”

Alan Greenspan went on record before he left his post at the Federal Reserve saying he had never seen a bubble before. I know in his lifetime, in his adult lifetime, there have been several bubbles. There was a bubble in the late 1960s in the U.S. stock market. There was the oil bubble. The gold bubble. The bubble in Kuwait. The bubble in Japan. The bubble in real estate in Texas. So what is he talking about? Had he not seen those things, he could have at least read some histories…all these things and others have been written about repeatedly.

Alan Greenspan continues to embody the economic mindset of today’s policy makers. They have the lunatic idea that a nation can consume its way to prosperity although it has never been done in history.

In America, if you have a job, you pay taxes. If you save some money, you pay taxes on the interest. If you buy a stock and you get a dividend, you pay taxes. If you have a capital gain, you pay taxes again. And when you die, your estate pays taxes. If you live long enough to get social security, they tax your social security income. Remember: You paid taxes on all this money when you earned it originally yet they tax it again and again.

These policies are not very conducive to encouraging saving or investing. They promote consumption.

By contrast, the countries that have been doing well the last 30 or 40 years, are the countries that encourage saving and investing. Singapore is one of the most astonishing cities in the whole world. Forty years ago it was a slum. Now, in terms of per capita reserves, it's one of the richest countries in the world.

One of the reasons Singapore was so successful is its dictator, Lee Kwan Yu, insisted that everyone save and invest a large part of their income. There are many other dictators or politicians you can condemn, but they have nothing to show for it, and in fact they've been worse. Whatever Lee's policies toward personal freedom, at least he forced people to save and invest.

History shows that people who save and invest grow and prosper, and the others deteriorate and collapse.

As the book you hold in your hands demonstrates, artificially low interest rates and rapid credit creation policies set by Alan Greenspan and the Federal Reserve caused the bubble in U.S. stocks of the late 1990s. Policies then pursued at the Fed made the bubble worse. They changed it from a stock market bubble to a consumption and housing bubble.

And when that bubble burst, it was far worse than the stock market bubble, because there are many more people who are involved in consumption and housing. Millions of people found out the hard way that house prices don't go up forever. Now there are a lot of angry people.

No one, of course, wanted to hear it when the original edition of this book was published. They wanted the quick fix. They still want to buy a stock and watch it go up 25 percent because that's what happened a few years ago, and that's what they say on TV. They want yet another interest rate cut, because they've heard that that's what will make the economy boom.

Bill Bonner and Addison Wiggin wrote me early on to tell me that "a lot of the stuff you write about in *Adventure Capitalist* (Random House) is in our book — except for the travel in the international countries."

I'd go a step further and say it's almost as though they wrote parts of my book and I wrote some of theirs — approaching the same subject from two completely different angles…and arriving at the same place. From the lack of government policies encouraging saving and investing to the dramatic effect demography will have on the global economy in the 21st century, I kept coming across things in this book that I had seen in my travels. He discovered them by reading history books and studying economics. I saw them up close, on the ground.

"Needless to say, your ideas are genius," I wrote back, "You think like I do, which means we're going to go broke together."

JIM ROGERS

Preface To The 2009 Edition: Confessions Of A Newsletter Man

We begin with a question: Was ever there a fairer métier than ours?

The poor carpenter risks cutting his fingers or banging his knee. The used car salesman's hearing goes bad as soon as he takes up his job: "No, I don't hear any rattle," says he. The foot-soldier gets sent to a Godforsaken hole like Afghanistan, where the women are covered up and the liquor stashed away.

But in our trade as newsletter publishers, hardly a day passes without a good laugh. Our only occupational hazard is a rupture of the midriff.

Most people, after all, read the news pages for information. They lack the proper training and perspective to fully enjoy them. The consequence is that they are always in danger of taking the humbug seriously, or worse, finding the people who populate the headlines important.

If you really want to appreciate the media you have to get close enough to see how it works — like a prairie dog peering into a hay bailer — but not so close that you get caught up in it yourself. The investment newsletter business is perfect; it is part of the media, but it wouldn't be mistaken for a reputable part.

More than 30 years ago, we began our career publishing newsletters. Those were the days! They were even more fun than today. Years of television, heavy-handed regulation and waiting in line for airport security, have taken much of the lightheartedness out of American life. In its place, a

kind of earnest timidity has settled over the 50 states. Everything is forbidden, or else it is compulsory — especially in the financial markets. You can barely talk about an honest investment without some ambitious prosecutor wanting to make a federal case out of it.

But back in the 1970s, the folks you met in the newsletter trade were even wilder and more disreputable than those that are in it today. At one investment conference, we remember an investment advisor from East Germany. He had escaped the Soviets' grip by stealing a small plane and flying to the west. This alone made him a bit of a hero back in the '70s. But his talk to investors endeared him further. He gave the following discourse:

"Take a look a zis chart," he would begin, pointing to the bottom of what appeared to be a wave pattern. "Investing is reeelly verry simple. You just buy at zee bottom. Heere! Zen, ven ze stock goes up, vat do ve do? Ve sell. Heere! [Pointing to the top of the wave pattern.] It is reeelly verrry simple."

"Well, what if the stock doesn't go up," asked an investor, fresh off the Great Plains and not prepared for patterns or people that weren't perfectly straight.

"Ya… ve just keep our eyes on ze chart. If it doesn't go up, ve don't buy it."

We don't recall the man's name. It was something like Dr. Friederich Hasselbauer. We were always a bit suspicious of financial advisors who used the 'Dr.' title, though many did. Especially when they spoke with thick German accents. We imagined that they had been conducting experiments on Jews before they entered the financial markets.

And then there was the Quack man. His name was 'Red Robin'. As near as we could figure, he liked ducks. So he called his financial analysis 'The Quack Report.' He had once made his money paving airport runways. Then, in his

50s or 60s, he decided to devote himself to financial analysis and saving the world from a small group of criminal conspirators known as the Bilderburgers, who were in cahoots with the English government. Once, flying on the Concorde across the Atlantic, 'Ol 'Red' saw the U.K. Chancellor of the Exchequer, it must have been Lord Barber, on the same flight. He told us that he decided to confront his lordship right then and there, when he had the chance.

"I just went up to him and I said, 'I'm on to you…ol' buddy…"

It must have been quite a scene. Red Robin was a funny-looking fellow with a paunchy stomach who always dressed in orange coveralls — which made him look a little like a red-breasted sapsucker. Why he wore orange overalls, we don't know; perhaps they were a holdover from his days working on airport runways when he didn't want the cement trucks to run him down.

Red also had funny ideas about publishing investment advice. He offered readers a 'Lifetime Guarantee' — they could have their money back anytime. But then, he added a caveat: 'My life, not yours.' As it turned out, the guarantee was less valuable than readers imagined — or Red himself had hoped. He was gunned down on a beach in Costa Rica, we were told.

But that was the strange milieu in which we decided to make our career. What was delightful about it were the nuts and kooks, the charlatans and dreamers, the brazen hucksters and earnest geniuses that made up the industry. Here were thinkers whose thoughts were untainted by any trace of advanced doctrinaire theory, let alone rudimentary training of any sort. Here were mountebanks and scalawags galore… along with a few saints…dispensing market wisdom, stock recommendations, and macro-analysis so far reaching you

needed a Hubble telescope to see where it came from.

And here, too, were the sort of men whom rich widows were warned about. And the sort of theorists that made you wonder about the limits of human reason itself.

Y2K And Other Tragedies Narrowly Averted

Our friend, Gary North, somewhat of a legend in the business, began studying the possible consequences of the Y2K computer problem in the late '90s. The more closely he looked, the more alarmed he became. He began writing about the subject, and the more he explored it…the more he thought about it…the more convinced he became that it would lead to a complete meltdown of modern society. He looked and he saw commerce coming to a stop. He saw trains that couldn't run without electronic instruction. He saw cash machines frozen up. He saw power plants idled by their computer brains. And what would happen to all that electronic information — bank accounts, trading records, inventories — on which the whole financial world depended? He saw millions of people with no money…and then no food. He saw riots in the streets…and worse.

Then, he looked around and saw that he and his family were as exposed to the menace as everyone else. He decided to take precautions, moving his family to an isolated rural area where they would be safe from the apocalypse he saw coming.

Maybe he would be wrong, he reasoned. But what if he were right? The cost of being right — and failing to protect himself — could be catastrophic. He moved to a mountain hollow, buried provisions and began the countdown to the year 2000.

Of course, when the big day came…nothing happened. The clocks worked. The trains ran. The power was still on. Apparently, not a single cash machine failed.

People pointed and laughed. But was he wrong? What if the odds of a meltdown had been only 1 in 100 or 1 in a 1,000? Was he not right to give a warning in the strongest possible terms? And wasn't it partly because of him and others like him that billions were spent to correct the problem before January 2000?

Colorful eccentrics, careful analysts, cheerful conmen, and self-assured delusionals trying to figure out how things are put together — this is the world of investment gurus.

But guess what? The gurus are often right. True, some financial gurus have gone broke following their own advice. But many have gotten rich.

In the late '70s, we undertook a study — with Mark Hulbert, who is still at it — of how well these financial gurus actually perform. We wouldn't presume to summarize Mark Hulbert's nearly 30 years of work; we will just tell you want we took from it:

There is no right way to invest.

Investment gurus are an original bunch. They come up with all sorts of systems, ideas and approaches. Almost all of them are successful — sometimes. There are a lot of different ways to invest and to make money. And often one that works spectacularly well in one period may collapse completely when the market changes course. So too, an approach that often works poorly under certain market conditions will work poorly in other conditions.

But generally, an investment advisor who works hard to develop and refine a system and who sticks with it can do reasonably well, sometimes. He can be a technical analyst,

a chartist, a Graham and Dodd follower, even an astrologer. Almost any disciplined approach, pursued intelligently and steadily, can pay off.

We have a theory that explains why this is so. Investing is, when you get down to the basement of it, a competitive undertaking. If you do what everyone else does, you will get the same returns as everyone else. In order to get better returns, you have to do things differently.

Investment gurus seem to be favored, in this regard, by their own originality and quirky self-reliance.

"Sometimes right, sometimes wrong," they say. "But never in doubt."

Taken together, they are probably the most independent and contrary professional class in the world. And this contrariness, alone, seems to put them at odds with the great mass of lumpen investors, allowing them to make more — or, often less — than the common results.

By contrast, what seems to doom the average investor is the same mushy quality that seems to be ruining the whole country. He will wait in line — without a word of protest — while guards frisk girl scouts and old ladies for dangerous weapons. If the mob is large enough, he can't wait to be a part of it and fears being isolated from it. And he will believe any line of guff — no matter how fantastic — as long as everyone else falls for it too. Dow 36,000? House prices always go up? Interest only negative amotization mortgage?

A man who follows a newsletter guru has no guarantee of making money… but a man who follows the great mass of conventional wisdom is practically guaranteed that he will not.

The Trouble with Trouble

The trouble with the modern world is that there isn't enough trouble in it. Back when we began in the business, people had real trouble and they really appreciated it. Now, they just toss it off. They're not worried about it because they don't know what it really is.

When we were young, we fully expected that we would never be old. Nuclear war was a very real threat. "We will bury you," said the leader of the Soviet Union, while addressing Western ambassadors at a reception at the Polish embassy in Moscow on November 18, 1956. We thought he meant it. And during the Cuban Missile Crisis, the world was probably only an upset stomach away from annihilation. If either Kennedy or Khrushchev had been in a bad mood, we might never have lived long enough to enjoy the greatest economic boom in human history.

There was also the danger of too many people; India could never feed herself, the experts said. Food production worldwide couldn't keep up with population growth. Hundreds of millions would starve; it was only a matter of time.

As to financial matters, the average family was only a paycheck or two from total disaster. Losing a job could be catastrophic. No one had credit cards. There was no EZ mortgage finance available. Besides, adults back in the '50s and '60s were deeply suspicious of debt. It was the lesson they had learned during the Great Depression. That generation knew trouble…real trouble.

In the 1930s, one out of every four American workers lost his job — with no unemployment insurance and no welfare system to fall back on. The elder Mr. Bonner had a knack for being in the wrong place at the wrong time. He tried to escape the poverty of his family by joining the army… in

1939. Then, he thought he had gotten extremely lucky when he drew the best assignment in the army; they sent him to Hawaii. He said he was recovering from a hangover on the base when Japanese airplanes appeared overhead in December, 1941. They tried to kill him for the next three years.

But Americans had it easy during the war, compared to others. Britain was bombed for months. France was occupied. Italy and France were both battlefields. There were severe financial shocks, too. Britain went broke. France had to form two new governments and replace its currency twice.

But, imagine the time your parents and grandparents would have had, had they lived in Russia, China, India, Germany, Argentina or Japan: War. Hyperinflation. Starvation. Police repression. Mass arrests. Occupation. Bolshevism. You name it; they lived it.

As long as the generation that had lived through the Depression and WWII were in charge of things, America was in pretty good shape. America emerged the world's biggest, strongest, most innovative and dynamic economy after WWII.

But, in the 1980's, a new generation took over. It was "morning again in America". During that period, three key events caused trouble — as we had known it — to take a holiday.

First, there was the Crash of '87. Stocks fell hard. But then, they got right back up again, as though nothing ever happened. As a result, people began to think that crashes were no trouble. Even if stocks fell, they'd soon be on an upswing again. Books began to appear such as *Stocks for the Long Run*. People began to believe you couldn't go wrong in stocks, no matter how much you paid for them.

Second, in 1989, the Berlin Wall was dismantled. Suddenly, we no longer had any enemy worthy of the name. We weren't going to be exterminated in a nuclear war after all. From here on, it would be clear sailing.

Third, the neo-cons transformed the Republican Party. "Deficits don't matter," said Dick Cheney. They never seemed to matter to Democrats. Now they no longer matter to Republicans either. After the '80s there was no longer any organized political party in favor of fiscal and monetary conservatism.

Like their federal government, Americans borrowed. And so, their debt increased. Having been the world's leading creditors in the '50s and '60s, they became the world's leading debtors in the '80s and '90s. Gradually, the consumer economy required more and more debt to produce an extra unit of output. Debtors had to borrow not only to buy…but also to pay back, or pay the interest on, previous borrowings. The financial sector boomed by supplying the credit.

America's most profitable businesses shifted from making things to shuffling little pieces of paper back and forth. That's why GM created GMAC and why GE staked its future on GE Finance. And it's why the center of American economic power moved from the manufacturing hinterlands of Detroit and Cleveland to the financial centers on the coast… notably the big one in Lower Manhattan.

The Bubble Epoque

By the late 1990s and early 21st century, the American economy had entered the Bubble Epoque. The financial industry — aided and abetted by the Federal Reserve — was providing so much 'liquidity' it was causing asset prices to bubble up everywhere. Since then, every warning

turned out to be a false alarm. The dot.coms busted and it didn't really matter. The recession of 2001-2002 was so mild few people even noticed. Even terrorists disappeared from North America after the stunning attack in 2001.

Of course, bubbles always blow up — without exception. And when the dot.com bubble exploded in 2000, at first, we thought that was the end of the bubble era. But the biggest bubbles were still to come. The bubbles in housing, art, emerging markets, oil, and commodities — all blew up. Then the biggest bubble of all — the bubble in credit — blew up too, bringing the Bubble Epoque to a close.

We are now in the post-bubble era. The financial industry has been bombed out. It can no longer create bubbles. Governments all over the world are propping up the walls and shoring up the foundations.

Towards the end of last year, the days were getting shorter and shorter. Darkness covered the land — especially in Iceland, where even in the best of times, late December offers barely enough daylight to smoke a cigarette.

The authorities have gotten up to their usual antics. They've bailed out some companies, lowered interest rates to zero, and shored up the financial sector — which just happened to have very good representation in the government and its central bank — and saved the bondholders from getting what they had coming.

They've made sacrifices to the market gods, too. Unable to find any virgins in the financial sector, they threw the taxpayers down the well. And then they went after the savers (admittedly, there weren't many of them) and the next generation too.

At first, it seemed as if the "stimulus" had failed. Then, gradually, the light increased and the days grew longer. As we write this preface in the spring of 2009, after nine

weeks of rising prices, people are beginning to see the world differently, again. To simplify: it doesn't seem nearly as bad a place as it did a few months ago. Even house prices — ground zero of the financial crisis — while not actually rising are not falling as fast as they were before. And while people are still losing their jobs, not as many of them are losing their jobs each month as did earlier in the year. This has led many commentators to believe that government's expensive bailout/stimulus efforts are finally working.

And now, the mob screams: "The worst is over!" "We've seen the bottom." "Hoorah for the feds!"

But it is not likely to be so. The bubble epoque cannot be revived.

Basic Truths about The Stock Market, Housing and the Economy

So what should you do?

After nearly three decades in the business and writing our daily chronicle of the stock market and economy, *the Daily Reckoning*, for ten years, we have distilled our advice down to four dicta, a few basic truths to guide you as you navigate your way through the financial news:

Dictum Number 1: People do not get what they want or what they expect from the markets; they get what they deserve.

Of course, people would like the downturn to be over. Many are counting on it. But the market doesn't give a

hoot. He's got a "Capitalism at Work" t-shirt on and a sledgehammer in his hand.

What's he up to? He's demolishing a quarter century's worth of mistakes. There are always mistakes made. Investments go bad. Businesses go under. People go broke. When many mistakes are corrected at once, it's called a 'recession.' And when an entire economic model goes bad, it's called a 'depression.'

The economic model of the last quarter century caused more mistakes than usual. It encouraged people to spend, borrow, and speculate. And each time the market tried to make some corrections, the authorities came along with more money and easier credit. Businesses that should have gone under years ago kept digging themselves in deeper. Homeowners kept running up more debt. Speculators kept taking bigger and bigger gambles.

Fish gotta swim, birds gotta fly, and bubbles gotta blow. The bubble in the financial sector — including subprime debt, housing prices, bonuses on Wall Street and derivatives — hit the fan in 2007. And what a mess!

And why shouldn't it be?

Which brings us to the second of our dicta:

Dictum Number 2: The force of a correction is equal and opposite to the deception that preceded it.

The delusions and absurdities of the Bubble Epoque were monstrous. Naturally, the correction must be huge too. World stock markets were nearly cut in half. Property prices too have been knocked down almost everywhere. The total loss of nominal wealth has been estimated as high as $50 trillion.

In the first quarter of 2009, Warren Buffett's company,

Berkshire Hathaway, booked its first loss since 2001. Fifty-nine banks have been shut down over the past eighteen months. America's leading banks say they need another $75 billion to keep their doors open. And Fannie Mae said it lost $23 billion; it will need $19 billion more to continue jiving the housing market.

Could these losses have been prevented?

Certainly many of them could. If the U.S. Congress had never created Fannie Mae, for example, it never would have distorted the mortgage market as much as it did. And if the feds hadn't created the Federal Reserve Bank, it couldn't have provided so much ready money for so many speculators and borrowers. And if the Fed under Alan Greenspan had done what it was supposed to do — that is, to "take away the punch bowl" before the party got out of control — the bubble in the financial sector probably would have been much more modest.

Of course, people drew all the wrong conclusions. They thought "capitalism failed." They saw the car drive off the cliff…but didn't notice how government had twisted the road signs. Instead of warning investors of the dangerous curve ahead, the Fed's low lending rates said: 'Step on the gas!' Congress, despite their recent collective cry of disbelief, helped pushed down the pedal.

Dictum Number 3: Capitalism doesn't always take an economy where it wants to go; but it always takes an economy where it ought to be.

Whoever was responsible for the mistakes, capitalism went about correcting them with its customary élan. It hit imprudent investors with trillions in losses. It knocked down mismanaged corporations. It whacked homeowners… and pounded housing-based derivatives to dust.

Capitalism operates by a process that the great economist Joseph Schumpeter called "creative destruction." It destroys mistakes to make room for new innovations and new businesses. Unfortunately, this puts it at odds with government and what most people want. When people make mistakes, they maintain that they are blameless. "Who could have seen this crisis coming?" they ask. "And," they say, "someone else should pay for the loss."

So today, the feds, who mismanaged their regulatory responsibilities during the bubble epoque, are bailing out mismanaged corporations in order to protect lenders who mismanaged their money. They are determined to prevent capitalism from making major changes — in the worst possible way.

What's the worst possible way? Simple. Leave the mismanagers in place. Keep the brain-dead companies alive — along with the zombie banks. Let the government take ownership of major sectors of the economy. And stick a debt-ridden society with even more debt!

The federal government is expected to borrow $2 trillion this year alone. From whom? And who will repay it?

Dictum Number 4: The severity of a depression is inversely correlated with government's efforts to stop it.

The more the feds try to delay and distract the process of creative destruction, the longer it takes to get the job done. And the higher the eventual bill.

There are only two fairly clear examples in modern history. After the crash of '29, the Hoover and Roosevelt administrations tried desperately to stop the correction. They could not make bad debts disappear, nor turn bad decisions into good ones. All they could do was to retard the necessary corrections — and cause new mistakes! It wasn't until after

WWII, 15 years later, when the New Deal was largely forgotten, that the United States got back to work.

Similarly, when Japan was confronted with a major correction in 1990, its politicians followed the Hoover/Roosevelt model. Over the years, an amount equivalent to almost an entire year's output was applied to recovery efforts. But all they did was to prevent and forestall the needed changes. Now, 19 years later, the Japanese economy is still in corrective mode… still fighting deflation.

Is that the end of the story? Not at all. The feds' efforts to stop the progress of capitalism will have some spectacular consequences. The fireworks will start when the bond market cracks sending yields through the roof, for a nation addicted to debt cannot sustain a credit crisis for long. And that is where today's story begins…

Financial Reckoning Day Fallout **is available through the following links:**