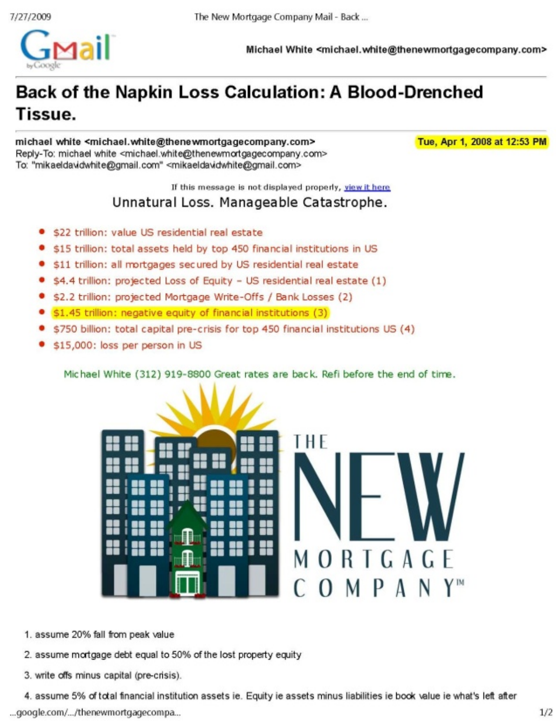
Will A Perfect Prediction of the Financial Crisis Perfectly Predict a New Crisis?

By Michael David White

We are all going to die, but I hope not in the "extended period" of our current low-interest-rate environment. On the subject of a financial crisis ahead, I pull out this old prediction of crisis to boast about its obvious stunning acumen and to mark its 2-year April Fools' Day anniversary (see image below). I also call attention to a secondary use of this ancient document: Does it predict a new crisis on top of the old crisis? Is new-crisis prediction as simple as predicting a bimbo eruption of Tiger textings?

The short answer is the probability of a new gargantuan crisis is far more obvious now than it was April 1, 2008. We now can see with confident clarity the explosive panic creators which promise a new crisis, if it should erupt, that it will be of far greater severity than our recent explosion of financial destruction. What are those obvious signs?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Back of the Napkin Loss Calculation: A Blood-Drenched Tissue.

michael white <michael.white@thenewmortgagecompany.com> **Tue, Apr 1, 2008 at 12:53 PM**
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Unnatural Loss. Manageable Catastrophe.

- $22 trillion: value US residential real estate
- $15 trillion: total assets held by top 450 financial institutions in US
- $11 trillion: all mortgages secured by US residential real estate
- $4.4 trillion: projected Loss of Equity – US residential real estate (1)
- $2.2 trillion: projected Mortgage Write-Offs / Bank Losses (2)
- $1.45 trillion: negative equity of financial institutions (3)
- $750 billion: total capital pre-crisis for top 450 financial institutions US (4)
- $15,000: loss per person in US

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1. assume 20% fall from peak value
2. assume mortgage debt equal to 50% of the lost property equity
3. write offs minus capital (pre-crisis).
4. assume 5% of total financial institution assets ie. Equity ie assets minus liabilities ie book value ie what's left after

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Take a Close Look at the April Fools Day 2008 Forecast

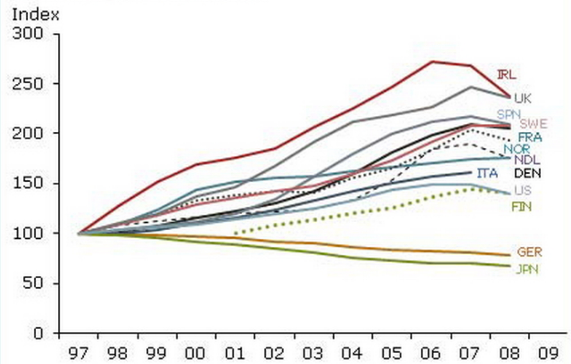
The housing market is exhibit A. Less than 1% of 1% of 1% of 1% of the people in the world slightly understands that the housing market in the United States is dead, but that government intervention is pumping formaldehyde into the body and painting blue lips with liquid white out. Everything is fine if you live in a wax museum and enjoy sex with blow up dolls.

The data prove that the bubble must exhale more. Is this scary? Does it scare you that housing prices would fall by 50% to 75% tomorrow should we close Uncle Sam's Mortgage Shop (Read that last sentence five times, then go on.)?

Our USA-today real estate market bubble is two or three times any previous bubble of the last 120 years, but many of the rest of the world's housing markets are psychedelic free-verse manic mombos following a guitar-line-in-their-head of Jerry Garcia on his day of 10,000 hits. God rest his soul.

These Europeans and others make us into little quiet wall flowers. Since our 30% property fall is a bank buster their psychedelia ain't nothing. A bigger housing bubble leads to a bigger bank crisis. What if the United States has the conservative mortgage market? The thought that this could be true makes me seriously consider a future in Scientology.

Figure 2
Real house prices, 1997-2008



Note: All series are indexed to 100 in 1997 except Finland, which is indexed to 100 at 2001.

What else? Add to toil and trouble reckless government spending at home and abroad, new awful exploding fecal colonies of sovereign debt, high unemployment, and it is ridiculous to deny the possibility of a gargantuan fall. Last by not least? Our governors do not comprehend that killing a credit crisis requires fantastic debt destruction. They are running in the wrong direction.

If Ben and Tim don't know about destroying debt in a credit crisis, then the recent crisis hasn't been managed. And if you don't manage a crisis, is that a negative indicator?

At least we have a president who left graduate school a callow vain fellow yet when thrown into the blood sweat and tears of business and politics, he erased a lifelong petty jealousy of majoritarians with a deep respect for capital and free markets. He embraced the American project. In the history of the world we have contributed a thousand parts good for every one part bad in the ancient war on poverty and ignorance.

With his medical reform, President Obama has reversed what was an inevitable national bankruptcy via exploding medical costs. He has now forced creative and destructive competition among insurers. We will see their numbers fall from one thousand to perhaps 20 or 10.

My prediction is cut-throat competition will cut medical care costs by half. Everybody can be covered easily. Radical competition drives prices down radically. Huge new wealth will be available for education and investment. Even the 100-year-flood in our housing bubble and its massive wealth destruction cannot stop us.

April Fools' Day Fool you fool! Your president hates markets and free enterprise because he can't stand to be less important than any person, place, or thing. President Obama's medical reform speeds our journey into national bankruptcy. That is a policy fault. Smile for the camera.

April Fools' Day you sycophantic weasel. You and the president are one. You are the same pedantic simp. You may celebrate the president, for he has achieved greatness. Behold unrivaled psychopathic vanity. There he is unique.

I make my prediction with confidence. The oedipal drama of this crybaby will lead us all to failure. We ask the first question last. Should a spoiled child lead the United States of America? No. Does character matter? Yes. Does he have any? Not the good kind.

The medical legislation promotes the ruin of our national finances, but President Obama calls it a victory. He judges the law for its impact on his own reputation. He is happy with the adulation of fools. He will never tire of using them. So we may define his presidency in a short sentence. The winner of fools.