Financial Fraud on Wall Street

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The re-nomination of Ben Bernanke, as Chairman of the Federal Reserve, has to be one of the ultimate political insults, particularly coming from Republicans, as did his predecessor, Alan Greenspan, both have taken America and the world down the sewer. Ben Bernanke saved Wall Street, the banks, insurance companies and a myriad of other financial firms.

This is the same Ben who refused to release records to uncover where $2 trillion had gone in the loan program that followed the collapse of Lehman Brothers. This is an appellate defeat for the Fed. We would expect they will next appeal to the Supreme Court. This is important to the Fed, because a loss would not only expose which institutions were insolvent, US and foreign, but it would expose what collateral was accepted for these so-called loans, and have they been paid back?

The Fed and American and foreign bankers gambled and lost, so it was up to American taxpayers to bail them out. Needless to say, these actions were outrageous. The Fed not only had no authority to do what they did, but they did, but they also suborned perjury. We wonder how the Appeals Court missed that? The Fed has buried our country in debt, allowed unbelievable leverage and absolutely refuses to tell us what they are up too. Except for a few in Senate and House hearings, questioning is a total farce. The Fed has done as it pleases for 97 years and that has to stop. We cannot allow Ben Bernanke to lie before Congress and get away with it either. We also cannot allow any corporation or financial institution to keep two sets of books and not mark their investment to market.

The financial world is a very small world and everyone knew what was going on at Lehman, just as they knew what Berne Madoff was up too. As usual a conspiracy of silence prevailed in order to allow the wholesale fleecing of the American public to continue unabated. In Wall Street and banking there is still honor among thieves. The Fed knew what was going on at Lehman and let it continue. That is how Mr. Bernanke purgered himself before Congress. Merrill Lynch had already warned the SEC and Fed as to what was actually going on at Lehman. Lehman committed fraud and its officers have thus far gotten away with it. Where is the SEC with civil charges and where is our Justice Department? They both only make selective prosecutions, most of which are based upon politics or the connections of the players. The only time they go after insiders is when they are forced to, like in the recent fine against Berkshire Hathaway, Warren Buffett's firm, for accounting fraud of $200 million. The fine was $100 million, so as you can see crime pays. What is worse is that other firms are doing the same thing. This is all part of the mantra that no major financial firm should be allowed to fail. They are too big to fail.

The big bad secret is that if banks and other financial companies reported their true financial positions they'd be out of business – insolvent. The Fed and the SEC are certainly well aware of these problems, but the game goes on. The fraud is intentional and conscience. They know there are two sets of books, that MBS on their books are virtually worthless, they just bought $1.1 trillion worth of the toxic waste and they are well aware that the shadow inventory on their books is at best worth $0.30 on the dollar. In fact, everyone within the beltway knows it, just like seven years ago they all knew Fannie Mae and Freddie Mac were broke. As you can see, there is no law; it is only what these people want it to be. Faithfully all regulators and our elected representatives look the other way. They allow corruption to flourish. One thing that can be guaranteed is that if you report any of these frauds nothing is liable to happen. Today that is the American way – crime pays.

As we have said before the exposure of the problems in Greece, those of all the PIIGS and in the US, California, Arizona, Pennsylvania, New Jersey and New York, open a whole new phase of the debt crisis. The world is in a sovereign debt crisis. In Europe and in the US there are talks regarding a reduction in leverage in currency, which will only cause a liquidity crisis. A rise in interest rates will only compound the problem.

In addition we believe mortgage debt, both commercial and residential, will be sucked into the vortex adding to the woes. This is a replay of what occurred in the 1930s in the debt markets. Do not forget the bond market is 10 times bigger than the stock market and if something has to be sacrificed it will be the stocks, not the bonds. The replay will find stocks falling first, followed by bonds. The bond problem is already very visible; 19 nations have had their credit ratings cut and the US and UK and others will soon follow. That is why we continue to say that the only safe haven is in gold and silver related assets. As we have said previously the only way to handle the problem is for nations to meet, have a multilateral official devaluation and debt default settlement. That will be followed by a deflationary depression, which will be accompanied by another worldwide war.

The debt load, particularly in advanced economies, is overextended and unsustainable at more than 400% of GDP in the US alone. That is 25% higher than US debt was in the 1930s. Those who do believe debt will be settled and currencies devalued, also know that recovery from that debt will take 20 or more years.

At the center of this greed and corruption are derivatives and securitization, which are simply a Ponzi scheme form of finance. These instruments were central to bringing down AIG and GM. The lenders, the large banks, brokerage houses, investment banks and insurance companies wrote these financial products, most of which are and were uncollateralized. As a result of this unethical disaster the American taxpayer was put firmly on the hook to repay this debt and to bail out the lenders. In addition, as you have been recently informed, these products were responsible in part for Greece's current problems. What Goldman Sachs did was transform government debt into derivatives, which were insured by CDSs. In time the euro zone will break up as a result of this and other factors. If England were to withdraw from the EU that could as well break up the European Union. Speculators have been purchasing Greek CDSs, anticipating debt default and as a result the euro has plunged. All of this is the result of turning world markets into a casino.

As you can see the problems are not going away and they won't disappear until the system is purged. More than $3 trillion has been poured into GM, AIG, Fannie Mae, Freddie Mac and Wall Street banks and brokerage houses by American taxpayers via the Fed and the Treasury. As a result the biggest violators have become even bigger, which was the intention from the beginning. As an example, JPMorgan Chase, Bank of America, Wells Fargo, Citigroup and Goldman Sachs hold almost 40% of all bank deposits. The credit crisis and the debt crisis are far from over. The desk chairs have just been rearranged. Not only will seven million more people lose their homes this year creating a 3-year home inventory for sale, but also lenders will get hit with commercial real estate they cannot possibly finance. We see another minimum of four more years of defaults both in the US and Europe. Taxpayers cannot save the system indefinitely, especially when the players that caused all this are back leveraging and speculating again.

We are facing a commercial debt crisis that no one expects. We are going to see hundreds of US banks fail this year, which the FDIC does not have the funds to cover. This year or next we are facing a sovereign debt crisis in the US, Europe and elsewhere. We are looking at tariffs on goods and services next year. All derivatives should be outlawed except on transparent exchanges and present positions should all be unwound. Europe is already moving ahead on this matter and hopefully an international conclusion can be reached. In addition Glass Steagall should be reinstated and the Fed's job be turned back to the Treasury Department.

Bearing out what we discussed earlier there is little talk of all G-7 members soon reaching more than 100% of GDP in public debt. As a result every one of these 7 countries have serious problems. In addition they are still expanding M3 or M4. Power and cash consumption shifts more and more toward governments. Banks have cut back lending by some 20%. They are holding government paper probably at the behest of government. The foreign treasury buying could very well be the Fed funding the purchases. Then the carry trade and hedge funds do their part as well. This could be a position of diminishing returns if interest rates rise in the real market, which we believe they will. Some 30 major nations have the same problem the US has and that is funding their own debt, as well as America's. Again, we have long believed that Treasury funding from the UK, Caymans and other sources was merely a front for Fed purchase of Treasuries. That in part is what the swap agreements are all about. This 40% increase in US monetary base normally would cause inflation, perhaps even hyperinflation, but the affect of 22-1/8% unemployment, low wages and a strong deflationary undertow has held inflation at an official 2-1/2% to 3%, or a real 7-1/2%. We see money and credit continuing to grow at 16% although the Fed has been drawing liquidity from the system. Normally we'd say that the US would emulate Japan's 20 years of deflationary depression, but this time it is different. Japan wasn't carrying the debt load the US is today. Japan began off a lower center. The luxury of 20 years of sideways movement that Japan experienced is not available to the US, because of their massive sovereign debt that grows by the minute.

As we pointed out previously foreign holdings of dollars by other central banks has fallen from 64.5% of assets to 60.5%. this has been caused by internal funding needs and flight from the dollar. This fall in dollar reserves sooner of later will force the Fed to raise rates to draw in more dollars to fund US debt. These exercises will also crowd out other corporate borrowers, again putting upward pressure on interest rates. Somewhere along the chain problems will arise and it will snap. We believe that event will be when multilateral official devaluation and debt defaults take place and those events are not far away.

We are at a juncture where governments cannot really help like they could previously and in order to survive they will have to take care of themselves. For the moment they have neutralized a bankrupt banking system by creating enough liquidity to offset deflation. As demands grow the need for liquidity grows just to keep the insolvent system afloat. This approach is funding sovereign debt, but it is not allowing loans to small- and medium- sized businesses and individuals. The system's worst days lie ahead. Take advantage of the interlude, it will be short lived.

The Mortgage Bankers Association reports its index, which shows purchase and refinance applications, saw the latest week in March loan application volume decrease 4.2%. The Purchase Index component rose 2.7%. The Refinance Index fell 7.1% week-on-week. The Purchase Index fell 15% year-on-year. These numbers were called an improvement by the mainline controlled media, if you can believe that.

JPMorgan Chase is cutting a deal with your government for a $1.4 billion tax refund. This is a benefit for taking over Washington Mutual. JPM paid only $1.9 billion for Wamu. If the tax break is allowed they have 73.6% of the purchase price back. JPM wants to score $10's of billions for a $500 million investment.