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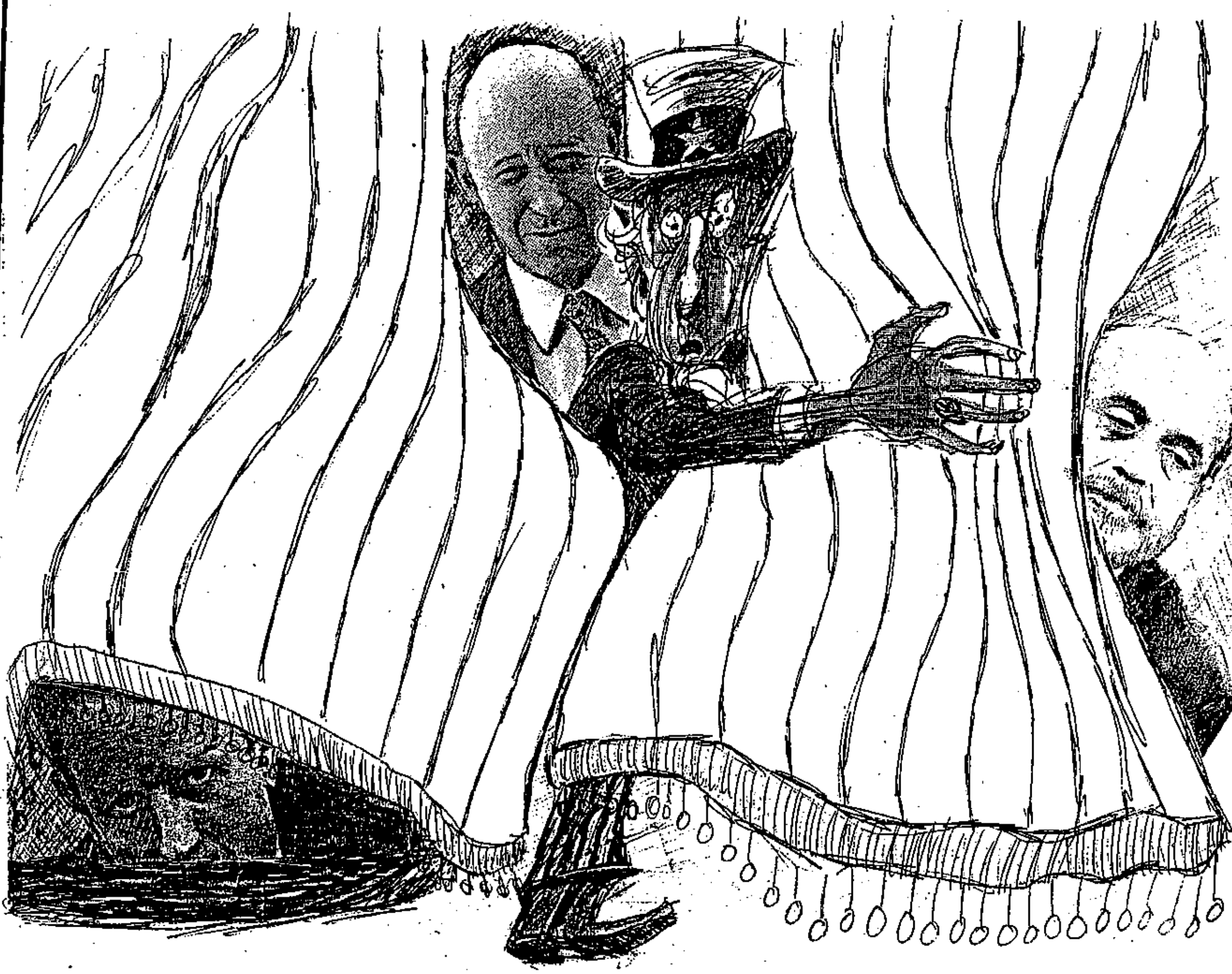
Behind The Curtain



The Full Monty

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 January 1st, 2010
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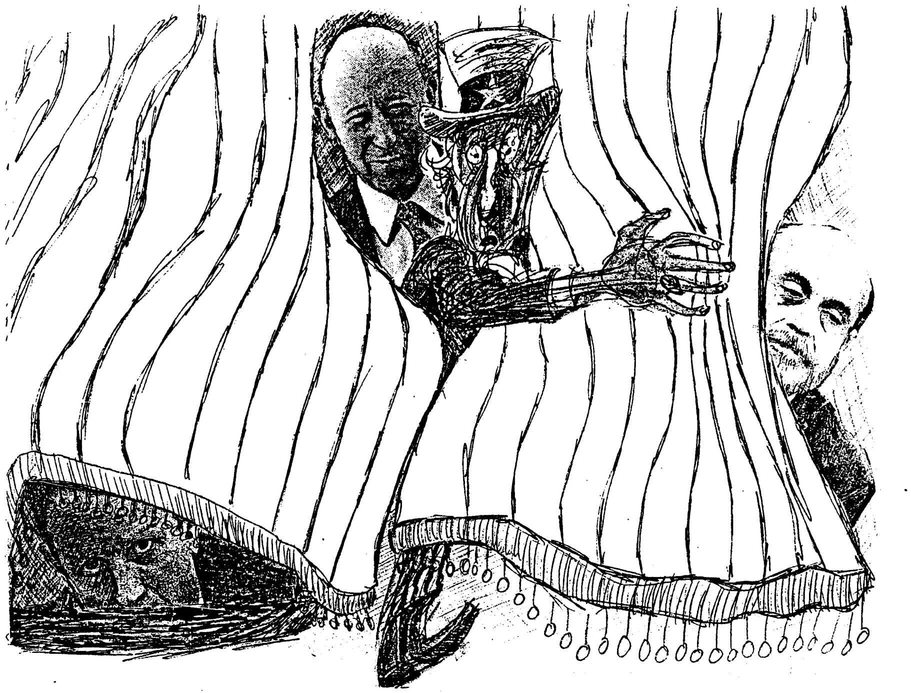


The Full Monty

by: Martin A. Armstrong

Former Chairman of Princeton Economics International, Ltd. and the Foundation For The Study Of Cycles

IS GOLDMAN SACHS THE EVIL EMPIRE? That seems to be the question that a lot of people have on their minds. There is far too many coincidences with ex-Goldman people in strategic political-appointed posts to just be overlooked. Congress and the nation are mad as hell at the Federal Reserve and at the very minimum, it will be stripped of its so called consumer-protection power that it never took very seriously anyway. Yet through all of this, remains a growing resentment outside of the professional community as well as inside, that wants to storm the castle walls of **Goldman Sachs** and destroy everything it stands for as if it were the creator of an evil Frankenstien. In the very least, this particular turn in the economy was centered directly within the finance industry that has been giving the rest of the more standard investment community a very bad name. For no matter who writes what, the whole lot is being thrown into the same bath-tub and labeled **"Wall Street"** as if it was pure evil. The Rolling Stone Magazine called it the **Great American Bubble Machine** arguing that **Goldman Sachs** has been behind every major bubble since the Great Depression. I have called it the **"Club"** that what has evolved is a persistent desire to just manipulate markets to create the perfect trade. It is time we explore this in detail for what has been going on **Behind the Curtain** is threatening everyone and even the future of our children. But make no mistake, it was **NOT** the Federal Reserve who was to regulate the **Investment Banks**, that was the **Securities & Exchange Commission ("SEC")** and the **Commodity Futures Trading Commission ("CFTC")**. The Fed regulated commercial banks, not investment banks. They got involved in the bailout, but let us lay blame where it really lies - the **SEC** and **CFTC** who have wiped out your future.

You cannot fix something that is broken unless you understand what is broken. I have often warned of the **Pardox of Solution** that I have named a fascinating trend whereby the evil seen to create a economic event is then attacked and the solution created thereby establishes the cause of the next event and so the next solution is to go back to what previously existed creating a pendulum move that becomes a natural cyclical swing back and forth between these two solutions. Thus, I have called this cyclical trend the plain **Paradox of Solution.** The solution for the Great Depression, was to create a seperation between investment/speculation and banking. Thus, Investment Banks were regulated by the SEC and Commerical Banks by the Fed. This solution was reversed in this crisis.

NEVER in my wildest dreams did I ever expect to stumble upon such a inherent corruption that evolved without any true understanding of what it was evolving into. There existed this desire to rig the game of chance and to ensure that every trade would be a winner. Losses and speculation; well that was for the little guy. Yet in what I have witnessed over decades, began to bubble-up into the surface during the **Asian Currency Crisis** of 1997. I found myself in a position **BEHIND THE CURTAIN** where foreign governments were starting to notice and it was starting to appear that the United States had been either sublimely blind, or completely ignorant of its own manipulation. My deep concern is that the vast majority of what people call **"Wall Street"** is getting a very bad name because of a small group of very sophisticated specialists in market manipulations. My purpose here is to bring to light what I, **and others**, had been watching progress for nearly two decades. I personally believe in the **"Free Markets"** and by that I mean a system that is also not rigged and manipulated by private or public interests. Russia and China tried their hand at Communism. That failed of its own inherent fallacies and that was the result of **"Free Markets"** that will always triumph. Nothing, public or even private, will ever prevent the natural course of events to unfold. Man can pass all the laws and regulation he desires, but he cannot change human nature by decree. No law will prevent a murder, nor a war, nor taking a drink, trying drugs, or engaging in premarital sex. Human nature cannot be changed no matter what. It can be suppressed by sheer tyranny and force, but it cannot be altered. We cannot progress as a society until we understand what our true nature is, how it will always gravitate to self-interest be it government seeking power against its own citizens, or private self-interest to rig the game. We must understand that it is not **"Wall Street"** as a whole that is the problem. We can regulate them to extreme, but the ones who created this mess control the real strings of power and will never be touched no matter what the propaganda claims. I am concerned about our future and do not wish to see my children and grand children lose their future for the real corruption of rigging the game will lead to the only resolution possible - war! If the US courts and government are now so corrupt and only care about the moment, then there are plenty of people around the world who are mad-as-hell at the United States and will reach that point of no return. It is time we face our demons and bring real reform.

The Age of Enlightenment

We cannot begin to fairly review what has taken place without understanding that the **Financial Industry** that is unfortunately just called **"Wall Street"** is far from one giant industry. Today, we have prolific industry that has truly evolved since 1971 in a dynamic way that has on one hand built the status of the United States, and on the other, has contributed to its diminished respect internationally. We have no choice but to take a phlegmatic approach and stop the name calling in order to step back and look at the industry that has emerged.

The socialists point to **"Wall Street"** as the paragon of capitalism. It is a thing that must be tempered and controlled, if not destroyed and subordinated. There is no doubt that **Goldman Sachs** is at the center of this storm and is the image that is now becoming the most hated symbol of the full scale economic decline. But we must look at even **Goldman Sachs** within the context of the whole.

What I have never seen explained in any book or newspaper article, is the strategic difference that emerges from a trader who is nursed on commodity volatility compared to stock trading and banking.

There are **THREE** areas that are very distinct within the financial industry that are far too often all lumped together and called **"Wall Street"** where the ethics and thinking is substantially different.

(1) Banking (Commercial)
(2) Stock broker/Investment Banks
(3) Commodity broker-dealers

These are the three areas of primary divisions that the press and public often lump into one giant category known as **"Wall Street."** There are naturally subdivisions within each. One significant subdivision in each category is **FUNDS MANAGEMENT** that can range from estate trust management in banking to mutual funds with a host of divisions from bonds, tax-free bonds, stocks, with another multitude of smaller divisions thanks to the regulation that makes no sense. Then there is the commodity fund that can trade in futures that span the whole spectrum, and then there is a fourth international category.

(4) Off-Shore Hedge Funds.

In this offshore world, there can be the freedom to cover all three primary areas that is illegal domestically thanks to over-regulation. For you see, there is no just one regulatory body covering these three primary areas, but three, Federal Reserve, SEC and CFTC. It does not end there. When you start to get into things like mortgages, there are about 7 regulators that now get involved. It cannot be forgotten that each state also now has a host of regulations and agencies. There are so many regulators, that the recent huge collapse demonstrates it is not the **LACK** of regulation, but the inability of regulators to even work together.

Then there is a fifth category that has emerged as also a player thanks to evolution of the entire industry - **INSURANCE.** Now we have the evolution of insurance that is in fact taking on the mantle of options and has mimics the derivatives until they became the derivatives CDS that collapsed the house of cards.

The knowledge base that emerges from each sector is very different. I was once a board-member of a state bank and that is really just administrative looking at loans. Stock brokers are immersed in fundamental analysis of PE ratios & Fed watching so we have **"insider trading"** emerging from the assumption of information creates winning trades.

It has been this idea that markets are driven by fundamental analysis that can be reduced to a single cause and effect, that dominates the stock industry and has led to the criminalization of possessing information that someone else does not have. Yet, I have seen so called **inside information** have no effect and at times they still lose money. **Inside Trading** was indeed turned on its head by Guilliani in order to prosecute Mike Milken. The real theory of **"insider trading"** emerged from the Great Depression. It was based upon a director who knew the company was bankrupt, sold his stock withholding that news, and after he was out, he then publicly announced the stock was worthless. To prosecute Milken, the theory was reversed claiming he had some advantage and would make a fortune taking over a company. But the fraud in the 1930s was that the people lost money while the director did not. To become famous and destroy a major competitor of New York Investment Banks, **Drexel**, the new theory was that Milken defrauded people out of the **same opportunity to make money!** The Southern District of New York Federal Court clicks their heels before walking to their bench and salutes the Attorney General giving him whatever he wants, even when it will destroy the very fabric of our society. Judge Kimba Woods, accepted Milken's plea knowing he was coerced by threatening his family including a 90-year-old grandfather. But judges do not care any more about the people or the country. They only further the goals of the political state no matter what. Thus, thanks to Kimba Wood, **insider trading** is now making money based upon some info they claim no one else has. Yet, there is no empirical evidence that even with such info, there is a 100% guaranteed trade.

The third area is **Commodity Trading** that includes currencies, bonds, stock indexes, metals, energy, agriculturals, and building materials such as lumber. Here we have a training ground for real experience. These are markets that trade globally and forces one to look outward rather than take a very myopic view of the economy. Where stock brokers are focused on domestic issues both in respect to the individual company as well as Fed watching, the commodity broker must be able to walk, talk, and chew gum while reading headlines globally to stay in touch with the pulse of the world. If he can't; he's history.

The banking, stock, and political areas all feed upon themselves. They live in a bubble and thus each of these booms and busts, indeed produce the same mistakes each time, just that the instrument they are hawking may change. I have been called in far too many times by both banks and stock brokerage houses around the world to help fix some disaster and it is just always the same MO. The instrument changes, but the effects never change. This I noticed cross-culture. From the Middle-East, Europe, Japan, Australia, Asia, it was always the same thing. Professionals buying the high every time. Why? I concluded they lacked the experience to "smell" a top when it was there. They would joke at the retail "little guy" yet they never got it right once. This crisis, is **NO** different!

Yet, while the most dynamic traders are emerging from the commodity side, we are seeing a lumping of presumptions of a quality of knowledge and experience that does not exist. It is like saying someone is a doctor, so here, operate on this brain overlooking the fact that he is a foot doctor. Calling everyone **"Wall Street"** is a huge mistake.

When we look at the fund industry, here too we find a landscape of so many different funds it may appear to be a used car lot. The domestic funds are specialized from bonds or commodities to stocks in all sorts of different categories. What the public does **not** realize, this has been caused by **OVERREGULATION** where we have the SEC, CFTC, and the Fed all with separate powers. A fund manager cannot do his job domestically by you hiring him and he then decides what is the best area to be in. The average individual has to have the expertise that most professionals lack themselves.

This is why the CFTC hated my guts. I have been advocating that it be merged into the SEC creating a single agency. That would have allowed a fully diversified public fund that in fact would have been an onshore hedge fund.

While the United States would never once listen to me, I agreed to do such a fund for the Australian government. I managed the first **ONSHORE** hedge fund in the world organized by Deutsche Bank and the Australian government monitored every trade as a test case.

Hedge funds are such diversified funds where you are hiring the manager because he has expertise that will make the decision of what to be invested in. Because of the over-regulation, if you obey the laws of the CFTC, you go to jail with the SEC. This is why I was warning that these competing agencies would drive the industry offshore back when the biggest future fund was $100 million in 1985. Today, we have trillions of dollars in offshore funds thanks to overregulation. Now, the collapse of the rule of law making it impossible to get fair trials in New York and the crazy over-regulation that came out after **ENRON**, New York lost its status as the financial capitol of the world. With what is coming now and having so many agencies in public argument over who should get the power to regulate banks, you can bet on one thing - they will destroy Wall Street and the smart companies are starting to look at getting the hell out of here.

The socialists will never listen. They will laugh at the idea of over-regulation and argue there is not enough. But this is to be expected from fools who know nothing about an industry they claim needs more regulation. For you can bet on one thing, they will destroy what was not the problem, and leave loopholes for those who contribute to their campaigns. So the only one who will lose is the little guy who already has to have the expertise of a major international hedge fund watching every country around the globe on a 24 hour basis. **Good luck!**

Stock brokers no more deserve blame than commodity brokers or commerical banks for the most part. The blame rests squarely on the shoulders of the **Investment Bankers** who constantly come up with schemes to make a fortune, and always explode in disaster. This time, they picked the biggest sector of investment that effected everyone - the old mortgage market. By pooling mortgages, they removed the traditional restraint of caring about who you are lending to, and what is it you are lending on? That gave the front-line lenders the signal to "don't worry; be happy" for this is going into a pool and we expect some defaults, that's OK! The one-on-one relationship was destroyed. Then they took these pools and sliced-&-diced them so that nobody really owned a mortgage in the legal sense. A borrower could now demand to show him the **certified mortgage,** and in many key cases, it cannot be produced when pooled.

OVER-REGULATION

OVER-REGULATION has done far more harm to the public than the Government will ever admit. The average person has been stranded in an eternal sea of change in finance that has seriously diminished their capital for retirement. Many people have counted on the equity in their home to be their nest-egg. Now, that largest market has been wiped out because of the stupidity of the SEC who has persistently got down on its hands and knees and kissed the ground that **Goldman Sachs** walked on. But they did the same before that with noted **Salomon Brothers** because the government hires people who are generally incapable of getting first rate jobs in the private sector fresh out of school. The model for training is reversed. Fresh graduates gravitate to the government to get experience so they can look good when shopping for a real job. Those who remain in government service, are unable to capture one of those jobs and become embittered toward anyone who has made it in the real world. The big law firms will often hire former government attorneys more as a due payment than anything else. They buy influence with the departments and agencies and that will often translate into immunity for the big houses.

We have too many chiefs and no indians as the saying goes. One of the primary reasons the CFTC hated me was I advocated that they be merged into the SEC back in the 1987 Crash. I was asked does an agency really harbor resentment for decades? The answer is yes! Look at the case of Health-South where Mr. Scrushy beat the government and was acquitted of all charges. They then indicted him for giving $250,000 to the Governor of Alabama they claimed was to bribe him to be made chairman of a committee that had no monetary gain, but prestige. The US Government remembers everything and you will never escape. Beat them, and they will hunt you down and call it something else. You are dealing with one of the most vindictive cultures in power in the world.

The greatest danger any prisoner faces is when he is about to be released. If there is anything else the government can try to charge you with, they do so on the last day to prevent you from ever leaving. Russia just followed the US model with the Yukos prisoner now charging him with money laundering after serving 8 years. They did that to Kondratieff. His first sentence was up, so they charged him with something else, found him of course guilty, but then just took him out behind the courthouse and executed him after sentencing him to 7 years, because they just didn't want to release him.

Look at John Gotti, Jr. He beat them on trial and walked out. He had at least a reasonable judge who saw the government was using him as a name to further personal careers. This time, he will be tried by Judge P.Kevin Castle. He will not receive a fair trial in the least. The US Government is no different than Russia. They must always win and if you do beat them, they will hunt you down until they win on something, it does not matter.

A lawyer friend of mine Chris Lovell use to practice before the CFTC. He told me all the nightmares of how they treated all defendants. In 1987, I was asked to testify against the CFTC in Congress. I called Chris and told him I could get him before Congress and just tell them what all lawyers talk about behind the scenes. He declined telling me his business would be prejudiced for the CFTC would target anyone he represented to drive him out of business. He then advised me not to testify. If I did, he warned, they would never forget.

This is the real behind-the-scenes life with regulators. They are relentless, and will NEVER yield to the truth. It is all about winning and they WILL do whatever it takes to win.

In a SEC case of Mr. Schiffer tried before Judge Richard Owen in New York City, he was the first one who had his lawyers taken away by the SEC using the civil label to deny counsel. Judge Richard Owen has a reputation of being one of the worst judges in the country. (See Three Felonies a Day). Not only is this the tyrannt that threw me in contempt for more than 7 years, but he was also the Judge in Frank Quattrone's case.

While I was in court and the discussion was about taking my lawyers away, Judge Owen kept making smart-ass remarks about Schiffer and how he never "took it upstairs" to argue what Judge Owen did was illegal. He would constantly make jokes and more-or-less then laugh. When I turned to my lawyer Martin Unger and asked "Who is this guy Schiffer he keeps joking about?" The reply: "You don't want to know." I insisted he tell me. It had turned out that Schiffer committed suicide after all his lawyers were taken away for he could not deal with the SEC and Judge Owen who together relentlessly tortured the poor guy in a **CIVIL** case until he couldn't take it any more, mentally.

It became clear to me that transcripts of court hearings were being altered. Then the Second Circuit Court of Appeals came out and was forced to address the fact that the judges in the Manhattan Federal Court had in fact ruled in their own favor that they could now create a "'standard practice' in the Southern District is for a court reporter to submit the transcript ... to the district court before releasing it to the parties. ... The district court is free to alter the transcript without disclosing such changes to the parties." US v Zichettello, 208 F3d 72, 97 (2nd Cir 2000) decided March 30th, 2000. The real amazing fact is that both the Supreme Court and the Court of Appeals are suppose to supervise the administration of justice. **NEITHER** of these high courts protect the people or the Constitution. This decision was appealled to the Supreme Court, and they refused to accept it. The Second Circuit had the audacity to indeed print in their opinion

> **"Neverheless, whether we have the power to order a change in such a practice is unclear. ... However, we invite the judges of the Southern District to consider revision."**
>
> Id./at 98

They declined.

I began keeping track of what I would say in court. I would read specific things from notes laying on the table to ensure the words I spoke would be in the record. When I got the transcripts and found what I would say or object to to establish a right to appeal removed, I just gave up. It was clear I would **NEVER** receive a fair trial and I wrote a letter complaining about this sham to Dorothy Heyl, the SEC lawyer at the time. I told her, if you people can change the words I speak in court, why don't you just alter the transcripts and claim I had confessed and get it over with? She never replied. So being pist-off at how corrupt the entire process had become, I put in an affidavit sworn under penalty of perjury so if I lied they could have prosecuted me and given me 5 more years. I outlined each transcript that I believed had been changed and asked for the recusal of Judge Owen.

While we can never be a judge over ourselves, judges can be. The passage below is what Judge Owen said in court that day judging his own actions, and claiming while he did change my transcripts, he did not remember making any major changes so he acquitted his own actions. I appealled that to the Second Circuit, and they slapped it down admonishing me that they would never want to revisit this issue again. So much for unbiased courts.

But my allegations swirled around New York. That day in court, the place was just packed. I was told by the court appointed counsel in the criminal case, I was crazy. You can't accuse a federal judge of such things. I said I didn't give a damn anymore and let the truth come out. Judge Owen was so intimidated by so many people there he knew included the press. While no one had the guts to report those events since it seems even the press is scared to death about judges, they knew what was going on now for I was the first to ever get a judge to admit he was altering the public record.

JUDGE RICHARD OWEN:

"I don't remember ever making any change to a transcript of any substance whatever. I may have stuck in a coma, I may have stick in a dash. But I don't remember ever changing anything of substance."

(99-Civ-9667 SDNY; Tr; 9/23/03, p45, L7-11)

The courts are so dishonest, the SEC was able to get their cases before Judge Owen to ensure their victory. Judge Owen had also presided over First Jersey Securities, a brokerage house that had taken too much business away from New York. There, the SEC asked the court appointed staff to investigate First Jersey Securities to see if they could find anything else that should be then charged. This is totally illegal for the court is suppose to be impartial. The lack of any **Rule of Law** is illustrated by the reversal of Judge Owen and his investigation.

The SEC managed to get the criminal trial of Frank Quattrone of First Boston also before Judge Owen. Andrew Sorkin of the New York Times covered Quattrone's case and because of my confrontation with Owen, the press was paying very close attention to what Owen was doing with the transcripts. The Second Circuit had the audacity to even admonish the press for their critical coverage of Judge Owen claiming they misunderstood events in court that they reported which were not in the transcript.

Andrew Sorkin came to visit me in MCC to discuss Owen. **I went over** the whole thing about the transcripts. The Second Circuit was hit by even amicus briefs (independent groups) calling for the recusal of Judge Richard Owen. The Second Circuit will never rule against a judge and with all the public outrage over Judge Owen, they had the true audacity to write: "we do not find evidence that the trial judge made any inappropriate statements leading us to seriously doubt his impartiality." US v Quattrone, 441 F3d 153, 192-193 (2d Cir 2006). The Second Circuit nonetheless, stated, "[w]e conclude that the better decision is that the case be reassigned to another judge upon remand." Ibid.

While Federal Courts always protect the judges and they know they are free to do as they please, the Second Circuit also had the sheer audacity to criticize the press, who was even naming the offender, Mr. Sorkin at the New York Times.

> **"In attempting to argue that numerous media commentators noted the allegedly biased conduct of the trial judge, Quattrone cites only one newspaper article in the text of his Opening Brief ... However, the very article that Quattrone employs to establish improprieties has at least one material mischaracterization of the court's trial management. The article claims that Brodsky testified upon cross-examination 'No' when asked 'Did you think he [Quattrone] had done anything wrong?' See Andrew Ross Sorkin, A Shift in Testimony in Ex-Banker's Trial, N.Y. TIMES, Apr. 23, 2004, at C3. This characterization was completely accurate ... What was inaccurate, however, was the next sentence of the article: 'The judge ... immediately struck the answer from the record ....' Sorkin, supra, at C3. The record clearly reflects that upon objection the trial judge allowed Brodsky to testify 'No' but instructed the witness to move on without providing further commentary."**

Quattrone, 441 F3d, 192 n.41

I gave up trying to get Judge Owen recused. Finally, the Second Circuit would not recuse Owen directly in my case, but then on its own realizing that the world was looking at how ruthless the American Justice System had become, wanted to avoid any controversy and to my shock and others, recused Judge Owen merely stating:

> **"[W]e believe that on the seventh anniversary of Armstrong's confinement, his case deserves a fresh look by a different pair of eyes. We therefore direct the district court to reassign the case randomly to a different district court judge on remand."**

Armstrong v Guccione, 470 F3d 89, 113 (2d 2006)

I remain convinced that the SEC controlled by favor who their cases were assigned to and that was Judge Owen. To make matters even more suspect, it was the SEC who requested that it wanted Alan Cohen to be appointed as receiver who was a personal friend of Judge Owen's and his personal former law clerk. If this was not a conflict of interest for anyone else, such conflicts are standard in courts of law.

The Senate Judiciary Committee will just NEVER investigate judges, so they know they can do as they like for they are above the law. The only judges to ever get prosecuted are those who defend the Constitution and the people. If they are pro-government, the government will never criminally charge a judge who rules only in their favor. Citizens have no right to file criminal charges in the Federal system.

The SEC also amazingly got their case against First Jersey Securities and Robert E. Brennan before Judge Owen and denied him a trial before a jury holding a bench trial before the notorious Judge Owen. Naturally, Owen ruled in favor of the SEC ordering that he be disgorged of profits he held were in fact excessive in selling 6 securities to the public in the sum of $22.2 million and to pay $52.6 million in interest, on conduct it alleged between 1982-1985. But the SEC asked the court to appoint its own judicial officer to investigate calling him a special agent. This was in complete violation of the Constitution, which the Second Circuit had acknowledged, but would not reverse the case. (see below).

There is a very distinct pattern that the SEC will bring cases in New York, not where the alleged offender actually resides, in order to win at all costs. In my case, the accounts in question were in Philadelphia, not New York. Drexel Burnham was a Philadelphia firm. REFCO, a Chicago firm, and Quattrone worked at First Boston. The First Jersey Securities case against Brennan was also a New Jersey entity. Don't forget Mr. Ebbers of WorldCom. He too was put on trial in New York.

Strangely enough, the **ONLY** big case brought in Manhattan against a Manhattan firm was Madoff. But he blew up and there was no choice. I have spoken to members of the Press who (1) know that judges in New York alter the public record to win cases, and (2) only prosecute outside firms. You will **NEVER** see any New York firm prosecuted like **Goldman Sachs**, J.P. Morgan, or any of the major firms unless a bigger firm has them tagged. New York will **NOT** eat their own and the best way to describe it is **"You don't shit where you eat!"**. The editors of the major press will **NOT** let journalists even write about this. You would think that altering transcripts is significant enough to warrant front page coverage when you have actual acknowledgement in writing, and it amounts to a Federal Crime meaning that the judges involved could all be arrested and put in prison themselves.

18 USC §1506 Theft or alteration of record or process;

"Whoever feloniously steals, takes away, alters, falsifies or otherwise avoids any record ... Shall be fined under this title or imprisoned not more than five years, or both.

The serious danger that lies in this collapse of the rule of law, is that it is just for sale. This gives many great concern that the Federal New York Courts protect the likes of **Goldman Sachs** preventing ever any case against them. Indeed, a major class action lawsuit was filied in New York against Merrill Lynch. It was taken by Judge Pollack who wrote a huge opinion dismissing the case preventing the little guy from ever having his day in court against a big New York firms.

Most of this is circumstantial evidence that nobody can prove without an investigation that the US Senate will never authorize. So where circumstantial evidence is good enough to criminally prosecute citizens and toss them in prison until they die like Ebbers, it is not sufficient to prove to the Senate that if it walks like a duck, talks like a duck, just maybe it might be a duck and not a cow.

Stepping outside of Manhattan destroys the conviction rate in questionable white collar cases. Look at the case of Keating of S&L fame was criminally prosecuted on the theory he sold bonds **KNOWING** that 7 years later he would have to file for bankruptcy. He was the sacfricial lamb for the S&L Crisis and when his case was overturned, the government tried to reindict him. There, the court held it was a political prosecution and dismissed the case. Rest assured, that would **NEVER** take place on the East Coast where the courts have been stacked with mostly former prosecutors acting as reborn judges.

"The district court... stated that it was convinced that the violations pleaded and proven with respect to the six securities ... were but 'the tip of the iceberg.' Citing its general equity powers, the court stated that a Special Agent would therefor be appointed to investigate ... the possibility ... that the SEC had not pleaded or proven [other frauds]. ... the court itself ... has authority to make appoints [but] [t]he appointment of a Special Agent ... is not for the purpose of assisting [the SEC]... We do not regard the appointment of an investigator, whose instructions are to unearth claims not previously pursued by the SEC, ...[Would] preserve for the court the appearance of impartiality." SEC v First Jersey Securities, 101 F3d 1450, 1478-9 (2d Cir 1996)

How Did We Get Where We Are?

WHEN people put this together with a major infiltration of government posts with former **Goldman Sachs'** partners, the image the emerges is certainly not one that is doing either the United States or Wall Street much good in the eyes both domestically or globally. But to understand if **Goldman Sachs** is the new **Evil Empire Within**, we must consider its origin, evolutions, and what it has now represented that has turned so many against it in the real world. Is **Goldman Sachs** at its zenith ready for the fall from grace? Or is it at the threshold of a new era? One thing for sure, if it were in the computer field, the government would be attacking it like Microsoft trying to tear it apart limb from limb. But **Goldman Sachs** is not Microsoft, it is a quasi-Commerical Bank with Fed borrowing power, Investment Bank when it smells a deal, Primary Dealer that has the Fed's hooked to the point they fear they cannot survive without it, and above all, it is a Proprietary Hedge Fund that roams the world economy looking for its next prey.

In The Beginning

Marcus Goldman left Bavaria, Germany in 1848 looking for a new life in the New World. This was during a period of serious political uprising in Europe that had led to a major Jewish migration to the United States. **Marcus** became a buyer & seller of what we would call today commercial paper. He was peddling such paper in New Jersey in the economic turmoil following the US Civil War when interest rates were high. **Marcus** was able to develop a business in this field because banks tended not to be national with massive networks of branches. I have written about J. Cooke who many had regarded as a showman for he was the first to develop agents around the country to sell corporate bonds. Cooke was in Philadelphia that tended to be the financial center during the mid-1800s. That would eventually move to New York City, thanks to J.P. Morgan after J. Cooke went belly-up during the Panic of 1873.

Marcus Goldman got married and he too settled in Philadelphia at first. He thus followed in the footsteps of J. Cooke and carved-out a small business buying and selling mercantile paper demoninated in small lots between $2,500 and $10,000. He would buy them at a discount and resell them to banks who lacked branch networks.

By the 1880s, **Marcus** was making a big fortune in those days, about $50,000 per year that was tax free back then. It was 1882 that he took in his son-in-law as a partner by the name of **Samuel Sachs**, and **Marcus** lent him $15,000 so he could sell his dry goods store, which **Sam** repaid over the next 3 years. **Marcus** had issued 3 notes of $5,000 each. **Sam** had repaid two notes and when his third child was born, **Walter**, the third note was forgiven.

By 1888, the firm became known as then **Goldman, Sachs & Co.** Thus, it remained for the first 50 years or so a family business. By about 1900, the firm was the largest broker-dealer in commercial paper with sales reaching about $75 million.

London was still the financial capital of the world. **Sam** wanted to expand the firm and to do so, he needed to go to London much as J.P. Morgan had done. A informal relationship was arranged with **Kleinwort Sons & Co** was originally founded in Cuba in 1792 and established itself in London by 1830. It was a respected merchant bank dealing around the world with bills of exchange. This was a rival to **Peabody**, and that is what **Sam** needed. **Sam** sold the firm as an agreesive American correspondent that would be in a position to help **Kleinwort** expand its dealings into the lucrative foreign exchange business and to take advantage of the big arbitrage between the USA and UK markets. Don't forget, it was that very arbitrage that in 1896 caused J.P. Morgan to rise to national notice by leading a consortium to lend the US Treasury gold for it had been that arbitrage that emptied the US Treasury vaults taking gold to Europe and replacing it with silver.

Indeed, **Kleinwort -Goldman Sachs** paper was all over the London market. This produced some tension no doubt, but the firm pressed forward establishing correspondent relationship outside of London. **Goldman-Sachs** was now starting to rely on deals that one would call self-funding so to speak. In other words they were <u>not</u> putting the firm's capital at risk itself. By the **Panic of 1907**, the firm was now up to half-million in the foreign arbitrage business (trading) between London and New York. The main thing, **Goldman Sachs** was developing a reputation in the European money markets and that meant they were now developing deep trading/credit lines.

Marcus Goldman had remained a partner until his death in 1909. The firm now was in the hands of family **Henry Goldman** & **Sam.** They continued to focus on commercial paper that they regarded as their core business. **Henry Goldman,** was the risk-taker and he had visions of expanding into the domestic securities business selling railroad bonds to savings banks. **Sam** was the conservative commercial-paper guy who also brought in his son.

Henry Goldman was on a mission to be as famous as J.P. Morgan and George F. Baker that was the origin of **Citcigroup** today. It was the Christians v the Jewish firms and to this day in New York City, this rivalry has continued in every field from banking and borkers to legal firms. It is the great unspoken feud of the New York Hatfields v Mc Coys. J.P. Morgan and George Baker would not do business with the Jewish boys. So Morgan was the target of competition for **Goldman Sachs & Co.**

Just as Michael Milken created the new "Junk Bond Market" as it was called by his jealous competitors, **Henry Goldman** did the same thing with **United Cigar** that later was known as **General Cigar.** Milken took firms who had great earning power but not traditional mortgage quality assets upon which to borrow, and created a equity focused market that evolved also into venture capital.

United Cigar was a merchant and that type of business is different. It is a trading firm where it is buying and selling and was unlike a railraod with infrastructure. **Henry Goldman** did the very same thing and created financing based upon earning power not tangible assets. Eventually this would also be known as "good will" in valuing corporations. This is where **Henry Goldman** brings in another Jewish competitor, **Philip Lehman.**

Lehman Brothers was actually a Alabama coffee and cotton merchant. **Philip Lehman** was a friend of **Henry's** and was one of five brothers. **Philip** was eyeing up what **Henry** was doing in New York, and he was interested on expanding his business and making a bid to get into New York City. **Philip** was keen on getting into the underwriting business venture. The **Lehmans** were very rich and had tons of capital that attracked **Henry.** In those days, there was still not a fully developed underwriting business. It was a great opportunity to buy the securities to be issued from a corporation and sell them to the public as J. Cooke had shown could be done on a major scale. This effort to bring in the capital from the **Lehmans** and create a business with **Goldman Sachs** who brought the clients, was the basis of this arrangement that lasted until 1926.

The <u>**INVESTMENT BANK**</u> was thus born and the first deal being United Cigar proved to be a smashing success that the profit was said to have been about 25% of the offer price, the same thing First Jersey was charged.

Another deal emerged from distant family. From Germany came **Julius Rosenwald** who had at first boarded with the Sachs family, and then moved west teaming up with his brother-in-law **Aaron Nusbaum** who convinced him to buy 1/3rd interest in his operation with his partner a Mr. Sears in their operation **Sears Roebuck.** Julius bought out Aaron and went to **Sachs** to finance inventories they would purchase in New York. With only $250,000 in capital, now **Goldman Sachs** arranged a $75 million commercial paper deal. This helped the company explode in growth. By 1907, **Sears Roebuck** moved for $5 million in long-term capital to build a mail order operation in Chicago. But **Henry Goldman** pitched a stock offering and joined with **Lehman Brothers** to underwrite this new stock venture. The formula of investment banking was taking off in spades.

Between the joint forces of **Goldman Sachs** and **Lehman Brothers,** they put investment banking on the map. Thereafter, they underwrote an explosion in retail companies all following the model of **Sears Roebuck.** They brought to the marketplace F.W. Wollworth, May Department Stores, Brown Shoe, S.H. Kress, and expanded into industrials such as B.F. Goodrich, Studebaker, Underwood Typewriters, Continental Can and Jewel Tea. By 1909, Sears had sold his personal stake in a $9 million deal put together by **Goldman Sachs.**

It was 1907 that **Sam Sachs'** son **Walter** joined the firm, which was the same year that **Sidney Weinberg** joined the firm as a janitor. **Walter** opened the account with **J. Ogden Armour** who would become the richest man perhaps in history at the **Armour & Co** based upon the access to the London market to sell their commercial paper via the **Kleinwort** connection. Meanwhile, **Goldman Sachs** and **Lehman Bros** worked together, with the former specializing in commercial paper and the later commodities trading.

It was World War I that broke-up the family business at **Goldman Sachs.** As the story goes, **Walter Sachs** assured their old English correspondents at **Kleinworts** that **all** his family partners were supporting the Allies only to find that **Henry Goldman** supported the German view. **Henry's** views were becoming more public and the feud erupted in 1915 when J.P. Morgan offered a $500 million Anglo-French war bond. Virtually every American firm now joined in, but **Henry** refused, and thus it was said that this incident broke the family. Two Sachs brothers went to J.P. Morgan to personally subscribe to show their support. When America joined World War I in 1917, it still did not tone down **Henry Goldman** and even the **Kleinworts** warned that the firm itself would be blacklisted for its support of Germany. The Bank of England even forbid **Kleinwort** from doing business with **Goldman Sachs.** The very day that **Goldman Sachs** began to sell US government Liberty Bonds for the war effort, **Henry Goldman** was forced to at last resign. He took with him, all his own capital undermining the firm's ability to do underwritings. The firm thus acquired the reputation of being "German" and this split in the family is said to have been permanent and that **Henry Goldman** and **Sam Sachs** never spoke again.

It was this break in the family that opened the door for a janitor to rise to the top - **Sidney Weinberg. Sidney** became a bond trader even though he dropped out of school after 7th Grade and was largely self-taught. He also created an over-the-counter stock business during the booming 1920s and by 1925, he purchased a seat on the NYSE. He was a natural trader. Someone who could feel the blood in the tape. By 1927, **Sidney** now became a partner in **Goldman Sachs.** He became truly a natural trader whose "feel" for the market saved **Goldman Sachs** in the Great Depression.

With the departure of **Henry** and the whole German thing, the relationship that had created a dynamic force between **Lehman Brothers** and **Goldman Sachs** came to an end. Both firms would evolve as competitors and the rivalry lasted until the demise of the remarkable **Lehman Brothers** with the Crash of 2007.

The events that began to follow World War I, was shifting the financial capital from London to New York. The credit for this belongs to J.P. Morgan. The 1920's was thus a boom that most failed to truly appreciate. It was a shift from railroads to industrials creating a new sector with great respect built upon the back of the automobile and the airplane. But this was a capital shift globally as well. Like everyone was running to invest in Japan for 1989, the same thing was happening with the United States. Foreign investors were now looking at America as the land of opportunity.

But the capital of the world has also shifted to the USA. The global concentration of wealth was extensive. This led to major offerings by China, South America and even Europe selling their sovereign debt in small denominations that the New York banks were marketing to the average person.

Goldman Sachs got caught up in the whole bull market just like everyone else. Under the leadership of **Waddill Catchings** who led the firm into joining the hot market by now creating an **"investment trust"** where he saw that a giant fund could maximize profits by buying and selling stocks. He promoted this as a business that was professional and the profession was investing.

The **"investment trust"** was sort of the domestic "hedge fund" of its day. Everyone was jumping into the game. **Catchings** just got caught-up in the whole thing and was very bullish going into the high of 1929. He gave this new entity the name: **Goldman Sachs Trading Corporation.** The deal was that **Goldman Sachs** would be paid 20% of the profit and the stock was offered at $104 per share. It jumped to $226 per share, that was **twice** its book value. This would be the very same mistake that became exposed in the Crash of 1966 when shares in mutual funds were then traded on the exchange allowing them to be bid up well beyond their asset value.

The whole bullish atmosphere was very intoxicating. Just three months into the fund, **Goldman Sachs** arranged for a merger of the trust fund with **Financial & Industrial Corporation** that controlled **Manufacturers Trust Company** that was a giant group of insurance companies. This doubled the assets of **Goldman Sachs Trading Corporation** taking it up to a staggering near $245 million. This was huge money in those days. The trust now exploded and the assets under control are said to have exceeded $1 billion back then.

Goldman Sachs expanded the leverage going right into the eye of the storm that was about to hit starting on September 3rd, 1929. In the summer of 1929, **Goldman Sachs** launched two more trusts **Shenandoah** and the memorable **Blue Ridge.** The shares were over-subscribed and **Shenandoah** was offered at just $17.80 and it closed on the first trading day at $36 per share. **Blue Ridge** was even more leveraged and the partners at **Goldman Sachs** put pressure on everyone to buy as a sign of support. The leverage was astonishing for with just about $25 million in capital, now there was more than $500 million at stake.

The disaster was monumental to say the least. **Goldman Sachs Trading Company,** whose shares had stood at $326 at their peak, fell during the Great Depression to $1.75. They fell to less than 1% of their high. The loss suffered at **Goldman Sachs** on a percentage basis was far worse than at any other trust. In fact, of the top trusts, **Goldman Sachs** had lost about 70% of everyone combined.

Goldman Sachs was a wash with lawsuits and it became the target of jokes in Vaudeville. This would fuel the anti-Jewish feeling in New York for decades to come. **Samuel Sachs** died in 1934 at the age of 84. He was devastated for what he had worked for was to build the firm's reputation. That is what had even broke the family in two.

Over the Years

Over the years that followed, **Goldman Sachs** struggled to climb back. They returned to their expertise building upon their old reputation in commercial paper. They were still second rate and the leader with all the prestige was **Salomon Brothers** who had an elitist view that they would deal only with the biggest and best. It would be this keen competition with **Salomon Brothers** that drove **Goldman Sachs** and effectively the industry.

Those who were in the industry back then will recall that **Salomon Brothers** was the big power around Wall Street and it was known by the name in the trading floors as **"Solly"** all over town. Yet, **Salomon Brothers** was not as old as **Goldman Sachs.** So from the beginning, **Solly** was a new rising star carving its way into the Jewish world of Manhattan. The firm actually began in 1910 as the combined force of Arthur, Herbert, and Percy Salomon.

Solly came at the right time. It was just after the 1907 Crash and thus the chaos that erupted at that time, opened the door for competition. When opportunity knocked, **Solly** opened the door.

Solly began specializing in short-term loans. With the reforms that began in 1913, **Solly** was more of the traditional type of bank just specializing in bonds. When World War I brokeout, **Solly** had created a client base and thus became a **Primary Dealer** for the US Government selling their bonds to raise money for the war.

Where **Goldman Sachs** had been specializing in helping primarily merchant type clients who were different from railroads lacking the infrastructure assets, **Solly** was following more of the model that had first been struck by **J. Cooke.** Indeed, just as the Government turned to **Cooke** to sell its bonds during the Civil War, now **Solly** was following in that same footpath.

Solly survived the Great Depression in far better shape than **Goldman Sachs.** For decades thereafter, **Solly** did its business and **Goldman Sachs** could only watch in envy. The steady drive to beat **Solly** was always there. They were the "other" big Jewish firm that had the audacity to compete.

Solly, however, was a rising star with a short-life. It would peak perfectly just 72 years from its birth. Its demise also had lined up with the **Economic Confidence Model** that seemed to drive the firm more than any other force.

It was in 1978 that John Gutfreund rose as the head of **Salomon Brothers.** Right in line with the major high on the Public Wave that peaked at 1981.35, Gutfreund was now selling the firm to the huge commodity firm known as **Philips Brothers** of Marc Rich fame. They were the big commodity house known on the street as **PhiBro.**

PhiBro were great traders coming from years of commodity trading. But they still couldn't see that commodities had made a major high in 1980 that would last for the next 20 years or so. They were feeling like they had conquered the world, and thus were now trying to buy **Salomon Brothers** when they were at the top of their cycle. This was the wrong time to expand.

Gutfeund became a co-CEO with Phibro's David Tendler. The commodities crashed and burned and the tables were turning. Gutfreund now seized control and started to expand the firm into the currency trading, and enlarged the firm's positions in underwriting and share trading. **Salomon Brothers** was now also trying to expand into Japan as well as Germany and Switzerland.

As commodities peaked in 1980 and the interest rates thanks to Paul Volker's decision to raise interest rates to insane levels, the decline on the **Economic Confidence Model** into July 1985, brought a collapse in prices of commodities hurting **PhiBro**, yet the high level of interest rates attracked capital from around the world. This drove the dollar to such record highs where the British pound fell to just about par and the mighty Deutsche mark fell to nearly 4 to the dollar. This had shifted the profit base from **PhiBro** now to **Solly**.

However, this catastrophe upset the whole world economy. Volker not merely removed the usury laws to allow for his drastic rate rise, which is why credit card rates are still high today, but he set in motion the entire bull market in the dollar.

Neither **PhiBro** nor **Solly** comprehended what was going on. They got caught in this new pendulum swing with extremely high volatility. This sparked Mr. Baker to now propose creating the G-5 in 1985 with the goal of manipulating the dollar down by 40% to help trade. So we have mistake **NUMBER ONE** Volker raising rates to absurd levels, and **NUMBER TWO** James Baker proposing to manipulate the currency markets by forming G-5. And these were Republicans who were suppose to believe in Free Markets. If you believe that one, I will tell the the one about how you can buy the Brooklyn Bridge.

On the first currency swing in the mid 1970s, it was Franklin National Bank that went down on a small 7% move. They were the bank who started MasterCard. This swing was dramatic from a percentage basis. Suddenly, **Solly** needed to be rescued. It's white knight, was Warren Buffett. The firm that had risen to such heights, known as the "King of Wall Street" saw its profits peak precisely with the 1985 turn in the **Economic Confidence Model** at about half-billion dollars.

As the markets all turned in 1985 with now the dollar crashing and commodities were starting to rise, the stock market was exploding. The fixed income specialists at **Solly** were now in a bear market. **Solly** had expanded right at the top in 1985. They had increased their staff by 40%. So where it was **PhiBro's** turn at the 1981 turning point, it was now **Solly's** turn with the 1985 target.

This was a very important time where the shift from a **Public Wave** to a **Private Wave** was taking place. At Princeton Economics, we took the back page of the English Magazine named the **ECONOMIST** for 3 weeks running in July 1985 to go on record what the future would hold. Granted, we were well ahead of the crowd and had a fully functioning global computer model before anyone even started to hire computer programmers. But that was our comparative advantage. It was a time of very high volatility and also the birth of the whole take-over boom. This was the point that marked the breakout in the Dow Jones and in 2.15 years we had the 1987 Crash, S&L Crisis, and by the end of this first wave 4.3 years, Japan reached a bubble top and burst. All of this was set in motion by government trying to manipulate the **Free Markets**.

The competition between **Goldman Sachs** and **Salomon Brothers** 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** that was clearly a competitive move given the **Salomon Bros.** merger with **Philips Bros. J. Aron** was a 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 **Jack Aron** who was part of the Jewish community.

J. Aron 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** rose from a capitalization of less than $500,000 in the late 1960s to $100 million by the peak in 1981. **J. Aron** had become the largest trader in gold doing more volume in dollars than the biggest of any of the Dow stocks.

Being a commodity firm, **J. Aron** was actively trading currency futures that the banks did not understand. They were the first to arbitrage the currency futures against the cash currency markets at the commercial banks who back then did not understand the markets, but had to provide that service to keep commercial clients.

J. Aron's business in precious metals helped to bring in market-share. This is the beginning of gold lending. Banks holding gold would start to lend it to **J. Aron** 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 couldn't figure out what I was doing. I had a guy 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. I later showed a London firm how to do this wild overnight trading, and finally got some sleep after the 1980 high. Those were the days of innovation and wild trading. They were the best days of my life with my kids who were still young and a real joy in all aspects.

After the whole 1980 Commodity Boom, everyone expected it to rebound and keep going. Oil hit $40 and gold $875. 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** and has now focused **Goldman Sachs** as a mean, lean, trading machine.

It was this competition between these two Jewish firms that fueled the evolution process of **Wall Street.** Leading up to 1980, **Sidney Weinberg** at **GS** brought in his heir that perhaps began the desire to cultivate contacts within government. It was 1968 when **Henry Fowler**, former Secretary of Treasury, was recruited. It was **Fowler** who opened those political doors in a host of different nations Yet it was **Gus Levy** who was the agressive one pushing the firm into taxable bond dealing expanding from commercial paper. From 1969, **Goldman Sachs** now moved into the bond market.

Salomon Brothers was taking market share away from **Goldman Sachs.** The decision to get back into proprietary trading appears to have been from **Steve Friedman** and **Robert Rubin** to be competitive with **Salomon. Goldman Sachs** was still hesitant sitting to a large extent watching trading profits grow at **Salomon,** and that was the trend at **Morgan Stanley, First Boston,** and of course **Merrill Lynch.**

Freidman and **Rubin** took over the role of managing Fixed Income where they planned to expand into proprietary trading. **Goldman Sachs** moved into quantitative analysis in the late 1970s, relying still on academics.

It was **Freidman** and **Rubin** who changed the culture creating the trading profit bonus and starting in 1986, **Goldman Sachs** began to take talent from **Solly** offering a huge bonus structure and adopting the trading mentality it now acquired from **J. Aron & Co.**

It was 1985 when I wrote directly to President Ronald Reagan. I warned that this whole idea of manipulating the dollar would lead to a crash and dramatically increase volatility. **Beryl Sprinkle**, Chief Economic Advisor, responded. He pointed out that at that time Princeton Economics was the **ONLY** firm with such a model, and until someone else created a model agreeing with us that volatility would rise, he basically said they could not rely on just one model. Now we set the ball in motion with computers, and the game was now taking a new direction.

In 1986, **Goldman Sachs** hired **Fischer Black** of **BLACK-SCHOLES** fame for valuing the stock options. It was **Rubin** who brought in Black, and the problem they had was the new embedded options within debt. But the issue they did not understand that they were now walking into, was there is a great language problem between traders and programmers. You **MUST** be good at both, or you are screwed.

The Age of Computers

While Princeton Economics was more than almost 2 decades ahead of the crowd in this area, they were well aware that we were then emerging as the largest institutional advisors in the world. This is also clear from the the standpoint that the regulators jump when one of the big New York firms makes a call.

In 1985, the Supreme Court ruled in a major case **Lowe v SEC**, 472 US 181 (1985) that held the publishing of analysis was protected by the First Amendment and did not require to be regulated by the SEC. Upon advice of my counsel, I withdrew my registration and we opened out first office overseas in London that year. However, it was the CFTC who tried to claim that the **Lowe** decision only applied to the SEC statute, and they would refuse to follow the Supreme Court.

The CFTC appears to have been told we had too much influence and they tried to subpoena a list of all our clients arguing I was manipulating the world economy. Their idea was that anyone who took our research did exactly what we said, and that was making the forecasts correct, not the model. They continued to harrass us for the next 10 yrs even though I fought them in court and won that they had no proof I was manipulating the whole world, and even if I was, where did they have the authority to police that jurisdiction?

Everyone was rushing out and buying IBM desk-top computers and trying to create models. Much of what was coming out was real nonsense. Trying to write a computer program is a completely different field. I was very fortunate insofar as I had gone to what was in the 1960s the equivalent of Microsoft University. RCA had set up a school only for mainframe computers. No school could afford one of these monsters that filled a room back then. I went through everything from the ground up - electrical engineering, hardware design, and software design. Today, someone taking up software need not go through the hardware. But in the old days, you had to do everything. This gave me a well-rounded idea of how computers functioned, and what could be done with them. I left the field for not being married, I was offered Greenland where NORAD was hidden back then, Guam, or Vietnam. The married guys got Paris, London or Hawaii. So I decided trading was my first love.

When computers began to shrink, now they were a tool I knew what could be done with them. I began working on a program in the late 1970s. Having experience in both trading and programming, I could see in my mind's eye the potential.

The greatest problem that Wall Street ran into with their attempt to model the markets, you have a huge gap between the trader and the programmer. They do not even speak the same languages. What the trader is trying to explain, the programmer is then trying to write in computer language. It is not easy. The trader does not comprehend how a computer operates, so he skips such basic steps that the programmer, not understanding trading, cannot fill in the gaps.

Teaching a computer to do something is like teaching a child but worse. Where the child will instinctively take that first step in walking, there is no such instinct in a computer. You have to teach it absolutely everything in such detail, and nothing can be left out.

Goldman Sachs and others hired physics majors and math wiz guys, and now they just introduced another dimension of chaos. Here you bring in guys competent at what they do, but they are not traders. They have no feel for a market. They cannot smell the blood. And the make the biggest mistake of all that the programmers could not fix for they also had no experience. Markets are **NOT** perfect and sometimes they will reach a void where liquidity disappears, and you just can't get the hell out no matter what you do.

When the 1987 Crash hit, it was one of those moments. Liquidity vanished. The market makers backed away, and trades were just being matched. If you were **UNEXPERIENCED** in trading, you were likely to put in a market order. You would have lost a fortune. I was trying to buy calls on the S&P at the low. One trade was 200 and the next 3,000. There were no market-makers. Everyone simply got scared. A market order would have been slaughtered.

The volatility I warned in 1985 would be unleashed once they started to manipulate the currencies came true. I was getting then requests to please provide research to the US Government. I told them to pound sand. I was too busy. Jack Swagger called me and made a good point. They were going to lock up the computers for by 1987, everyone was trying to use computers for trading and the press was already now blaming computer trading. It had turned out, many who had crude models, simply didn't follow them. The computers were mostly correct - SELL. The professional stock traders did not listen.

I eventually provided the research only when it became clear that Paul Tudor Jones' partner Peter Borshe became a board member to the Brady Commission. I contributed and even wrote to several people pointing out that the entire event was caused by currency for when they wanted the dollar down by 40%, foreign holders of US Government bonds and assets, sold. The Japanese had purchased up to 33% of the US National Debt. They were net sellers. They took their funds home setting in motion a capital concentration in Japan that led to the bubble top about 2.15 years after that - **1989.95.** When Nick Brady came out, he conceded that perhaps currency had something to do with it.

The Long-Term Capital Management Crisis of untold proportions

Over the next 8-9 years, computer models were getting more sophisticated, but at the same time, more myopic and dangerous. The new models were focusing on high leverage. Again, the weakness was they lacked historical back testing, and failed to comprehend the dynamic structure of the global economy.

The collapse of **Long-Term Capital Management** illustrated the danger between merging the fields of experience with no practical risk management. What was happening, was twofold. It was a blending of manipulation/inside info and sophisicated computer models that did not take into consideration what happens when the market goes into total illiquidity.

By merging the commodity field with the finance field, there was a culture clash to say the least. Commodity trading began with largely the agriculturals pre-gold. This was a field that was dominated by manipulations. There was only a few recognized storage warehouses that the commodity exchanges recognized and that let the games develop between moving product in and out to create swings in the market price. When inventories would come out, a sharp drop in supply sent prices soaring.

By merging the commodity firms of **PhiBro** and **J.Aron & Co** into the financial industry, this was a clash of cultures that soon introduced the Wall Street boys into how things can really be done.

The SEC was hell bent on **inside trading** from about 1985 onward as the takeover boom began. The SEC was convinced that possessing information of a takeover was now criminal in their mind even though it was opposite of the entire theory of **insider trading** from the Great Depression. One of the partners at **Goldman Sachs,** Mr. Freedman, found himself caught up in the whole mess. **Robert Rubin** took control for Freedman was a partner and if he went down, so would the firm. This, I also believe, contributed to the strategy of then building political alliances.

Where the stock boys focused on fundamental analysis that yielded to vision of merely possessing inside info was a guaranteed win, the commodity culture was more about how to manipulate markets that was born from the agricultural plays.

Where the stock boys focused on fundamental analysis that produced visions of possessing inside info was the guarantee to victory, the commodity culture was clearly not inside info as to what directors are doing or the latest takeover, but **WHO** was trading what and what was their next move.

In the movie **Wall Street** Charlie Sheen does not really get inside info. He follows a takeover tycoon and watches who he meets with for lunch and where he takes a plane ride. He puts it together in his head and assumes the target will be a US corporate. That is **NOT INSIDE TRADING**, but is more akin to the commodity culture, using reconnaissance to keep track of what the competition is doing in the market.

This is **NOT** criminal activity. **EVERY** field of business does the same. They are tracking the competition to know how to stay in the game. The target of who is now being tracked is different in commodities rather than stocks, because it is the players, not the corporate directors that now matters.

Going into 1980, the leaders of that commodity boom was none other than **OPEC** driving the price of oil up to $40 in 1980, and silver where the battle cry was $100 and a ratio to gold set by the old Silver Democrats that had bankrupted the nation when silver was set at 16 ounces to one ounce of gold. That rally was built upon the shoulders of the **Hunt Brothers** who every trading desk was following. However, what the **Hunt Brothers** walked straight into was this culture of watching the players. If the **Hunts** tried to sell one ounce, everyone would jump in front and assume they were now going to sell everything. The exchange rigged the rules and created a one-sided market more or-less. The **Hunts** never stood a chance.

You have to know how to trade and you have to know the game to survive. **Aristotle Onassis** was also a hard-money guy. He too bought precious metals like there was to be no tomorrow going into 1980. He put the whole lot into a bank he owned in Geneva as capital. But he would not let the board ever sell the metal. I was called in because he liked my work. He understood that I was then forecasting a bear market from 1980 into 1985 and he could accept someone who was short-term bearish, but still shared his view of the decline and fall of the monetary system as things progressed. So I was given the job of hedging this monster position. The platinum position was about 40% of the entire market at that time. I had to reveal the position to the CFTC and was not allowed to speculate in platinum, but to hedge the verifiable position only.

Now I was the 800 gorilla, and the real professionals knew. So how does one trade in a market where you are the new Hunt Brother? It takes skill and deception. I was able to trade silver and gold freely, but not platinum. Knowing how the market operated was the key. I understood they would watch my every move. So the only way to trade and not get killed, was to choreograph the precise opposite. I would have to call dealing desks and ask for a market in gold, then silver, and then do the opposite of my intended desire in platinum. I would do a small amount, but enough to be impressive. They would then see I was a buyer. When I went back for platinum, they would assume (reading me) to be a buyer. They would move the spreads to pick up some extra coin, and then I would sell. I would have to have several desks on line at the same time and then take a small loss on the gold and silver. I couldn't do that every day, but it was used at critical moments. Knowing how they operated was paramount for survival.

With this backdrop in mind, you can get a sense of what it was to trade size in these sorts of markets. Everybody was watching the flow of orders; who was doing what; and what was their next likely move. One time I was trading and everyone thought I was short. The floor brokers paid close attention and relay that info back upstairs. I had used so many different desks that I was able to flip my position and was actually long. When they saw me buying, they assumed I was just taking profit. I had two trusted floor brokers in New York who knew I was now long. Both **J. Aron** and Republic National Bank had read me dead wrong. To show them they were wrong, I told the floor broker to bid size openly. Once they did, I could hear the screams yelling: "He's f--king long! He's f--king long! You never saw such a panic short-covering all because they try to read people to gain that added edge. It was the game of strategy.

So when I say there was a "club" that developed mostly in the 1990s, I know what I am saying. A number of desks would watch the big houses and what they were up to now. They would band together, or leak out what a big client would be doing to get interest. This was in the commodity field. But keep in mind that this culture was now infiltrating the financial markets as well from about 1985 onward with the merger of **PhiBro** and **J.Aron** into the Wall Street crowd.

The idea of proprietary trading that was dominant in commodities, was blended in with the financial sector. This blended well but then has transformed the likes of **Goldman Sachs** into a proprietary trading machine.

The **Long Term Capital Management** crisis was a direct result of the "club" relying on **"inside information"** that was suppose to be the IMF continuing the loans to Russia. As I have written before, Edmond Safra of Republic Bank paid for the IMF diner renting the entire National Gallery. I was invited to show me the quality of their contacts. They wanted me to join in with the "club" all then buying Russia. I declined and warned them that Russia would collapse. They believed that the best way to win was to rig the game. If they had the IMF in their back pocket, I would be wrong. But sometimes all the inside info in the world and millions of dollars in bribes cannot prevent the free markets from doing what they do best. They refuse to comply with things that fundamentally were unsupportable and Russia was one of them.

The Blending of Cultures & The Development of the "Club"

The Great American Bubble Machine

Edmond Safra Republic National Bank

The blending of these two distinctly different cultures of commodities and stocks transformed the industry like no one could have imagined without commodity experience. **Edmond Safra** was deeply entrenched within the New York Jewish community. **Edmond** began as a coin/currency dealer. He bought the silver coins from the Arabs who wanted to get rid of them as fast as they got them. For you see, in the early days, the standard coin of one ounce of silver was **Maria Theresa's** (1717-1780) who was the wife of Francis I Holy Roman Emperor. She was the archduchess of Austria and Queen of Hungary & Bohemia. These coins bore her portrait and they were all over the place. You also have coins with Queen Victoria of England. The Arabs did not want coins with portraits of women. **Edmond** made his money buying these at a discount from the Arabs and selling them in Switzerland.

Edmond was another hard money guy. He did not "trust" paper money, despite being a huge dealer in physical currency for the US Treasury. **Edmond** was one of the first to exploit Russia and he had the contact there with the mafia that was run by also Jewish friends of his over there. **Edmond** had planes loaded with US $100 bills by the pallet.

The **Long Term Capital Management** crisis that erupted in 1998, was centered on the collapse of Russia. Anyone who thinks that big money will just speculate is not only wrong, but is suspect insofar as being just a mouth piece for those they defend.

What was going on was the "club" was buying up Russian short-term paper paying huge rates of interest. **Edmond** rented the entire National Gallery in Washington and invited every politician you could imagine both current and past. Even Paul Volker was there despite he was nearly a decade out of the Federal Reserve.

I was invited to show me the influence that they had. I was being solicited to then bring over $10 billion from Japan. They were trying to get me on board with Russia and to stop "fighting" the crowd. There are even emails on a lot of this. No doubt the court receiver got rid of those as well.

Nevertheless, I refused to join and warned them that my model was pointing to a crash in September 1998. But you see, the very attitude that the **CFTC** had taken with me that I was manipulating the world economy because of the scope of our clients, was the very thing that the "club" saw and judged me by their own aspirations. They believed our forecasts were usually correct not because of a model, but because of who I knew around the world.

That IMF affair in Washington was to show me that they had it in the bag. When I stood up and warned Russia would collapse in about 30 days in the late summer in London, and it made the front page of the second section of the London Financial Times, they believed I had more power than them and that is why they lost. Strange things then began to take place in our accounts. I was only in the USA about 6 weeks from late 1998 until the summer of 1999. We were preparing to go public and I was hoping to retire to get back to research that I wanted to do giving it one more serious shot at discovering some mysteries I felt were still behind the functionality of the world economy.

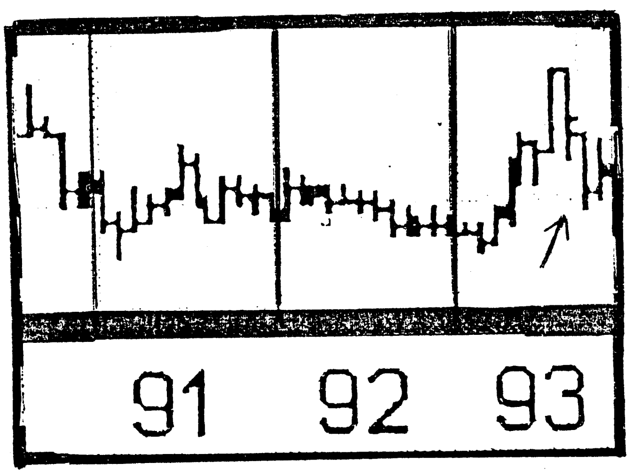
When Russia collapsed, the "club" was so invested in that trade that was illiquid lacking any tradable market, they paniced and began selling all positions creating a gloabl **Contagion.**

The development of what became known as the "club" emerged from the blending of the commodity and the financial sectors. Instead of **insider trading** trying to infiltrate the interworkings of corporations, it moved on into commodities that was expanded into debt and currencies.

What began in the agriculturals moving product the effect prices by creating the false image of a drop in supply, the same schemes were now being played out in big time markets. One of the most outrageous was the conspiracy with paying Russian officials to recall all their platinum to "take inventory" cutting off supply and sending prices soaring. **Ford Motor Company** ended up suing over that one. It was the same scheme that was played in agriculturals for decades. Now it involved paying bribes to corrupt government officials. This would also fuel the idea that Russia, if it could be controlled, would be the long awaited red carpet to commodity profits to new levels.

The first time I began to hear the name Warren Buffett and commodities, was after he got involved to rescue **Salomon.** That had opened the door to **PhiBro,** who seems to have now introduced Buffett to the glories of commodity markets.

Silver Manipulation of 1993



The importance of this 1993 silver manipulation is critical to what has taken place even with AIG. When the CFTC became aware of excessive positions being taken in silver at **PhiBro,** they demanded to know who was their client. **PhiBro** refused to reveal that name, so the CFTC demanded that they exit the trade.

Warren Buffett

The secret client that **PhiBro** refused to reveal was none other than **Warren Buffett.** The amazing thing is how easily the **CFTC** backed down. If anyone else refused to do as they command, you will be thrown in jail for life on contempt until you comply of die!

This is the incident that began to now shift these secret market manipulations overseas. This is why AIG set up their entire division that blew up the world to London. They wanted to keep everything out of the vision of US regulators. They were able to muscle the **CFTC,** but they were not sure if they could do that all the time.

Buffett got caught up in this whole game when he came in to rescue **Salomon Brothers.** It was from this time forward, that his name began to be associated with what some have called the **"Wall Street Bubble Machine."** In July 2009, the magazine Rolling Stone published an article written by Matt Taibbi entitled **"The Great American Bubble Machine"** where the opening line is:

> "From tech stocks to high gas prices, Goldman Sachs has engineered every major market manipulation since the Great Depression - and they're about to do it again."

A magazine such as Rolling Stone will not publish an article of this nature just on wild speculation. There has to be sources verified even if they remain unmentioned in the article. The great bubbles it attributes to Goldman Sachs are:

(1) The Great Depression Bubble in **Investment Trusts** where their shares in the trust fell from $326 to $1.75

(2) Tech Stocks

(3) Housing Mortgage Bubble

(4) Gasoline $4 a Gallon Scam

(5) Rigging the Bailout

(6) Global Warming

The interesting thing about this list, it is far too short. Indeed this is just now scratching the surface of the **"Club"** that I had spent about 10 years documenting and only to find that some magical way, Alan Cohen gets appointed receiver over Princeton Economics International, Ltd., a foreign corporation where no American court had any jurisdiction, he seized all this research, threatens my lawyers with contempt if they do not turn over everything, throws me in contempt of court for over 7 years lying to the court claiming there are losses when there are none, and then emerges as **Head of Global Compliance** for **Goldman Sachs**. This conflict of interest was sanctioned by the Federal courts who have protected **Goldman Sachs** at every possible turn.

This blending of commodity and the more traditional finance/equity Wall Street culture, led to the great expansion of the **Club** as it began to spread its scope. Because of the philosophy of **Inside Trading** being any privileged information became criminal, it had the tendency to drive the **Club** toward the cash markets and commodities.

INFORMATION
WHO HAS THE INFORMATION?

There is a major crisis in America and an obcession by the Government over who has so called **"insider information"** that is not at all being prosecuted as it originally meant back in the 1930s. There is a broad assumption that the mere possession of some information in stocks is illegal. This is seriously flawed.

For you see, information is the name of the game in every other field from bonds and commodities, to economic statistics and the various reports ranging from unemployment to crop inventories and GDP. This presents a very serious crisis in a hedge fund. Where do you draw the line on info when it is in fact allowed in every other field but stocks?

The flow of information is more-often-than-not the precise opposite of what the SEC thinks it is. The 1987 Crash took place when there was an **ABSENCE** of information. Major portfolio managers called their broker for the latest info why the DOW was down 500 and the reply was - **"I don't know!"** Nothing had changed domestically. It was being driven by the perception that the dollar would fall another 40% so the foreign investors were bailing out. Domestic analysts were confused so there was the assumption that somebody had critical **INFORMATION** nobody else had and it was really bad.

Possessing **INFORMATION** is not always a 100% guarantee that you will win. In the real world, the whole Martha Stewart case was in fact just claiming she lied to the FBI. She did **NOT** possess **INSIDER INFORMATION**, but her broker saw another client selling who was an insider and the presumption was that he must have had news that was negative. Martha then sold no different than a bird in the middle of a flock takes flight because the whole flock is taking off and nobody knows precisely why. This is a human characteristic as well. We panic because of an observation that everyone else is. They criminally wasted tons of money to put on a show to prosecute Martha Stuart claiming she lied to the FBI. Aside from the fact that it would be fantastic if those in government could be criminally prosecuted for lying to the people, what is really going on with this nonsense is creating a giant **DISTRACTION** to make the people think that the courts and the Justice Department are really protecting the public rather than the **"Club"** for by putting Martha on trial, they create the image that no one is above the law. The real problem is, judges, prosecutors, and their friends are **UNTOUCHABLE!**

Back in the mid 1980s, **Michael Milken** was at **Drexel Burnham Lambert**, a Philadelphia firm where I myself once had accounts. They were an outsider insofar as the tight New York houses were concerned. **Milken** was truly an original thinker and he created a major innovation that advanced financing and in fact contributed to the expansion of the US job market and economy. What he created was the opposite of how New York operated.

Where the traditional banking model was still hip-deep in the old railroad model that meant they lend only against assets, **Milken** took the opposite approach that was more of the mercantile system of turnover and profit rather than infrastructure meaning hard assets. By focusing on "profit" instead of assets, **Milken** created the innovative market that gave birth to many new companies that created jobs. **Milken's** problem, he stole the thunder from New York and that really pist-off the New York crowd.

The New York crowd had successfully for years convinced the Justice Department, SEC, and CFTC, that you shouldn't shit where you eat. You will find no major criminal cases against any of the big New York firms. And even when a major class-action lawsuit was filed against **Merrill Lynch,** Judge Pollack of the Southern District of New York wrote a huge opinion protecting the firm against the average American citizen and dismissed the suit. Had that suit been brought outside of New York City, it would have proceeded. New York protects New York. That's just the bottom line. **Madoff** proved that one. Nobody would dare investigate until he blew up when there were plenty of warnings, just not from any of the big **Club** members.

The **Club** no doubt complained about the junk bond market started by **Milken** for they had been shown-up, and missed the boat. The only way to compete in their book, is to use the Feds to go after a competitor and clear the decks. They did. **Milken** was innocent, yet they inverted the law where he did not need **insider information** from a company, just that now two people going to take over a company create their own **insider information.** But this was how the commodity and currency market had always operated. Monitor the competition and guess what their next move will be. There were no corporate boards to worry about.

Milken had vowed to go to trial. However, the Government had no case and they were set in motion by the New York Crowd. They included **Milken's** brother in the indictment trying to force him to plead to save his family. They then took it to the next level and threatened to indict his 90 year old grandfather. **Milken** was known to be a family man. He caved in and the US Government acted like some third world dictatorship ruthlessly extorting confessions because they will <u>**NEVER**</u> admit that they are ever wrong. The courts just sit there and let this go on. The Supreme Court takes the truly absurd position that the government need to prosecute criminally, means judges and the prosecutors must be absolutely immunity so they do not hesitate to prosecute. This view of course means that the Constitution has no real force for **Article II, §3** says they may only "faithfully" execute the laws, not with malice and total disregard for everything we fought and died for that the average person believes is the **"American Dream"** that was to be truth and honor first. We had a revolution and **Thomas Jefferson** wrote in the **Declaration of Independence** the very complaint that the king was protecting his agents with mock trials. We do the same. You canot sue any Government Attorney nor a Judge and because of that, you can have evidence that they were even bribed, but you cannot proceed for only the government, like the king, can criminally charge and it will not do so as long as that judge and prosecutor lied, manipulated, and cheated to benefit the government.

It was 1986 that the government went after **Ivan Boesky** on **insider trading** and compelled him to plead guilty paying a fine of $100 million. They now turned to boldly destroy **Drexel Burnham** curiously prosecuted in New York. The firm pled guilty and paid a $650 million fine in 1988. Over 50,000 jobs were lost, and the carnage did not stop there. The SEC was clearly doing a favor for the New York crowd. **Drexel** ended having to default on $100 million in loans. Did this really benefit the public? When this very practice is how the entire rest of the industry works from commodities, bonds, and currencies, it made no sense. This was <u>**not**</u> the insider trading of the old Great Depression where directors knew the company was bust and sold their own stock before release that information. Real people lost real money - not opportunities. Did the $650 million in fines paid by **Drexel** go to any victim? No!

Milken pled guilty in 1990. He was fined $600 million. There was one small guy who went to trial on this theory of **inside trading,** and won. It was one giant shake-down. The government made more than $1 billion and the New York crowd satisfied their ego. **Drexel** believed in competition. They were not part of the **"club"** nor was **Bear Sterns** and neither was **Lehman Brothers.** The outside firms are the ones who go down. This has only fueled many to become concerned about doing business in New York.

To destroy **Drexel Burnham,** the New York crowd had to turn more away from stocks and into the arms of commodities. For you see, **Mr. Freedman,** a partner at **Goldman Sachs,** was neck deep in the same activity. **Robert Rubin** personally began to manage the fall out because he was a partner and they feared in 1986 that they too could have gone down with Boesky.

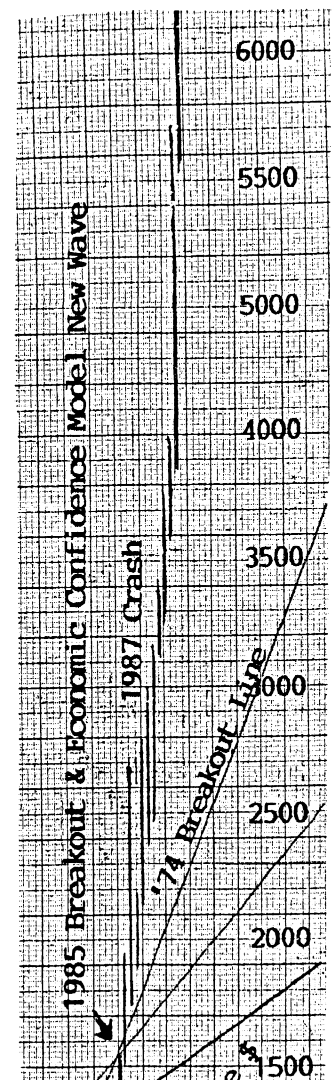
EXPANDING THE CLUB was something that evolved. It was driven by the **Inside Trading** in equities, and by the fact that the merger of **PhiBro** and **J.Aron** into the financial fold, introduced a different way of doing business. You have to appreciate that the first half of the 1980s there was no really deep 24 hour currency trading. The banks largely provided foreign exchange as part of the overall service for corporate clients. The legalization of gold for trading in America that came in 1975 with the opening of COMEX futures contracts, began to expand the opportunities for trading on a 24 hour basis. Keep in mind, this was again commodity oriented for commodities were the same everywhere. Stocks were a typical domestic product, although foreign buyers would come in and out. Stocks tended to be listed in the country of their domicle. This also began to emerge with New York expanding its global reach. Foreign corporations began to list in the US directly or as ADRs, as many of the South African gold stocks in the late 1970s.

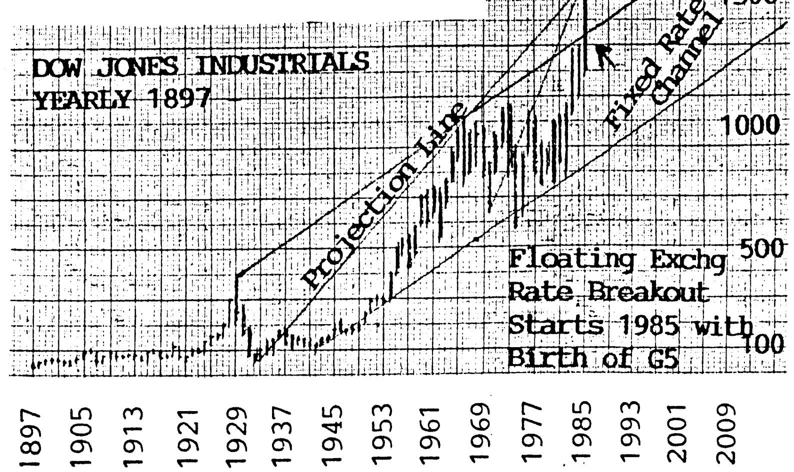
Princeton Economics was really the main leader in all the currency markets. We had so many clients world wide and the reports back then went out by telex. Overseas, the cost to just get the report by telex was $200,000+ per yr. That is why we were primarily an institutional advisor because individuals couldn't afford the telex fees. We opened our first office overseas in 1985 with the idea of sending one telex there, and redistributing it in Europe and the Middle East just to get costs down to allow us to expand.

One of the biggest positions in the world back then was what we advised for one Arab client - $1 billion. Keep in mind that the biggest futures/hedge fund in 1985 was maybe about $100 million. The 24 hour markets began to develop rapidly after 1980.

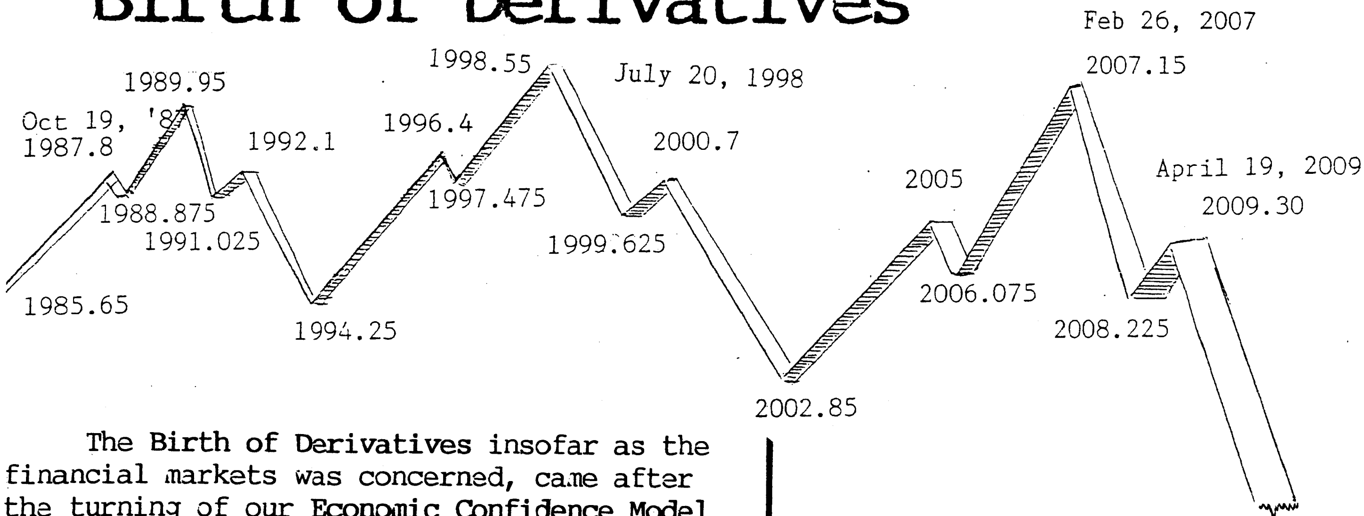
What was taking place was the birth of a complete new era in the global economy. In stocks, this was the birth of the **Take-Over Boom** for after almost 52 years of suppression of private equity being looked at as just speculation with hindsight of the Great Depression, book values had become greater than the market price. You could buy a company paying full value for the stock, and then sell its assets and double your money.

Here is a yearly chart showing that the Dow Jones Industrials broke-out in 1985 precisely with our model and our announcement by taking the back page of the **Economist** magazine for 3 weeks during July 1985. This was a new era that was beginning where stocks would once again reflect profit, the very thing that **Milken** had seen and the New York crowd instigated the Government to wipe out their competition. This was a dynamic period of change, and the **"Club"** did not understand what they were doing as some master plan for the long-term, but they were in fact evolving with the flow. The focus would now become the commodity markets and thus we began to see organized manipulations beyond agriculturals. Manipulations began in small markets that were easily rigged like rhodium. They expanded into silver, platinum, and then crossing into the currency markets with the British pound and even the Japanese yen.





Birth of Derivatives



The **Birth of Derivatives** insofar as the financial markets was concerned, came after the turning of our **Economic Confidence Model** in 1985. From there onward, there was a mad rush to bring in computers and create models. **Princeton Economics** was very well known behind the public scene. We were primarily a institutional advisory for the biggest corporates and banks around the world. I would rarely grant interviews with the American press, for clients had long made it clear that they were paying the big bucks to us, and they did not want to see the same forecasts given out for free on the front page of the Wall Street Journal. So everyone knew we had sophisticated computer models long before anyone else, and I have been told this perhaps then fueled the rush to get into the field. I am not sure that is 100% correct. But there was a mad dash to suddenly get sophisticated. By the 1987 Crash, the press was blaming somehow computer trading portraying that the computers were trading on their own.

The truth of the matter is that all the firms were trying to use computers not to in anyway forecast the future, but to create a way to exploit the differences and arbitrage the markets as a whole. It was this initial drive that created the first round of disasters on a grand scale. There was **Procter & Gamble** as well as **Gibson Greetings** who lost fortunes. But nothing compared to the sheer collapse of **Orange County, California.**

The general scheme was you could take say $10 million and through leverage, obtain an increase in interest yield. They played the yield-curve by pitting say 30 year bonds on one end against 10 year on the other. Picking up a small tiny difference in interest rates between the two instruments on transactions of say $100 million, when reflected back to the $10 million, your yield would double. This was the scheme dreamed up with no experience.

A friend of mine was Chairman of Temple University. This scheme was pitched to them by **Merrill Lynch.** Dick Fox told them to call me and if I approved, then Temple would look at the deal. A couple of young kids flew in from **Merrill Lynch** in Chicago to pitch the deal to me that they wanted to take the trust fund of Temple and enhance its yield.

I listened to the sales pitch, and then pointed out that the scheme was dependent on interest rates declining. I warned them that our model was point to rising interest rates and that the first uptick would wipe them out. They flew back to Chicago, and called me one more time. They flew out to Princeton again showing me that according to their study, a interest rate uptick would result in a break-even. I told them thanks, but no thanks. I could not recommend the deal to Temple.

They told Temple that I had been in the industry too long, and was not familiar with the "new way" of making money. Dick Fox followed my advice and declined. **Orange Cnty** blew up on that first uptick, and was forced into default. True, I was already an old-timer. But I came from the commodity side and knew volatility quite well. They made a fatal assumption. They assumed there would always be an orderly market to get out when wrong. Sorry - only in your dreams!

In 1994, **Orange County** went into default shocking the financial community. **Merrill Lynch** was now being sued for billions. The Federal Accountability Office recommended that such financial instruments be tightly regulated. It was **Robert Rubin** who in June 1998 went public denouncing the need for any increase in regulation. Neither the **"Club"** nor the regulators understood the problem.

The Asian Currency Crisis

The Asian Currency Crisis became another hot bed of political chaos. This time, many people were starting to notice the **"club"** in other governments. It appeared that the currencies of South East Asia were being just attacked by a school of sharks.

It was now starting to emerge that the feeding frenzy was growing. There were bolder attempts to start screwing with the world economy for short-term hits. Nobody would speak out, and I was starting to get very tired of panic and crisis management. It was becoming more and more strange that I seemed to be running around trying to save something that no one else seemed to care about.

The **"club"** left it's finger prints all over this one. Political leaders in South East Asia were starting to publicly complain about the wave of professional trading that targeting their countries.

The **"club"** was becoming a sociopathic organization where they cared only about the instant profit and to hell with the rest of the world. I started to become much more concerning about the rising volatility. I turned to the computer to inquire about this problem and the projections I was getting back truly scared the hell out of me. I was looking at the future of western civilization being led down a path of total insane destruction.

For you see, with the ratcheting up of volatility is entwined the escalating forces of political instability. These two were in fact historically inter-linked. I felt often alone, trying my best to instill some reason to this madness. It was not easy. The phone kept ringing with crisis after crisis, but the boldness was also rising from the **"club"** and it seemed we were headed into a serious conflict and they would not listen.

I was invited by China to fly to Beijing and arrived to meet with the Central Bank to discuss this problem of the Asian Currency Crisis. They were quite concerned about the rising volatility, and the political conflict that restrained them from speaking publicly. They encouraged me to speak out and to make the points I had been writing about. They were concerned and their staff had worked on the trading desks in the West at major banks and knew my concerns were real.

Perhaps I was at first naive, but I had not at that time placed any covert links between **Robert Rubin** and efforts to aid the **"club"** as Secretary of the Treasury. I was raised to not judge people, and that has not always served me well when you are dealing with people who are just rotten to the core.

The Treasury was starting to try to talk the dollar down again, the same **PRECISE** mistake that they made going into the 1987 Crash. This was getting out of hand. On May 20th, 1997, I wrote to **Rubin** warning him that this stupid policy was the same one that caused the 1987 Crash. I also pointed out that the whole system of economic statistics were dead wrong.

I explained that all statistics were calculated on currency and not actual units of goods. So the 50% decline in the yen made the trade surplus in yen rise by 50% since it was currency and not goods that is being measured.

I warned **Rubin** that if the yen fell below 110, the Japanese would start to sell their holding of US government debt. They could not endure another currency swing as took place between 1985 and 1987.

The response was polite, and thanked me for my concern assuring me that they had no intention of trying to talk the dollar down. The comments stopped, and indeed the dollar moved up into 1998 just before the Russian crisis.

I was finding myself becoming some sort of an international priest that countries would complain to in hopes I would relay the message. We were becoming a clearinghouse so to speak, and the pressure was clearly building.

I began to start openly writing about the organized manipulations. I was not at that time giving names. But I would start to warn **"They're Back"** in an effort to tone down what was becoming insane. Clearly, they only lived for the moment. They cared nothing for the long-term, nor about the political damage I was starting to witness. This was not good.

Princeton
Economics
International Ltd

May 20, 1997

Mr. Robert Rubin
Secretary of Treasury
US Department of Treasury
Washington, DC

Dear Mr. Rubin:

The current conflicting statements out of the US and Japan over the value of the yen and Japanese trade surplus have obviously unleashed untold volatility within the foreign exchange markets that are endangering the stability of the entire global economy and capital flows.

I must point out that the US government has still not taken into account that the trade numbers as reported reflect only currency net movement and not actual units of goods and services. The methodology of trade statistics is a throw back to pre-1971 gold standard days when the value of money did not change. Subsequently, trade could then be easily monitored by merely following cash flows. Today, the floating exchange rate system has rendered all international statistics worthless and dangerous when used for political economic purposes. Comments relative to the US/Japan trade account reflect the sharp decline of the yen and not a substantial rise in actual exports of goods to the US.

We have investigated this matter very carefully and the true net sales of goods to the US from Japan have declined, despite the fact that the surplus in yen terms has risen 150% over the past year. If actual exports to the US had risen, then Japan's economy would be booming instead of the current dismal performance. Corporate profits would rise instead of decline, and above all, unemployment would decline instead of rising as is the current case in Japan.

We were one of the firms requested to help investigate the 1987 Crash by President Reagan. The conclusion of that investigation was clear. The Crash of 1987 was caused by a 40% swing in the value of the dollar over the previous 2 year period. That volatility forced investors to withdraw from the US market due to the view of the dollar, not their view of our assets.

Herbert Hoover also wrote in his memoirs about how confidence in the foreign exchange markets collapsed in 1931. He stated that capital acted like a loose cannon on the deck of a ship in the middle of a torrent. Capital rushed from one currency to another so rapidly

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that government was unable to form a committee fast enough to investigate what was taking place, no less prevent it from happening.

Our historical computer models are warning that unless the volatility in foreign exchange markets is reduced, we are endangering the stability of the entire global economy once again. If such statements do not seek to constructively reduce volatility instead of fuel it, you will see short-term interest rates in the US explode and your extremely short-term funding of the US national debt will seriously disrupt our entire economic future.

We have been in contact with our institutional clients in Japan. Their purchase of US government securities has risen from 7% to 33% of our entire US national debt. The majority are now telling us they can no longer endure this type of volatility in the currency markets and if the dollar/yen falls below 110, you will see massive liquidation of US government assets.

If you are not extremely careful with this issue of foreign exchange and trade surpluses, vague statements will cause the Crash of 1997 within a matter of months. If the dollar/yen does not stabilize, and soon, the current administration will go down in history next to that of Herbert Hoover.

Sincerely,

Martin A. Armstrong
Chairman of the Board
Princeton Economic Institute

cc: President William Clinton
Congressman Bill Archer
Senator Trent Lott

THE Nineties was when the **"Club"** first began to be known as the **"Billionare's Club"** for it was expanding to now include individuals. Of course, those who strive to cover-up the whole **Club** will argue just about anything that anybody says is somehow wrong,or nuts, with no proof to the contrary.

As I have explained, the first time I heard of **Warren Buffett** becoming a trader rather than a investor, was in 1993 with the first silver manipulation. I assumed that his involvement in **Salomon Brothers** had now exposed him as a potential client for **PhiBro** who did one hell of a good job selling him on investing in silver. The whole CFTC confrontation, I also assumed was merely trying to protect him personally from the negative publicity of speculating now in silver.

As time went on, his name began to pop-up more frequently. The talk of the desks behind the scenes was that he was even pulling in Bill Gates into some of these deals. I never bothered to confirm that was true, but it is one of the reasons why the **"club"** began to be known as the **"Billionare's Club"** behind the curtain.

There were rumors of expanding into the ranks of hedge funds. **Long-Term Capital Management** was not the only one said to be involved. I also never was able to confirm if George Soros was part of the **"club"** or was the **"club"** mirroring his famous trade into the pound. He too lost about $2 bil in Russia, mirroring them in 1998?

The platinum manipulation was very bold. Now bribes were being paid to Russian officials to recall platinum to be inventoried. That sent prices soaring. Of course the **"club"** were all long for that one, and then they took profit and flipped short. Russia precisely came out and said they had found a bit more, and prices crashed. The timing was outstanding. **Ford Motor Company** brought lawsuits on that one.

They returned to silver in 1997. I put out a warning to clients that "they're back" and were going to take silver to $7 and crash it again. Once more the name **Warren Buffet** was attached. These wild manipulations, or the **"Great American Bubble Machine"** as Taibbi called it, was becoming far too aggressive and too often.

The head trader from AIG got in to see me from London by getting a board member who had been Margaret Thatcher's chief economic advisor to call me for a meeting. I was shocked when it turned out to be about silver. I was asked to stop talking about the manipulations and politely asked to keep my mouth shut. I declined, just saying I would not mention names.

They did not find that good enough. So a analyst in Connecticut most likely on the payroll of the **"club"** used his contacts to get the Wall Street Journal after me. When I got the call I was being accused of trying to manipulate silver. We argued, and the journalist demanded I give him the name of this mysterious manipulator. I got mad and finally told him it was **Warren Buffett** and he replied everyone knew **Buffett** did not trade commodities, and I said that's how much he knew. They came out with a story blaming me and the London newspapers ran stories now claiming I was the largest silver trader in the world. The problem was, they made this public.

The CFTC called asking where the silver manipulation was, and I told them in London. They called the Bank of England who summoned all the silver brokers for a urgent meeting the next day. **Buffett** came out and admitted he bought $1 billion worth of silver and he denied manipulating the market. Such a position was illegal under CFTC rules. Nothing happened and **Buffett** stopped any investigation dead in its tracks. This was the closest they came to being exposed for the English would have done so, its the Americans that the **Club** owns. If **Buffett** is a full member or a pawn is the real question, but $1 billion in silver is manipulation in US regs.

THE BOLDNESS of the **Club** simply took off. They knew that the Japanese brought back their cash in March for fiscal year end and then re-invested in April. The **Club** was targeting the Japanese yen for the March roll-over in 1999. It was getting out of hand. I found myself at great odds with the **Club** for my job was to protect my clients. From their perspective, I was the threat they saw to their entire operation. I stood-up at our annual conference in Tokyo held at the old Imperial Hotel, and warned the entire audience that the yen was the next target. I warned that they had to lock in the currency **when** they sold it for the roll or else they were going to be squeezed big time.

The Japanese understood what I was telling them to do. They did it. The roll was probably in the tens of billions if not more. My clients protected themselves and the yen squeeze failed. I was told by several currency desks at the time that the **"club"** had lost at least $1 billion.

No doubt there was developing an all out war between myself and the **Club.** I was strongly against these manipulations for I saw them as increasing volatility, not altering the cycle per se, but that would undermine the entire economy creating wave after wave of building instability. I saw a giant wave of building volatility that these guys were too stupid to realize what they were doing.

That was only the half-of-it. At the same time, the **Club** was lobbying hard to get rid of the 1933 **Glass-Steagall Act** that prevented securities, banking, and insurance industries from expanding into one another's businesses. That was repealled in 1999 championed by guess who - **Robert Rubin** who was now **Secretary of the United States Treasury.**

Meanwhile, **Henry Paulson** then head of **Goldman Sachs** was lobbying the SEC who regulated **Investment Banks** to allow them to use much higher leverage. The whole industry was now being turned on its head.

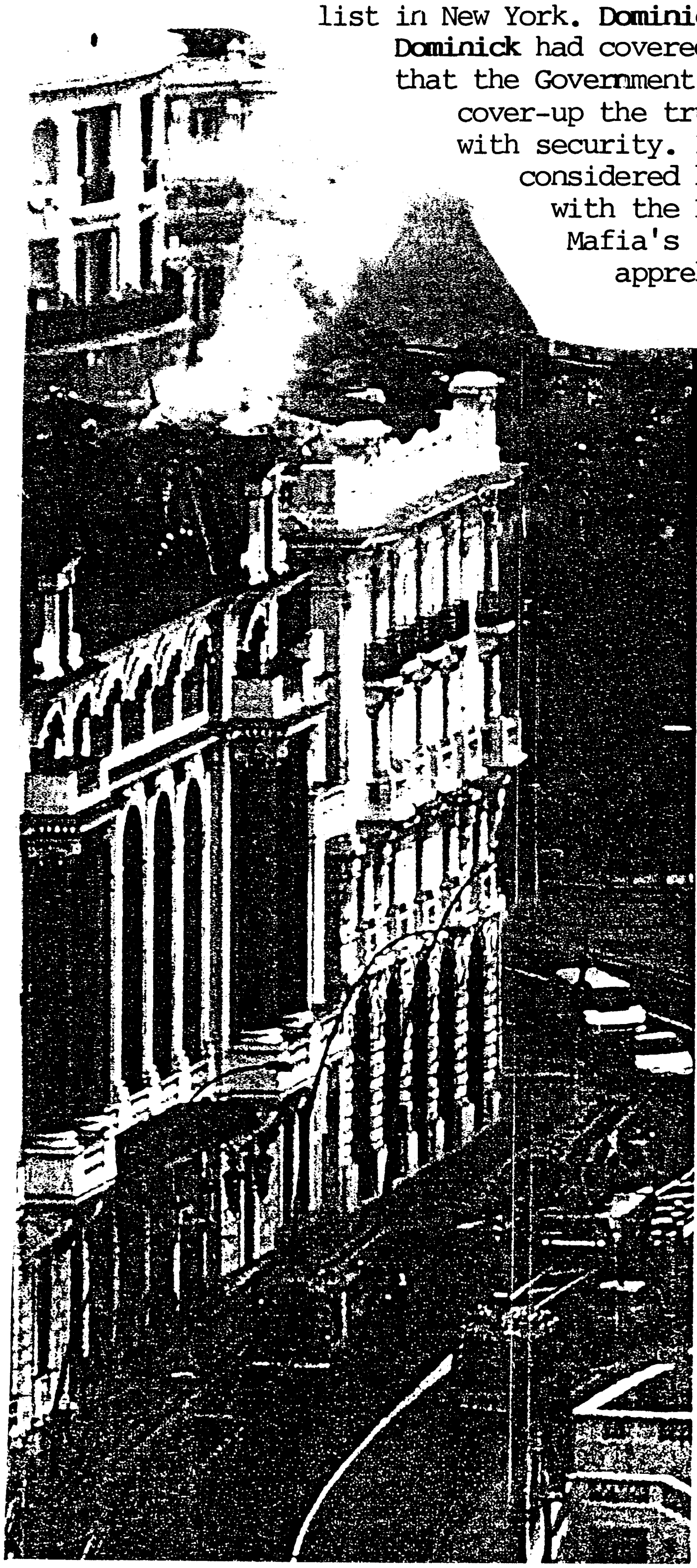
Nevertheless, these manipulation were getting bigger and bigger. They were now daring to control governments, <u>**not**</u> to create some one world government, but to further their manipulations and prevent both regulation and investigation. The worst to come, was the boldest attempt of all to manipulate the politics within Russia itself.

There had been much hope about Russia opening up and joining the democratic and capitalistic free markets. But the undertone of Russia had always been corrupt in its political circles. Yeltsin just happened to be at the right place at the right time and standing on a tank was good enough to now qualify him to run the country.

There was a great hope rising in Saint Petersbourgh that many in the West were at that time looking to as a possible leader for Russia. She was running for mayor of Saint Petersburgh who was shockingly assassinated shot in the head execution style. The press in Russia was given the story that she was a pawn of a Western Financier. My phone began to ring and I was asked for comments on this incident. I said I had no idea why they were calling me. I was then told that I was the Financier. It turned out her son was working in our London office, and that mere connection was being spun into somehow involving me. I thought at the time it was a desperate connection that made no sense. Later, it would seem to be somehow a scheme to tie me to Russia as perhaps cover for themselves.

The truth behind this mess, was that at least **Edmond Safra** was deeply involved in the **BLACKMAIL of** President Yeltsin to step down so they could gain control of all Russian resources to manipulate the markets in oil to metals. <u>**TWO**</u> versions exist, where either **Barisnofsy** would become the new head or he would install **Putin** assuming he would be a puppet. Either way, $7 billion disappears, **Yeltsin** mysteriously calls off the election, and **Putin** comes from nowhere. **Barisnofsky** after being an advisor to **Putin,** flees Russia and the mastermind **Edmond Safra** is murdered in Monaco within weeks. The truth may not come out for 50 years like the Kennedy Assassination.

ASSASINATION may be a strong word, but it is spot on for the fate that **Edmond Safra** suffered in Monaco on December 3rd, 1999. Within less than 10 days, the death of **Safra** scared the hell out of the US Government and they moved to throw me in jail on civil contempt for an alleged missing $1.3 million out of $3 billion. My partners overseas had an attorney there to observe. He got out of the courtroom and relayed to them that I was being railroaded, and that under no circumstances, should they ever come to the United States. They have not been here since. **Dominic Dunne**, the celebrated journalist, covered the real story of **Safra's** death that he was assassinated by the Russians. **Dominick Dunne** was someone who I was in contact with. He was on my phone list in New York. **Dominick** reported that "Monaco wants it all hushed up." **Dominick** had covered the story in **Vanity Fair** taking the position that the Government of Monaco was entwined in a deep conspiracy to cover-up the truth. **Dominick** reported that "Safra was obsessed with security. It was widely reported that he felt menaced, and considered himself a hunted man. Even before collaborating with the F.B.I. in 1998 and 1999 to expose the Russian Mafia's international money-laundering operation, he was apprehensive for his safety."



Where **Dominick** had assumed that when **Safra** turned in **Bank of New York** in August 1999 for allegedly engaging in a $7-14 billion money laundering deal, that **Safra** was being a good citizen. He did me just 3 weeks later.

When there were problems in our accounts, I called to speak to George Wendler. He refused to speak to me and just said he was a messenger from the board. That told me the direction was coming from **Safra.** I then called and offered to fly to Geneva to sort out this problem before turning to lawyers. I was then told that **Safra** left Geneva and went to Monaco for security reasons. I knew something was wrong. This was on August 27th, 1999. I went to my lawyer to file suit on Monday, August 30th. By the end of that week, the FBI was taking computers and records raiding the Princeton office before the week was out.

Dominick began to report the strangeness that was associated with supposedly a nurse setting fire to pretend he was saving **Safra** for some reward. **Dominick** reported he was told by a very prominent resident in Monaco that "there were two bullets in Edmond's body." He reported that Monaco had all of **Edmond's** staff sign "confidentiality oaths." Others were paid "$100,000 for not speaking to journalists or outsiders." **Dominick** wrote that there was no effort to rescue him with all the "manpower running around the premises for two hours." One of **Safra's** security people had the "key that would have unlocked the door to the bunker... But the Monaco police seized [him] ...and put handcuffs on him."

Dominick reported that when he flew to Paris to talk to close friends, he was bluntly told: **"Among friends, we avoid talking about it. It might not be what it is." Dominick** had also reported that the nurse who was set up to take the fall, Ted Maher, "wasn't supposed to be on duty that night. ... They put him and Vivian [who died with Safra] on at the last minute."

Dominick said of **Edmond,** he knew "all the secrets of the financial planet." He had long be suspected of laundering money for "Noriega, as well as the Columbian drug cartels. And both his bank and his private jet were alleged to have been pressed into service to move money and personnel during the Iran-contra scandal."

Edmond was famous for having armed body-guards with him at all times. **Dominick** wrote,

> **"One of the great mysteries of the case is that not one of the guards was on duty the night Safra died."**

Ted Maher said several men in black suits where breaking in. They stabbed him in the leg and he started the fire to call police. But they did not show up. They charged Ted instead to cover-up what took place that night for it went a lot deeper.

Strange, after being thrown in civil contempt to stop a Speedy trial I had moved for that would have been by March 2000 just 3 months away, the Government attacked all my lawyers, stripped me of all my research, and hauled the computers to the World Trade Center no doubt to try to break into them for the model. They could have copied the hard drives if it was really evidence they were looking for, but instead, they took every computer out of the office in whole. This was not about evidence. Something else was going on. If they wanted a trial, then why take all the lawyers away? One employee James Smith came face to face with one of the US prosecutors, **Brian Coad.** He told him I had moved for a speedy trial to save the company. **Mr. Coad** told him, "this case would never go to trial". When Jim asked him what did he mean, he said "never mind."

Dominick and I were in communication. I informed him after his story that it was not the Russian Mafia, but the Russian Government that involved even the **IMF** loans. Based on several reliable sources from Russia where I had my own contacts, the story went that **Edmond** had been working with the Russian Mafia that were Jewish - **Barisnofsky** and **Gazinsky.** The plot was to replace **Yeltsin** with someone who could be controlled. It was either **Barisnofsky** who would replace **Yeltsin,** or he would bring in **Putin** who was an unknown former KGB man. A $7 billion wire was steered through Bank of New York and **Safra** immediately ran to the Feds and said it was money laundering.

Barisnofsky became an advisor to **Putin** and seems to have believed he would be a puppet. **Putin's** anti-capitalist feelings came out once he had the power and it was clear, **Putin** was no pupet. Within just a few weeks, **Safra** is fleeing Geneva for his **Monaco** sanctuary and is killed Dec. 3rd of 1999. **Barisnofsky** who is said to have made **Putin,** flees to London where he was given political asylum. **Gazinsky,** fled to Israel. **Safra** setup Bank of NY and myself within August 1999. My lawyers were attacked and removed & I was thrown in on contempt.

No one can explain why Yeltsin, a free market guy, would turn Russia back to a former KGB for no reason. Besides my sources directly in Russia, I found myself also in jail with a Russian son of a diplomat who the US was trying to coerce as a "material witness" and knew precisely who I was. He too confirmed the same story. Every source I had came back with the same story-line. **Safra** was seen as the brains, and he was killed. He was a man who was never without his bodyguards. Yet they were all dismissed that night by his wife.

I was even taken on what is called a "proffer session" where the head Prosecutor Richard Owens, bluntly offered me a deal with no jail time if I just confessed to some wild conspiracy with Safra. I refused, informing him I did not conspire with Safra. He bluntly told me "we know you didn't steal any money. But we can't drop the charges."

At this April 2000 meeting, this very topic came up about Bank of New York. They knew now that Safra had set them up all around on both cases. I told them I knew they were not getting past the Minister of Interior in Russia who was blocking any access to find out where the money came from. I told them they would not get anywhere for the game had changed. Indeed, in the end, then nobody went to jail in that case. The Government stood up and praised the broker Lucy Edwards for her cooperation. That was it. When asked in court who was this money laundering of $7 billion for, she replied some ransom for a wealthy Russian business man. The judge asked no other questions and the case was burried.

Putin kicked the head of Safra's main Russian venture out cancelling his visa. The whole thing of Hermitage Capital was Safra's central figure in this bold attempt to gain control of the ultimate source for clever manipulations of the commodity game.

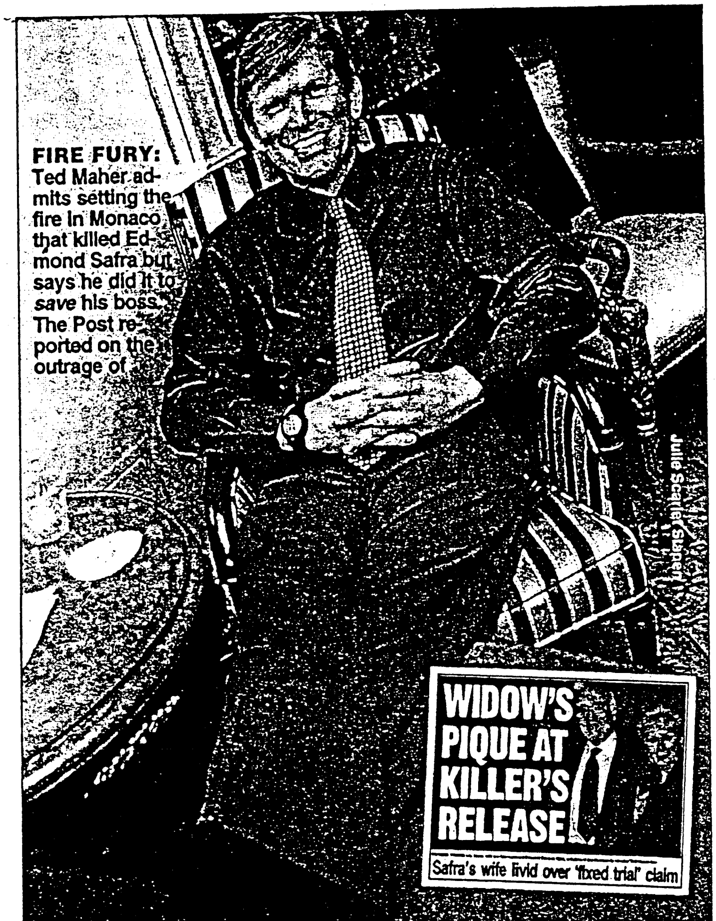
As for the male nurse, **Ted Maher**, well as in the United States, he was threatened into signing a confession. "They said, 'If you ever want to see her again or leave the country, you are going to sign this.'"

The truly startling development was the judge in the case admitted to a French newspaper **Le Figaro** that he'd colluded with other high-ranking Monaco officials to convict the male nurse. The court-appointed lawyers were in on the frame-up there as they are also in the United States. Judge **Jean-Christophe Hullin** admitted there was a secret meeting prior to the trial with one of **Maher's** lawyers present and the Chief Prosecutor. They agreed before the trial began with the judge that he was guilty and that the sentence was to be 10 years.

Human nature is the same everywhere. We can never trust criminal prosecutions in any high-profile case, for there are far too many political considerations and careers to work out. **Maher's** conviction was vacated and he was put on a plane and sent home. **So who killed Safra?** Nobody wants to discuss the matter.

Maher was at least suing **Monaco.** He could never do that with the Federal Government that holds itself above the law of all nations. **Maher** told the press, "I gave eight years of my life for the safety of my family."

Anyone who has been to **Monaco** knows how small a place it really is. When the smoke alarm went off at 4.53AM, it took the **Monaco** police nearly 3 hours to even



FIRE FURY: Ted Maher admits setting the fire in Monaco that killed Edmond Safra but says he did it to *save* his boss. The Post reported on the outrage of

TYCOON'S KILLER: MY 'FRAME-UP'

respond. Just what was all that about? Do countries do each other favors when it is critical and really necessary? All I can say, they wanted me to confess to being involved in a conspiracy with **Safra** in return for no jail. I told them to take that and shove it where the Sun doesn't shine, and they responded with more than 7 years of false imprisonment ensuring the courts would rubber stamp whatever they want. You believe in yourcountry and then you are woken up by the fact that you have been betrayed by your own country and courts just no longer protect the people.

TECH STOCK BUBBLE

Sidney Weinberg who rose from being the janitor to the head of **Goldman Sachs**, had in fact steered the firm back to its core and continued to drive the firm into the field of underwriting public offerings. That field of business came to a head with the famous **TECH STOCK BUBBLE** going into 2000.

Before the merger with **J.Aron & Co** that blended the commodity world of ethics with that of finance, **Goldman Sachs** did not market itself as being the most aggressive nor as the place whose employees were the smartest and brightest bulb in the box. They were rather conservative and hestitated before getting back into the speculative bubble that nearly wiped them out in the Great Depression. It was truly the belending of commodities with Wall Street that altered the ethics and the way business was to be done with a focus on proprietary trading.

The old rule in underwriting that came post-Great Depression, was that a company had to have been in business for at least 5 years and it had to show profitability for 3 consecutive years. This gave way and what unfolded was the conversion of the NASDAQ market into the venture capital market.

Whether **Goldman Sachs** can be fairly now blamed for the **Dot.COM Bubble**, I would have to reply no! The fact that they got into the lead of this pack is a reflection of the complete collapse in the old ethics and the evolution of the proprietary issues that were to drive the firm we know today.

One of the last stocks to have been put on the IPO market in 1929 was Mausoleum Inc. that anyone who has flown in or out of JFK Airport will pass grave yards along the Belt Parkway. When you can take a funeral business and turn that into a IPO, it demonstrates that the real problem in 1929 was in fact too much money chasing too few stocks. There was indeed a shortage of stocks available to buy.

The **Investment Trust** collapse of those days took place for the same reason the bubble burst in 1966 and in the 2000 **DOT.COM** events. Whenever something is listed, it will be bid up and sold down far beyond its actual worth. The **Investment Trusts** were a listed hedge fund so instead of being valued at its assets, it was bid-up by speculators on anticipated profits. The same problem took place in 1966. I personally purchased Fidelity Trend that had peaked at about $54 and fell to about $7. It was listed and trading well above and then below its actual asset holdings. Since 1966, funds were no longer listed for this very reason. Mutual and Hedge funds have a value that is based upon net asset values, not the value of speculation by the marketplace.

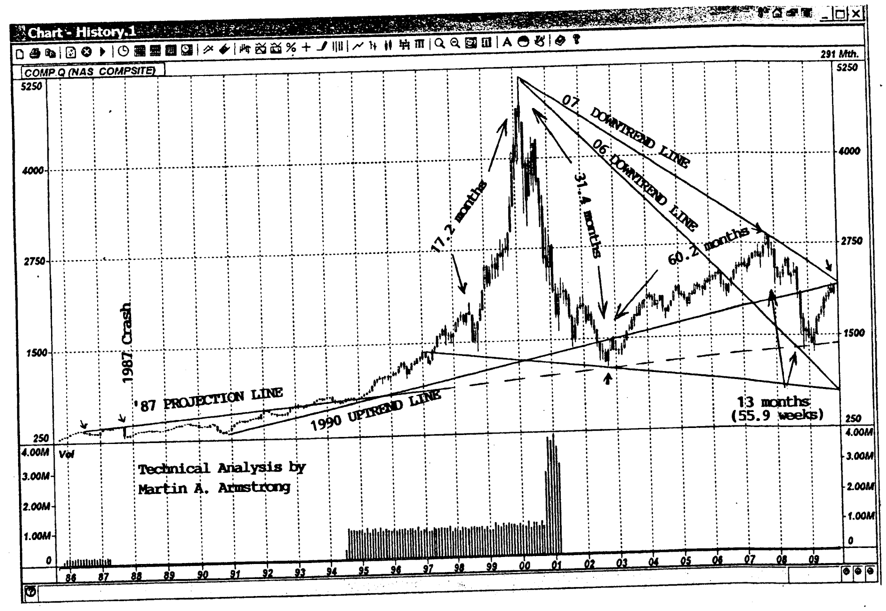
The **TECH STOCK** bubble was thus nothing different. The same thing took place with the railroad stocks. During the 1907 Crash, some stocks that sold for $400 had fallen to just a few bucks. **Goldman Sachs'** experience with this bubble nearly wiped them out in the Great Depression.

Had **Goldman Sahs** truly had the best and the brightest, they would have understood that they were leading people down a path that was disaster. That means there was either greed or stupidity to blame for this debacle.

There is no question that **Robert Rubin** in fact knew that the standards in underwriting had been changed and he knew well that what he was supporting was the same type of bubble that nearly destroyed **Goldman Sachs** before. It was **Goldman** who took **Yahoo!** public in 1996. In 1997, it took 24 companies public without profits under their belt in many. In 1999, it now took 47 companies public and in the first 4 months of 2000 going into the high, it had taken 18 companies public with 14 not showing a profit.

While I personally see nothing wrong with this type of business, I do believe it should be regulated differently insofar as the public should have separate disclosure. The Drefus fund became famous because it had done just this - it bought an IPO of a company that had invented something by the name **"Poloroid"** and the initial shares went up so far, they were like buying a stock a $1 and watching it go to $10,000, after several splits. The public **SHOULD** have an opportunity to get in on a new industry and make a fortune. It just should be disclosed that it is high risk/reward and not something you should put all you money into. It is no different than legalized casinos that use to be outlawed until the government figured out it could get in on the action.

Yet **Goldman Sachs** has ever since **Robert Rubin** adopted the bonus structure that today has everyone mad-as-hell, there has been a fundamental collapse in the ethics of the firm as a whole. The problem as I see it is the merger of banking, broker-dealer, investment banking (underwriting), and proprietary trading. This is a petri dish cultivating a huge conflict of interest that is far from healthy for the industry and the economy no less the image of the United States. This feeds the entire hatred that **Karl Marx** had tapped into and warns that this could even fuel violent unrest when the housing market gets worse.



Where **Goldman Sachs** crossed the line is in its practice of always trying to rig the game. In this aspect, it was called in the industry **"laddering"** whereby if you were a client of **Goldman**, then you got to buy in at the cheap IPO price. However, you had to agree to the buy additional shares at the market. In effect, they were securing volume and that the stock would rise by locking in future bids that they then possessed insider knowledge of in the market place.

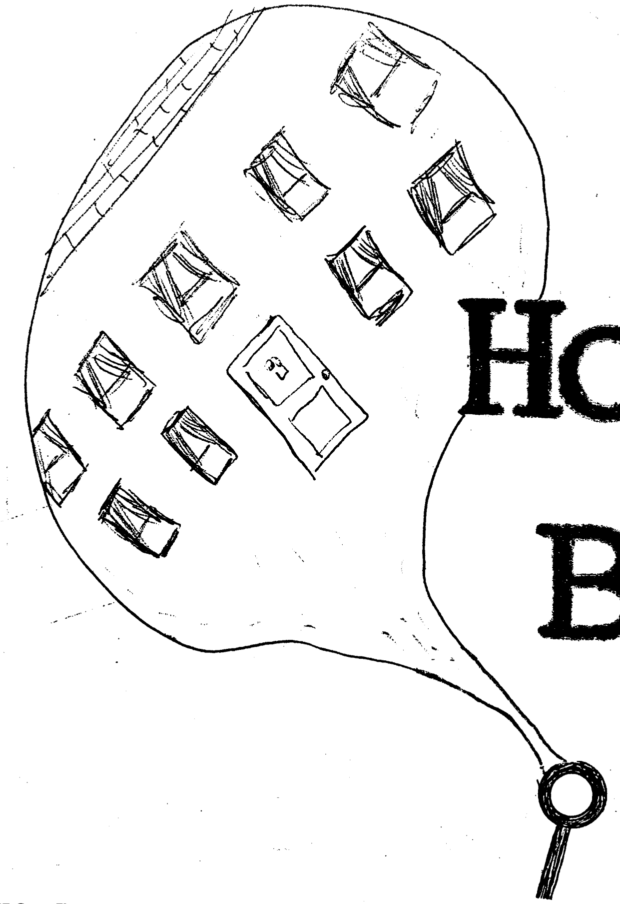
Goldman Sachs got its hands caught in the cookie-jar on this one. They were in fact manipulating stock prices, yet were never at any time criminally charged. In 2005, they agreed to pay $40 million to settle these laddering allegations.

Then there was the rigging of markets that they did known as **"spinning"** yet could have easily been dubbed also **"insider bribing of directors."** This scheme saw the initial offering price of an IPO priced cheap, as many have argued, and a portion of the stock is now paid to the CEO of the new company in return for future offerings. They did this in **eBay**, whose Chairman later joined the board at **Goldman Sachs, Yahoo!, Tyco, and Enron.** In 2002, this practice at least led to the **House Financial Services Committee** investigation of some 21 companies. **Goldman** denounced the report as **"an egregious distortion of the facts"** but then paid $110 million to settle the same case allegations that had been filed by **Eliot Spitzer** when he was Attorney General for the State of New York.

The talk about taking down **Eliot Spitzer** was this too had been orchestrated by the **"club"** for payback, and to send a signal that nobody screws with the **"club"** as it were. **Eliot Spitzer** had been known to many on **Wall Street** to be fond of the hookers. His public image of cleaning up New York City was only a show. He was after the big bucks to make a name for himself. That included **Goldman Sachs** and **AIG. Spitzer** had long known about the rumors about Wall Street, but what he did not take into account, was how much Wall Street controlled the federal boys and courts. So his fall from grace was prompted by the crowd he had targeted, but underestimated how truly ruthless the **"club"** had become.

Eliot Spitzer's political career was destroyed. Ask yourself, when has the Fed's ever cared about a politician's sex life? They don't! This was the retribution for his assault on **Wall Street ("club")** and there were loud cheers when he went down in flames as the Governor of the State of New York. The **"club"** flexed its muscle and the Feds did their bidding.

Robert Rubin had went to Washington with Clinton and became **US Treasury Secretary**, the most powerful position in the economy. It was **Jon Corzine** who now ran **Goldman Sachs** between 1994 and 1999. He left to become the Governor of New Jersey. Between 1999 and 2002, the bonus structure put in place by **Rubin** paid out $28.5 billion in compensation and benefits to its employees (about $350,000 per person).



The Housing Bubble

THE HOUSING BUBBLE

The Housing Bubble has been the worst of all manipulations that the **"Club"** has pulled off. They have wiped-out the baby-boomers who were counting on the equity in their homes to retire. This manipulation has revealed far more than the **sociopathic** behavior where they care nothing about the consequences to others or society, as long as they make their profit. They are like crabs in a bucket. They will pull on another to try to get out but cannot escape for each crab only cares about itself.

This particular manipulation required the subordination of government to the "will" of the **"Club"** for it is a simple rule - "He **who controls the rules, wins the game!"** Based upon numerous sources, including an anonymous letter from a member of the staff who worked inside the **"Club"** whose conscience has gotten the better of him, the illegal seizure of the the **Princeton Economics Int'l, Ltd,** was also necessary to control the flow of information to the contrary. This may also have a lot to do with how **Goldman Sachs' Head of Global Compliance** ended up getting a court appointment to run **Princeton Economics,** who went out of his way to shut down research not just in this area, but also in oil blocking the firm from constructing a model on oil at the request of the **Department of Energy.**

What this crisis is all about is the application of serious leverage that did not previously exist in real estate, to create a spike high no different than in the Japan share market back in December 1989. This has been a bull market that truly began in 1955 that culminated in a 51.6 year high, and as for its decline, we are not likely to see a restoration of this market until 2033. Once you wipe out a market in this manner, you destroy the capital formation from which the current generation will no longer trust that market again.

The worst of the lot has bubbled-up into this particular crisis. Where market making began as an honorable profession that one would stand in the middle to add liquidity and facilitate clients to get the business, what has emerged in this day is clients are looked at as targets. There is no longer honor, but attempts to now not only track client positions to anticipate what their next move will be to front-run, but now they're creating products with the underlying view of watching them blow-up so you can make a fortune on the other-side.

There is a serious issue here of actually creating pools of mortgages designed to in fact self-destruct to reap in profits that are entirely based upon **INSIDER** information as the financial engineer. By deliberately creating a product that was self-destructive, the entire **Housing Bubble** begins to take on the image of a devious plot. Again, this is not a plot to take over government for power, just a plot to make as much money as they possibly can - the **Perfect Trade.**

There is a serious problem. Either we take **Goldman Sachs** at their word that they are just smarter than everyone else and have the best people working for them, or they are just dumb as shit. If they are truly the smartest of all firms in the world, then they should have known what they were creating and that the entire **Housing Bubble**, the fall of **Bear Sterns, Lehman Brothers**, and the worst of economic declines since the Great Depression were all within their intended objective. If they claim ignorance and that they did not in any way deliberately create the **Perfect Storm** in economic history, then they cannot be the best, smartest of all firms, nor do they have the best people. You can't have it both ways.

I would have bought the ignorance view if it had not been for some very strange events surrounding my own case. It was very strange that the court appointed a receiver & put him in charge to run a foreign corporation that is not possible legally (<u>the only court having jurisdiction over the internal management of a corporation is the one where the corporation was chartered, which was overseas</u>). It was in fact **ALAN COHEN**, who is the head of **Goldman Sachs'** <u>**GLOBAL COMPLIANCE**</u>, who had actually stood up for the government and then pled the corporations effectively guilty in 30 days to the SEC complaint, he blocked the hiring of any counsel, and entered a secret agreement with the government allowing him to withhold all evidence from me. Based upon an anonymous tip that **Alan Cohen** turned over <u>**ALL**</u> research to **Goldman Sach**, things start to become more understandable.

First of all, for at least 10 years, I was gathering evidence on the **"Club"** keeping track of what they were up to ever since they began using commodity tactics in financials. The Asian Crisis exposed the group behavior to foreign governments. I thus gathered all the evidence for years even documenting events in a ledger book in my desk and taped telephone calls to back-up sources. I did not publish the names, only saying **"They're Back!"** When my case began, there were anonymous phone threats and a bullet put in my mailbox (see below) that was turned over to the lawyers. **Cohen** seized the office and employees who were there stated they just took things and gave no receipts.

The head of **Goldman Sachs'** Global Compliance no less acting as the now manager of Princeton Economics International, Ltd, made an effort to seize all the research both on the markets (our model) as well as on the investigation. The Judiciary is so corrupt they let **Goldman Sachs** run the company that was investigating them by proxy. How can this not have been a conflict of interest? **Alan Cohen** threatened to throw all lawyers in jail unless they turned over all tapes I gave them for safekeeping. On February 7, 2000, I stood up in open court and tried to protect the lawyers and the investigative material. I failed. Judge Richard Owen would not allow it and seized everything. This, I believe is a critical point to understand the events that followed, for I believe that the object was to also seize our research, use it for the **"Club"** and prevent publication.

ARMSTRONG: Your Honor, may I address the court for a second? I gave the tapes to Mr. Unger because I received death threats and I had also received a bullet that someone left in my mailbox which I also turned over to Mr. Unger. I gave him those tapes that had nothing to do with this case for safe keeping.

(99-Civ-9667; 2/7/00; p22, Lines 3-8)

ARMSTRONG: The other tapes, your Honor, were made as a journalist, so to speak. I did a number of pieces and monitored a significant effort by a number of investment banks and fund managers who attempt to organize together in manipulating markets. I wrote extensively about several cases on that, and I made tapes to back up myself in support of that.

These are tapes that are, again, I do not see where they are particularly relevant to this particular case, your Honor. They have significant implications for a number of well known players and investment banks on the street that probably do reveal criminal behavior, but that does not necessarily involves this case. They were things that I wrote about. It is well documented that I was exposing the silver manipulations that were -- went by a number of firms including Republic Bank. The CFTC even contacted me personally for information in that investigation and as well as that led to the Bank of England getting involved into the investigation.

(99-Civ-9667; 2/7/00; p4-5)

The **Housing Bubble** appears to be much more deliberately orchestrated, although I seriously doubt that there was for one second any contemplation about what they were truly doing. Because the **"club"** is short-sighted and does not take long-term investment views of anything, it's all about instant gratification. The only long-term model on real estate was that of Princeton. But I am sure they had only looked at the spike into 2007, not the 26 year decline afterwards.

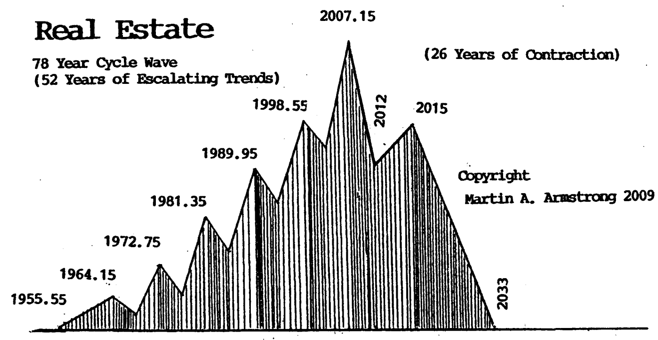
The origins appear to begin actually in the Clinton Administration. There developed a political view that they wanted to increase home ownership and that would be a socialist view of prosperity. What they did not at all understand, was that real estate had already been a highly leveraged market post-World War II and that the capital concentration within the United States that led to its acquisition of 76% of the official world gold reserves by 1944 for the Bretton Woods global summit on creating a new monetary system, was the real source of that leverage. In other words, the sheer amount of capital concentrated within the United States allowed for 30 year mortgage market to develop. Had there been a short supply of money within the United States, the mortgage market would be like that of Canada or Europe - far more short-term.

The lack of sophisticated models within government has allowed the "Club" to mislead them at will. When Congressman Snow asked the former head of the SEC Mr. Cox shouldn't the government have models, he quickly said no. This allowed the leverage to be 50:1.

Clinton's team was composed of **Robert Rubin, Alan Greenspan, Larry Summers,** and the head of the SEC, **Arthur Levitt.** All were on board and **Rubin** was leading the team. You must keep in mind that it was the SEC and the CFTC that controlled the legal leverage in the **Investment Banks,** not the Federal Reserve. In 2000, they passed the **Commodity Futures Modernization Act.** This opened the door for the banks to trade default swaps freely.

The long-term benefits of the Reagan tax cuts was finally starting to kick-in. The nation moved into the first budget surplus since 1969. Reagan's policies had been in fact offset by Volker's absurd raising of interest rates to 17% at the Fed. That had the effect of raising the deficits for a decade by the

THE HOUSING BUBBLE



the sheer fact that raising interest rates had the desired effect to stop consumer spending, but **NOT** government. How do you raise the rates of interest without effecting the biggest borrower in the market? Simple answer - you can't! Volker's interest rate policy set in motion a trend of wildly expanding debt. Between 1986 and 2006, the rise in the national debt is attributed to over 90% interest.

In 1994, there was the "Republican Revolution" where they won both houses for the first time in more than 40 years. The fighting began over how to spend the surplus. Little went to paying down the National Debt. The policies of **Rubin** met with approval of the Republicans and the **"club"** was given a green light to go nuts in the housing market.

The strangest events began to unfold illustrating that **Goldman Sachs** had begun a new strategy - conquer from within. All of a sudden, it did not matter what the political party was be it Republican or Democrat, somehow staff from **Goldman Sachs** was infiltrating government in all departments. The basics of this strategy was said to have been the brain child of **Robert Rubin** as was the housing. In 2000, AIG went to the **New York State Insurance Department** to inquire if the default swaps should be exempt from regulation. **Neil Levin** ran that department for NY State, and he was a former VP of **Goldman Sachs.** He gave the all critical blessing to AIG exempting the swaps from regulation. What does a ex-**Goldman Sachs** employee have to offer to run insurance regulation? That was not his expertise! The whole housing bubble was set to inflate.

Gretchen Morgenson of the New York Times traced the **Credit Default Swaps** to **J.P. Morgan** who took it to **AIG**. The staff at **J.P.Morgan** was not comfortable with the product because there was no historical model that would in fact reveal what is known as a **correlation failure.** In other words, if the mortgages go into default, those losses then ripple into every other sector of the debt markets.

This is <u>HOW</u> a <u>CONTAGION</u> is truly born as took place with **Long-Term Capital Management.** Everyone had big bucks in Russia. They were counting on the **International Monetary Fund ("IMF")** to be there to guarantee those bonds by supporting funding. However, there was <u>NO</u> developed market to buy or sell into. The Russian currency was just getting started as a futures contract.

Once the Russian debt went belly-up, the absence of a market forced the raising of any cash into other holdings. Thus, we saw the entire spectrum go crazy from stocks, bonds, all the way into currencies like the Japanese yen. Why? They were also funding these debt purchases in yen to maximize their profit. They were not satisfied making 10-20 times their money using dollar loans, so they went off into yen to reduce borrowing costs down to 0.1% from 7%.

The **CONTAGION** is thus created by the inability to get out of one market, and the need to raise money forces liquidation of any other position held. Thus the mortgage debt crisis that these idots created was identical to the <u>SAME</u> mistake they made with Russia. Now they expected the US government to back the mortgages eliminating their risk just as they expected the IMF to back the Russian debt. It was these dream-like presumptions that will illustrate that <u>**THEY DO NOT HAVE THE BEST & THE BRIGHTEST**</u> for they would never get into these fatal attractions that blow up the whole world.

The mortgage crisis turned into a local **CONTAGION** insofar as the debt in that area was part of a portfolio of fixed income and that would cause fund raising to spread to all other areas of debt. There was no such organized market for the mortgages. The **CDS** insurance now failed, and this led to the entire system melting down. This is the same stupid mistake **ALWAYS** illustrating they are clueless.

Goldman Sachs by 2006 had underwritten at least $76 billion worth of this stuff. They began trading against their own clients in the mortgage market. **Matt Taibbi** reported in the Rolling Stone that **David Viniar** who was the Chief Financial Officer at **Goldman Sachs** "boasted" in 2007:

> **"As a result, we took significant markdowns on our long inventory positions. ... However, our risk bias in that market was to be short and that net short position was profitable."**

While **Goldman Sachs** tried to portray the image of again being the brightest bulb on Wall Street, the facts do not add up. What they were doing was outright securities fraud that was criminally prosecuted against **Milken** and was grounds to extinguish **Drexel Burnham.** But then again, they were a Philadelphia firm competing with New York. Clearly, if there was really **Equal Justice For All**, then the SEC & US Attorney should have criminally prosecuted **Goldman Sachs.** But as <u>every</u> journalist I have ever spoken to has stated bluntly, the US government will never prosecute one of the big NY houses, there will be no investigation and no prosecution that will <u>**EVER**</u> show the truth. What is the purpose of having so many people in low paying political posts? Surely, they will never work for government for the pay or benefits. So what is it?

The Wall Street Journal published in its Saturday/Sunday Money & Investing on Dec. 12-13, 2009, **"Goldman Fueled AIG Gambles."** The Journal reported that **Goldman** "played a bigger role than has been publicly disclosed in fueling the mortgage bets" at **AIG. What** really took place <u>as always</u>, the bailout of **AIG** was in effect making good on their side of **Credit Default Swaps. Goldman** and other banks would turn to **AIG** to insure the debt they just got involved with. So, it was not **AIG** that was truly being bailed out, but the counter-parties. In other words, you went to a casino and bet everything of red at the roulette wheel. You can't pay when you lose, so you turn to the government to pay your debt. Who benefits? The casino, not you!

Goldman Sachs was one of 16 banks that the US government paid off who AIG owed. The Journal reported that "Goldman was a key player in many of them, even the ones involving other banks." Id./B1. They went on to report that **Goldman Sachs** "bought protection from AIG on about $33 billion of the $80 billion of U.S. mortgage assets that AIG insured.... That is roughly twice as much as **Societe Generale** and Merrill Lynch, the banks with the biggest exposure to AIG after Goldman..." Ibid.

It has come to light that **Goldman Sachs** was actually insuring the housing market and then turning to AIG on a wholesale basis thus tacking on a premium for itself. This appears to have been done on at least $14 billion in deals.

It is surfacing that **Goldman Sachs** was making offers to help AIG reduce its risk, but its pricing was very high. The Journal had also reported that in February 2008 at a meeting in AIG, they discussed the options being offered to AIG, but that Goldman was "unwilling or unable to provide any sources for their determination of market prices." Id./B4.

Goldman Sachs was clearly exposed to AIG for there was no other source to lay-off risk in the CDS market. They created their own little world in which they believed that the markets would not collapse and that mortgages would be secured by the US government. They once more talked themselves into believing they could make a fortune with no risk. The perfect guaranteed trade. They assumed, and pitched, that implicitly Fannie and Freddie were behind the mortgage market not unlike the IMF was suppose to be behind Russia.

The claims of **Goldman Sachs** would not have suffered a serious loss had AIG gone just belly-up, lack any credibility whatsoever. The **TARP** audit of the AIG Collapse shows that the claims of **Goldman Sachs** were unfounded. It is very clear that **Goldman** was the largest beneficiaries of the AIG bailout. The Federal Reserve was no doubt prodded by **Henry Paulson** former CEO of **Goldman Sachs** and successor to **Robert Rubin** as Secretary of the Treasury. In an amazing deal, the Fed agreed to pay $62 bil of insurance contracts owed to 16 banks they held **<u>IN FULL</u>** with no discount. That included **Goldman Sachs**.

The report pointed out that **Goldman** had sold insurance repackaging it to other banks. That meant if AIG failed, **Goldman** still had to pay other banks while being unable to now collect from AIG. Again, the report rightly casts doubt on **Goldman's** claims it had some collateral. That would not have been liquid in such a crisis.

Goldman Sachs was clearly dead in the water. Without the bailout, they would have been history. Their extensive network of alumni in strategic places around the globe paid-off. They were able to get all the funds they needed when they were not even a bank lending to the public, and effectively had all their bad trading decisions underwritten by the US government.

They amazingly made the same mistake as they did in Russia. They put all the apples in one basket and assumed the government is there. They are dumber than shit when it comes down to getting into these wild and crazy big schemes, but perhaps where they are truly the **BRIGHEST BULB** in the box, is how they have politically insulated their entire operation with political appointments.

The strategy to gain political influence and win powerful friends was deliberate. I believe **Goldman Sachs** became a fairly large campaign contributor. It is surprising how little money it takes to buy influence in Washington. I spent about a quarter-million on an advertising strategy concerning tax reform buying only the back page of Bill Krystal's magazine. I can't tell you how many people in Washington started to pound on my door. It doesn't take tens of millions as many people may think. Influence is very cheap to buy at the end of the day.

Goldman Sachs began to take that idea up after 1986. This led to **Robert Rubin** in fact becoming Secretary of the Treasury. But there is still a serious distinction in the three categories Banking-stocks-commodities. Both **Robert Rubin** and **Henry Paulson** were true administrators, not traders. They were good at building **Goldman Sachs** and at politics, which is why they became Secretary of the Treasury. Their political clout and roles saved **Goldman Sachs** when it was just purely an **Investment Bank** and had it fallen, there would have been <u>NO</u> economic depression. They have become a proprietary trader. They are not a source of serious lending within the economy creating jobs. They are not a commerical bank.

The Art of

POLITICAL MANIPULATION EXTENDS TO THE JUDICIARY

Never in my wildest dreams did I think that the American Judicial System had been so corrupted, that one stood a better chance of a fair trial in some Banana Republic. The SEC & CFTC in my case never bothered to serve **Princeton Economics International, Ltd** giving the company a chance to hire a lawyer. For you see, individuals cannot represent a corporation pro se (directly), for the Supreme Court has held that corporations can only be represented by lawyers, Rowland v California Men's Colony, 506 US 194 (1993).

The SEC & CFTC never took the time to ever serve the corporations and that by itself in a real court meant that there could be no case. **Federal Rules of Civil Procedure 65(a) Preliminary Injunction (1) Notice. The court may issue a preliminary injunction only on notice to the adverse party.** In the real world, they just illegally seized the companies' and would not allow any lawyer to represent them. Justice Stevens had written, "disposing of lawyers is a step in the direction of a totalitarian form of government." Walter v Nat'l Ass'n of Radiation Survivors, 478 US 305, 371 (1985).

The SEC & CFTC **REQUESTED** Alan Cohen by name. He was Judge Owen's former law clerk and personal long-time friend. They secretly negotiated illegally with Mr. Cohen who was now appointed as the receiver over foreign corporations, that there was also no jurisdiction to do and violated international law. They usurped the internal management of the companies that was as absurd as if Japan claimed General Motors violated their law and they put in a receiver and ran General Motors from Tokyo firing all the employees. They then had Cohen stand up on October 14th, 1999 and effectly pled the corporations guilty within about just 30 days. Alan Cohen was appointed as a judicial officer who was suppose to be as impartial as the judge himself. Here we have him illegally violating his oath of office and dealing with the SEC & CFTC in secret meetings. He even entered a written agreement whereby he illegally agreed to hide **ALL** non public evidence from myself and anyone on the company.

§13(b) **MEMORANDUM OF AGREEMENT**

> The Receiver and the JPLs acknowledge and agree that they shall not and thay shall direct their respective agents and representatives not to provide any non-public information regarding Group or its Assets to Martin Armstrong, Martin Armstrong, Jr., Victoria Armstrong, any person or entity known to be under their direct or indirect control or acting in concert with any of them, any other former officer, director or employee of PEI or PGM, unless the provision of such information is either (a) agreed to by the Receiver and the JPLs, (b) required by applicable law, or (c) required by order of Either Court.

While at first I assumed this was the brainchild of the Government, as time went by, it started to appear that **Alan Cohen** was perhaps the real brains behind this whole sham. For he moved quickly searching for the investigative research that I had conducted for over 10 years. He was obsessed with getting control of that very damaging evidence, not to me, but to **Goldman Sachs**, and the **"Club"** as a whole. He went after my lawyers in New York, Mr. Martin Unger, and in New Jersey, Richard Altman. He threatened both with being thrown in jail on contempt of court if they did not turnover all the evidence I had given them to be held in trust for safe keeping after receiving death threats and a bullet was left in my mailbox.

Alan M. Cohen

MANIPULATING THE SEC & CFTC

One of the interesting aspects of the Bernie Madoff case was the revelation that emerged from tapes where he was instructing another how to lie to the SEC. He explained that they were stupid and easily manipulated. The one thing that has shocked me more than anything, is the total incompetence of government attorneys. **EVERY** person I have spoken to from the press, to even William D. Cohan, asks the same question. **What are you doing here?** Any professional in the industry understands that the private notes were (1) purchasing pre-existing portfolios that were then liquidated and could not have been solicitations for managed accounts or else the Japanese would have had to report the loss taken when their portfolios were sold, **which would have defeated the whole bail-out structure**, or (2) were nothing more than **Fix Rate Borrowing of Japanese Yen** - known in the industry as the famous **Yen Carry Trade.** "There are no defaults." (Tr;9/13/99, p15 Trenton, NJ 98-5018)

To illustrate how government attorneys seem to be mindless, on September 13th, 1999 before Judge Kaplan in New York City, the SEC and CFTC argued they needed a receiver, **Alan Cohen**, stating in open court, there were **"significant yen positions in late August, in the hundreds of millions"** of dollars (Tr; 9/13/99, p6, Line 14-15). Judge Kaplan asked: **"Can either of you give me more specific information about the content of that account..."** (Tr; p6 L5-7). The Government argued that they needed a receiver to manage these huge positions. So they put a lawyer in charge, not a fund manager.

> "We would urge for at least those open positions that an impartial, an independent receiver needs to be appointed to make the decisions on those positions rather than Mr. Armstrong."
>
> (Tr; page 7, L14-17)

Showing that SEC & CFTC attorney are either completely stupid, or just liars, a few pages later on the same transcript they argue I lost $1 billion, that years later Republic had to repay since they illegally took funds & were illegally trading in the accounts, claiming that this loss was the result of:

> "their strategies were extremely risky, that they lost a billion dollars in foreign currencies in yen and in index trading. They apparently were not hedged."
>
> (Tr; pages-13-14)

If one borrows yen, he must repay yen. Hence, you convert the yen to dollars to capture 6-7% in interest rates compared to 0.1% in Japan at the time - hence the **Yen Carry Trade.** When it comes time to repay the borrowing, one takes the dollars and buys yen for the repayment. The SEC & CFTC obtained their receiver **Alan Cohen** who either did not understand what he was doing, or intentionally attempted to now create a loss.

The SEC & CFTC argued they needed a receiver to manage hundreds of millions of dollars in yen positions. This was the **HEDGE** and this proved that their allegation that there was a loss because there was no hedge, is just beyond understanding when they argue there are positions in yen that requires a receiver.

Since **Alan Cohen** becomes head of **Goldman Sachs Global Compliance,** then you would have to assume he understood the nature of the yen positions was a neutral hedge. So what did he do? The first act of his appointment was to sell all the yen positions converting a hedge into speculation. He lost at least $100 million in the first 30 days. He then blames that loss also on me. If **Alan Cohen** had been just a ordinary lawyer, I would expect he did not know what he was doing. But since he is the man who is in charge of **ALL** international transactions and **GLOBAL COMPLIANCE** for **Goldman Sachs,** he **MUST** have known what he was doing and deliberately liquidated the hedge to try to create a loss to blame me for.

Alan Cohen was clearly requested by name by the SEC & CFTC and as things developed, it appeared that this was far more than just being friends with Judge Richard Owen. **Alen Cohen** was at first a partner in **O'Melveny & Myers, LLP,** a firm often linked with various members of the **"Club"** in New York. The head of the SEC who made that selection of **Alan Cohen,** then leaves the SEC and is made an immediate partner at where? **O'Melveny & Myers, LLP.** The last time this took place, the Second Circuit Court of Appeals use to be an honest court. They vacated the case because it was a conflict of interest for the SEC director to request a specific law firm for a receiver, and then take a job at that same firm. Of course, it is not that the law has changed, it is just that the judges no longer enforce the law when it does not benefit their friends.

Andrew J. Geist a **Partner at O'Melveny SEC Head of Enforement**

After **Alan Cohen** throws me in contempt, confiscates all of the evidence against the **"Club"** over my objections in public on February 7th, 2000, guess where he now goes? **Goldman Sachs** as head of **Global Compliance.** So now we have the head of the SEC NorthEast Region who started the case and requested **O'Melvany & Myers,LLP,** who becomes a partner sharing in all the legal fees taken from the company to pay for the receivership, and **Alan Cohen** becoming head of **Goldman Sachs Global Compliance.** You would think that he should now resign from the court as receiver? But no, he continues to work for **Goldman Sachs** and simultaneously is in charge of running **Princeton Economics In't, Ltd.**

The main lawyer at **O'Melveny & Myers LLP** who is doing the day-to-day operations, then makes it clear that they are also now looking for the model. He appears to now lie to Martin Weiss who was willing to "rent" the **Princeton Economic Institute** to keep the publications and research going, trying to get him to pay $50,000 to move one portion of the office, but never had any good faith intentions of allowing the publications to continue. On October 3rd, 2000, an employee of the Institute James Smith came to testify with a proposal in hand from the **Department of Energy** requesting we construct a model since we were forecasting oil would rise to $100 by 2007, from the current $10 level. Everyone objected from the SEC, CFTC, Alan Cohen and **Tancred Shiavoni** from **O'Melveny & Myers, LLP.** It became very clear, they were conspiring to shut down the Institute at all costs. **Shiavoni** in an email to Martin Weiss now admits he wants the source code to the entire model or he will shut down the **Institute.**

"So that there is no misunderstanding, we are going to ask the Court direct that any compensation payable to Armstrong, Sr. by Weiss be deposited into a frozen escrow account pending a determination of title and compliance relevant portions of the PI. In part, we are doing this because Armstrong Sr. has refused to turn over the uncompiled source code for the model that is being licensed. Without the uncompiled source code, no one can repair the model other than Armstrong. Accordingly, it looks like Armstrong structured the 'consulting' agreement to benefit indirectly from a corporate asset that he has withheld. Among other things, we are concerned about leaving him in a position to constantly blackmail Weiss who have no other choice but to turn to Armstrong to maintain the software as long as it remains missing."

Tancred Schiavoni

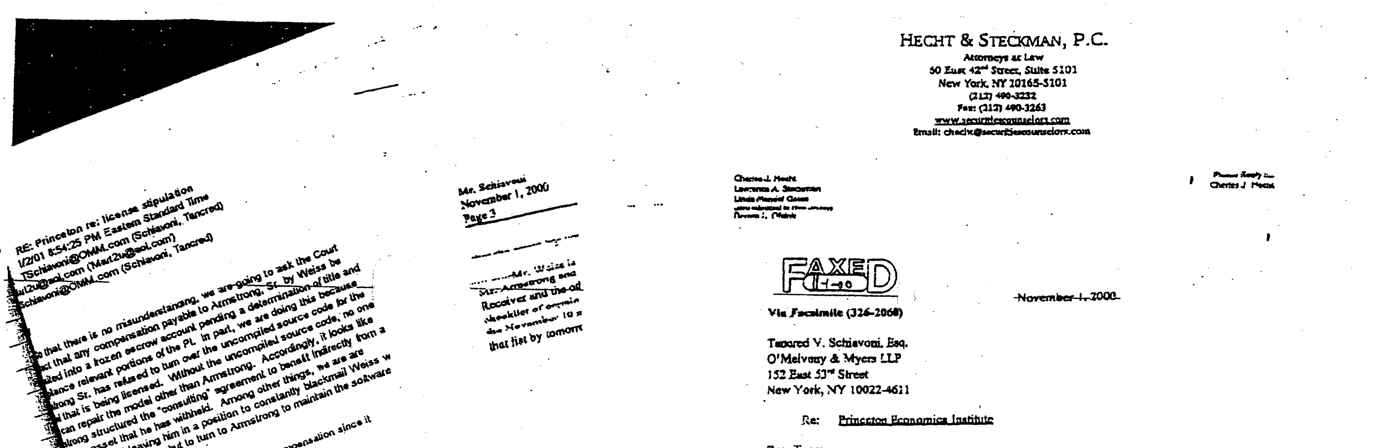
While **Shiavoni** is demanding the computer model now from Martin Weiss' lawyers at **Hecht & Steckman, P.C. (see below)**, the overall strategy was to simply (1) lie to create a case claiming the accounts in Philadelphia at Republic New York Securities were the property of investors that did not exist, and (2) keep me in jail on contempt for life if possible denying counsel, right to appeal, or even a trial. For you see, they knew what they were doing from the outset, and I believe this was to use the Government to seize all investigations that would have exposed the organized manipulations and to stop all forecasting that prevented the **"Club"** from targeting selected victims. For you see, in the criminal complaint filed on September 13th, 1999, the Government admits that the private notes were **UNSECURED** and were either fixed rate borrowings of yen **(MEANING NO TRADING COULD POSSIBLY BELONG TO ANY NOTEHOLDER ANY MORE THAN BORROWING MONEY FROM A BANK MAKES YOU A FUND MANAGER FOR THE BANK)**, or were a variable rate note given in return for the purchase of a toxic portfolio. If the accounts belonged to a client, then they would have been **SECURED** notes, accounts would have been in their name, and statements would have been sent directly to them since at best we would have had just a **LIMITED POWER OF ATTORNEY** that never existed.

CRIMINAL COMPLAINT §5c

c. Some of the notes are issued in the name of the purchasers and others are issued in the name of Cresvale-Tokyo as a nominee for the purchaser. Some of the notes pay fixed and others pay variable rates of interest. Although all of the documents I have reviewed to date indicate that the notes are unsecured, repayment of some of the notes are guaranteed by PEI.

Just three months before my case started, the Supreme Court reversed the Second Circuit and the same court, the notorious Southern District of New York, instructing then that when a transaction is **UNSECURED**, there was **NO JURISDICTION** to seize anything because there was no title that was undisputed. That meant that **ONLY** a trial by jury could determine whose property was whose - not a judge, **Grupo Mexicano v Alliance Bond Fund**, 527 US 308 (1999). However, we have no rule of law because there is no way to force any court or judge to obey the law. The Supreme Court is just irrelevant. They cannot enforce anything they decree. It is all just a fictional world in which we live.

The Government conceded not only were the notes **UNSECURED**, but most were never issued and were merely journal entries on the books of the registered broker-dealer in Japan that they claimed I owned 100%. That meant, all notes were 100% insured by the Japanese government to whom we had to put up $5 million for that insurance. This meant it was I, the broker-



dealer was the victim since it was responsible in Japan. The SEC, CFTC, US Attorney and the receiver all manipulated the entire facts to get to Princeton at all costs. The **Wall Street Journal** conducted its own investigation in Japan and published an indepth account on August 9th, 2000 where they had actually confirmed that these allegations were false, without understanding the actual government position. They wrote:

> "Armstrong called one [note] 'the rescue product.' Companies **TRADED** in a losing portfolio of stocks, bonds and other assets for a 'Princeton note,' redeemable several years in the future for the portfolio's original, higher value."

Wall Street Journal, August 9th, 2000

The Wall Street Journal confirmed that these were **NOT** solicitations for managed accounts. The Japanese were **NOT** investing in some speculative product. They sold their portfolios for a note - that was it! When the Japanese filed suits against Republic restating the government allegations that they created, suddenly they reversed themselves and magically now told the truth that there was no management.

> "The credit review report described the various Princeton entities' accounts at Republic Securities as accounts owned by the Princeton entities, all of which were 'owned and controlled' by Armstrong, not by any Noteholder. There is not a word in the report to the effect that Armstrong, much less Republic Securities, had undertaken any obligation to third parties to keep the assets in each account separate. To the contrary, the essence of the report is that Armstrong had every right, as the person with authority over each Princeton entity' account, to do as he wished with the assets in those accounts, which were described as the proceeds of loans obtained by Armstrong and his Princeton entities. "

Republic National Bank reply to Yakult & Marusen

So what we have is nothing but a fraud to illegally seize **Princeton Economics.** Since from the first day on September 13th, 1999, they admitted that the notes were all **UNSECURED** meaning they **NEVER** could have been an account belonging to a noteholder and there was no solicitation to open managed accounts or to invest in a fund where profits flowed back to them. If **Alan Cohen** did **NOT** know the alleged structure was **FALSE** and there was no crime any more than borrowing money from a bank converts you into a fund manager for the bank, then how is this guy head of **GLOBAL COMPLIANCE** for **Goldman Sachs?**

MISREPRESENTING EVEN THE SEGRAGATION OF ACCOUNTS

The SEC deliberately lied about accounts stating I "promised them that their investments would be kept safe in segregated accounts." (Tr; 10/14/99, p24, L17-22). This was a lie pretending the accounts were managed accounts when the whole issue of segregation was that we would ensure Republic would not take the funds and lend then out overnight where they did not require notice to me under US law. This is why we rolled the cash in T-notes. In the criminal plea, the script the government had me read stated "that their monies in those accounts would be separate and segregated from Republic's own accounts" not account A from account B that did nothing since SPIC insurnace would be $500,000 at best. The issue among professionals, was US banks lend money overnight and do **NOT** in any way disclose that risk in advance. Professionals understand what goes gon. The Japanese were purely concerned about Republic taking funds and losing them overnight where there is no insurance. **THIS WAS THE WHOLE RISK!**

THE GOVERNMENT ADMITS THAT THEY ALLEGED ONLY WHAT REPUBLIC NATIONAL BANK TOLD THEM WAS THE PRETENDED CRIME

In **Footnote 1** of the Criminal Complaint, we find an amazing statement by the US Attorneys calling into question whether or not these people are even competent in the field of finance. For here they completely screw up the fact that the private notes borrowed yen, paid 4% in yen, and repaid yen. The **"Club"** deliberately lied telling them we paid up to 24% more, not 4%, by calculating the notes in dollars. That is like taking a dollar loan, recalcuating each payment in Mexican peso, and then charging the fraud in peso rather than in the currency of the transaction.

Notice that this states "attorneys for Republic Bank ... have analyzed" the notes. They took yen transactions and recalulated everything in dollars and then told the government there was a crime using the differences in dollars without ever explaining what they were doing was playing a shell game with the currencies.

> "In at least some instances, it appears that the actual rate of return on the fixed-rate notes is far greater than the simple interest rate stated on the face of each note, For example, I have been informed by attorneys for Republic Bank that they have analyzed one note's actual rate of return is in fact approximately 24 percent -- nearly 20 percent greater than the 4 percent interest rate stated in the note."

Criminal Complaint, p5, fn 1

This is just unimaginable. Here we have people with the power to destroy any major company or even indict the President of the United States. Yet there is no qualification that demands they understand the subject matter of what they allege crimes to have taken place. You just can't keep switching back and forth between currencies to create crimes that did not exist. If you contract to buy your home in dollars, and the dollar falls now by 50% against the euro, under their theory, the bank can now demand you pay twice the dollars because they recalculated it in euros.

ALAN COHEN LIES TO KEEP THE CONTEMPT GOING

The night I was thrown in jail for the next 7½ years on contempt of court when the statutory maximum on civil contempt is 18 months under 28 USC §1746, the partners in Princeton Economics group had their own lawyer there to observe. When he saw I was being railroaded, he left and told everyone not to come to the United States for they would never get a fair trial. Out of an alleged $3 billion fraud, I was thrown in prison for $1.3 million they claimed was missing.

Justice Alito himself had previously held that in order for there to be a fraud, the alleged amount had to be 5-10% of the gross in order to meet the "general materiality criteria." In re Westinghouse Securities Litigation, 90 F3d 696, 714 n.14 (3rd Cir 1996). Even the SEC regulations state "the misstatement or omission of an item that falls under a 5% threshold is not material." SEC Staff Accounting Bulletin No 99, 1999 WL 1123073 (SEC Release No SAB-99). I was thrown in prison for less than .002% of the alleged fraud as Judge Owen stated that there was "1.3 million out there somewhere." (Tr; 99-Civ-9667, p198 L5-6).

The SEC, CFTC, and US Attorney all knew that **Alan Cohen** had created a contempt on something that was absurd. $1.3 million was too small to sustain the contempt. They got rid of all the lawyers on April 24th, 2000, SEC v PEI, 84 FSupp2d 443 (SDNY 2000). Now it would be easy to lie to the newspapers and the courts. One of the partners Nigel Kirwan had put in an affidavit regarding missing assets alleged by the Receiver that had been distributed nearly 2 years before the case began.

With no lawyers, I had no contact to have challenged what **Alan Cohen** told the court. He said Kirwan had never signed any affidavit. Judge Owen stated in court:

> "Of course we've got a lot of funnies in this case like with Mr. Kirwan who gives us an affidavit ... [but] he's asked to give the signed copy he never gives the signed copy."
>
> (99-Civ-9667; Tr; 8/16/00, p30)

This is how they raised the contempt from $1.3 million to $15 to impress everyone that now this was serious money. Liars who tell so may lies are always caught because they can't keep them straight. **Alan Cohen** compelled Nigel Kirwan to a deposition in Asuatralia, of course denying me counsel or notice, in the Supreme Court of New South Wales on Friday, 27th April, 2001 (Docket SCC1105-NV-A1). On page 88 of this transcript they then show Nigel Kirwan this affidavit they told the court in New York and the press he had **NEVER** signed to boost the contempt from $1.3 to $15 million. Kirwan is asked:

Q: I will get you to identify the document first - I think your signature appears on the last page?
A: Yes.
Q: And that's a declaration you made in relation to the proceedings that are in the United States/?
A: Yes, that's correct.

For you see, again, here is the **DOCUMENT PROOF** that **Alan Cohen** all along had the **SIGNED** declaration/affidavit of Nigel Kirwan and he deliberately lied to the court to get the contempt raised from $1.3 million to $15 million. And this is the guy who is the **HEAD OF GOLDMAN SACHS GLOBAL COMPLIANCE!**

INDEPENDENT WITNESSES EXIST THAT THE CONTEMPT WAS DELIBERATELY USED AS TORTURE & COHEN SIDED WITH REPUBLIC

This manipulation of the entire Judicial process does not end there. It became clear early on that **Alan Cohen** was in my belief just corrupt. When I tried to explain the transactions, he abruptly states, we believe **Republic**. It was clear that they were planning on just defrauding the Japanese entirely, and blame it on me letting Republic walk away with the cash. Against advice of counsel, I agreed to give interviews to the Japanese press and got out my recommendation that they file suit in the United States against Republic or they would not see a dime. The Japanese filed suits, and that then changed the game.

The Government was now trapped. They wanted to desperately shut down **Princeton Economics** that I believe **Rubin** had some input into, yet they could not give back the money Republic took. They kept me in jail on contempt so I could not move to trial and bought time to try to figure out a way from this mess. A BOP officer at MCC had sat in on a telephone conversation between Dominic Reha, counsel for the BOP, and AUSA Brian Coad. She asked what they were suppose to do with me being I was there on civil contempt. The US Attorney's Office replied: "We are trying to break him. He is probably innocent. Republic's documentation is so bad we can't prove a case at trial." After this conversation, the staff member came to me and personally apologized for my treatment.

REPUBLIC NATIONAL BANK GET IMMUNITY FOR ITS DIRECTORS IN RETURN FOR GIVING BACK $606 MILLION WHICH IT HAD STOLEN TO COVER-UP THE PARKING OF TRADES IN THE ACCOUNTS FOR THE BANK AND ITS OWN STAFF ILLEGALLY TRADING IN THE ACCOUNTS OF PRINCETON ECONOMICS INTERNATIONAL, LTD

Republic finally agreed to return the money and plead guilty and the deal was now cut that the bank and all its senior directors, were given **ABSOLUTE IMMUNITY** from any criminal prosecution. They agreed to return $606 million, benefiting from the currency swing. The government handed them about $400 million in profit that belonged to Princeton **Economics**, its partners, and employees.

After years of being denied resources, I finally got one of the real experts in the country, **Michael M. Mulligan,** founder of FCL advisors of Great Falls, Virginia who has been an expert in some of the biggest cases in America regarding finance. He immediately pointed out that "[s]ince the obligations on the Princeton Notes were Yen denominated" the ultimate determination was not dollars, but the dollar/yen exchange rate. (Letter to the Court dated February 27th, 2007). He points out that the "Receiver apparently does not consider the conversion rate." He went on to point out that **Alan Cohen** "has not consistently incorporated trading information into their analyses."

He goes on to point out that where the Receiver claimed there was a $283 million loss, that Republic's own audit showed the same period was a $14 million gain. He then states plainly, "from Republic Bank of NY show that Mr. Armstrong's trading record reflected gains as late as February 1998." He then states clearly:

> "Our limited review of the accounts in question has always caused us heatburn as the number of trades, cancelled trades and other information about Republic Bank of NY's internal controls - or lack thereof - as well as findings in other ancillary proceedings suggest that Republic or its agents were defrauding the Princeton accounts."
>
> Ibid. (Page 2)

He then points out that the government had withhold evidence for years and refused to provide the accounting. "I now think I understand why - after six years of working on this case - **<u>none of our production requests have been answered.</u>**"

> "[W]hereas the Government has been alleging significant trading losses attributable to Mr. Armstrong, other documents suggest that at least as of February of 1998, the relevant Princeton accounts reflected gains. Third, based on the documents provided to us by the Government, it is questionable why Mr. Armstrong would have pled to a crime that may not have occurred."
>
> Id./page 3

If the courts will **<u>NOT</u>** investigate the conduct that takes place, who can ever now trust a single thing in any federal court? There is nothing to suggest that when there is a mistake, that it will ever be corrected. The problem that exists, the **"Club"** just owns the Government and the courts and there is nothing anybody can do about it.

<u>ALAN COHEN LIES AGAIN TO KEEP THE CONTEMPT GOING FOR 5 MORE YEARS</u>

It is very clear that **Alan Cohen** and thus **Goldman Sachs,** deliberately lied to the American public and the entire world if not the **Judiciary,** to keep me in jail for life if they could, denied any trial, lawyers, right to appeal - anything that is remotely believed to be a fundamental American right. They effectively argued for the repeal of the Constitution of the United States and again misrepresented even the allegations. **Alan Cohen** personally lied to the court telling it that there were now huge losses that took place prior to the allegation that were not included in any complaint or indictment. For Republic agreed to make **<u>ALL</u>** noteholders whole in order for **ABSOLUTE IMMUNITY** for board members to walk away scot-free. So **Cohen** now told the court there were other losses, pre-1995 when business with Republic began. But the alleged false Net Asset Value letters were not issued by **Princeton** nor myself, but Republic. So if there was some new fraud that took place **<u>BEFORE</u>** Republic, then who issued false Net Asset Value Letters? **NOBODY!**

> **ALAN COHEN:** Losses that occurred in the Prudential period and at the period at Republic prior to the first false NA[V] letter [by Republic] are not embraced within the restitution of HSBC because obviously they weren't in the predeposition period, they weren't involved in it, and in the period before the false NA[V] there is <u>no as description of criminal liability</u>.

(Transcript; 1/7/02, p17, L1-4)(99-Civ-9667)

In 2004, the criminal prosecution now revised the indictment because of a Supreme Court decision **Blakely v Washington**, 542 US 296 (2004) that said everything had to be in the indictment. There was no new charge claiming anything to do with a new fraud pre-1995. The statute of limitations was 5 years, and was up in August 2004 (1999+5). So if there was any new fraud, the Government had the opportunity to allege it, but did **NOT**! This meant that what the Receiver **Alan Cohen** told the court to keep me in prison on January 7th, 2002, was a lie. To make this point even clearer, in 2005, the Prosecutor in the criminal case stood up and admitted there were no new victims, and made it very clear, that they were now seeking a criminal restitution from me to be paid to Republic and its new owner, HSBC. So if there was any victim remaining, why did the Government say they were all made whole as per the deal it made with the **"Club"** after getting their hand caught in the cookie-jar back in 2002?

> **AUSA ALEXANDER SOUTHWELL:** So to be clear, in the event of a conviction, we will request, your Honor, that there be an order of contribution reimbursing ultimately HSBC, who basically made good and paid out these losses for whatever reasons that they did. They compensated the victims ... We frankly think that there is money available, **which is part of the reason why Mr. Armstrong has been held in civil contempt...**"

(SDNY 99-Cr-997)(Tr; 6/24/05, p11-12)

C may be the first letter in **conscience** and **club**, but the later possesses nothing of the former. They have manipulated the government and made real fools out of judges if they did not participate willingly. The entire legal structure was designed to prevent precisely this sort of ruthless conduct. There is suppose to be an indictment by the **GRAND JURY**. Here it was **Cohen** claiming there was a second fraud pre-1995, with nothing but words. He has shown the world, there is no rule of law in America.

To make matters worse, Republic National Bank after pleading guilty, intervened into the criminal case to enjoin me from sharing any evidence with the American public and the alleged Japanese victims. Judge Lawrence M. McKenna granted that motion. So all the evidence against the **"Club"** was to be sealed and the American public would not be allowed to see it. If I was the criminal, the law states I could get **MORE** time if I did not help the victims. Here we have a court ordering I was not allowed to help the victim against Republic National Bank/HSBC at all!

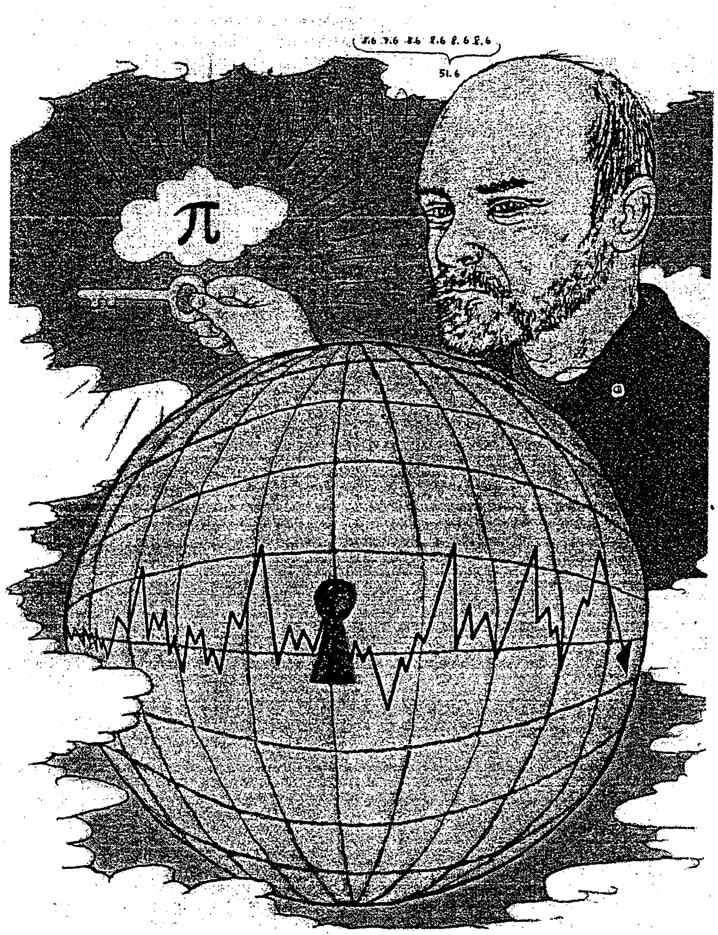
It still gets better. the **"Club"** did its best to stop my access to the press and that seems to be continuing. It turned out that **Alan Cohen** obtained also a court order that any telephone call I made while in prison was to be recorded and sent to him. All my conversations with **Gretchen Morgenson** were recorded and sent to **Cohen** as he was at **Goldman Sachs. Marcus Vetter**, a European documentary film-maker, wanted to fly in to Fort Dix to interview me - DENIED!. **William D. Cohan** who wrote **House of Cards** was trying to get in to see me to interview me for his upcoming book on **Goldman Sachs**. After a tremendous difficulty, he was finally allowed in for 1 hour. They came to break it up on the dot, and wouldn't even let me say good-bye without remarks. He asked me, **"Can Goldman Sachs control inside the BOP?"** The answer is obviously **YES** because **Allan Cohen** is still acting as an officer of the court despite being the head of **Goldman Sachs' Global Compliance.**

One must ask based upon this documented court record, if **Cohen** would lie to the court to keep me in prison on contempt for 5 years **AFTER** Republic made everyone whole, then what is he capable of as head of **Global Compliance?** Is **Goldman Sachs** telling the truth about **ANYTHING?** Keeping me in prison on contempt for 5 years to turnover assets to pay victims that did not exist, is a real **FRAUD**. Even at the criminal sentencing, yes I was ordered to pay $80 million in restitution, but then given full credit for what Republic paid $606 million, leaving me with **NO** restitution at all!

What gets more complicated is the model. **Gretchen Morgenson** with **Louise Story** wrote a front page article in the **New York Times** on December 24th, 2009, showing how **Goldman Sachs** was constructing products in the CDOs and then betting against their own clients after selling them. This evolution in the complete breakdown of ethics that has made the **Investment Banks**, lies at the core of this entire barbaric conduct of the **"Club"** where there is no loyalty to anyone. Before they even ask about a product, the first question is - **"What's in it for me!"**

The one thing I have learned in the past 10 years that distinguishes a **CRIMINAL** from a decent person, is that a low-life does nothing for any other person but himself. If he begins with that premise, I understand why he is in jail and that he is typically guilty. Ethics and decency do not go into the consideration of this sort of person. They are true **SOCIOPATHS** who will do nothing for society and care nothing about what others even think about them. The bottom line, they do not place any value on reputation. For such things are irrelevant.

THE SECRET CYCLE



BY NICK PAUMGARTEN

The New Yorker Magazine - Oct. 12th, 2009

It appears that the anonymous tip that **Goldman Sachs** gathered everything from our offices possible, may in fact be true. For you see, **Goldman Sachs** wants to claim they are the smartest and the brightest. It is very curious that when our model then was warning this cycle was the big one for real estate, they created the **ABX** index on real estate that just so happened to peak precisely to the day on February 26th, 2007 (as did the Japanese Nekkei 225 among other things). With **Alan Cohen** running the full entity of **Princeton Economics International, Ltd**, he had access to our research and in my desk were even my personal notes on this 2007 peak and how it was 51.6 years from the start of the real estate boom in 1955. **Gretchen Morgenson** wrote:

> "Worried about a housing bubble, top Goldman executives decided in December 2006 to change the firm's overall stance on the mortgage market, from positive to negative, though it did not disclose that publicly."
>
> New York Times, 12/24/09, B4

Did **Goldman Sachs** deliberately seize everything, stop the Institute from publishing, so it could have an inside track on this manipulation without fear of **Princeton Economics** jumping up and down and warning their own clients that they sold deliberate toxic portfolios to? One thing for sure. If **Princeton Economics** were still publishing, a lot of institutions would never have bought that nonsense. The press still ran stories calling the crash the interesting title: **"Armstrong's Revenge!"** The fact that SEC stated everything was then destroyed in the World Trade Center collapse, but who knows what was stolen before?

EVERYONE KNEW ABOUT THE MODEL

As I will explain later on, even the Department of Energy wanted us at Princeton Economics to construct a model for them on oil prices after we put out our long-term forecast in 1997 that oil would hit $100 by 2007. The **ONLY** people who wanted our model silenced, were members of the **"Club"** for they saw this as competition insofar as it was educating their potential victims.

The former Chairman of the SEC, Christopher Cox, testified before Congress at Congressman Waxman's **Oversite Committee.** He was asked by Congressman **Issa,** "should the Congress bring to bear additional resources ... [to create] predictive modeling..." (Tr; p122, L2933-35). Keep in mind that the entire investment community began to try to create models post-1986. Mr. Cox replied:

> "With respect to modeling all of the risk in the system, I suppose at some point you run up against the problem of trying to create such a level of exactitude that you rebuild the whole world in all of its complexity. That is probably an aspiration that we ought not to have."

SEC Chairman Cox, p124, L2999-3003.

Congressman Snow asked whether we should have some sort of a model instead of flying by the seat of our pants.

> "I share the basic thrust of your question here, which is can't we do better? Can't we find ways to do better? It seems to me, and this is retrospective, the question is leverage in the system. When loans and debt gets to be some fraction of GDP, it probably ought to send off some signals, because GDP represents the earning power, the debt represents the obligation.
>
> Congressman Cooper talked to us about future obligations that vastly -- that rise at a very significant rate relevant to the GDP of the United States. That sort of thing in rough and ready terms we should be able to model and have signals go off."

Congressman Snow, p125, L3016-3027

The very structure of the Princeton Model was far beyond anything created by any other firm. The sheer cost was massive not to mention the data collection that was necessary. Most firms did not want to spend tens of millions to create something that mapped the entire world. **Cox** knew precisely what that model structure was for he states it would require a model "to create such a level of exactitude that you rebuild the whole world in all of its complexity."

Indeed, even Time Magazine* recently commented on the model's forecasts calling them **"eery"** because of precisely this "exactitude" of which Cox spoke. No doubt he will deny he was referring Princeton's model, but that is not very credible after the events of October 3rd, 2000 and a whole court hearing on closing down the model by stopping the publication of all forecasts requested by the SEC.

The **SEC** and **CFTC** have clearly crossed over into **Erebus,** where they are no longer alive protecting the Constitution and the American people, but not entirely dead for they go out of their way to protect the Investment Banks at the expense of the world economy and stability among nations. They are just not trustworthy.

*TIME Magazine 11/30/09, p30

it is one thing to be a market-maker who builds a business by providing a honest service for clients, and another to be a predator feeding on your own clients who trust you.

Gretchen Morgenson I have regarded as one of the best investigative journalists in the United States. She has a nose for the financial industry, and she has done a great service investigating this entire mortgage mess. Her latest article on how **Goldman Sachs** appears to have deliberately constructed products to implode and thus by betting against their own clients, they would reap rewards that would have made them historical profits beyond imagination.

The troubling aspect of all of this is that the very people that created the worst financial implosion since at least the **South Sea** and **Mississippi Bubbles** of 1720, and perhaps since the meltdown of Rome during the 3rd Century, are deeply entrenched in advising government or are appointed positions in government.

Gretchen points out that **Goldman Sachs** did let a select few in to buy short positions in the mortgage market - namely **Paulson & Company, Magnetar** and even **Soros Fund Management**.

Gretchen also pointed out, in "just five months after Goldman had sold a new **Abacus C.D.O.**, the ratings on 84 percent of the mortgages underlying it had been downgraded."

There is something inherently wrong to create products designed to fail. It is completely in character to assume that in fact **Goldman Sachs** and others acted in bad faith and created products they knew would fail. Of course, in the American system of justice, there is plenty of fact to criminally indict those who had a hand in such a scheme. A jury's purpose is to decide the validity of the claims both pro and con. But **Goldman Sachs** is far too big and powerful to indict. You will never see NY eat its own like that.

What must be understood about this whole game, is that the **Investment Banks** are now into everything. They are predators who just roam the landscape looking for profit, and they care less about the law. They have a sort of **Political Immunity** that goes far beyond the **"too big to fail"** catagory. By infiltrating every sector, and now the head of the **CFTC** is **ex-Goldman Sachs**, one must ask, when will **Goldman Sachs** take even the White House?

How can there be any real investigation when countless people occupy bureaucratic posts and/or are advisors? Is a real full scale investigation possible? I seriously doubt it.

Gretchen pointed out that "[f]rom 2005 through 2007, at least $108 billion in these securities was issued ..., [a]nd the actual volume was much higher because synthetic C.D.O.'s and other customized trades are unregulated and often not reported to any financial exchange or market."

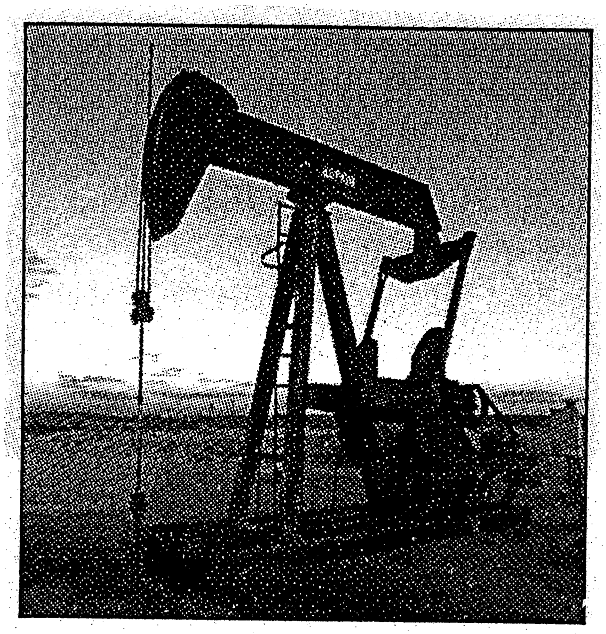
It is interesting that **Hank Paulson** scared the hell out of Congress demanding $700 billion to fix the problem. There is something seriously wrong underlying this whole market manipulation.

The real estate market was the largest investment sector in the economy. People who do not invest in stocks, bonds, commodities, look to their home equity as savings and that was going to cover their future. This is what these guys screwed with. This is the the one area that now sets the tone for the prolonged economic decline.

Often, each generation gets burned. This is the baby-boomers. Their parents had two World Wars and the Great Depression. If anything, it looked like they escaped that fate and would go down as the only generation to beat the wheel of fortune. Then came the Crash of 2007.

This is why I was focusing on this 2007 turning point being 51.6 years from 1955. The next 8.6 year target brings us about 51.6 years from the Kennedy Assassination that was followed by the '60s love fest and the '64 tax cuts.

We are headed into the storm. Each of these waves has a different focus. This one was real estate.



The Oil Manipulation

The **Housing Bubble** was the nightmare from hell that will most likely lead to a prolonged economic depression in that sector for 26 years from the 2007 high. But there was another **Bubble** being run by the **"club"** and that was in oil.

The **"club"** prefers commodities. They know this field and have less competition. But do not misunderstand that they take a bear market and flip it into a bull market, when not even they can pull that off with their political contacts & games. The cycle must be going in that direction. What they end up doing, is building their own ego by this nonsese that they can actually create a market trend.

Their attempt to get Princeton Economics into their fold to control the information simply failed, it became all out war between them and myself. We put out a major forecast in 1997 when crude oil was about $10. We had warned that our major long-term forecasts on oil would show it should rise and hit $100 by 2007. Most forecasters would never even say such a thing. But we were specialists in long-term forecasting and it was never once that I can recall wrong.

When my case began in 1999, Judge Owen was confronted by an inconsistent problem. The **Department of Energy** requested that we build a model for the country on oil given our forecast was taken seriously among the real movers and shakers. On October 3rd, 2000 James Smith came to court with the proposal. The **SEC, CFTC, US ATtorney,** and **Alan Cohen** the Receiver who was **Goldman Sachs'** head of global compliance, all objected. They insisted that the employees be dismissed, thrown out the door, and the **Princeton Economic Institute** be stopped from making any forecasts. The senior people were **Katheraine Gresham** at the SEC and **Nancy Page** at the CFTC, with **Brian Coad** at the US Attorney's Office.

They were adamant about stopping any and all forecasts, even though I was in jail on contempt of court, they wanted the employees stopped as well. **James Smith** came to court to take the stand and testify that what they were doing would be beneficial to the government. It was to protect the American people and this was coming as a request from the **Department of Energy.**

Judge Owen refused to allow James Smith to testify in public. He ordered that the employees be stripped of their jobs and thrown out on the street denying even their pensions. They had me in jail. But that was not good enough. The SEC and CFTC clearly wanted to aid the wishes of the NY Investment Banks and meant stopping our forecasts and to hell with the consumer. This could not sink to a lower level of corruption as far as what I believed. There was no reason to stop Princeton Economics from helping the people of the United States. The only reason I could imagine, was to help the market manipulators and that it did. When crude oil bottomed at $10.35 on Dec. 21, 1998, it rallied into Sept. 30th, 2008 reaching the $147.27 level. But it was **Goldman Sachs** who was forecasting then oil was headed to $300. With no model, Princeton was silenced.

It is impossible to compel any market to move in the opposite direction of the trend. The presumption that anyone can turn a bull market into a bear market or in reverse, is just absurd. Look at Japan. At the peak of the Nekkei 225 in December 1989, the Japanese Postal Savings Fund was the largest pool of money in the world - about $1.5 trillion. That vast amount of money was employed by the government of Japan to manipulate the markets. They tried desperately to support the NEKKEI and failed. They used the money to bailout banks and to try to further manipulate the economy and the stock market, they lowered interest rates to about 0.1%. Even that had only the effect of sending capital out of the economy to earn 6-7% rates of interest in the United States creating the famous **Yen Carry Trade.**

Every effort by the Japanese Government was made to manipulate the market and the economy. That failed completely creating what most people now call the **"Lost Decade."**

If government cannot by sheer will with vasts amounts of money reverse a bear market, then obviously neither can the private sector even banning together. The **"Club"** is not that smart to understand what is really taking place, for they too bath in the glory of their own perceived power. They are like the fool in the corner who cracks jokes that are not at all funny, yet he delights in his own applause. They can clap all day like a toy monkey who sits on his box, yet they fail to see the consequences of their own stupidity.

The **"Club"** takes markets pointing in the direction they want to make a market and then they fuel the engine. What is possible is to enhance a cyclical trend. In other words, it would be possible to mitigate a decline on a percentage basis easing the fall just as it is possible to over-shoot where a market would have gone on the upside. This is what was done to oil.

Even **Warren Buffett** had to publicly then admit that he bought **ConocoPhilips** at the very top and that was a "dread wrong" decision. But this is suppose to be the **"Oracle of Omaha"** who bought the market at the very high like a first time novice. In my opinion, anyone who has long-term trading experience should be able to smell a high. What happened?

It is one thing to get a small trade dead wrong. But when markets are bubbling and you are at 300% higher than the last major high of 1980 at $40, I cannot imagine an experienced trader buying the top. It just makes no sense. If you cannot smell that type of a bubble top, then you cannot have any trading experience that I know of.

The currious other factor is that at the same time analysts in the **"club"** were not saying $200 oil, but $300. I don't care who he is, that kind of a forecast must be supported with deatiled research, not just wild stories and opinion. There is something seriously wrong with stories of glory.

The **"Club"** has bought analysts ever since the days of Henry Kaufman and **Salomon Brothers.** It started to get suspicious that certain forecasts would be made and you saw on the floor **Salomon** taking the other side.

This is one of the reasons why I and **Princeton Economics International, Ltd,** had become such a threat to the **"Club"** for we were too big to buy, and we were not for sale. Government needs studies to support various spending projects. They will also pay firms for predetermined studies. This is why we donated our research to all governments with no charge refusing to accept any payments whatsoever!

The forecasts claiming oil was now going to go to $300, were plants. There is no question the **"club"** would have been big sellers as soon as that rush to buy came into focus. That was their exit strategy. They never get into a trade without having a clearly laidout exit strategy.

The danger we face is that the government will go down in flames long before they will ever admit that they have aided the **"Club"** or been manipulated by it. They are like the Catholic Church in denial. They will kill those who try to expose what they have done to our future. This is not **Capitalism,** it is corruption.

The **"Club"** will not trade fairly. They have to have an edge. They are not the smartest nor the brightest bulb in the box. They are just good at rigging the game. That is where it ends.

There is much ado stirred up over the oil market and how the fundamentals did not reflect the prices movements. There was no decline in supply, and demand had actually begun to decline. **Goldman Sachs'** analyst **Arjun Murti** took on the mantle of being the **"oracle of oil"** as he was named by the **New York Times.** He was touting $200 oil in what professionals call **"talking your own book."** This whole thing about broker-dealers who produce research but control what is said is a disgrace to the forecasting field. This is precisely the same thing that took place with **Henry Haufman** who was the analytical voice of **Salomon Brothers** helping to make them known as the **"King of Wall Street"** back in the 1980s.

Once the house becomes one of the biggest speculators in the market, somehow this is not an ethical position to be in where the bucks of the firm is used to influence the media to pay attention to their analyst and then quote him all the time that benefits the house position.

There should be regulation that separates research from brokering. The primary reason why I rarely gave interviews and not about the markets in general, was because the client made it clear they were paying the big bucks and didn't want to see it given out for free by the Wall Street Journal. This had also the effect of securing integrity and reliability for there was no doubt in the mind of a client that the forecast was being somehow influenced by another hidden agenda.

The brokerage houses should offer to pay the fee of any research the client signs up for with no restricted list of certain favorite analysts. For that would allow the same problem with court appointed lawyers. To get on the list, you must play ball with the government. Most court appointed lawyers have never won a case in their life as a court appointed lawyer. The same corruption will infiltrate research has to be approved by the broker. Then to get on the list, the analysts will still be pressured to talk a pre-approved game-plan.

Merrill Lynch in 1985 had a client who was trading gold and created the biggest one day lost in history up to that point in time - $25 million. He did not trust floor brokers and would not use stops. He refused to listen to brokerage house advice. I got a call from **Merrill Lynch** in Geneva. They offered to pay my full hourly rates to (1) advise this client, and (2) teach him how to trade. They even agreed to pay for my air time and all expenses to please do the project. You have to keep in mind that in 1985 the largest futures fund was about $100 million. So this client lost in one day about 25% of the biggest hedge fund on a single trade.

I flew to Stadt and was given even an office from which to remain in contact with the world. Beside the downhill skiing and the parties that had head of state and ministers from around the world, there was a chalet filled with original works by Picasso that hung over the sofa, Renoir's Little Girl in a Staw Hat over the mantle, scultures by Rodin and a Marie Antoinette chandelier just in the living-room. This was oil money. But the key, **Merrill Lynch** wanted the business and wanted to see him profitable to sustain that business long-term. He wanted someone independent who he could trust. They paid the bill for he may have been the biggest futures trader post-World War II. (for the details you will have to wait for the memiors).

Matt Taibbi reported in his **Rolling Stone** article, that **Goldman Sachs** had the **Commodity Trading Futures Commission** in its pocket. He explained that in 1991, **J. Aron** argued that they were a big trader and thus needed to also hedge oil. The **CFTC** granted this status, which was indeed showing how the regulators bend-over-backwards for the **"Club"** at all levels.

To exceed exchange limits, one must go through a serious review demonstrating that you have real product. I had to go through that in Platinum for Onassis. I had to show physical holdings. I had to show also I had the funds to cover the whole position at any time. **Buffett** in his $1 billion silver buy, was done under the table and outside the country. This would have required a massive investigation and exchange limits would never have allowed such a position.

J. Aron had one of these exemptions in oil when it was **NOT** a hedger. Why would the **CFTC** allow this to take place? **Taibbi** explained that not only did the political appointed boss at the **CFTC** remain in the dark, but so did politicians.

Taibbi explains that it was at a hearing where **CFTC** lawyers let it slip. "Yeah, we've been issuing these letters for years now." When Congress asked to see these letters of exemption, they said they had to ask the permission of **Goldman Sachs** to reveal them. The **CFTC** refused to produce the letters until **Goldman Sachs** approved.

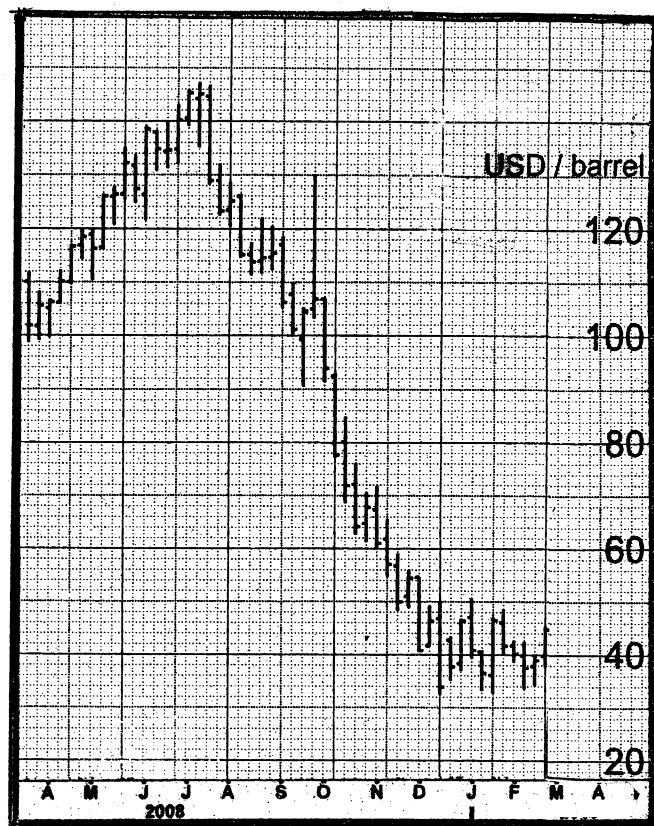
Goldman Sachs had been obtaining these hedging exemptions for speculation. That was completely defeating the entire purpose of trading limits. What bothers me is that here we have the **CFTC** accusing me of **"manipulating the world economy"** trying to force the full disclosure of all out clients outside the USA on the theory that by merely advising people that they all did whatever I said, and thus I would constructively exceed these trading limits that now justified destroying the company and imprisoning me for life if they could, when they were creating hedging exceptions for the **"Club"** when there was no such hedging to begin with. Was it really that they thought I was honestly manipulating the whole world, or was it that the advice we produced interfered with the objectives of the **"Club"** that they seemed to protect at every level?

The tell tale sign that the crash in oil was in fact the result of a **CONTAGION** gone wrong, is the complete collapse with such a massive decline in such a short period of time. First, **Buffett** buys oil at the top and every fundamental he claims to rely on was not supporting a sustain $150 oil price. If he bought at the top, either he is one of the worst traders I ever saw, or he was buying into a game he believed was going higher even when the fundamentals were showing nothing that support such a move.

This collapse took place because it was the same identical crisis that took place in **Long Term Capital Management.** They lost in Russia, so they sold everything else to get cash. Here too, the loss in CDS debt market cascaded causing a rush to get cash and the massive liquidation of oil position.

The collapse in oil was massive and it was the result of the CDS collapse that ran through everything just as what took place with the Russian collapse and **Long-Term Capital Management.** These positions are all becoming interrelated.

NEW YORK CRUDE OIL WEEKLY

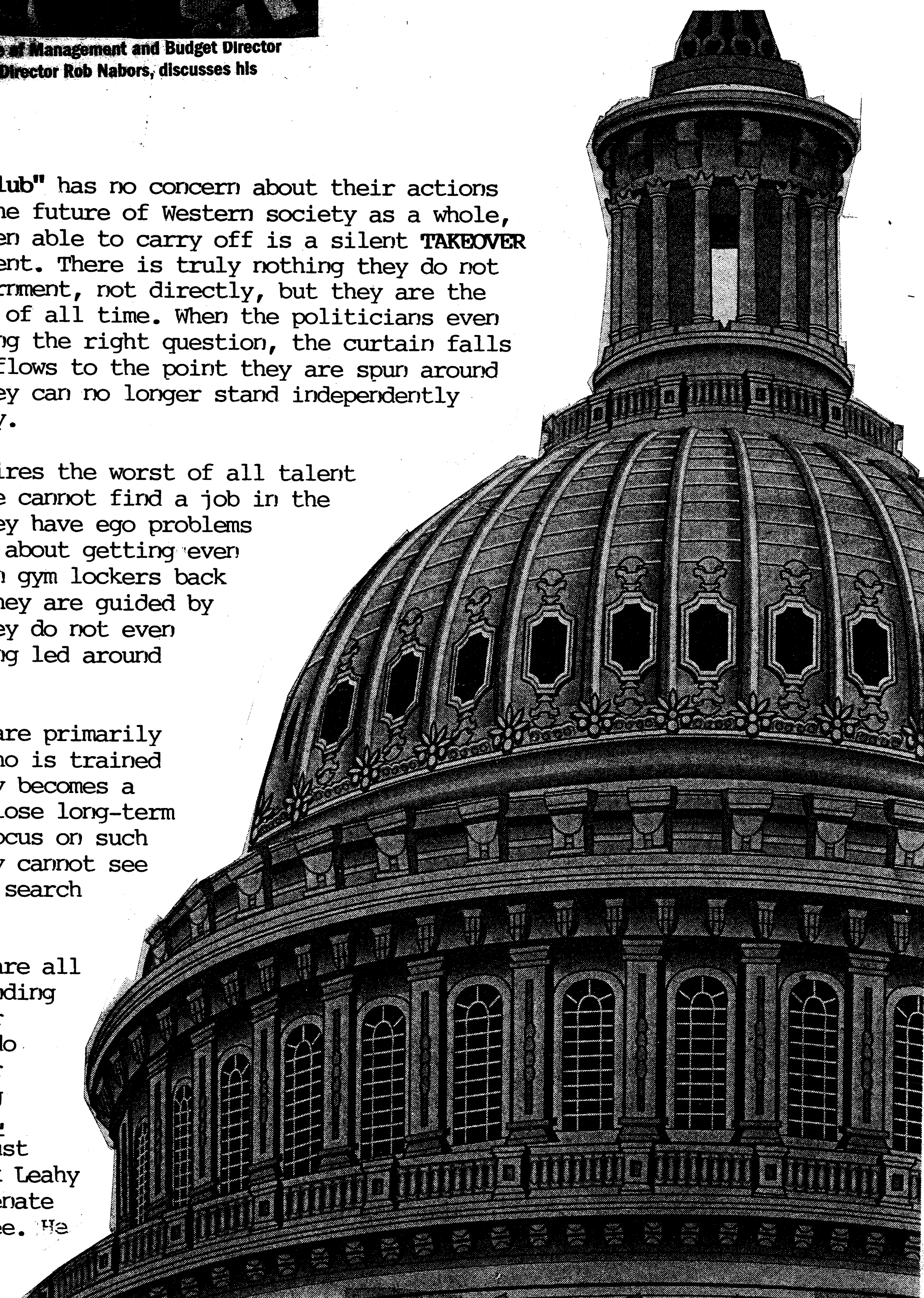


Above we have the Weekly Chart on Crude Oil and we can see a sharp and clean 23 week decline. The high took place on July 11th, 2008 at $147.27 with the low forming on December 19th, 2008 at $32.40. While the decline for the first 3 weeks was 18.3%, this still suggests that there was not a complete meltdown. The late spike rally from about $90 to $130 in late September 2008, has all the hallmarks of some game playing. Notice the decline in October become very pronounced. This is in line with the sheer collapse and the hunt to raise cash. This second phase is a 12 week decline (2x6 on the Volatility model) that is where the real meltdown took place. This drop was 75.07% in just 12 weeks. **THAT DID NOT TAKE PLACE EVEN IN THE GREAT DEPRESSION!** It took from September 1929 until July 1932 to fall nearly 90%. Here we have a collapse that is by far perhaps one of the sharpest declines in history.

This type of decline is indicative of certainly not professionals, but of a sheer panic. The complete decline is nearly 79% in 23 weeks (5 months). This is a **CONTAGION** representing massive liquidation of unrelated investments in a portfolio.

President Barack Obama, with Office of Management and Budget Director Peter Orszag, left, and Deputy OMB Director Rob Nabors, discusses his $3.6 trillion fiscal 2010 budget.

Manipulating The Bailout



While the **"Club"** has no concern about their actions with respect to the future of Western society as a whole, what they have been able to carry off is a silent **TAKEOVER** of the US Government. There is truly nothing they do not control with government, not directly, but they are the great con-artists of all time. When the politicians even get close to asking the right question, the curtain falls and the bullshit flows to the point they are spun around so many times, they can no longer stand independently for they are dizzy.

Government hires the worst of all talent for either someone cannot find a job in the real world, or they have ego problems and are concerned about getting even for being jamed in gym lockers back in high school. They are guided by the **"Club"** and they do not even know they are being led around by the nose.

Politicians are primarily lawyers. Anyone who is trained in the law quickly becomes a word-smith. They lose long-term perspective and focus on such myopic detail they cannot see the future with a search light.

Politicians are all incapable of defending the people and our future, for they do not even see their role as protecting the country of <u>ALL</u> the people. Try just writing to Patrick Leahy Chairman of the Senate Judiciary Committee. He will not respond but to a Vermont voter.

If politicians **ONLY** represent those in their home state, then why is Patrick Leahy the Chairman of the Senate Judiciary Committee who then blocks judicial investigation of the corruption into the Judiciary for the rest of the nation? This is the structural flaw that has destroyed our very idea of a **Democracy**. There is no one defending the people. Politicians are far too fragmented to do the job. These posts running the major committees must be elected positions, not a politician from a state or district. To run for such a position, there **MUST** be qualifications. For example, I know what I am doing in foreign exchange, but I have no idea about being a brain surgeon. How could I sit as the Chairman over some Health Committee with no experience whatsoever?

We need elected posts with term limits. In other words, we elect the **BUREAUCRACY** and that is the head of all departments. There is a term limit to one appointment, and no election should be subject to any private contribution. The revenue of the government must pay for all elections. Stop the buying of any influence. This would (1) prevent the **"Club"** from spinning any committee, (2) would prevent donations that buy political appointments such as Secretary of the Treasury. There would be no succession of CEOs from **Goldman Sachs**. And above all, we would get rid of this clever view of politicians that they exercise the **NATIONAL POWER** but do not answer nationally to anyone. That allows corruption to keep a particular senator in place in say Vermont and that then controls the entire Judiciary. This is a system doomed to corruption and manipulation.

It is a disgrace that **Henry Paulson** was able to convince the Congress and Bush that if they did not put up $700 billion to save the **INVESTMENT BANKS**, a depression would unfold. Worst still, he tried to slip in **IMMUNITY** for all Investment Bankers. This was an insult to a Free Society. Worse still, he got absolute discretion by pitching certain dooms-day views and what he would do with the money, and then didn't do anything he said he needed it for! All he did was sure up the trading positions of **Goldman Sachs** and the **"Club"** without any concern about commerical banking, lending, or the collapse in housing prices that the **"Club"** helped to take to insane levels of speculation creating a Bubble-Top that is now likely to last for up to 26 years from the 2007 high. They wiped out the savings of the baby-boomers!

MANIPULATING THE BAILOUT

Goldman Sachs clearly was in trouble. The entire manipulation game came back to haunt them. By leveraging the entire economy through housing, they left no room to hide elsewhere. They began to show their **"ace in hole"** in September 2008.

The animosity between **Lehman Brothers** and **Goldman Sachs** dictated the "discretion" of **Henry Paulson** to let the **ONLY** independent Investment Bank who stood up to **Goldman Sachs** collapse. **Paulson** let **Lehman** fall as well as **Bear Stearns** who had refused to chip in for the **"Club's"** bailout of **Long-Term Capital Management** when they were not part of the Russian scam. It makes no sense that **AIG** and **Goldman Sachs** were too important to let fall and a massive depression would unfold if the government did not put up $700 billion. Yet the only real competitors to **Goldman Sachs Lehman** and **Bear**, were not important enough and their fall would not create a depression. Quite frankly, had **Goldman Sachs** gone down because **AIG** went the same way as **Lehman** and **Bear**, I dare say, the result would have been no different insofar as there would have been no massive depression. It was all bullshit!

The bailout could have taken place quite routinely. Just as in the Resolution Trust days of the S&L Crisis, all the mortgages should have been sold at market value to one new fund. The people should have been able to participate and buy shares in the fund and made it tax free. Just as we did in Japan and others, you buy the toxic portfolio taking out of the company with a decade or more to pay for it. But in the American case, it should have been bought at market value and close **Goldman Sachs** and **AIG**. Instead of paying 100% to **Goldman** owed to it by **AIG**, some $33 billion, **Goldman** should have been paid at market value, the assets put into a new fund with shares open to public sale. There would have been no foreclosures. The profits would flow to the new shareholders, and end of story. But no! **Goldman** would not survive. **Paulson** had to protect his personal investment in **Goldman Sachs**. The SEC would call that **INSIDER TRADING** for anyone other than **Goldman alumni**.

The next day **AFTER** he let **Lehman** go down, he announced $85 billion bailout to **AIG**, and they immediately paid **Goldman Sachs** 100% just giving them $13 billion.

The incestuous relationships among the **Goldman Sachs** alumni, started to bubble-up again. After the quick **Goldman Sachs/AIG** bailout, since other creditors of AIG did not get 100 cents on the dollar, **Paulson** then announced his $700 billion bailout of the Financial Industry he called **Troubled Asset Relief Program (TARP)**, and put in charge a 35-year old **Goldman alumni** named **Neel Kashkari** who was a unknown and has shown no special qualifications in banking.

Goldman Sachs then pulls off one of the greatest shell games in history. To qualify for **TARP** and to be able to get FDIC insurance and the right to now borrow from the window at the Federal Reserve, they announced that they would now convert from and **INVESTMENT BANK** regulated by the SEC, to a banking holding company.

Goldman Sachs can now do what no other speculator can do - they can borrow from the Fed to speculate! But **Goldman** gets much more out of the deal. The **Federal Reserve** was not subject to Congressional audits! That meant that **Goldman** could borrow to speculate and give some bullshit excuse to the Fed, and nobody would ever know because Congress could not even audit the Fed. By March of 2009, the Fed lent or guaranteed $8.7 trillion under a new bailout program that nobody could even look at and audit.

Goldman got away from the SEC and was now to be regulated by the New York Fed where it had its own co-chairman **Stephen Friedman** in place. How could **Friedman** be co-chairman inside **Goldman Sachs** and simultaneously be the head of the New York Fed? To keep both roles, he was given by the government a special **conflict-free waiver**. There was no public hearing on this. Who hands out such things? With this waiver in pocket, he went and purchased 52,000 shares of **Goldman Sachs**. **Friedman** stepped down in May 2009 and was replaced by another alumni, **William Dudley**.

Goldman played fast and loose with its accounting by changing its fiscal year just as funds were coming in from AIG. They left December 2008 as a singleton since the previous fiscal year ended November 30th and the new one began January 2009. They avoided the whole month of December and their year over year numbers would omit December. This now let them report a $1.3 profit.

Effectively, **Goldman Sachs** called the bailout money profit. It paid out $4.7 bil in bonuses in that 1st quarter and used the inflated numbers to sell $5 billion in new **shares. Taibbi** portrayed this part of the shell game as **Goldman** borrowed $5 billion by issuing new shares to pay $4.7 billion in bonuses.

Tabbi points out that **Goldman Sachs** was most likely getting inside information since it issued this fund raising as shares of $5 billion 2 weeks before **TARP** came out and said that is precisely what they needed to do to meet the stress test. So **Goldman** cooked the books with what appears to be plain old insider information. They changed their fiscal year to boost their numbers, and then did a fund raising before anyone knew that these would be the requirements of **TARP**. The alumni came in handy.

Goldman Sachs once again has key people in strategic places. At the US Treasury, the chief of staff **Mark Patterson** is an alumni. The new head of the CTTC who is suppose to regluate derivatives, is **Gary Gensler** who was **Goldman's** co-head of finance.

The real question is this. Since **Goldman Sachs** pays such outrageous bonuses, why in God's name would any senior staff leave for a government job that pays next to nothing? Something is seriously wrong with this whole picture. But **Goldman Sachs** contributed about $4.5 million to the **Democratic Party** and it gave **President Barack Obama** almost $1 million for his campaign.

Tabbi says the next bubble being now constructed by **Goldman Sachs** with its inside track into Washington is the **Global Warming Bubble** aided by the Democrats who will try to create the next scam being led around by the nose of course with the string attached to the purse of **Goldman Sachs**.

We **MUST** end political contributions. **ALL** elections should be funded by taxpayer money period! We cannot afford this nonsense any more. We will be reduced to wearing just **sackcloth** unless we get political reform and fast.

RON PAUL - THANKS FOR YOUR EFFORTS WITH FEDERAL RESERVE. IT IS NOW TIME FOR A SPECIAL PROSECUTOR. THIS IS MORE IMPORTANT THAN WHO MR. CLINTON HAD SEX WITH! OH YA! PS: NO ALUMNI!

THE COLD FACE OF REALITY

There are going to be people who will be screaming at the top of their lung about what I have just written. The louder they yell, the more they have to hide. It is time we stop the nonsense. **WALL STREET** is **NOT** corrupt and it pains me dearly to see the industry that I grew up in, tarnished and hated by so many around the world because of so few.

I cannot remain silent while some of the best fall because of the corruption that lurks **BEHIND THE CURTAIN.** I know my history well, and it is this sort of damage that is the leading cause for people to turn to Marx or call out the tanks against the people who have no recourse in a modern judicial system that has lost its constitutional role.

No matter the time, there are some who will do anything for money. I am amazed that someone who will cheat you for such a small amount, shows their true nature. For you see, obviously their own self worth and integrity is worth less than what they try to take. There is always a critical cyclical nature to these events because people just never change. This leads us to the realization of what I call the **Paradox of Solution** because the very thing that came out of the **Great Depression** was that stock dealing/ speculation/investment, had to be separated from banking and insurance. **Robert Rubin** lobbied to abandon that regulation. We now see what the consequences have been. But the true **Paradox of Solution, Goldman Sachs,** the Investment Bank, became a bank putting back in place, the very system that was seen as leading to the cascade failure of the Great Depression. Will this be wave two?

The Return of The Paradox of Solution

We have created the very system that existed in 1929 as the solution to what has taken place in the Crash of 2007. Neither **Hank Paulson** nor **Ben Bernanke** understand that what they set in motion, is the very source of the next disaster. They were only focused upon saving the investment bankers, not the economy. They wrongly assumed that as goes **AIG** and **Goldman Sachs,** so must go the economy as a whole. **Lehman Brothers** & **Bear Sterns** failed, but the sun still came up. I dare say that that if **AIG** and **Goldman** failed, someone else someone else would h have stepped to be the new Investment Bankers and Insurance provider. They were **NOT** too big to fail **NOR** were they critical to the survival of the world economy. This was scare-tactics to save **Goldman Sachs.**

The Investment Banks today are no different than the investment trusts of the 20s. They are professional trading operations who have managed to scare the hell out of the administrators and academics who lack trading experience. I see the same identical problem be it the over-leveraged scheme buying $10 million in debt and leveraging it to $100 million that was marketed by Merrill Lynch and blew-up Orange Country. Then there was the Dot.Com boom, and Long-term Capital Management that blew up using the flawed ideas of **BLACK-SCHOLES**, not that thermodynamics is irrelevant, but they did not understand the full complexity of how markets function on a global scale. The data was not sufficient and you ended up with a major disaster.

Here again, they made the same stupid mistake but with the biggest market in the world - real estate. Their models failed & they knew nothing about the real risks that were associated with such instruments. When you have administrators at the top lacking trading experience, you will blow-up each and every time.

To save **Goldman Sachs,** they let **Lehman** and **Bear** fall while bailing out **AIG** whose largest counter-party was of course **Goldman Sachs.**. **It** appears that about $33 billion flowed to **Goldman** out of $80 billion given to **AIG.** The clear exposure of **Goldman** to **AIG** was far beyond what was publicly admitted

Yet the **Paradox of Solution** has been now reset as always. **Goldman Sachs** not merely got **TARP** money, it changed its status and became a bank with access to the Fed Window to borrow. **THIS IS PRECISELY WHAT WAS SEEN AS THE DANGER IN THE GREAT DEPRESSION - INTERMIXING OF SPECULATION/INVESTMENT AND BANKING!**

This is why we had investment banks who were really broker-dealers regulated by the SEC and **NOT** the Fed because they (1) did not take bank accounts nor issued loans, and (2) were making their money from trading/speculation/investment. Banks **DID NOT** speculate with depositor's money by investment in stocks and keeping all the profits without disclosing the risk they had taken. Hence, the leverage of a commerical bank was 10:1 whereas a broker-dealer/Investment Bank could go to 50:1.

There is no longer a clear line thanks to **Paulson** and **Bernanke,** for they wanted to save **Goldman Sachs.** That is why the bailout did little to restore loans, because the bulk had nothing to do with that business - it was speculation. There is no reason why this group can continue to tackle huge risks they do not fully understand, and then turn to the government for a bailout.

Consequently, they constantly make bad investment decisions. They constantly blow-up and turn to government and the tax payers with predictions of global disaster unless they themselves are immediately rescued.

During the Great Depression, it was far from just over-leverage in purely stocks. The debt crisis created by Europe was massive. We thus had a debt implosion that wiped capital off the face of the earth. Hoover's solution was to be called his "standstill" proposal whereby all banks were to be prevented from calling any German or Central European debt. **Hoover** wrote that the Europeans had been kiting their debt - issuing new notes and bonds to buyer B to pay holder A. In other words, a **Ponzi Scheme** like Madoff, where there is no real debt reduction of business, just rotating debt from one person to the next.

The New York bankers had lent money to Germany and Central Europe because of the high rates of interest. Let me see - Is that not what happen with South America in the 1970s? Wasn't that what happened when Russia went bust wiping out the bankers and Long-Term Capital Management? Like I said, it is the same scheme over and over again. Only the instruments change, nothing more.

The New York bankers threatened Hoover saying they would not go along with his new standstill proposal. It was interesting that Andrew Mellon, a banker, advised Hoover he should bail out the banks. Hoover refused to listen to Mellon. France was insisting the US should loan Germany $500 million. Mellon warned Hoover that if he did not then comply, the French would blame Hoover for the collapse. Anticipating this move and seeing his own staff were siding with the NY Bankers who wanted a bailout, Hoover on his own instructed Mellon that he would not comply and that his proposal of a standstill was being released to the press at the very moment the two were meeting. Mellon was then the Secretary of the Treasury like Paulson.

As for the New York Bankers who had the audacity to threaten the White House if they were not bailed out, Hoover warned them very directly writing:

> **"My nerves were perhaps overstrained when I replied that, if they (bankers) did not accept within twenty-four hours (his standstill proposal), I would expose their banking conduct to the American people."**

Greatest Bull Market, p362, Volume II

It would have been nice to see Bush stand up and take a position like Hoover. But Hoover had an engineer background and that meant he was at least more dynamic in his thinking. Unfortunately, we are now on the verge of a major debt crisis because we bailed-out the wrong sector. We saved the speculators, at the expense of main street. It would be nice just once to have somebody who really understands the economy from a practical perspective at the helm. But who in their right mind would kiss that much ass and **shake that** many hands just to be **remembered** as some president? Thomas Jefferson didn't even list he had been president on his tombstone.

The **Socialists** hate me. The **Market Manipulators hate me.** But quite frankly, as that famous line from **Gone with the Wind** so aptly put it: **"Quite frankly...I don't give a damn."** As **Patrick Henry** said, **"Give me liberty, or give me death."** Liberty is the essence of the free market. Tyranny is when someone manipulates that freedom for personal gain. It matters not who they are.

This evolution I have sat back and just observed. Our clients always knew one thing. Our research was **NEVER** bought by some highest bidder from that dark place the ancients called **Erebus.** This is serious stuff, for far too many foreign governments know what is going on, but will not state it publicly for political reasons.

Just because the **"Club"** manipulates the markets, does **NOT** justify seizing all the liberty of the people to create a new round of Russia or China. I walked behind the old **Berlin Wall** before it fell in the days where the common command was **"Papers please."** We cannot risk that future again just to help some bankers and their government drones in every branch make money. For the one thing that is true, it matters **NOT** if the corrupt system is headed by a ruthless king, dictator, fake representatives, or by those in the private world pulling the strings publicly. A free market is something that is **"FREE"** of manipulation from both public and private sources. It is time we wake up and try to make it to a new world.

There will be those who will yell and say he's in jail for fraud. Well, I have no restitution, and the government will avoid the simple fact that there was **NEVER** any solicitation to invest in anything. We just bought the portfolio or we borrowed yen. So anyone who says otherwise has some vested interest in trying to create a distraction from the plain facts that there has been a serious abuse of power arising from New York and there is **NOBODY** who has the courage to defend our nation, the people, or our very future. Corruption is a bitch!

What **Bernanke** and **Paulson** did was to resurrect in fact the merger of speculation and banking in a single house. Instead of being objective and creating a standstill on all mortgages until everything was looked at, **Paulson** even tried including absolute immunity for his banking friends. He was too close and still had too much stock at personal risk in **Goldman Sachs** to let the free markets correct what needed to be fixed. He turned the clock back and merged speculation with banking, the very thing that wiped out so many banks back in the '30s.

This is the **Paradox of Solution** whereby the solution back in the 1930s to separate speculation from banking, has been reversed and its opposite became the solution today.