

## **BIG WAVE ALERT – THE IMPENDING FINANCIAL CRISIS**

This **big wave alert** will discuss three aspects of the impending financial crisis: rationale, history, and prediction.

### **Rationale: The answer – inevitable not avoidable**

**March 29, 2011** -The Financial Crisis Inquiry Commission (FCIC) discovered, after a year of hearings, that the financial crisis was avoidable. Wrong! Once money guys sense blood in the water, they rapidly converge like sharks. Money flows and new financial products move forward. Excess is always in vogue. It is the nature of capitalism. The current recession is due to innovation created over the last few years by the Wall Street gang and their enabling political brethren. This is neither the first nor the last financial crisis that will occur. Hopefully, when we get out of the current crisis, the next crisis will not be so large as to nearly bring down civilization. And, we will not punish the taxpayer.

If you believe the FCIC hearings, then the entire economy of the world had nearly been brought down by invisible evil doers. No one would admit that they were actually part of the fiasco. It is clear that the Wall Street bankers do not understand their effect. They believe that their actions are

justified because they are financial innovators. They pictured themselves as great innovators doing everything according to the rules.

The Democrat Wall Street guys are no different than the Republican Wall Street guys. This is not a political statement, it is fact! What you hope is that you can hide below the radar of their greed and not get hurt by their bad behavior. They will continue to innovate, and eventually, they will all use the same algorithm, their model will fail and all hell will break loose.

The FCIC should be renamed the Financial Crime Institutionalization Committee. Its results will be used to build a new set of rules to be bent and morphed to the benefit of financial innovation that will be dangerous to our health. The rules may not even be enforced, so be careful investing. We need to consider ourselves lucky that this cast of characters was relegated to just running money. What would have been the result if they were in the biological agent business? The real issue is that financial firms got so big that some people believed they could not be allowed to fail. Just like generals who study history and fight the current war using the tools, weapons and tactics of the last war, the governments in countries where the financial crisis occurred used the tactics from previous crises. They just

flooded the system with money and stuck future taxpayers with the bill for the bailout of Big Buck Banker and his buddies.

No matter what we do or try, we cannot see how things are going to turn out in the future. Even when we observe an event that lets us understand the status quo, we need to be wary of unintended consequences. We try to conceive of every possible outcome, but we are only able to verbalize things that we have seen in the past. A new set of rules is coming and financial innovation is in the air. The next crisis is not visible, but it is inevitable. It is not avoidable!

### **History: Financial Crisis – Happening About Every Ten Years**

A brief history of recent financial crises indicates that these meltdowns seem to hit about every ten years and can take about five to seven years to get resolved (where resolved indicates that the worst is over). There is still overhang, investigations, etc. that come later and the participants never completely recover from the resulting financial losses. Yet tons of money is made by both the perpetrators and some of the astute visionaries. A simple summary of some of the recent crises is provided below:

1 - New York City Financial crisis 1970s – starting in 1968 and ending in 1975 with the investment by the teachers union of \$150M, New York was on the verge of bankruptcy.

2 - Financial malaise throughout the 1970s - financial problems hit the US for nearly ten years with high inflation, high unemployment and no job growth with costs that were not measurable.

3 - Latin debt crisis 1980s – starting in the late seventies and climaxing in 1982, debt crippled Latin America and forced the Latin America Countries to pay back \$108 billion, but the cost to the big banks was not fully measured.

4 - Savings and loan crisis 1990s – starting in the late 1980s and climaxing by 1995 there were 747 failed institutions with losses totaling \$87.9 billion.

5 - Internet bubble 2000 - starting with a dot. com boom in 1995 that busted in 2000, 371 publicly traded Internet companies grew to the point that they were collectively valued at over \$1.3 trillion.

6 - Derivatives and Ponzi Schemes of 2008 and 2010 – using loan securitization schemes the bankers allowed liar loans to the point that by September 2010 23% of U.S. homes were worth less than their mortgage

loan resulting in trillions of dollars in real estate being underwater – further, a number of well know Ponzi Schemes totaling billions of dollars robbed unsuspecting investors.

## **PREDICTION – BIG WAVE ALERT: THE NEXT CRISIS**

The next crisis is already coming! As we move to fix one crisis and implement new rules the next crisis has already started. Our prediction is well reasoned, researched and is in its starting phase right now.

There are three converging situations that will contribute to the inevitable next financial crisis: timing, new security strategies and the growth of China.

The details are given below:

1 – once a crisis has occurred the financial people move to their next strategy to make money, but greed takes a long time to simmer and we can expect that the next crisis will occur around 2018 to 2020

2 – a big new security strategy is for people to be able to buy restricted shares offered by current shareholders in illiquid companies and an example of this process is the recent emergence of companies such as secondmarket.com and the recent packaging of restricted stock purchases by large brokerage houses for qualified investors

3 – the growth of China will cause a rapid push for investors to get assets allocated to emerging Chinese stocks regardless of the lack of financial standards and credibility for these companies

**Prediction – A specialized market place will emerge that is designed to provide special mutual funds, hedge funds, etfs and other financial vehicles to sell prepackaged Chinese stocks to individual investors, pension funds and municipal governments that need to improve their investment results. This will create the environment for a multi-trillion dollar financial meltdown!**

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