AIMS Commentary
Atlantic Institute for Market Studies

The Semiotics of the Credit Crunch and the Next Bubble:
Or the year from hell – and what year is this?

Harry Koza
Atlantic Institute for Market Studies
Fellow in Financial Markets

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Semiotics is the study of signs. The most important signs, for our purposes today, are the ones that indicate when we're in a market mania. It's a little late for those at the moment, since the bubble has already burst, so I'll only mention a couple by way of illustration.

For instance, when I first read that banks in the United States were writing 110 per cent loan-to-value mortgages, I thought, this seems like the financial equivalent of running with scissors.

Not long after, I read somewhere that California had licensed over 500,000 new real estate agents in a single year, and waiters in California were giving up their acting careers to become realtors. That was when I was certain we were in a “money mania.”

I'm something of a student of market manias. Most people call them bubbles, but a mania is more accurate. As we are now looking at the wreckage of the worst credit mania in history and scratching our collective heads and saying, "what were we thinking?” it is worth taking a quick look at the lessons from the long and sordid history of financial manias.

I'm not going to go through them all - the Tulipomania, the South Sea Bubble, the Louisiana Bubble - but I direct the interested reader to the Big Three, my favorite authors on the subject: MacKay, Canetti and Cohen.

When I first started in the bond business, back in the days when a Monroe Calculator was considered high-tech, a grizzled trader recommended that I read Dr. Charles MacKay's 1841 classic, *Extraordinary Popular Delusions and the Madness of Crowds.* He told me reading the first few chapters, the ones on money manias, should be compulsory for anyone who wants to work in this business, or even to open an investment account, and he was right. You can skip the long chapters about the alchemists and the Crusades, but the first section is indispensable.

Elias Canetti won the Nobel Prize in Literature for his book, *Crowds and Power*. An amazing book, that will change the way you look at the world. I mention it here, mainly because of his ominous section on Inflation and the Crowd, which examines the links between the Weimar hyperinflation and the Holocaust. The situation in Zimbabwe today is unfolding in a frighteningly parallel manner.

Canetti also offers insights into the kind of crowd behaviour that allowed the Madoff Ponzi scheme to succeed for so long.

Meanwhile, governments all over the developed world are industriously trying to create inflation. Telling us to trust them, because even though they helped create the debt bubble, abetted its inflation and completely missed the signs of its ultimate collapse, they'll be on the ball from now on, ready to nip price inflation in the bud as soon as it emerges. I'm afraid I'm not convinced. The US government alone has made commitments totaling US$9.7 trillion, (it's probably over ten trillion since I started writing this) including President Obama's new stimulus plan, and Europe is not far behind. Your grandchildren will be paying for this for decades to come. Be very afraid.

But, I'm getting ahead of myself. We'll come back to that cheerful theme a little later.

Finally, Bernice Cohen. In *The Edge of Chaos*, she takes a new look at the same historical bubbles as Charles MacKay, but adds in the crashes of 1929 and 1987, and re-examines all the great money manias in light of chaos mathematics, with a view to figuring out how to tell when you are actually in a bubble. The final chapter is a checklist of bubble indicators. I read this one about a year before the tech bubble burst, and I ticked off almost all of the items on the list, and the bubble burst shortly thereafter. Same thing with the housing and credit bubble: check, check, check, check, check. Cohen's much easier sledding than Charles MacKay's Calvinist tone of disapproval, too. Those three, if you haven't read them, are a good place to start.

But, I'm getting ahead of myself, so back to manias. There certainly have been a lot of them. Here's a list:

- 1637 – The Tulipomania
- 1720 – The Louisiana Bubble
- 1721 – The South Sea Bubble. . .
- 1873 – The Great Panic
- 1929 – The Great Crash
- 1983 – The LDC Debt Crisis
- 1987 – The Crash of '87
- 1989 – The S&L Crisis and RTC
- 1990 – The Japanese Bubble
- 1994 – The Tequila Crisis
- 1997 - The Asian Contagion
- 1998 – LTCM
- 2000 – The Tech Wreck
- 2006 – The Housing/Debt Bubble Bursts
- 2007 – The Great Unwind
- 20?? - The Stimulus Bubble

It seems bubbles happened every 50 to 80 years. It took that long for everyone who still remembered the last one to be dead and gone. It was 83 years from the Tulipomania in 1637 to the South Sea and Louisiana Bubbles in 1720 and 1721 (unusually, two back to back bubbles, one in England and one in France, but they both arose from the same sources and followed the same pattern). Then it was another 150 years till the great panic of 1873, which, déjà vu time here, was caused by a bursting property bubble. Then it was 56 years to the Crash of '29, and 51 years to the LDC Debt Crisis. Who can forget the immortal words of Walter Wriston, then the chairman of Citibank: "Countries don't go bankrupt."

Just to recap, for all you youngsters, the LDC crisis started about 1973, really got rolling in 1979, and by 1983, 27 countries owing 239 billion $US had either rescheduled their debts or were in the process of doing so, rescheduling being a more politically correct euphemism for defaulting. Mexico, Venezuela, Brazil and Argentina owed $176 billion of that total, of which $37 billion was owed to the eight largest US banks, and constituted roughly 147% of their capital and reserves at the time, so they were basically insolvent.

So, countries, as it happened, can indeed go bankrupt, and the LDC mess, though it wasn't

completely cleaned up until 1989, set the stage for the Crash of '87, which begat the Savings and Loan Crisis and the Resolution Trust Corp. Resolution Trust, by the way, was the first bad bank, and the one that is held up today as an exemplar for whatever the hell it is that Ben and Tim and the plunge protection team are planning to set up to eat all the toxic instruments on the balance sheets of the US banking system.

The net loss to US taxpayers from the S&L crisis was 124 billion dollars, it took 10 years to clean up the mess, and the assets in the bad bank, Resolution Trust, were far superior to today's underwater SIVs and CDOs and sub-prime mortgage assets. They were mainly commercial mortgage loans with 80% loan to values, as opposed to subordinated tranches of subprime ninja-loan option-ARM mortgage-backed securities. And they'd have us believe that the current mess is going to magically be cleaned up in another few quarters? As if.

My newest Universal Law of Capital Markets, Harry's Property Premise, states that generally it takes 10 years for the market to clear after a housing crash. Look at Houston and Calgary in the early eighties, Toronto in 1989 - it took ten years for house prices to recover to pre-crash levels. Thinking that this one, which is far worse than any of the other property busts that preceded it, will be any different, is delusional.

Anyway, next up was the Japanese Bubble, which begat the Tequila Crisis, which begat the Asian Contagion, which begat the LTCM mess - countries going bankrupt again. Like, who'd of thunk it? I mean, just because Russia had defaulted on its bonds in the past, who would have thought it could ever happen again? Well, not the six-pack of Nobel prize-winning economists at LTCM, at least. As the old joke of that time went, how many Nobel Prize-winning economists does it take to unwind a losing derivatives trade? The answer, of course, is none - the Fed will bail you out. . . . Some things never change.
By this time, with financial bubbles, coming almost annually, central banks and governments had their moves down pat. Bubble bursting? Flood the system with liquidity, cut interest rates, loosen up the purse strings and make credit easy. But, the bubbles were coming closer and closer together precisely because of their actions, with the policy responses to each bubble planting the seeds for the next one.

Next we had the Tech Wreck, and it was the policy responses to that debacle, the low rates that encouraged dangerously high leverage ratios which fostered illusory credit-funded growth, together with the unfortunately serendipitous complicity of well-intended but incredibly stupid government policies designed to increase home ownership, an asleep at the switch regulatory infrastructure, the perverse incentive of mortgage interest deductibility, which launched the housing and debt bubble and sent us down the path to our Minsky Moment, when the whole shaking leveraged edifice morphs into Madoffian Ponzi schemes and falls apart. We're now starting on the long process of crawling from the wreckage of the crash, the Great Unwind (which is not really a mania, but more a necessary restructuring), and the responses to that are setting the stage for the next big mess, which, for now, we'll call the Stimulus Bubble.

Back to Minsky. I have a lot of respect for Hyman Minsky, even if he was a post-Keynesian. Our current debacle is playing out exactly as his credit cycle model predicts: a period of stable, low interest rates, which encourages participants to push out the risk spectrum in search of yield. Money is cheap, credit easy to get, and leverage irresistible.

In a rising market, the more that asset prices inflate, the more leverage you can strap on, especially if it's in some off-balance sheet entity. As leverage increases, lending expands to include dodgier and dodgier credits, first spec borrowers like LBO funds and junk-grade corporates and then to Ponzi borrowers like sub-prime mortgagees. Then it unwinds, in reverse order, with the Ponzi borrowers flaming out first, followed by the spec borrowers and then the hedge borrowers. Now we are on the downward, leverage unwinding part of that cycle, and just getting to the point where the spec borrowers get crushed. We'll get to them shortly.

The Minskyan solution is pretty much what we are getting in response to the crisis, too: the government taking over the banking system and attempting to reflate the economy.

But this is where I part company with Minsky. He maintained that this move through the debt cycle from hedge borrowers to Ponzi borrowers and the subsequent collapse was due to a fundamental flaw of capitalism itself. I kind of lean towards the von Mises explanation, which maintains that the cycle and its collapse are caused, much like our present one, by central banks. Now we are in the midst of the Great Unwinding of that leveraged monster, but instead of paying for the sins of that mania, we are embarked on a new mania.

Actually, it's the same mania that we keep reliving over and over again, like Bill Murray in Groundhog Day, ever since the LDC crisis - the mania that has infected governments and central banks, namely, that they can reverse the business cycle. They can't, and each crisis is met with the same policy prescriptions that begat the last bubble and begets the next one. I keep saying beget and begat because, frankly, it's getting downright Biblical out there: the ten plagues, the seven lean years. . . etc.

Governments and central banks - the same folks that complicity and implicitly, by commission and by omission, helped create the mess - are now vowing to cure it, by, of all things, doing even more of the stuff that created the problem in the first place. We have a debt problem, so the solution is more debt. We'll spend our way back to prosperity.

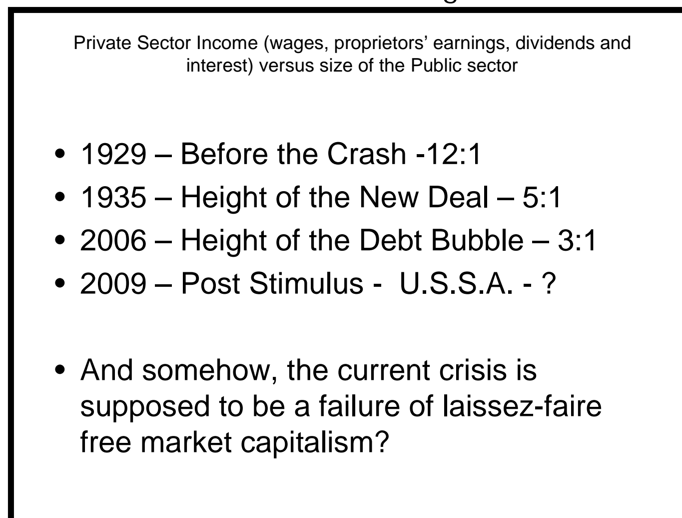


Figure 1

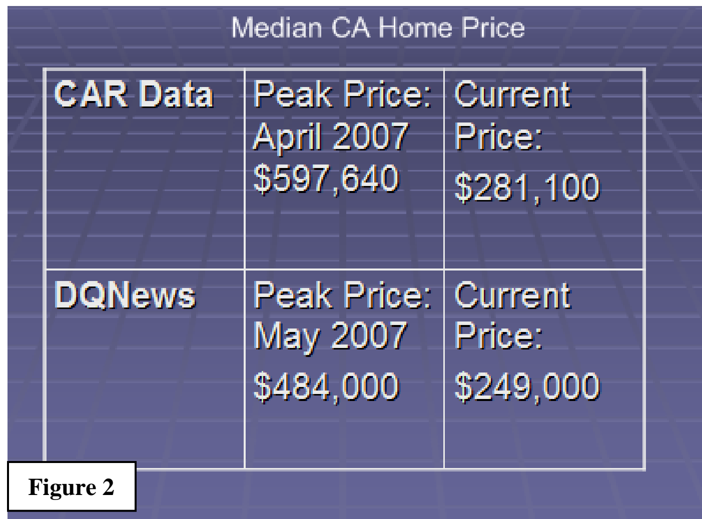
It's amazing how quickly this new mania has spread. Stimulus has become the new battle cry, shouted from the ramparts of legislatures from Washington to Reykjavik, from London to Budapest. Stimulus, that's the ticket. Suddenly Keynesianism is back. We'd thought those failed notions were dead for ever, but no, they were just undead. The next time we kill off Keynesianism, let's be sure that we cut its head off and drive a stake through its heart, just to make sure it stays dead.

The new Keynesianism, though, has morphed into a far more dangerous form. While it is true that Maynard Keynes suggested fiscal stimulus could be used to prime the economic pump in times of recession, everyone has conveniently forgotten that he also said that it should only be attempted as a last resort.

Not this time. Governments were quick to start fiscal spending, and just as quick to start spreading the idea that the bubble had been caused by the usual failure of the market. Just another example of why untrammeled laissez-faire capitalism is bad and needs the guiding hand of government to keep it reined in. Personally, I don't get this logic. I don't think that pure unfettered free-market capitalism has ever existed in the modern world. Hong Kong before the mainland took over is perhaps the closest that we've ever come to Adam Smith's ideal, and hey, that worked pretty darned well, and even the Marxist octogenarians that run China were wise enough not to screw around with that system. How can we constantly harp about the failures of something that we've never even tried? Not only have we never actually tried laissez-faire capitalism, what we consider today to be free-market capitalism continues to move further and further away from that ideal.

Before the crash of '29, the US economy's private sector was 12 times bigger than the public sector. See figure 1.

By the time Roosevelt's New Deal – the biggest Keynesian spending program ever carried out to that time - by the time that peaked, the private sector was only five times bigger than the public sector in the United States. By the time the current debt bubble sprang a leak, it was down to three times. I leave it to you to estimate what the ratio will be by the time the current mess is over: one to three? One to five? They're at 9.7 trillion dollars already - over two thirds of US GDP in commitments by the Fed, the FDIC (already essentially insolvent itself) and the Treasury, and still a long way from being done. Just as an indication of how fast things are unwinding, when I wrote this, the number was 9.7 trillion, but as I went over it last night, it is now over 11 trillion. And this is somehow a failure of the free market? Please - it's more like a failure of creeping socialism.



Median CA Home Price

CAR Data	Peak Price: April 2007 $597,640	Current Price: $281,100
DQNews	Peak Price: May 2007 $484,000	Current Price: $249,000

Figure 2

At some point, and I fear we are getting awful close to it now, when the size of government dwarfs the private sector, it all stops working, like it did in the USSR. Actually it stopped working long ago: the crumbling infrastructure that is held out as one justification of why we need stimulus so urgently now, was caused by governments weaving a social safety net out of promises they can't keep.

The US alone has 65 trillion dollars in social security, Medicaid and Medicare liabilities that are unfunded, and increasingly, un-fundable. That makes the 9.7 trillion (or 11 + or whatever it is now) in bailout commitments made so far by the US government and its minions look like chump change. Governments would rather pass new laws requiring mandatory helmets for tobogganing than replace crumbling sewer and water pipes.

I could go off on a rant here, but I'll curb my spleen.

Let's go back to the housing mania. One of the more disturbing semiotic indicators of the bubble was the sudden emergence and popularity of TV shows about flipping houses. They even had their own TV channel, which I like to call the House Porn channel, where you could watch, as my wife is wont to do, houses being flipped 24/7.

House prices only ever go up, was the mantra. The first time I heard that line, I thought, hmmm, that's strange, I can remember several nasty past episodes when house prices went down. Anyway, so flipping houses was like free money. Besides, the banks, also frothing with the same mania, also believed that house prices never went down, and so were willing to lend money at low interest rates - hell, they didn't even bother to check anyone's credit, since eternally rising house prices would skate even the most unworthy borrower on side. Besides, the dodgy loans wouldn't be on their books for more than a few days, they'd be converted into AAA CDO tranches and sold to the credulous around the world.

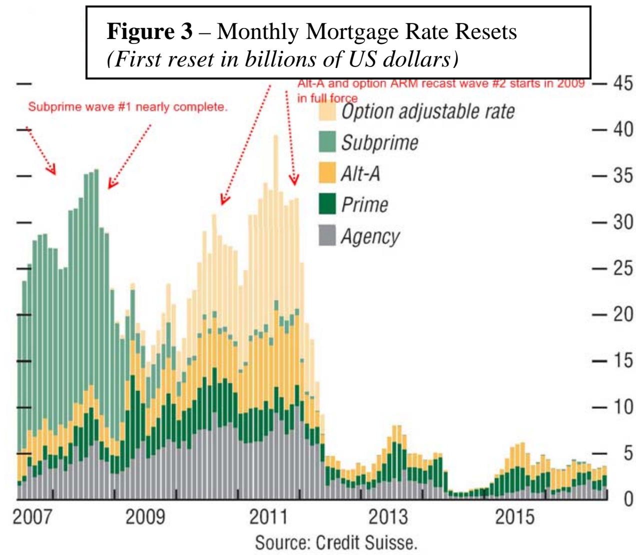
Let's look at California. What happens in California this year, my B-School marketing professor used to say, happens in the rest of the US next year, and everywhere else the year after that.

House prices in California peaked in 2007. Figure 2 shows the median price calculated by two different sources, and the current median price is now lower. But let's look at the CAR data: a median house price of almost 600 grand in a state where the median income is 60 grand? And nobody thought that this would end in tears? Prices are down about

50 per cent already, and I don't think they are anywhere close to a bottom yet.

Here's why. Figure 3 shows the subprime option ARM mortgage resets that have laid waste to the global financial system in the past year or so, in light green. That pig in the python has largely passed, and we are in a bit of a quiet period. But look what starts to happen this year.

Figure 3 – Monthly Mortgage Rate Resets
(First reset in billions of US dollars)



Subprime resets continue to taper off, but agency mortgages (Freddie and Fannie, in gray), prime loans (dark green), Alt-A (dark yellow) and regular option ARM resets (light yellow) start to increase dramatically - and this next wave does not peak until mid-2011. I submit that, far from this being over by 2011, as many are saying, it will still be getting worse. Resets peak in mid-2010 and stay high for another year. Now here's the thing about these resets.

By looking at all the ARM resets to date, which have caused the tsunami of defaults and foreclosures that has brought the global financial system to its knees, when those mortgages recast, the new monthly payments only increased by less than 40%. By the time the second wave peaks, monthly payments will increase by 80 per cent at reset time. Now, many of these second wave loans are already under water, so I figure that starting towards the end of this year and through most of next year, we will see house prices drop further, delinquency and foreclosure rates climb even higher, and losses at banks exposed to this grow even larger. It's not a pretty picture.

Still think that default and foreclosure rates will improve anytime soon? Or that the MBS and CDOs made out of these mortgages still being carried on banks' books have a chance of being money good? Oh, and good luck trying to refinance any of these mortgages between now and 2011, too.
This is going to get ugly, but even before that second wave hits, we're already seeing a similar phenomenon in Eastern Europe. They didn't have the option ARM and sub-prime mortgages, but they had their own little carry trade happening in their housing markets. Folks in Hungary, Poland and other eastern European countries were borrowing mortgage money in Swiss francs at much lower interest rates than they could borrow in their domestic currencies. But with the global recession and the Great Unwind, their currencies have dropped. Consumers in Poland, for instance, have seen their mortgage payments double as the Zloty has dropped 50 per cent versus the Swiss Franc - and that's just with conventional mortgages, of which fully 60 per cent are denominated in Swiss francs. Needless to say, this is more bad news for the European banks involved in these loans, since they happen to own most of the eastern European banking system, well over 80% of it in Lithuania, the Czech Republic, Slovakia and Estonia. This exposure could spell curtains to some banks in Sweden, Austria and Italy.

We're already seeing banks in some countries being nationalized over this kind of thing, and there's even a lot of talk lately about the possibility of the US nationalizing its big banks, like Citi and Bank of America. Well, at least that might be possible in the US. In some countries, like Iceland or the PIGS countries (Portugal, Ireland, Greece and Spain), the problem is not that the banking systems are too big to fail: it's that they are too big to save - they already dwarf the GDP of their respective nations, and those governments cannot hope to absorb their problem banks.

Figure 4 shows US GDP in blue, as reported in official statistics, and in red, GDP without mortgage equity withdrawal. You can see that, net of MEWing, the US was in a recession after the Tech Wreck in 2000. The Greenspan Fed cutting rates to 1 per cent and keeping them there for a year fueled a debt-fired recovery. But it was an illusory recovery, driven by consumers spending the money they took out of their ballooning house valuations. Without using their houses as ATM machines, the economic recovery was anemic, barely getting above 1 per cent growth six years on.

Figure 4

All this MEWing, of course, is partly due to the perverse incentive of mortgage interest deductibility. In Canada, the best investment the average person can make is to prepay his mortgage, because it is in after tax dollars. You have a five per cent mortgage, prepaying it is like making a pre-tax 10 per cent risk free return in the market, although, obviously, there is no investment that you can buy in the market that returns 10 per cent a year risk-free, to which anyone who gave their capital to Bernie Madoff can belatedly attest.

But in the US, if you do the prudent thing and pay down your mortgage, your tax bill goes up. Nobody likes paying more taxes, so if interest rates come down and you refinance the mortgage at a lower rate, instead of keeping your payments the same as they were at the higher rate and knocking five or 10 years off your amortization, you are actually encouraged to make your mortgage bigger, so as to maximize your interest deduction. I'll start to believe that the US Government is serious about fixing the credit mess when they start making noises about eliminating the deduction of mortgage interest - sure, the notion would cause a revolution, but they could offset it with permanent reductions in payroll or income taxes. Government should be encouraging prudent financial behaviour, not excessive leverage.

The historical average for past banking crises is for real public debt to increase by 86.3 per cent in the first three years after the crisis hits. That's scary enough, but this particular banking crisis is way worse than all these past episodes. They were all, for the most part, local problems: this one is global in scope and much, much bigger. As Harry's Property Premise states, housing crises generally take 10 years to work themselves out, and since there is a second wave of bad mortgages coming in the US (not to mention the carry-trade mortgage wave in Europe), I am reluctant to extrapolate about what the percentage increase in public debt will be 10 years out, but it sure won't be pretty.

Now, there is a lot of talk recently about how the current slump is the worst since the Great Depression, and a lot of op-eds have been written about how we shouldn't be making those sorts of comparisons, because this time it is different. Unemployment rates, for instance, aren't nearly as bad as they were during the great depression.

The biggest jump in unemployment during the Great Depression was between 1930 & 1931, from 8.9 per cent to 15.9 per cent. But unemployment didn't peak until 1933, at almost 25 per cent, it and didn't drop below 14 per cent again until 1941. US unemployment

now is officially only 7.6 per cent, a long way from Depression-era levels.

Figures from David Rosenberg at Merrill, gives a slightly different picture of where we are with respect to Depression-era levels of unemployment.

When you take that official 7.6 per cent employment rate, and add in all the people who are looking for a full time job but can only find part-time work, plus all the people who have given up even looking for work at all, suddenly we're at 14 per cent unemployment, just like during the Depression. I'm not sure if that total even includes the hundreds of thousands of real estate agents in California who are still considered employed but who haven't sold a house in the past year and are back to working as waiters again until Hollywood discovers them, but even without them, this is pretty scary.

So, as Alice Cooper once said, we still got a long way to go. A second tsunami of bad housing debt looms, and there are plenty of other time bombs ticking away out there: junk bond defaults are rising as the Minsky Moment spreads to the speculative borrowers; banks have even bigger problems coming down the pipe, too.

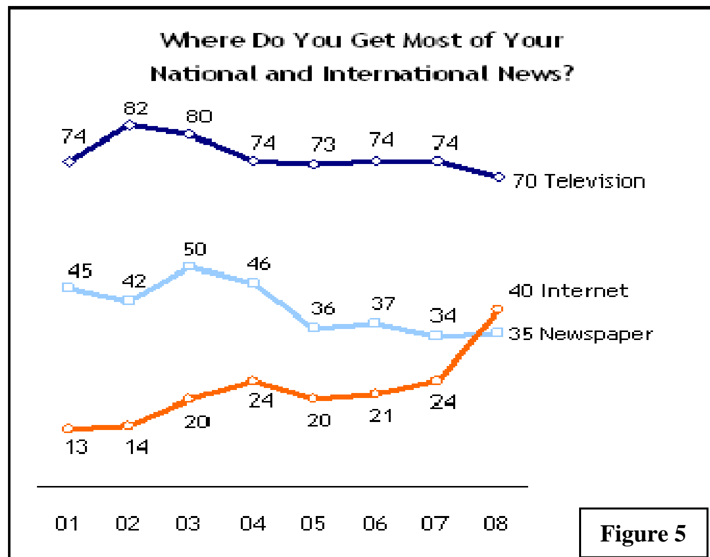


Figure 5

There is well over a trillion dollars in bank securities maturing this year, and the only way it is all going to get rolled over is if governments shift it from the banks' books to the taxpayers' backs. And it appears they are working on that. In addition, debt defaults are rising. Moody's has indicated that corporate bond defaults totaled USD 238.6 billion in 2008, with another 42.7 billion in loan defaults. That's 101 companies defaulted. For speculative grade companies, the default rate was 4.1% more than four times 2007's 0.9% rate. Including investment grade issuers, the default rate rose six times, from 0.3% in 2007 to 1.9% at the end of 2008. Moody's reckons that roughly 300 companies will default in 2009 and the default rate will peak at 16.4 % in November.

There are other time bombs ticking out there, and I could go on all day, but this really gets depressing after a while.

So, let's recap. It's a big sweaty mess out there; banks have taken big hits and will be taking plenty more. Housing has taken big hits and caused lots of problems and still has a long way to go before it recovers. Governments are running around willy-nilly trying to reflate the debt bubble. Where will this all take us?

Not to anyplace we want to go, I'm afraid. Governments today seem to view a recession as an untoward pause in a never-ending pattern of economic growth, a pause which they are compelled to attempt to shorten. But a recession, in fact, is a time when excess debt is wrung out of an over-saturated economy. Bailouts, subsidies and government fiscal stimulus programs actually retard this process, what Schumpeter called creative destruction.

You can see the process of creative destruction in action today. Newspapers are going belly up all over North America, ostensibly because of a drop in ad revenues caused by the recession.

That is definitely a factor, but as Figure 5 shows, it is the Internet, more than a fall in ad revenues, that is driving this process. I saw a similar chart to this one a few years back in Wired magazine. It showed sales of film cameras on the line sloping steeply down and

to the right, and sales of digital cameras on the line sloping sharply up and to the right. Both lines in that chart were considerably steeper than this one, but the effect is much the same.

Last year there were 120 million digital cameras sold world wide, and film cameras accounted for only 3% of global camera sales. Eastman Kodak used to be a AAA rated corporate issuer, and one of the biggest companies in the US. Now it's gone the way of the buggy whip manufacturer and not even in the Dow index any more. Newspapers are now about to have their Beatles moment, too - I read the news today, oh boy. Extrapolate that orange line out a few years and TV news will be in big trouble, too. But that's creative destruction at work: the NY Times dies, while Google and Yahoo thrive. Of course, we can't try anything like this in the financial sector. No, it is better to keep pumping cash into the zombie banks so we can pretend that they are still solvent.

Now, every day I read in the papers and hear on the StockPorn channel that this is a good. It is time to buy stocks, since they have been cheapened so nicely in the bear market. Of course, according to the pundits on the StockPorn channel, any time is always a good time to buy stocks. Mind you, the basic tone has shifted a little - from "Buy and Hold" to more like "Buy and Hope". A friend of mine who is a portfolio manager told me the other day that , back when he ran a bond desk, if one of his traders ever used the word "hope" while talking about a position on his blotter, he made them liquidate it immediately.

Okay, that's enough talks of doom and gloom. Let's take a look at where we go from here.

There are several paths we can take. One leads to a lost decade or two like Japan, what I like to call Gaijin Smash. In Japanese slang, the phrase, "Gaijin Smash" refers to the bad behaviour that foreigners get away with because the Japanese are too polite to tell them that they are acting like idiots. Another, equally unpalatable path leads to a return of seventies stagflation. Another leads to Zimbabwe-style hyper-inflation. What these paths have in common is that none of them are roads we want to travel. Still, I have not given up all hope yet. As Led Zeppelin pointed out, "there are two paths you can go by, but in the long run, there's still time to change the road you're on."

Unfortunately there is no one espousing an alternate route to the one that Governments in the developed world are heading down, the one that Friedrich Hayek so aptly called the Road to Serfdom.

Okay, let's get into the prognostication part of this presentation. A few years from now, America will have morphed into, essentially, France, as the government progresses on an interventionist path that would make FDR blanch. In most of the developed world, the banking systems will have been reduced to Canada-style oligopolies, though with one big difference: their oligopolies will be owned by the State. The words "State-owned" and "profitable bank" have seldom, if ever, appeared in conjunction in the past, and for anyone who thinks it might be different this time out, I have only two words: Credit Lyonnais.

There will be countries that founder under the burdens of their collapsing financial systems. No disrespect to Mr. Wriston, but countries will indeed go bankrupt before this is over. And as Elias Canetti pointed out in *Crowds and Power*, that provides fertile ground for the emergence of totalitarian regimes and the scapegoating of minorities, whether they be ethnic minorities or merely highly compensated bank executives. There will be civil unrest before this is over.

Governments will indeed try to spend their way to prosperity: that won't work any better than it ever has in the past, and I think they know that, but they don't care, because the only thing that will keep the system from total collapse and a new depression is if they are successful in generating some new inflation. Even if that works, putting the inflation genie back in the bottle will prove to be just as hard as it was back in the Fed's Paul Volcker era. Now, I have often mentioned in my Globe columns in the past that one of my favorite

indicators of a market bubble is the arrival on the scene of strange new financial instruments, a tried and true symptom going back to John Law's invention of the installment receipt back in the Louisiana Bubble. Here's an indicator of that Stimulus Bubble I mentioned earlier.

Last month Nasdaq launched options on a new index, QGRI, an index of companies that have received at least a billion dollars from TARP or one of the US government's other myriad bailout programs, such as GM, AIG, Citi, Bank of America, etcetera.

It started trading in January and is down almost 50 per cent already. I'll hazard a guess that there are a lot more buyers of puts than calls on this index. Don't bet on bailouts.

Now, as I said, I didn't really have a clue what I was going to talk about when I agreed to do this Academy presentation, so I basically just accumulated a bunch of stuff in my inbox for a few weeks and mashed it up.

The scary thing is that day after day, week after week, there is a relentless stream of equally depressing information that crosses my desk, stuff that when I look at it, makes me think, oy, this could get downright nasty in a hurry, and I file it away in a folder for future reference. When I looked at it all at once as I prepared for this presentation, I thought, gee, that Nouriel Roubini is kind of a Pollyanna - this thing could be way worse than even he says it's going to be.

On that cheerful thought, I'll end here. Thank you all for listening to me rant and - I've always wanted to say this line: "I'd like to thank the Academy."

Harry Koza is AIMS Fellow in Financial Markets and is Senior Analyst for Canadian markets at Thomsonreuters' IFR Markets.

At various times in his career, Koza has been a prospector, metallurgist, project manager, engineer, mining promoter, as well as an institutional bond salesman for fifteen years before joining Thomson Financial.

His particular interests are high-yield and distressed securities, and corporate bonds in general. Koza was a columnist with GlobeinvestorGOLD.com and the Globe and Mail Report on Business.

Atlantic Institute for Market Studies

2000 Barrington St., Ste. 1302 Cogswell Tower, Halifax NS B3J 3K1
phone: (902) 429-1143 fax: (902) 425-1393
E-Mail: aims@aims.ca
www.aims.ca