THE FATE OF GOLD & OIL

IS GOLDMAN EYEING UP PAULSON FOR THE NEXT PANIC TRADE?

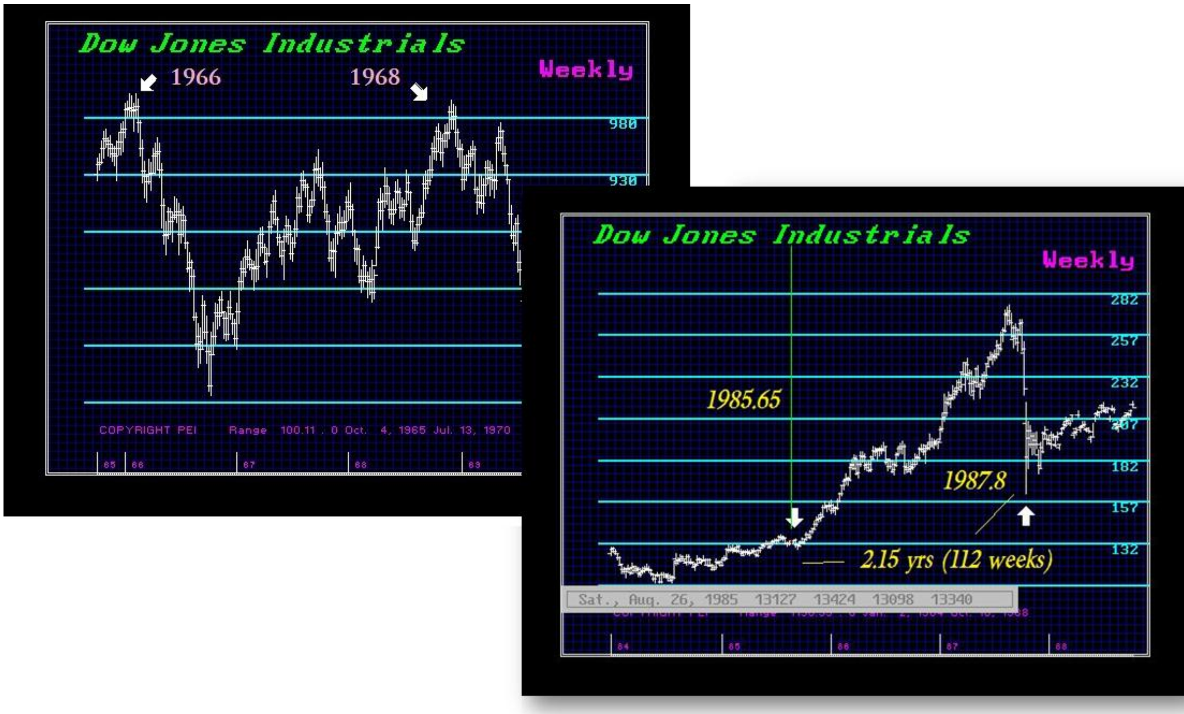
John Paulson

Is Paulson Being Eyed For the Next Panic Trade?

Copyright July 4th, 2011

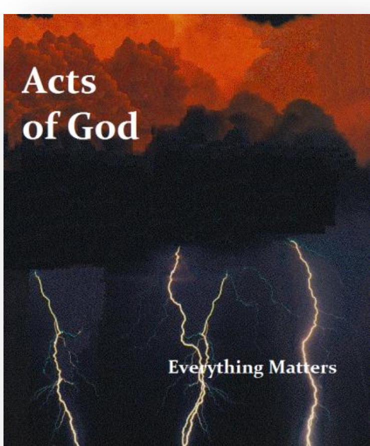
By: Martin A. Armstrong
former Chairman of Princeton Economics International, Ltd.

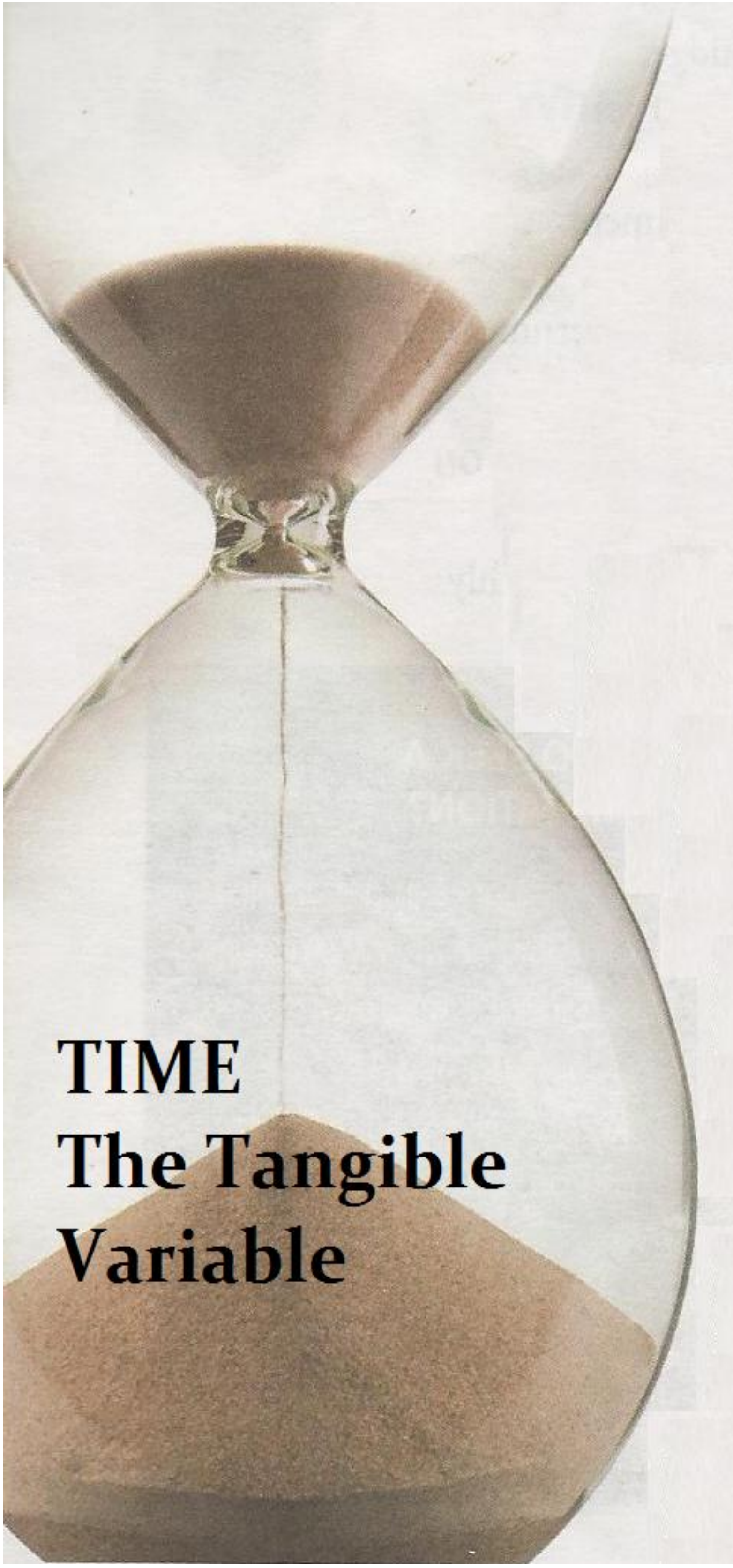
PEOPLE who have not been **Behind the Curtain** have no clue what is really going on. The aggressive nature of trading came entirely from the commodity side nurtured in the Futures market. This was a world where problems could be solved. This included everything from hedging to constructing synthetic products to accomplish a particular end. This is where I grew up in the 1970s. It was a dynamic world where innovation exploded. The world of the stock market was highly regulated by the SEC. There were so many confusing regulations that real growth and innovation did not really exist. In stocks the number one strategy was to **buy and hold** expanding the database to argue that it was far too risky to try to pick tops and bottoms. Stock brokers had generally discouraged trading. It was all about **buy** – **buy** – and when it goes down – **buy more!** In the world of Commodity Trading, it also became an important factor of also knowing who was doing what, when, where, and how. A commodity trader, who becomes also a broker, has a degree of inside information as to what the portfolios of his clients look like. There is **TOO BIG TO FAIL**, but then there is also **TOO BIG TO IGNORED**!



The lack of trading skill in the share market side was produced by the lack of any real sustainable bull market. Between 1966 and 1985, the Dow Jones Industrials had tested the 1000 level numerous times never really managing to get through that barrier. The break only took place when the **Economic Confidence Model** turned in 1985.65 marking the **END OF TIMES** for the **Public Wave** and the birth of a **Private Wave** that we are currently completing. The distinction between the two wave formations was where confidence resided. **Public Waves** produced periods historically where confidence was high in government and as such people tended to trust government suppressing the private sector innovation. This produced the BUY and HOLD ideas and bond investing.

The Commodity World was a crucible in which **REAL** traders were forged. It was a world where absolutely everything became a variable and could not be ignored. I have often been asked why I incorporated weather and earthquakes into the model. The **San Francisco Earthquake of 1906** was the catalyst for creating the **Federal Reserve**. **Acts of God** are excluded often from many insurance policies. But in fact, they were the wildcard that more often than not, dictated the fate of even nations (*i.e. recent Japanese earthquake*). It was the **Dust Bowl** of the 1930s that was a 7 year drought which forced a workforce still 40% agrarian off the farm and into the world of skilled labor. The **Great Depression** was the final act that made the **Industrial Revolution** complete. We only hear about the





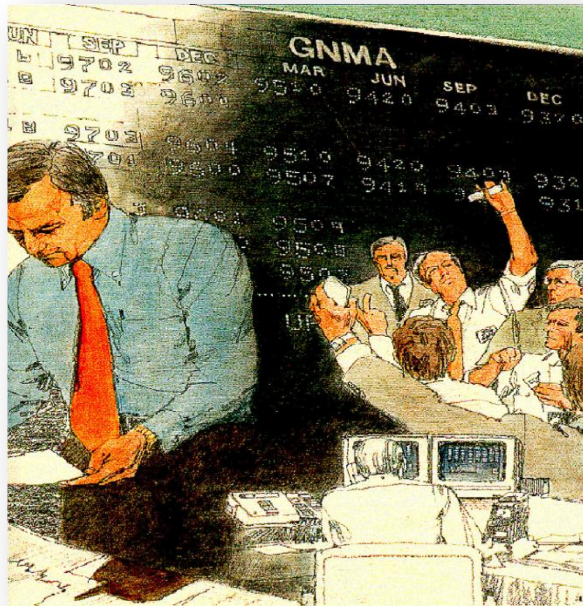
NEGATIVE effect of the **Great Depression** – never the **POSITIVE** side of a natural economic evolution process.

All the innovation was on the Commodity Side. A good trader had to broaden his viewport and see everything around him at all times. This had honed the skills and taught you how to dynamically think rather than the linear world of stocks.

TIME itself became a **TANGIBLE VARIABLE** that had to be understood and taken into account. For you see, the earliest contracts from Babylon show the existence and importance of **TIME**. Futures trading began long before stocks. In ancient times, Rome came up with the concept of a corporation (*limited liability*) rather than mere partnerships. Shares would actually trade in the Temple of Castor. Contract debts were trading as was the right to be a "***tax-farmer***" in particular regions.

The idea that a farmer could borrow money to plant a crop even in Babylon gave birth to the term "**INTEREST**" for what he was selling was a piece of the profits should the crop come in as planned. The buyer assessed the risk, and that risk had a price. We use this term **INTEREST** that truly reflects an "*interest*" in your operation that you are giving up to another to gain access to capital. **TIME was now TANGIBLE, and it had a PRICE.**

In the Commodity World, not merely did **TIME** become a **TANGIBLE VARIABLE** with a price often called the "***carrying cost"*** as each futures contract out in **TIME** was progressively higher in price, but it became a quantified element to solve problems. For example, in the Muslim world, they were prohibited from earning **INTEREST** on their money. To solve that problem, the solution was to buy commodities and sell them forward. This became the **CARRY TRADE** whereby one truly earned **INTEREST**, but it was characterized as selling under a contract for future delivery. The age old farmer in Babylon who would sell his crop before it was harvested gave birth to this whole idea of **TIME** becoming a **TANGIBLE VARIABLE** with a distinct price.



Yet because commodity prices could be affected by a host of variables within nature as well as an act of war, one had to develop a global perspective. When the currencies began to float in 1971, **ONLY** a seasoned **Commodity Trader** would even know what to do. The Stock broker with the **BUY** and **HOLD** approach was lost and ripe for the plucking. Futures trading expanded into debt instruments. Hedging was now possible in light of the rising volatility in interest rates that began in the post-1971 period. S&P 500 futures trading did not begin until 1985. The skills of commodity trading were expanding to all areas of the financial markets.

No doubt, young traders today would laugh at a ticker-tape machine. I was probably the last guy in the US to use one. **TransLux** came in and demanded to take it. They would no longer support the product.

There was something lost when the industry went to screens. The main two things were **SOUND** and **REVIEW**. The noise made by these machines honed your senses in an additional way screens do not. On a quiet day, you could just listen to the tick, tick and tick sounds that were slow placed. You knew nothing was going on. Then on a crazy day, the ticker would sound like a machine gun. You learned to **SEE, SMELL, TASTE, AND LISTEN** to the blood pouring out on the trading floor. A good trader could even close his eyes for the sound would produce the pace and that was critical. However, the paper tape did something even more. You could pick up the tape and **REVIEW** each trade to see the volume. Today, a flash on the screen masks both the pace as well as **HOW** the market is truly trading. Did someone sell one lot or 10,000? A lot was lost when screens appeared.

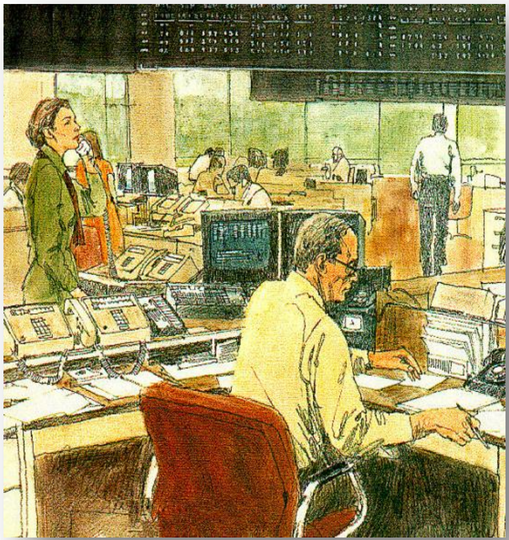
Unlike stocks, the **Commodity Field** was also all about **WHO** was doing **WHAT**. This was not **INSIDER TRADING** as long as you were not a broker. The industry became all about **WHO** your adversaries were. It was a poker game and now you had to read the cards, and the players. For in the early days, manipulating commodities was the name of the game in the agricultural field. Product would be moved around to create false images of shortages that would send prices up for a day or two. The game was becoming rigged.

Going into 1980, silver was the name of the game. Working as a teenager in the bullion industry, this tendency of keeping track of who was doing what led me to first hear of the name the **HUNT BROTHERS**. They were buying silver when it was $1.29. They did not become a household name until the cycle was near completion most likely as a ploy to get the small investors buying the high. For you see, they needed to hype the market for silver has always been the poor man's gold. The bulk of the long contracts are always in the hands of the small investor who the professionals rely on to make a killing.

I was young and naïve, and in the early 1970s I was building my credit with the local bank. I went in and asked to borrow $100,000 when that used to be a lot of money. I gave the reason that I wanted to buy silver. I told my banker about the **Hunt Brothers** and that silver would go from a few dollars to maybe $20. It eventually went to $54. The bank turned me down. The banker told me I should have said I wanted to buy silver for inventory. He said the board turned me down because I said I was just speculating. When silver hit $54, my banker was completely stunned. He remembered me looking to borrow to speculate in silver and I told him the name of the buyer being the **Hunt Brothers**. He asked me, how did you know about the **Hunts** were going to corner the market 8 years in advance? The **Hunts** were big buyers in the cash market back then. That is simply the way the industry was. You had to know who the players were. He lamented not buying silver when I was trying to borrow in 1972. But the **Hunts** had become the target.

Nelson Bunker Hunt

The **Hunt Brothers** fiasco also taught me another lesson. I watched them become prey. When the market manipulators wanted everyone in, they began to talk up the **Hunts** aggressively about 6 months from the high. They gave the target as $100. Whether the **Hunts** really believed that hype I cannot say. I seriously doubt it. I believe $50 was their target. I then watched them become isolated and trapped. They couldn't sell a single ounce of silver without the brokers jumping in front of them anticipating an avalanche of selling on the way. The real manipulators had the **COMEX** exchange raise margins and create a disparity whereas it was a fortune to go long, but a pittance to go short. The **COMEX** was in New York and the game was afoot. Margins were always the same if you were long or short. The real manipulators got a free ride and they forced the **Hunts** into liquidation.



As usual, the real manipulators were the brokers who trade off of the knowledge of the players. This time they rigged the exchange as well and of course no one was prosecuted. The **Hunts** took all the blame. They were summoned before Washington and deep-fried then grilled. They were put into bankruptcy and although portrayed as greedy speculators, **BEHIND THE CURTAIN** the real manipulators were rolling in the big bucks.

PhiBro (Philips Brothers) made so much money they now made a bid for **Salomon Brothers**. They were the real leader of the pack in those days. Everybody watched what **PhiBro** was doing and to whom. Another member of the pack was **J. Aron & Co**.

The competition between **Goldman Sachs** and **Salomon Brothers** (***Solly***) was always there. When **PhiBro** and **Solly** were joining at the hip, **Goldman** began looking around to follow in the footsteps of this merger. They too wanted commodity exposure and bought the trading house of **J. Aron & Co.** to compete with **Solly**. **J. Aron & Co**. was an old commodity house that began in New Orleans in 1898. It moved to New York City in 1910 in time for the commodity boom with World War I. The firm was named after **Jacob Aron** who was part of the Jewish community at that time. **Jacob Aron** learned the commodities business from his uncle, a Chicago meatpacking agent. In 1898 he formed a partnership with his brother-in-law, **Leon Israel**, to import coffee into New Orleans. The partnership rather quickly dissolved, but **J. Aron** continued. **Jacob** made a fortune during a plague. In 1905 a yellow-fever epidemic hit New Orleans, making it very difficult for ships to land their commodities. **Jacob Aron** was able to turn the shortage of coffee into high profits when the price increased dramatically as supply diminished. After making a fortune in 1905, **Jacob** made his friend and employee William B. Burkenroad a partner in the business and later left him in charge as he moved his family up to New York in 1910. As a commodities broker, **Jacob** wanted to be closer to the New York exchanges where all the action was in those days. Burkenroad's son, William B. Burkenroad Jr., came on to take control of the company in the 1930s. He worked for the company for some sixty years. Eventually, the firm exited the coffee business in 1978.

J. Aron & Co expanded into the metals trade during the late 1960s after gold became a free market in London and the official line was that there was now a two-tier pricing in gold as of 1968. There was the fixed official rate, and the open market rate. With the beginning of the floating exchange rate in 1971 and the closing of the gold standard, the 1970s became the decade of inflation and commodities that would rise into 1980 for the bubble that would last for about 21.5 years. **J. Aron & Co.** rose from a capitalization of less than $500,000 in the late 1960s to $100 million by the peak in 1981. **J. Aron & Co** had become the largest trader in gold doing more volume in dollars than the biggest of any of the Dow stocks. This was all on the hype of the **Hunt Brothers** and the days of inflation.

Being a commodity firm, **J. Aron & Co** was actively trading currency that the banks did not understand. When currency futures began, they were arbitraging the futures against the cash currency markets at the commercial banks before the banks even knew what arbitrage was back then. The cash markets provided by banks were an accommodation rather than a profit center.

J. Aron's business in precious metals was the key. This was the beginning of gold lending. Banks holding gold would start to lend it to **J. Aron & Co** at 0.5%. This was a business that was starting to explode. Myself, I was making markets in gold as well and with friends in key places, I was able to do over-night trading that competitors just couldn't figure out what I was doing. They all assum4ed I was just speculating for I would make markets after the US markets closed. What they didn't know was I had a guy, the late Francis Lee in Hong Kong, where I would lay-off what I bought after New York markets closed. But delivery had to be made in London the next day. So I would borrow gold in London, make the delivery, and then swap them a **COMEX** New York contract I would buy that day and they were arbitraging New York-London. I later showed a London firm how to do this wild overnight trading, and finally got some sleep after the 1980 high.

After the whole 1980 Commodity Boom, everyone expected commodities would rebound. Oil hit $40, silver $54 and gold $875 on January 21, 1980. Everyone wanted to become a commodity trader for the Dow Jones had kept bouncing off 1,000 so why not go where the action was. It was October 1981 when

Goldman Sachs purchased **J. Aron & Co**., for $135 million. It was in fact the top of the game. Although they had bought the high, they were importing the commodity culture of trading that would in fact lead to the firm's trading reputation. Its current head, **Lloyd C. Blankfein**, came from **J. Aron & Co** and has now focused **Goldman Sachs** as a mean, lean, trading machine.

I became the spokesperson for the American Gold Counsel for one year. I flew from city to city doing all the media in a day, TV, radio, and print. They liked my forecasts on gold in the mid-1970s so they rolled me out for a media tour. It taught me a lot about the whole marketing stick. You had the list of questions that you rehearsed before the camera rolled and you played your part. They would ask the scripted questions and you responded – "***I'm really glad you asked that.***" Media was canned and served usually cold. The experience led me to see a lot of this was just showmanship.

It was the **Hunt Brothers** that made everyone rich – including myself. This was when a $1 million use to really mean something. I was doing $30 million a month at that time. It was a period where I was so busy you had no time to even count what you made until the game was over. I was going to retire until friends complained the forecasting would stop. But what I observed was truly diabolical. It was one thing to know your adversary. It was something altogether different to manipulate markets. Over the years, they used the agricultural tricks with inventory and moved silver from NY to London to create false images of a shortage. Using the media was another tool. The **Hunts** became the patsy. All of a sudden, they were all over the place. The average small investor knew their name and felt they were now buying silver with the big boys. What they didn't know, the real big boys were getting ready to serve up the **Hunts** for supper and needed as many little guys in the market as possible.

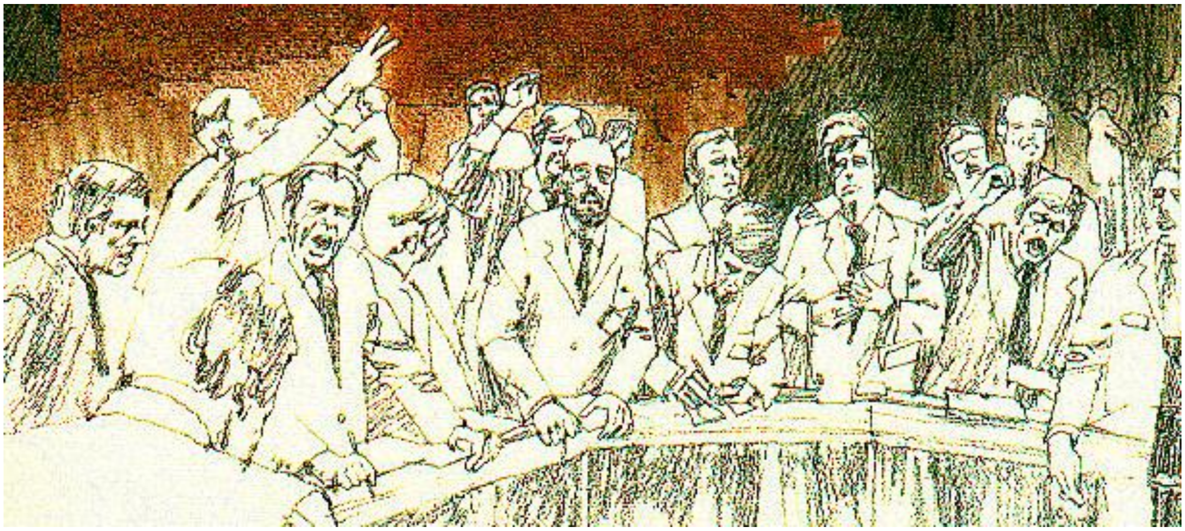
The real market manipulators played the press for what it was. They began leaking the **Hunt Brothers** name and set the press in motion. It's all part of the script. By touting the **Hunt Brothers** they were setting them up for the fall-guy. Once they made them a household name, this would create legions of small buyers and increase the pool for short positions. Every contract the small investor bought, the larger the potential short positions among the manipulators became. I watched them serve up the **Hunt Brothers** that now everyone paid attention to. I then watched them front-run them, slicing and dicing them while orchestrating the **COMEX** behind the scenes. **ONLY** registered houses could rig the game.

That lesson stuck with me and as I took on the project of hedging the largest position in Platinum equal to about 40% of the entire market for the **Aristotle Onassis** group, I was at the top of my trading game. Aside from having to notify the CFTC of the position and having to prove I was a hedger with actual product, I was suited up and ready to face the brokers and to try to beat them at their own game. I knew I was now the **Hunt Brothers** in a different market. I knew whatever I did the brokers would try to read me like a poker game. I was forced to create strategies that incorporated like markets to create diversions when it was critical to do so. If I needed to sell a bunch of Platinum, I would have to buy a small amount of gold and silver to create the impression I was a buyer. The brokers would move the spreads accordingly trying to make that extra-buck. When they moved as I wanted them to do, I then sold, intentionally taking a small loss on the gold and silver, but I was out of the platinum and that was what counted.

Of course, **Salomon Brothers** who had been the king of Wall Street, managed to get caught manipulating the US Treasury auctions. The trading skills from the commodity world were now infiltrating Wall Street thanks to the merger of **PhiBro** & **Solly**. This crisis emerged in 1991. As the story goes, for ten months **Warren Buffett** spent time at **Salomon Brothers** as its chief executive. On what **Warren Buffett** would later tell friends was "***the most important day of my life,***" Sunday, Aug. 18th, 1991, the U.S. Treasury first banned **Salomon** from bidding in government securities auctions. **Buffett** pleaded passionately to abandon that sanction arguing Salomon was too big to fail back then. He argued that such a ban would force the company into bankruptcy setting off a threat to the entire world's financial system. I do not believe that assessment was correct and at best it was a gross exaggeration. Nonetheless, it worked and the revocation was rescinded.

Charles D. Ellis wrote "***The Partnership"*** about **Goldman Sachs** and admitted that its trading expertise came from **J. Aron Co**. so those who rush to always defend **Goldman** and are given "awards" for other writings and are sent out to defend them, should read his book. This trading expertise acquired from the commodity world made **Goldman** a lean-mean-trading-machine. But there was always the risk of government intervention and after the **Salomon** incident, **Goldman** turned to organize a takeover of government. In just four years, there was the Mexican bailout of 1995. **Goldman** planted **Robert Rubin** now as **Secretary of the Treasury**. **Rubin** drew serious criticism from Congress for using a Treasury Department account under his personal control to distribute $20 billion to bail out Mexican bonds, of which **Goldman** was a key holder. This was **Goldman's** first guaranteed trade using government as the bailout. On November 22, 1994, the Mexican Bolsa stock market admitted **Goldman Sachs** and another firm to operate on that market. The 1994 economic crisis in Mexico threatened to wipe out the value of Mexico's bonds held by **Goldman Sachs** ending the firm right then and there. **Rubin** saved the day.

There are traders, and then there are brokers. Not all brokers are front-runners such as those who targeted the **Hunts**. Normally, the ones who are engaging in proprietary trading are the ones to watch. If you are going to play with them, you have to keep your hand close to your vest. The typical broker at a local firm or even at a name brokerage house is **NOT** in the business of trading positions against you. That is a specialty that belongs to the **Investment Bankers** after the merging with the commodity trading world. The **Investment Bankers** became really hedge funds with **INSIDE** knowledge of who had what position. **TRADING** became the ***<u>number one</u>*** objective for profits. The big **Investment Bankers** have lost the traditional industry objectives as trading became the primary objective for huge profits. Those who may have watched **Andrew Sorkin's** "***TOO BIG TO FAIL"*** on HBO heard **Lehman Brothers** complaining about the shorts. What they were really concerned about was the aggressive nature of some **Investment Bankers** who see the game of winning and ignore the ramifications for the long-term. They fail to see they are tearing down the entire system just to make a profit rather than acting as a regulated banker. Aggressively selling **Lehman Brothers, Bear**, and **AIG** were all winning trades; but at what cost? There has not been a single new **Investment Banker** to emerge in the last 25 years in the US. Competition is annihilated, and this creates an uncompetitive world of an oligarchy and monopoly.



FRONT-RUNNING

Front-Running has been a commodity sport for as long as I can remember. You had to worry about brokers on the floor who see your order and jump in front. While regulation is supposed to prevent that, there is nothing to prevent one broker from showing the order to a friend. Front-Running is slightly different from manipulation. This is when you know the position of someone, and you jump in front selling everything in sight because you **KNOW** they will then be forced to sell as prices decline and you can cover your short by buying against their sale. A really SMART trader could easily set up the **Investment Bankers** who will only trade on the moment. Convince them you will panic and have to bail out of a long position, they will **SELL** and jump in front and that is when you should be quietly buying through an alternative source. If you desire to give them a taste of their own medicine, when you think they are loaded up, you then go in and **BUY** as if it were a panic in the opposite direction. What you will see is how quickly the might will fall.

While there is a quiver full of silver arrows to deal a swift blow to the Front-Runners, more often than not, they smell blood and it is probably yours if they guess the correct size of your portfolio and can listen to the tremor in your voice. When you are just approaching the **TOO BIG TO FAIL** level and don't have the government waiting in the wings to buy your losses, you can also become the sacred cow being prepped for the slaughtered. The Front-Runner will jump in front and sell the shit out of your market knowing that your pain threshold has been reached. That is how they bankrupted the **Hunts**. The front-runners were there ahead of **Long-term Capital Management**. They were there in **Lehman, Bear Sterns,** and **AIG**, and just about every other famous collapse.

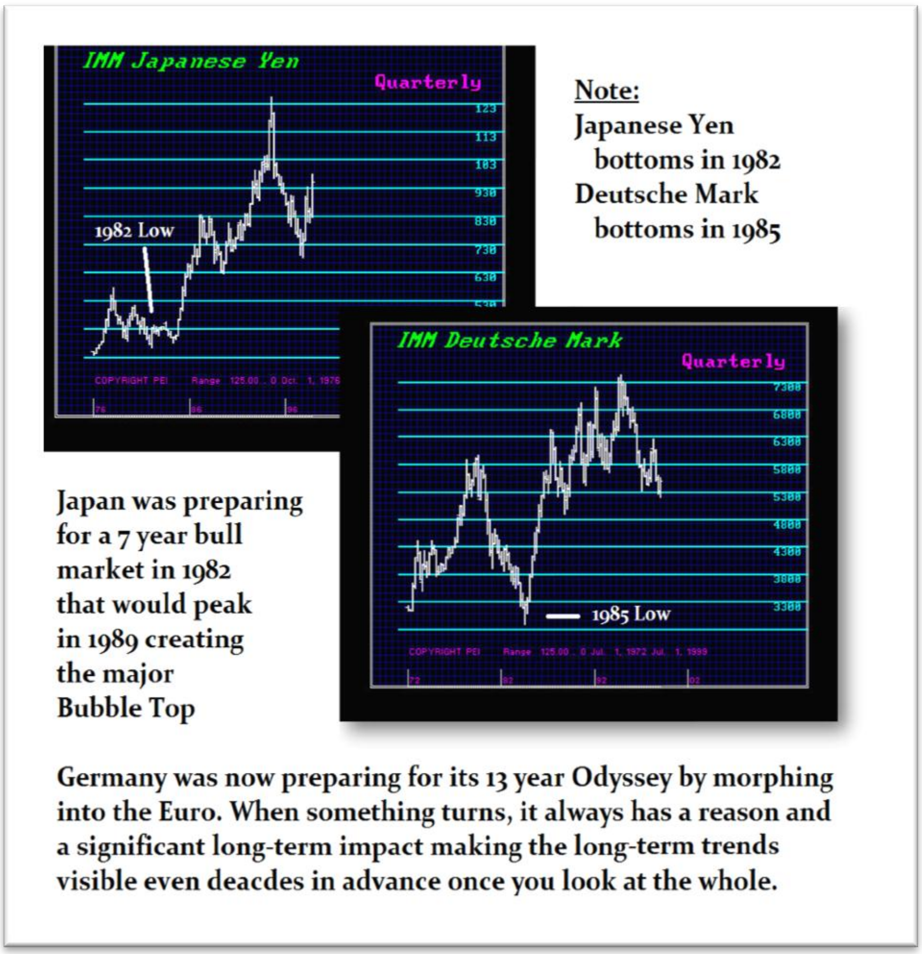
Make no mistake about it. There is no loyalty. You can do a ton of business with a particular Investment Banker. However, if he sees a profit over your dead corpse, prepare for death for you will be the next target. Now with government no longer a threat being subordinated to Wall Street, the game has gotten way out of control. The risks have now risen to a systemic level that threatens society as a whole.

John Paulson's 20% Loss

When you manage a shit-load of money, you have a far greater problem than most investors realize. It is not **TOO BIG TO FAIL**, but rather it becomes **TOO BIG TO TRADE**. You can turn a speedboat sailing circles around a battleship no less an aircraft carrier; but you cannot sail circles around a speedboat with either no less a frigate. There is a smell in the air that **John Paulson** could become the next target of the aggressive **Investment Bankers**. Unfortunately, **Paulson's** portfolio is virtually public knowledge. When the pickings are getting lean as capital is being driven from the United States with a cattle prod by the Justice Department, SEC, and CFTC, there is no loyalty to be found in New York and as such, with a 11 year high in metals and hints that the government will sell strategic oil supplies to force the oil price lower, it is time to start looking around the playing field to see who has the juice to be squeezed.

Gstaad, Switzerland

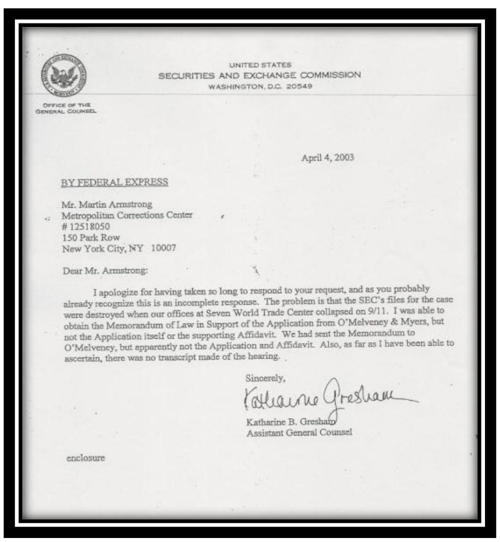
There is always a danger letting the **Investment Bankers** know your position. This is especially so when we are talking about **TOO BIG TO TRADE** for by default you fall back into that **BUY** and **HOLD** category. In the early 1980s, **Merrill Lynch** called me up and was willing to pay my full hourly rate plus all expenses if I could teach one of their top clients how to trade. It was a highly unusual request. When I asked if they understood what the bill would be, they said yes! I replied this must be a hell of a client. I was told he lost $25 million in a single day when the biggest hedge fund was $100 million at best. I was told they knew the cost and there was plenty more where that came from. On top of that, they wanted me to fly to **Gstaad, Switzerland**. I had other clients to see in Saudi Arabia, Milan, Paris, London, Austria, and Germany, so I decided I would take the challenge. I had always been so busy, I never learned to ski. I had an induction trial by ordeal learning on the slopes of the old Olympic Downhill course at **Gstaad**. For the client wanted me to ski with him every morning before market opening. What I quickly assessed was this oil tycoon knew they were gunning for him and he would not use stops for fear they would just run them. He learned the hard way that there was a downside to being **TOO BIG TO TRADE**. It was now a pocker game and you had to know when to hold them; when to play them; and when to fold them as the song said.



The early '80s when **Salomon** and **Goldman** where just starting to get their feet wet in the trading world, there was plenty of front-running from the commodity brokers. The markets were expanding and **OPEC** had accomplished something generally overlooked. It produced a very major **CONCENTRATION** of capital that was simply a vast reservoir of cash. It took some getting use to on my part. I had a Saudi client who loved playing the **DMark-Yen** cross rate. The popular trade was long Germany, short Japan. The computer model came up with a forecast I was not entirely sure about. This would be one of the reasons I created a verbal interface to be abe to talk to the computer since its forecasts at first I did not always understand the reasoning behind the conclusion. It had accurately predicted the British pound would fall to par going into 1985 and that the British economy would realign itself with commodity producing nations. Ok, I could see that one with the whole North Sea Oil discoveries in the late 1970s. But flipping Japan and Germany? This one was much more difficult.

The PEI computer projected it was end of the **DM/JY** trade and that Germany would fall into 1985 but the yen bottomed in 1982. I called the client and told him to get out of the trade. He asked me how. I said just get out at the market. By the time I got home that night, my phone was jumping off the hook. The **DM/JY** Cross had jumped 125 basis points the biggest in history up to that time. I asked what was going on, and the reply was nobody knew and the rumor was that there had been Japanese central bank intervention. I called the client worried he just got killed fearing I hadn't given him enough time. He was laughing. I asked what was so funny? He told me it was him. I asked how many contracts did he have? He told me 40,000 spreadout at various banks in the cash markets. He got them all on the phone using his staff and had the smarts to sell them all at the same time. Holy hell was just born. It was a $4 billion trade pre-1985 the biggest O had ever heard of. I had up to this point assumed someone's portfolio was private and I had not asked them to reveal their positions. I now realized I had to know what I was advising on for **HOW** to get out of a trade was just as important as the trade itself.

He called me a few weeks later. He had rented the Presidential Suite at the **Waldorf Astoria New York** for me where they had JFK's rocking chair, and he and his partners would fly in to see me. When I asked what was the meeting about, he replied they now wanted to talk about "serious" money. I responded $4 billion was not serious? He replied, that was just his personal account. Now they wanted me to advise their businesses. Aside from picking up the phone and patching me into OPEC meetings on speaker phone and the occasional war the knew when it would start, my eyes were now wide open. By the end of the decade, I was advising on portfolios more than half the size of the US National Debt. I had graduated – I was now beyond **TOO BIG TO FAIL** – it was a new world of **TOO BIG TO TRADE.**


UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

OFFICE OF THE GENERAL COUNSEL

April 4, 2003

BY FEDERAL EXPRESS

Mr. Martin Armstrong
Metropolitan Corrections Center
12518050
150 Park Row
New York City, NY 10007

Dear Mr. Armstrong:

I apologize for having taken so long to respond to your request, and as you probably already recognize this is an incomplete response. The problem is that the SEC's files for the case were destroyed when our offices at Seven World Trade Center collapsed on 9/11. I was able to obtain the Memorandum of Law in Support of the Application from O'Melveney & Myers, but not the Application itself or the supporting Affidavit. We had sent the Memorandum to O'Melveney, but apparently not the Application and Affidavit. Also, as far as I have been able to ascertain, there was no transcript made of the hearing.

Sincerely,

Katharine Gresham

Katharine B. Gresham
Assistant General Counsel

enclosure

The real touch of irony came when the government stole the **Princeton Economic Computers**, they were taken to a special lab at the old **Salomon** Building which became WTC7. The computer was affectionately called **Socrates** for its tenacity in exploring the world economy that appears to have pist-off some just as **Socrates** did the same in real life. It was perhaps a cruel fate that it should end its days in the belly of the beast in a building that was the headquarters of one of the greatest manipulators of all time - the place of "***Big Swinging Dicks***" and the "***Bonfire of the Vanities.***" **Katharine Gresham** of the SEC delivered the news letter claiming all files were destroyed in the 911 Terrorist Attack at WTC7. Even Mayor **Bloomberg** of NYC came from **Salomon Brothers**.


Salomon Buliding was WTC 7 where the Princeton Computers Were taken and the Gov't Said they were all then destroyed in the 911 Terrorist Attack

An old advertisement for our Strategic Planning Service

CAUTION IN THE WIND

When your at the **TOO BIG TO TRADE** level, you can start to dump everything else that is liquid to raise cash to sustain the problem child. That is how **CONTAGION** develops and was notable in the 1998 **Long Term Capital Management** debacle as well as in **2007-2009 Mortgage Meltdown**. But there can also be constructed what I called a **NATURAL HEDGE** where I would redesign a multinational portfolio on a curreny class offseting one against another. I directed some companies to sell assets in one nation and buy exposure in another reducing the net differences that actually had to be hedged. There are other tricks to the trade of restructuring global portfolios, but those are for another day. You can use the important key tricks that amount to throwing a steak to a dog to distract him and the **Investment Bankers** can be distracted using their own instant need for victory against them.

What we must realize is that there are some **Investment Bankers** who will sail around looking for a victim to push over the edge. I believe **AIG** was such a target once **Hank Greenberg** was removed. What they unraveled was clearly even beyond what the **Investment Bankers** expected, since they themselves had to be bailed out. Trust me – they didn't expect that to happen! These sorts of trader only perspectives as to how much they can make on a single trade is getting dangerous. They do not consider the consequences of their actions. This type of activity can even lead to war for if their actions wipe out the financial system of a nation, then all bets are off. Their hold on the U.S. government is endangering the rest of the world because of their irresponsibility.

We are due for a correction – It's Just Time. The months ahead are September and November in particular for turning points. What we have to pay close attention to is the "***hype***" that comes out. If the **Investment Bankers** are looking to force a liquidation to make a bang-up trade for the year since things have been quiet, the news will be spun to support their agenda. This is part of the game. When they wanted all the little guys in for 1980, they made the **Hunts** a household name. That was the setup. The little guy buys thinking he is running with the big dogs. The real big dogs stay well hidden in the bushes and will **NEVER** step into the limelight.

The week before Labor Day (last week of August) may become the key week where a change in trend develops thereafter. Keep in mind, cyclically, most of the biggest periods of volatility take place right after Labor Day. Paulson – you are dancing with the devil. Watch your ass!

So for now, pay attention. The dogs are getting hungry and they have had a quiet year so far. The second half of the year is shaping up for a return to volatility. Of course they will yell and scream at this writing. On the one hand they claim I manipulated the WORLD economy because I had too many "big" clients. On the other, they claim because of their own half-baked allegations, I am not credible whenever I write about **THEM**. It seems they want it both ways. As **Cicero** always said, when you can't respond to the argument, attack the speaker. The fact that they will attack me personally **DEMONSTRATES** that they have no response to my observations.