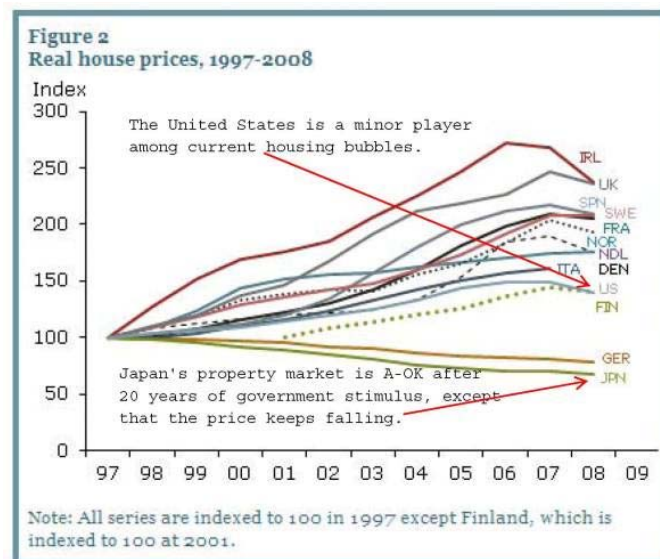


The Aftermath of the Global Housing Bubble Chokes the World Banking System. Only a Coordinated Loan Massacre Could Defeat a Japanese-Style Dead-and-Dying-of-Debt Kamikaze. Hell Approaches Us All, But Only For An Extended Period.

Sometimes the complexity of the world is a ruse, and seeing the overwhelming future of our fortunes is strangely simple. Our past and future credit crisis is but one case in point. Remember when fear and failure wrecked markets wising up to the fallout of debt given to anybody for anything, but especially for buying houses?

Naturally our financial leaders around the world took the radical steps required to reduce the debt created in a massive credit bubble. Oh, sorry, that was my fantasy world I was talking about. What our leaders are doing is correcting a severe cyclical recession. What our reporters are doing is covering a severe cyclical recession. What sublime kabuki theater.

Back in the real world, the destruction of debt required to cure a credit bubble hasn't been done. That means the reason for the new credit crisis is no different than during that past time of fear and failure – except that now we have new magnificent malignant clusters of sovereign debt serving as a sort of hand-held fan covering the unclothed emperor. Does that count as cover?



There is a prism I use to see the world. It is in houses. Look immediately above to see housing prices (the global housing bubble chart). Let me tell what I see when I look at this: We had one wicked housing bubble in the United States, but apparently we were the conservative party poopers. It looks like the funner countries are Ireland, Britain, Spain, Sweden, France, Norway, Denmark and Italy.

I know mortgages are used to buy houses. Yet they also represent not just the largest financial asset category, but the use of debt to buy anything including companies and commercial real estate and credit-card receivables. What are the futures of these debt assets? If we know the fate of mortgages do we know the fate of them all?

Oh and I also wonder about the sovereign kind? Luckily those debts are backed by the likes of honest hard-working Greeks who live to protect their impeccable reputation for being always good-and-true to their word. Pass the Ouzo Aristotle.

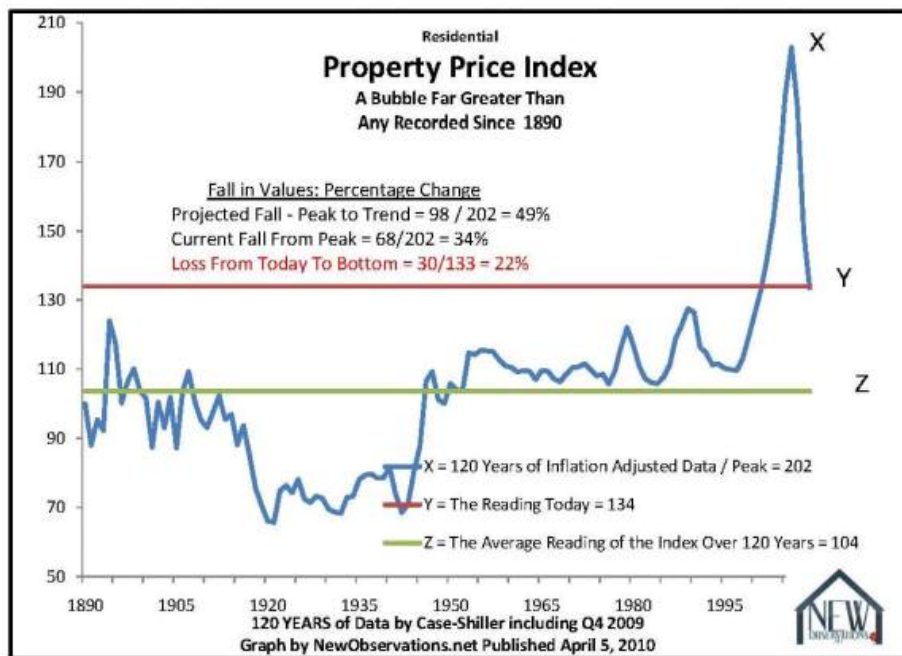


Mortgage Bubble – Pray-it-is-true accounting is a global trend, as was the housing bubble, as is the housing crash, and as will be the next panic and crisis. Repeat and repeat the crisis cycles until garbage debt gets written off and goes bye-bye.

The strange case (Or is it the normal case?) is the residential mortgage market in the United States. Look immediately above. Values of the equity asset have fallen more than 30 percent, but the values of the debt asset (mortgages) used to buy the equity asset (homes) have fallen two percent. Both of these investments have a right to title to the same asset, but one has fallen FIFTEEN TIMES further than the other. Is this the real world or is it make believe?

While it's possible that this anomaly may hold, the 15 percent of residential mortgage borrowers who are now behind points toward the debt mortgage balances and the equity home values moving closer to each other.

That's a complicated way of saying that mortgage balances logically should fall in value in a ratio very much like the fall in value of the house asset itself. Has not happened yet, but isn't it true that the world is logical?



Price Trends / 120 Years -- We estimate values will fall 22 percent nationwide from current levels. The primary assumption is that prices will return to a trend predating 1990 when property prices were flat for 100 years after counting inflation.

We know that the fall in property values is real and we know that the United States bubble in values was far greater than any bubble of the last 120 years (see chart above). Thus now do you see the pattern of Armageddon gathering force and deciding when and where to explode and paint a picture of gore all across the world.

The American market in housing went totally off the deep end. A flood of negative equity now invades our land. Yet look yonder to strange and distant shores. Look at Italy and Denmark and Norway and France and Sweden and Spain and Great Britain and Ireland.

Their real estate market got bubbled worse than ours, but surely their central bank and treasury are more honest, courageous, and knowledgeable than ours?

Oh, I'm sorry. That's another scary discovery. Admit the ruthless incompetence of the Fed and the Treasury in the management of our massive credit bubble, but give them credit for being rather like the publishers of Consumer Reports where their evasions and deceptions are surely trivial when compared to old world freaks like Italy and Spain who publish Penthouse for its unending internet offshoots. Did you read the prospectus?

FORECLOSED HOMES ON THE MARKET as of July 16, 2010			
Location	Repossessed Homes	Repossessed Homes on the Market	Repossessed Homes Over \$300K on the Market
Cook County, IL	28,829	1,292	29
Miami-Dade County, FL	10,858	983	11
Orange County, CA	6,270	227	85
Bergen County, NJ	615	31	4
Cincinnati, OH	2,914	184	1
Seattle, WA	946	51	8
Nashville, TN	1,350	102	1
Denver, CO	2,782	223	10
St. Louis, MO	2,323	312	2
Phoenix, AZ	10,613	1,144	16

The Real Estate Channel

Just when you think it's impossible for dishonesty to be taken to the next level in the American housing market, you see a factoid like this one, which, if true, means that bank-owned properties are being held like abandoned castles (See chart above showing huge

numbers of banks owned properties lying hidden in your local bank's burka.). I had always assumed that the shadow inventory was just bungling bankers failing to execute foreclosures. I didn't see the sale of the foreclosure as boiling poison and certain death, but then I saw that chart up there and interpreted it as executioner's song.

Then I saw this stupendous headline in Forbes: "Six Giant Banks Made \$51 Billion Last Year; The Other 980 Lost Money." And then I said to myself: "Well, if my bank would go out of business if I sold my foreclosure collateral, would I just hold it then to live for another day?" The answer was obvious: Yes, if that was allowed, I would just hold it like an old abandoned castle.

It takes me aback. It staggers me. Our housing market is a true obstacle course. The federal government is making every mortgage loan to forestall radical crashing, and our local banks are pretending to solvency by going into the castle and museum business (foreclosures held as investments).

My suggestion therefore is that you look in to the John Paulson trade. Read up on what that was all about (See the short simple version of it [here](#).). See if there is some sort of echo housing-bust credit-crisis mass-multiple derivative instrument which you can use to really get the chance to do it this time. This is the best trade ever. It's easy. It's obvious. It's real.

The center cannot hold. America is a bubble. The world is a bigger bubble. We and the world and the debt behind the mania will break. Hell will rule, but remember, it's only for an extended period.