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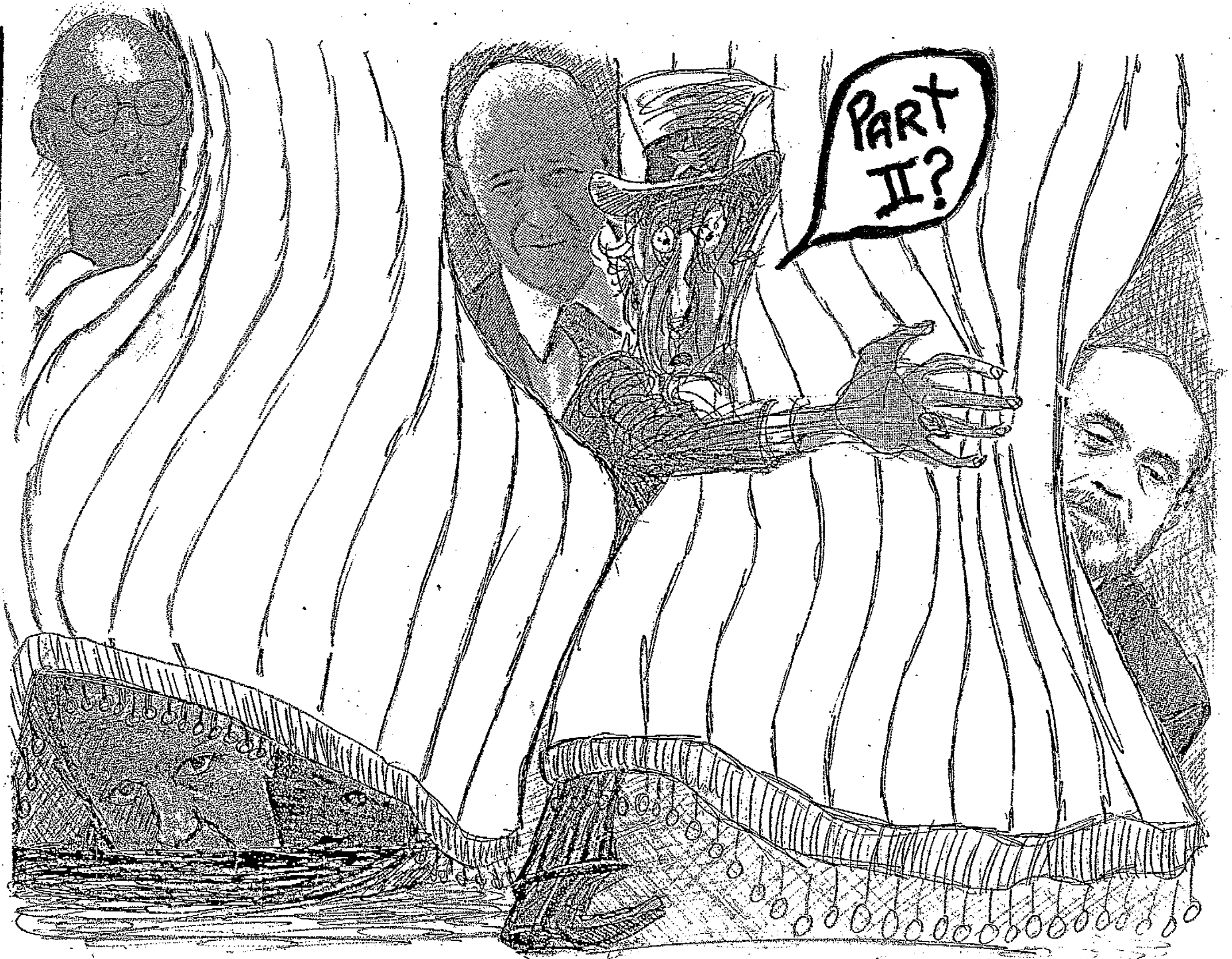
Behind The Curtain



The Full Monty

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ACKNOWLEDGEMENTS

I would sincerely like to thank everyone for their support. It has meant a great deal to me and my family.

I believe we are at a crossroads where we are in serious danger of creating an economic disaster beyond belief. The corruption is running so wild, it prevents us from correcting our system to save our own future. It is far more than mere volatility in financial markets. Our children and our grand-children will **NEVER** know the world we once enjoyed. With economic decline, comes the finger-pointing, tension, and then war. When the Supreme Court ruled that black were just property and had no rights even if free in the **Dread Scott** decision, they then also created the Civil War for they illustrated that law, which was to be the essence of civilization providing the alternative to force, did not exist. We have reached that point once again for there is no **Rule of Law** and that is destroying the essence of our civilization once more. Courts will simply rule only in favor of the government in critical issues for judges are merely political appointments.

No matter what country you live in, we must be mindful of what is going on. We must look not merely domestically, but to the global horizon to understand the dangers we now face. Government is imploding, for the Marxist systems that they adopted, has created a debt crisis that is truly unprecedented. They borrow every year with **NEVER** any intention to repay anything, consuming capital and creating the very thing they pretend to be fighting against. They claim to be the champion of the poor and the little guy, while they borrow so much, the interest payments to keep the shell game going is the greatest transfer of wealth to the very people they claim to be against. They are stripping our children of their future, and nothing will stop them until the music stops, and there are not enough chairs for everyone to take a seat.

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This Report may be forwarded as you like without charge to individuals or governments around the world. It is provided as a **Public Service** at this time without cost because of the critical facts that we now faced economically. The contents and designs of the systems are in fact copyrighted.
At a future date, a new edition of the 1986 **The Greatest Bull Market In History** will be released and a new book will soon be published on the model itself - **The Geometry of Time**. It is vital that we do not forget this is a world economy and the arrogance that any nation can dictate to the world is just insanity. Every nation effects all others no different than if one nation were to pour all its toxic waste into the ocean. Everything is interlinked and solutions are never isolated events.

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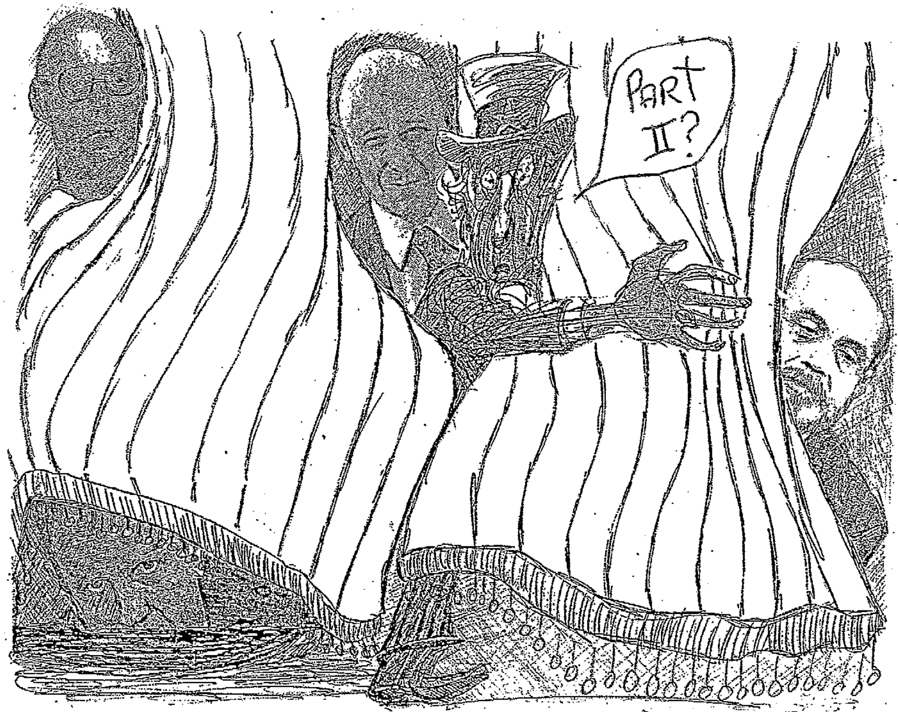
Behind The Curtain

The Full Monty



By: Martin A. Armstrong
Former Chairman of Princeton Economics International, Ltd. and the Foundation For The Study of Cycles

JUST when you thought it couldn't get worse; Cheer up! This is still not even half the story. There remains a dark sinister cloud over the whole **Goldman Sachs** & **AIG** connection. One of the rumors that has been circulating around the entire issue, amounts to mere allegations and perhaps coincidences. Yet when the Federal Government is after some one it wants, this is the stuff that indictments are made of. As the rumor goes, **Hank Greenberg** who ran **AIG**, was set up by **Goldman Sachs** using its contacts in New York State, to force him out of **AIG** because he ordered the withdrawal from getting involved with these insurance time bombs on mortgage pools - **Credit Default Swaps ("CDS")**. It is going to take some serious investigative reporter to dig into this one, and a publisher who is not afraid for once to do the real job. Is it possible that **Goldman Sachs** actually orchestrated the downfall of **AIG** and had a hand in removing **Hank Greenberg?** Did **Goldman Sachs** have the rules changed in Insurance making the CDSs **mark-to-the-market**, manipulated the pricing, then used **Paulson** to seize **AIG** and pay **Goldman Sachs** 100% before any default?

There is no doubt that **Goldman Sachs** may be the most hated firm in the history of finance. That hatred is emerging both from inside the industry, as well as outside. The politicians are confused and the Justice Department will **NEVER** indict **Goldman Sachs**. With every economic crash, the Justice Department has fried the person who wins the lotery to be the fall guy for the whole thing. They tried that with the two hedge fund guys at Bear Sterns and blew it. There was no crime and they had a decent judge - rare in today's corrupt world. The absence of charges in Manhattan shows they will never eat their own.

The best way to approach this is to first lay out the standard for fraud by which the USA prosecutes white collar crimes. Next, the facts are stated to a jury who are then asked what they would have done. There is no calling of the actual alleged victims. The standard is to convince people taken from the street to judge such cases no matter how complicated. Therefore, I will present the claims that the government calls evidence, and your job is to be the judge. If you think that **Goldman Sachs** is guilty, then you can ask why government does nothing? Before we begin, you should know that **Goldman Sachs** was in fact put on trial during late October 1974 and the jury found they did previously commit fraud. So this is not the first time!

So What Is Fraud Anyway?
What is the STANDARD by which people are judged?

The standard by which we must judge whether or not **Goldman Sachs** is guilty of fraud, it would help if we first establish how the government prosecutes fraud. White collar cases are prosecuted using the **ad hominem** attack. For example, you may recall the Tyco case and how the main issues were all about the life style. We heard about a million dollar birthday party with huge ice sculptures and how there was a $6,000 shower curtain. The government shows how much money you make and then tells the jury you must be guilty because of you lifestyle that requires vast amounts of money to just maintain.

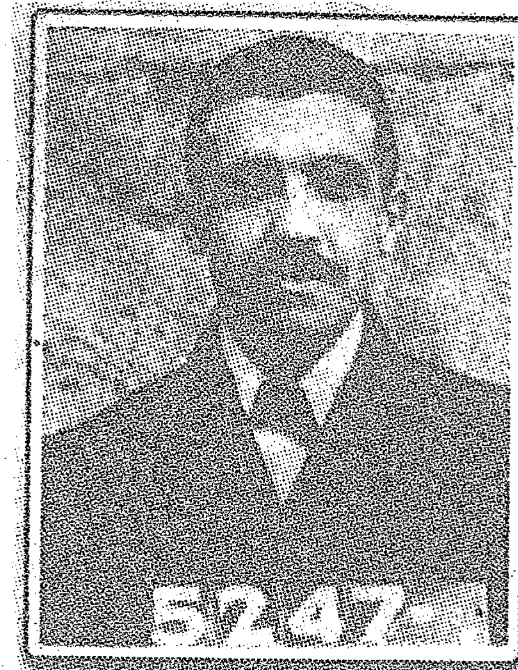
Courts have allowed this **Marxist** view and the government prosecutes as if it was a Communist state. This standard is not fair, for it is like taking pictures of the neighborhood where a black youth now lives and asking the jury if they felt safe walking into that area. Thus, by the sheer virtue of where the youth lives, he must be guilty based upon his lifestyle. Regardless of what may be just, that is how all white collar cases are prosecuted and no court will rule otherwise.

Therefore, the bonuses that are now paid and the interest free loans made to employees, must be taken into consideration in your judgment if **Goldman Sachs** is guilty of fraud. As the prosecution would argue - **Just look at the money! Who would not commit fraud to make billions of dollars?**

In 1789, it is true that fraud was completely different than it is prosecuted in America. But if we prosecuted the same way that the Framers of the Constitution intended, then few people would be found guilty other than **Charles Ponzi** and of course **Bernard Madoff.**

Fraud is obtaining money willingly from a person who is lied to at the time to obtain the money. This differs from theft or robbery since in such instances the money is taken by force. There is no convincing a person to turnover their cash in return for something.

Charles Ponzi who will always be very famous, hatched a scheme whereby he

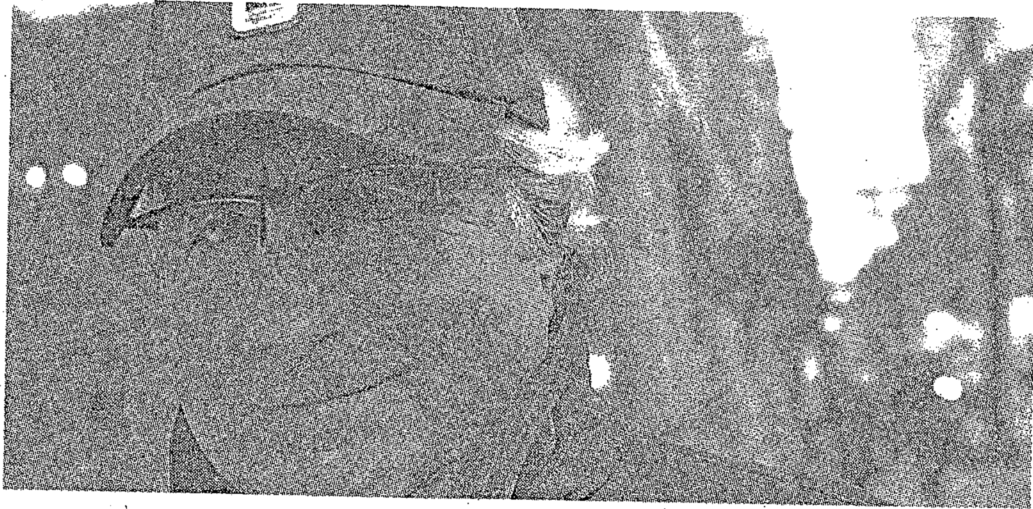


Charles Ponzi

told investors he would buy foreign postal reply coupons that could be redeemed for one US postage stamp. Effectively, he was making a claim (1) based on currency, and (2) that the price of the coupon that was redeemable in the USA, was a substantial discount. He did **NOT** lie about the theory. It could be in fact verified that the idea existed and indeed would work.

The FRAUD, became the very strange behavior of taking money from one person and using that to pay another. **HE MADE NO EFFORT TO ACTUALLY INVEST THE MONEY.** This appears to be a real mental problem. For of **ALL** the frauds prosecuted by the government, there are only **TWO** instances where this same very strange conduct appears - (1) Bernard Madoff and (2) yet to be prosecuted **Social Security** that takes from one person to pay another and nothing is every invested.

Fraud is a dangerous vague tool of the government. Today, there is no connection between the so called misrepresentation and the loss. The most common fraud that is now prosecuted was not a fraud in 1789. If some one raises money, invests it as he represented, but takes a loss that he does not disclose for he is trying to make up the loss, the government prosecutes this the same way.



Bernard
Madoff

Fraud is suppose to be a deliberate act of "embezzlement" where the funds are taken for "one's own use" Carpenter v US, 484 US 19 27 (1987). There is supposed to be a deliberate "manipulation or deception" at the time you are trying to get the funds, Dirks v SEC, 463 US 646, 654 (1983). The object of the fraud must be the "property" of the claimed victim, Cleveland v US, 531 US 12, 148 Led2d 221, 233 (2000).

Amazingly, after 200 years of persecuting the citizens of this country in bogus proceedings, the Supreme Court finally in fact ruled that the misrepresentation had to result in creating the loss. They called this "loss causation." So far, they have held this in civil cases, not criminal, see Dura Pharmaceuticals v Broudo, 544 US 336 (2005).

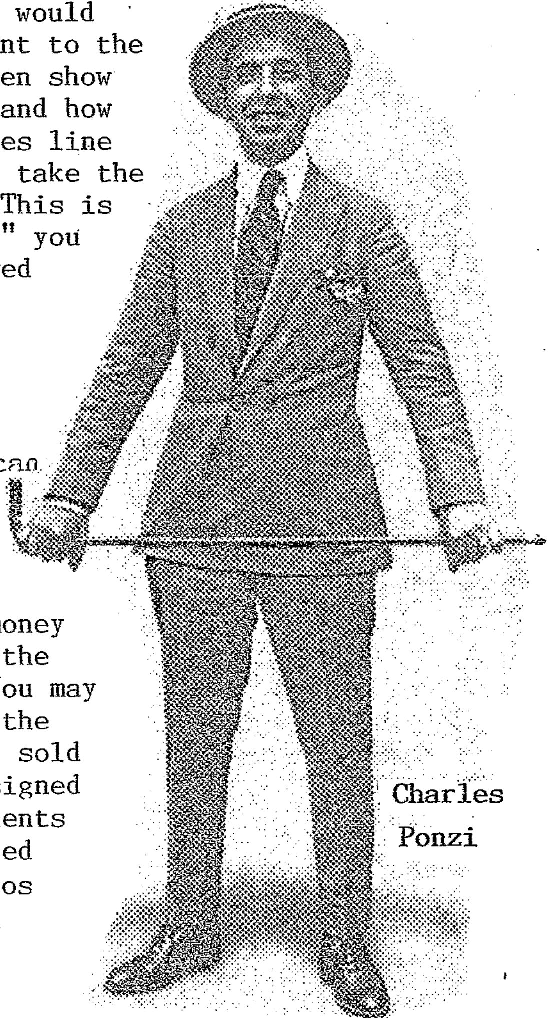
The way the government criminally will prosecute its targets, it will claim you made some misrepresentation and not connect it to a loss. For example, they can say you lied about your age and then there was this loss. You cannot call the alleged victim to see if they knew you were say 10 years younger than you were, that they would not have given you any funds. So the jury is told to find you guilty based upon what **THEY** would have thought had you solicited them.

In this manner, they can take a deal between two professionals, and then present it to a jury who has no experience and ask if they would have thought that they were cheated? If they say yes, you will enjoy tax free living for the rest of your life. Any fund manager has got to be nuts to have funds onshore in the United States anymore. You don't stand a prayer of getting a fair trial.

So this is the standard by which you the reader should judge the facts, allegations and speculation about **Goldman Sachs.** I dare say, I doubt that they would walk away from such a trial. But you should be the judge and then ask what is going on when the government appears to be controlled.

If the government argued the "Lifestyle" approach, then they would be pointing to the huge bonuses they pay their staff. They would ask the jury if they thought these bonuses were a symbol of the "greed" and corruption? The government would be able to point to the **BONUSES** and then show the lifestyle and how black limousines line up at night to take the traders home. This is the "lifestyle" you would be allowed to now presume affords the motive behind the trading.

You also can then take into account the bailout and did **Goldman Sachs** obtain money indirectly by the **AIG** bailout? You may also consider the fact that they sold portfolios designed to fail to clients and then shorted those portfolios profiting from inside info.



Charles
Ponzi

CONSPIRACY

Conspiracy is "[a]n agreement by two or more persons to commit an unlawful act, coupled with an intent to achieve the agreement's objective, and (in most states) action or conduct that furthers the agreement; a combination for an unlawful purpose.

Conspiracy is a separate offense from the crime that is the object of the conspiracy. A conspiracy ends when the unlawful act has been committed or (in some states) when the agreement has been abandoned. A conspiracy does not automatically end if the conspiracy's object is defeated

Black's Law Dictionary 9th Edition

Now that we understand **FRAUD,** the next jury instruction is **Conspiracy** and the **Fraud On The Market.** First of all, we must make it very clear that we have **TWO** ways to convict the accused. (1) we have the actual crime where you have to find that they did something, and (2) that they committed the crime of **Conspiracy** to commit the crime. This second category, we need not actually show that **Goldman Sachs** in fact committed any crime. What must be determined, is do you think they agreed among themselves or any individual agreed with the corporation to commit a crime, even if they failed to do so. Therefore, all we need to consider is do you think **Goldman Sachs** agreed with any of its employees to commit fraud even if there is no absolute evidence that will prove that they committed the crime.

Next, we have the theory of **Fraud on the Market,** where they mislead the market place in general regarding any security pool they created or even within their own shares by telling people they are the smartest and that is why they make more money than anyone else.

Under the **Fraud-on-the-Market** theory, we do not have to show that there is any false statement that anybody relied upon. The theory is that people assume that the honesty is reflected in the market price. Hence, the burning question is taking all the statements that have been made how they would not have failed, did not rely on AIG and there was no backdoor money that is now starting to surface, then are these statements intended to cover-up the truth? Is this an attempt to falsely support their own stock? Were there designs to go after AIG or the market in general as a whole? Was there an effort to mislead Congress into seizing AIG to lock in profits and then have the taxpayer pay off those bets AIG could not cover? These are all possible fraud theories on the market (public) as a whole that you must now be the judge of in this exercise.

FRAUD UPON THE MARKET

Fraud-on-the-market principle

The doctrine that, in a claim under the antifraud provisions of the federal securities laws, a plaintiff may presumptively establish reliance on a misstatement about a security's value - without proving actual knowledge of the fraudulent statement - if the stock is purchased in an open and developed securities market.

This doctrine recognizes that the market price of an issuer's stock reflects all available public information. The presumption is rebuttable .

Fraud-on-the-Market

Fraud occurring when an issuer of securities gives out misinformation that affects the market price of stock, the result being that people who buy or sell are effectively misled <u>even though they did not rely on the statement itself</u> or anything derived from it other than the market price.

Black's Law Dictionary, 9th Edition

The Case Against Goldman Sachs

With all the turmoil surrounding **Goldman Sachs**, we must put this in perspective and seek to look at all the issues objectively in order to reach a rational conclusion not merely regarding **Goldman Sachs**, but what is the proper solution for the industry as a whole. What needs to be regulated, what does not, and just how many regulators does it take to screw in one light bulb that never lights up anyway? The questions that this jury must decide are thus:

(1) Did **Goldman Sachs** engage in market manipulations?

(2) Has **Goldman Sachs** alumni assisted behind the scenes in any possible way?

(3) Did **Goldman Sachs** deliberately provide false or misleading forecasting analysis to their clients & then take opposite positions?

(4) Did **Goldman Sachs** deliberately set up **AIG** to make billions from their fall and rely upon political contacts to illegally seize the company and pay 100% on the dollar at whatever prices **Goldman Sachs** claimed were the loss?

(5) Did **Goldman Sachs** create a fraud upon the market by claiming it did not need the bailout, and would have survived had **AIG** failed to support their own stock price?

Was the Penn Central Bankruptcy a Model for Current Times?

On June 21st, 1970, **Penn Central**, the largest real estate owner in the country and the largest railroad, filed for bankruptcy. It was a stark reality that hit the finance markets and even contributed to sending gold below its official gold standard price of $35 in the London free markets.

The confidential financial advisor was none other than **Goldman Sachs.** Its conduct in this matter appears to be just a dry run model for the current mortgage debacle. It was more than just their stock price falling 88% from a high of $85.50. It had issued and sold commercial paper through **Goldman Sachs** and there was $77.1 million outstanding at the time they filed bankruptcy.

Penn Central had been a merger of the two rival railroads **Pennsylvania Railroad** and **New York Central.** The two just never quite fully merged culturally and the hostility remained between employees.

Perhaps the stake through the heart was at the instigation of Congressman Wright Patman, who objected to the Defense Department guaranteeing a $200 million bond issue for **Penn Central.** It turned out that even back then, **Goldman Sachs** obtained info that this would be the case in February 1970. This created concerns about **Penn Central** bond issues, leaving its funding in short term commercial paper highly vulnerable that had been underwritten and sold by **Goldman.**

Dun & Bradstreet failed to do its due diligence on **Pen Central's** commerical paper. **Allan Rogers** of their National Credit Office rating the paper, simply called **Goldman Sachs** and spoke directly with one of its main partners, **Jack Vogel** on February 5th, 1970. **Vogel** assured them that even though **Penn Central** reported a staggering loss, their massive real estate holdings were supporting the firm, and thus **Goldman** was continuing to offer their paper. Hence, they convinced **Dun & Bradstreet** not to reduce its rating from "prime" and withheld the real facts lurking beneath.

What **Goldman Sachs** did <u>**NOT**</u> tell **Dun & Bradstreet,** is that they themselves insisted that **Penn Central** buy back all their unsold commercial paper, which amounted to about $10 million at the time. **Goldman** continued to sell the paper to its clients, but it would no longer itself hold any in inventory.

Because of these actions of withholding information from **Dun & Bradstreet,** they in fact created a <u>**CONTAGION**</u> insofar as the whole market was in shock by a "prime" rated paper going into default overnight. This led to a panic in Commercial Paper where investors began selling paper of other companies as well if ratings could no longer be trusted. There was now $87 million in paper of **Penn Central** outstanding that had been sold by **Goldman.**

Goldman Sachs became the target for lawsuits that began on November 17th, 1970. The allegations were that **Goldman** had made the serious "representations or statements which were false." Today, this conduct would warrant destroying the firm and jailing the partners for 25 years or more.

The Interstate Commerce Commission ("ICC") was alleged by the plaintiffs to have noted a heavy Dependency "upon short-term financing" and that **Goldman** was the "confidential financial adviser" who had "otherwise ... obligations and loyalties to Penn Central which conflicted with its obligations, loyalties and duties to" others as was alleged in the lawsuit filings. Indeed, **Goldman** participated in the filings at ICC. Indeed, it appeared that on the surface, **Goldman** was playing both sides against the middle.

The SEC investigation was finally made public on May 15th, 1970. They noted in an 800 page report that in fact **Goldman Sachs** continued to offer **Penn Central** commercial paper to its customers <u>**AFTER**</u> it was informed that the company's problems were "**critical**" and when it could not obtain more within the domestic market, it turned to foreign investors. The SEC said:

"During this time, Goldman Sachs became aware of information which cast doubt on the safety of this commercial paper. Most of the non-public information ... wasn't disclosed to customers. The information they did disseminate was out of date."

The report of the SEC on Penn Central reads no different than ENRON. Subsidiary losses were not shown to create a rosy view after the merger. The SEC also made it very blunt:

"Goldman Sachs gained possession of material adverse information, some from public sources and some from nonpublic sources, indicating a continuing deterioration of the financial condition of the transportation company. Goldman Sachs did not communicate this information to its commercial-paper customers, nor did it undertake a thorough investigation. If Goldman Sachs had heeded these warnings and undertaken a re-evaluation of the company, it would have learned that its condition was substantially worse than had been publicly reported."

While the SEC filed civil actions in the Penn Central matter even charging inside information in trading relating to directors inside Penn Central, it at that time was not expanding such charges beyond the corporate boardroom. Thus, Goldman Sachs received a censure stating the the firm violated the law by not informing its customers about the continuing financial problems and implosion taking place inside Penn Central. It then obtained an injunction against Goldman from violating the law again in the future. As typical, Goldman agreed to the consent order without admitting any fault, and agreed to create internal control to prevent this from happening again. Goldman thus entered a consent to fraud, although it tried to state it did not believe its actions were fraud.

The lawsuits were now heating up. The bankruptcy case of Penn Central was held in Philadelphia, but the suits regarding the commercial paper against Goldman Sachs were put on trial in of course, New York, where its lawyers were Sullivan & Cromwell.

The defense adopted by Goldman Sachs was that the clients were sophisticated and that they had only acted as a conduit and made no recommendation regarding the paper. They argued that because Penn Central was public, they could have obtained their own information and made their own decisions.

Goldman Sachs relied on Sullivan & Cromwell and went to trial. The plaintiffs were represented by a young Danield A. Pollack, who was clearly underestimated. Pollack got serious admissions out of Gus Levy on the stand and reduced a complex issue down to the level of a blue collar jury. He simply hammered the jury stating:

"[That the] test of basic honesty is clear: treat your clients as well as you treat yourself."

Pollack hammered the jury in clear and simple language. He reduced commercial paper to a simple honesty case that anyone could judge. Did Goldman have information and knew what it was selling was at risk? If the answer was yes, then you had to find them just guilty. In late October 1974, the jury came back and found Goldman Sachs knowing committed the fraud and found for the plaintiffs.

Pollack was a director at Foster Grant Corporation, and so was Gus Levy of Goldman Sachs. Strangely after his very public victory over Goldman Sachs, their client Foster Grant did not renominate Pollack for his directorship. Pay backs do go on.

One must really look at this whole event in today's perspective. Firms are destroyed for far less. Michael Milken and Drexel Burnham were destroyed and 50,000 employees lost their jobs thanks to the New York courts just 12 years later. This did not even compare in the seriousness of the events and fall-out that was caused by the Penn Central scam. Yet Goldman was not criminally prosecuted. There has to be something established that removes discretion from prosecutors to decide who is criminally charged and who is not. When you add the fact that prosecutors have absolute immunity and nobody can even investigate how these prosecutions are decided, there is a vast room surrounding the entire question of what the hell is going on. The amount of people who lost their jobs, companies whose pension funds were hit in Penn Central raises a lot of questions.

Did Goldman Sachs Set-Up AIG To make Billions on the Real Estate Collapse?

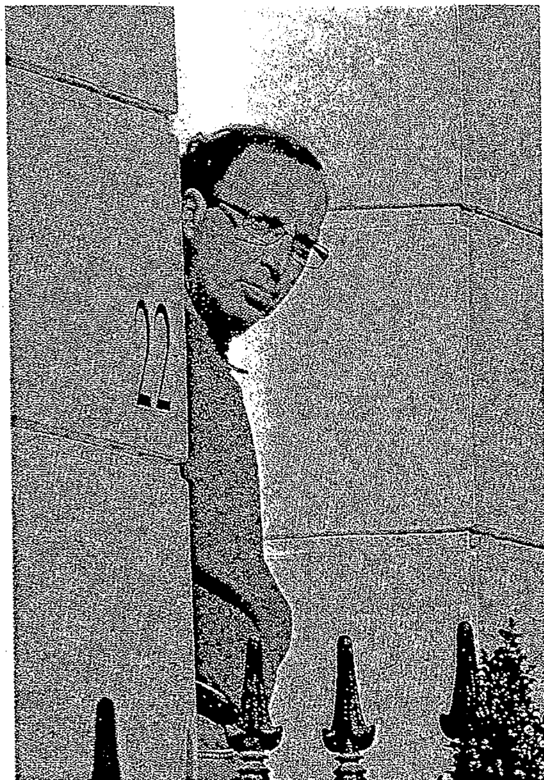
WHEN people calm down and for once start to review the real facts, they just might come away with a shocking revelation that perhaps **AIG** was actually a victim of **Goldman Sachs.** If you get past the tendency to drag the people from **AIG** out and start to burn them alive at the stake, you might realize that once upon a time, **AIG** and **Goldman Sachs** were working hand-in-hand. During the late 1990s, **Goldman Sachs** and **AIG** were very close and there was even consideration of a merger. What most do not know, is that it appears that **Goldman Sachs** was the driving force behind the dramatic change in the business **AIG** was engaged in. It was 1998 when **AIG** expanded into a new lucrative business of insuring the various portions of corporate loans or other assets that were being bundled into securities. It was the unusual collision of events that created the Perfect Economic Storm. These contracts had cleverly embedded requirements that would compel **AIG** to post collateral if the value declined implicitly convert insurance to a derivative, but with no common quotation. Then the Rating Agencies changed their formulas converting these into AAA instruments that now made them suitable for collateral in overnight borrowings. How did these events combine and did removing **Hank Greenberg** provide a deliberate strategic act to set up **AIG** and then also in 2005 **ISDA** alters the accounting to **mark-to-market**?

There is no question that **Goldman Sachs** was the leader in pressing **AIG** for collateral. There is also no question that there is something seriously wrong that **Goldman** got 100% pay-out from the **AIG** bailout. While it is true that **Goldman** got $14 billion that was equal to $8.5 billion paid to Deutsche Bank and $6.2 billion to Merrill Lynch, yet of the $18.6 billion in trades between **AIG** and **Societe Generale, Gretchen Morgenson** of the New York Times reported on February 7th, 2010, that "Goldman was involved in pricing half" of those trades, and **AIG** "believed that Goldman pressed Societe Generale to also demand payments." **(NYT, p27).** However, part of the "$11 billion in taxpayer money that went to Societe Generale, a French bank that traded with AIG, was subsequently transferred to Goldman under a deal the two banks had struck."

There are serious problems that must be looked at here in this mess. The head of **AIG Hank Greenberg** was forced to resign by **Eliot Spitzer** in 2005. **Greenberg** testified before Congress making it clear that at the time when he was forced out over nonsense, there was only $7 billion worth of these mortgage insurance time-bombs on the books. Removing **Greenberg** appears to have had a huge impact.

People who have no real trading experience, tend to get all impressed with PHDs. This has a very serious impact in the world of derivatives, because such people work in theory, and without live trading experience, they have no idea that the models they create will only explode in disaster. It is as if you create a model based upon you are alive and fail to provide for the fact that you are not immortal. Universities do not teach anything in this area, so what the hell good is a PHD from a fictional world that does not exist? It was **Long Term Capital Management** that blew up in 1998. It was **Orange County** long before that. There is a common thread running through all of this. Model based upon theory, not live experience.

The origin of **AIG**'s venture into this new world of derivative finance world goes back to 1986 when **Howard Sosin** (Stanford PHD) who had headed Drexel Burnham Lambert interest-rate arbitrage unit. **Sosin** took the idea of using these new products to write sophisticated contracts that would allow multinational corps to reduce their exposure to interest rate risks. The key component was **AIG**'s AAA rating that would keep borrowing costs low and provide the comfort to clients.



Joseph J. Cassano
(Head of AIG's Financial Products Unit)

Sosin (then 58) approached **Greenberg** and arrived at a deal starting what became known as **"FP"** Financial Products joint venture with **Sosin** retaining 38% that was also double the 20% paid to hedge fund managers. The central restriction, was that **Sosin** agreed to do nothing that would ever jeopardize the AAA rating.

Sosin expanded the firm quickly into the currency swaps market as well, followed by equity derivatives. **AIGFP** was able to finance itself by selling guaranteed investment contracts that were sold to municipalities. This was sold as providing them a AAA rated place to park funds. The target as you can see was still to do business with municipalities and that was the flavor of the year back then as **Orange County** illustrated. After problems in derivatives began to emerge with the 1987 crash, **Greenberg** became more cautious. This led to tension between him and **Sosin**.

Greenberg clearly smelled "risk" even though he could not perhaps put his finger on it. In late 1992, **Sosin** lost at least $50 million on Canadaian bonds. He had ventured into an area where liquidity could not be guaranteed. A model that works in US debt, is masked by the liquidity in the market.

The Canadian loss brought to the surface the trouble that **Greenberg** smelled lurking beneath the surface. **Greenberg** wanted major reforms and **Sosin** refused to comply and that brought an end to the arrangement. **AIG** then fired **Sosin** and his colleague **Randall Rackson.**

AIG then took control of **FP** and now put **Tom Savage**, a former Drexel analyst and PHD in math in charge. The profit share was cut from 38% down to 30%. The profits rose from $150 million in 1993 to a $323 million by 1998. This soared even higher reaching $758 million by 2001 according to **AIG** filings.

The Chief Financial Officer working with **Savage** was **Joseph Cassano,** who was also from Drexel, and ran the back office at **FP**. What was clear, **Cassano** was a graduate from Brooklyn College. He did not have a PHD in math as did **Savage** or **Sosin.** Some would point to this after the fall. But as we will see, that was not the problem.

It was 1998 when **Savage** and **Cassano** brought in **FP's** first venture into these new CDS products that were pitched to them by the NY Investment Banks. According to **Greenberg's** testimony before Congress, they were considered safe and did not require hedging. However, we will see that the basis of these assumptions were cleverly changed from a straight insurance product, into a derivative itself.

Savage retired in 2001, and **Cassano** was now moved into the top slot. The amount of these time bombs sold before he was ousted in 2005, was $7 billion according to what he told the **Washington Post**. Indeed, **Greenberg** told Congress:

> **"There is no question that management took their eye off the ball and that risk management was not getting the right instructions, and that's what led to the downfall."**

AIG spokesman **Mark Herr** has defended the remaining **AIG** board members claiming that the CDO exposure under **Greenberg** reached $40 Billion. Nevertheless, **AIG** became effectively the laughing stock **Behind the Curtain**. The problem was <u>NOT</u> that **Cassano** had no PHD, the problem was that there was nobody at the helm who had any trading experience. In August 2007, it was clear **Cassano** did <u>NOT</u> understand the risk or the nature of the products for he said:

"It is hard for us, without being flippant, to even see a scenario within any kind of realm of reason that would see us losing a dollar in any of those transactions."

By March 31st, 2008, **Cassano** resigned. The total exposure in these mortgage time bomb products was $77.5 billion. To put this in the full perspective, in 2006, **AIG** posted a total profit of $14 billion. The market value of its stock was $186.4 billion. This is the profile of a AAA rated company in 2006.

What appears to be missing in all these stories written about **AIG**, is if they were in fact regarded as one of the most sophisticated financial counterparties in the industry. This was the superficial image. However, anyone who has trading experience saw through this image and into the reality that I speak about where they were really the laughing stock of the real professionals. This is the group that saw the hand-writing on the wall.

Hank Paulson, former partner & CEO of **Goldman Sachs** and Secretary of the Treasury at the time, goes on record stating he "didn't see it coming." This presents a serious problem of credibility. First, **Goldman Sachs** was running **Princeton Economics International, Ltd** and had exclusive access to the real estate research model, that was lined up with the 2007.15 target on the **Economic Confidence Model** forecasting the high for February 27th, 2007. **Goldman Sachs** curiously turns bearish in December 2006, and sells the ABX making $3 billion right on schedule. There is no way that the statement he **"didn't see it coming"** can be true when **Goldman Sachs** turns bearish in December 2006 preparing for the major high. If **Paulson** did not have access to that information from **Goldman Sachs**, then as a professional, he should have "smelled" it coming.

There is something not right about this statement. Even if **Princeton** was out of the pricture, how can **Goldman** be so bearish and taking the lead in calling all collateral from **AIG**, and yet **Paulson** had no clue that there was even a problem? The professional segment knew **AIG** was crazy. What they perhaps did not realize, was the scope of the entire market at stake.

Nevertheless, the manipulation of a market is possible **ONLY WHEN THERE IS NO REAL CENTRAL MARKET FOR CLEARING WITH SUFFICIENT LIQUIDITY**. In other words, it is next to impossible to manipulate something like gold because (1) it is a worldwide commodity, (2) the supply cannot be cornered, and (3) there is extreme depth to the trading.

Markets like platinum, silver, agriculturals, and illiquid stocks, are all possible candidates for manipulation. The deeper the market, the more protection against manipulation. This is how the mortgage collapse was possible. **Goldman Sachs** is the one doing the valuation of the insurance and demanding that **AIG** pay according to their figures, that were the lowest estimation on the street. There was no central place to go in order to obtain a fair market quote. Hence, **AIG** was now just exposed to the machinations of greed that were behind **Goldman Sachs**.

What has gone over everyone's head, is the fact that (1) **AIG** staff were far from sophisticated, (2) were lured into creating a product, and (3) the rules of the game were then changed. **AIG** was still operating in a world of insurance thinking, not derivatives. That exposes the firm to doing business in an environment that they truly did not even understand.

There is no question that the relationship between **AIG** and **Goldman Sachs** was once very close. In 2001, **Savage** retired and the head position passed to **Cassano** who was then running **FP's** operation in Paris. He then did move to London, while the technical base was still in Connecticut.

The former Chief Economic Advisor to Prime Minister Margaret Thatcher became a board member of **AIG** in London. He has called me one day and said he was coming to the USA and asjed if he could stop in to see me? I naturally said yes. When he showed up, it was with one of their heads of trading in the derivatives markets from London. He asked me not to talk about manipulating markets. I told him I would never publish names. But it was clear, **AIG** was working hand-in-hand with **Goldman Sachs**. This is over the whole silver manipulation when **Warren Buffett** was forced to come out and admit he had bought $1 billion worth of silver, but he was not manipulating markets. For you see, then a bought-and-paid-for analyst got the **Wall Street Journal** to attack me claiming I was talking silver down in some manipulation scheme. I argued

with the journalist. He said if the silver market was being manipulated, then give him the name. I told him he would never print the name. We yelled back and forth, and I finally said here - **Warren Buffett.** He replied that everyone knew **Buffett** did not trade commodity markets, and I told him that's how much he knew.

The **"Club"** got even the London newspapers to quickly join in running stories that now I was the biggest trader in the world in silver. Being an institutional advisor, this had no effect on me or the business. It was just a bunch of noise that even clients laughed at. The serious mistake this tactic made, it now brought the issue of manipulating markets to the general public for the first time. That is what caused the **Commodity Futures Trading Commission** to call me. They didn't accuse me of manipulating silver or even being the new "biggest" trader in silver. They had all the numbers on positions, and could see I was far from the biggest trader in silver or even the most consistent.

They asked me **Where was this manipulation taking place?** I told them it was in London and out of their jurisdiction so I did not think they could do anything about it. They told me they still had the power to reach into London and I told them they would have to make that call. There was still no **question** as to **who** was behind the manipulation.

Within a few hours, my phone rang. There were planty of **non-Club** houses who watched who was doing what and this info was also coming into my office regularly. It was my job to keep track of what the **"Club"** was up to now in order to warn clients and protect their interests. Thus, **Behind The Curtain** there was a lot always going on. The call I quickly got from London was that the **Bank of England** had now summoned <u>**ALL**</u> silver brokers to their office in the morning. It became clear, the **CFTC** had made that call. Within about 1 hour, **Warren Buffett** came out and admitted he had bought **$1 billion** worth of silver. He stated it was a long-term investment. And denied manipulating markets. The meeting was called off. That was a clever move. The name alone would cause the regulators to back-off. No regulator was now prepared to investigate **Buffett.**

If we assume that **Buffett** bought the high at $7 before it fell by about 50% thereafter, $1 billion would be near 30,000 contracts when the trading limits set by the **CFTC** is 5,000. If this position was taken in the USA market, it would have been illegal. I believe, that the earlier attempted manipulation of 1993 done in Connecticut at **PhiBro** where the **CFTC** stepped in and wanted the name of the client that **PhiBro** refused to provide, is why the center of market manipulation was moved to London in the first place.

This, I believe, provides the backdrop explanation as to why it was **AIGFP** operating in London rather than in the Connecticut head-quarters. This is also why **Cassano** then moved from Paris to London when he was promoted to the new head of **FP.**

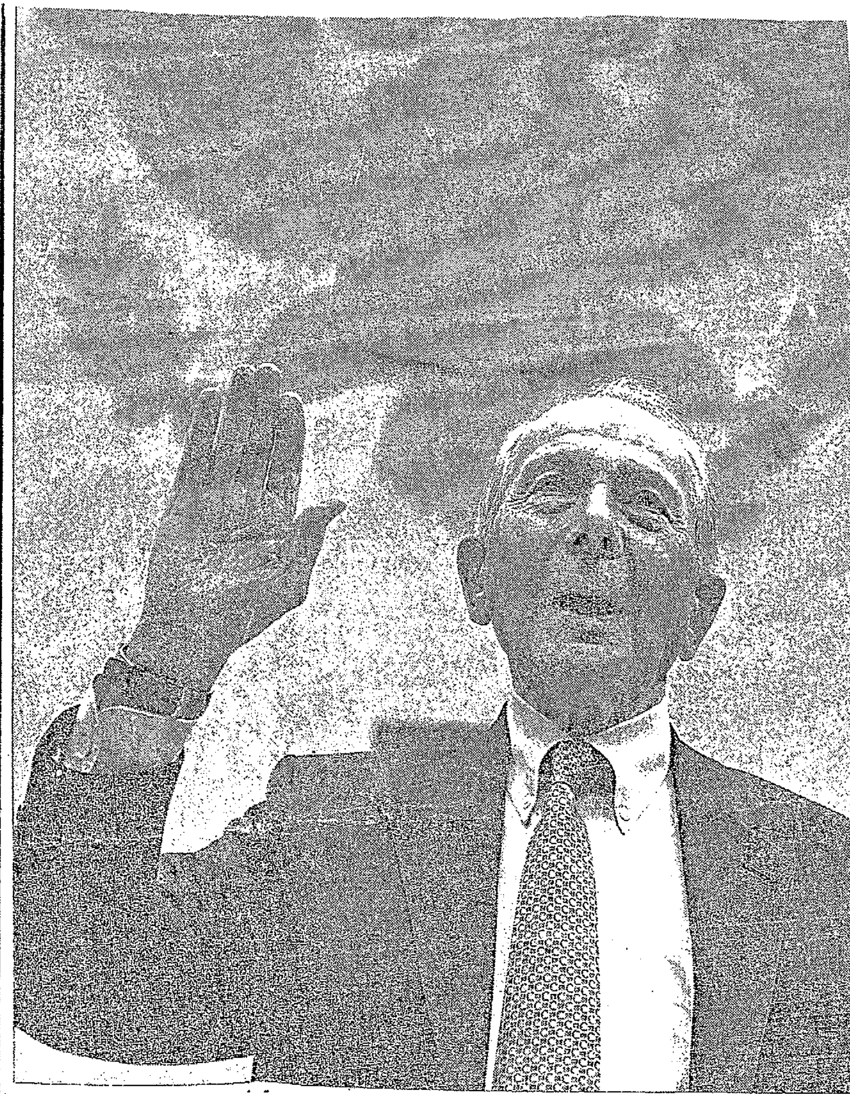
There was no doubt agressive derivative traders at **AIGFP** were in London. There, they participated in the **"Club"** activities based on the fact that they found it necessary to even hop on a plane and try to get a meeting with me covertly by relying on former Prime Minister Margaret Thatcher's economic advisor to get in my door. Nevertheless, there was obviously a disconnect from those who had trading experience and those running the top management at **FP.**

It was this lack of understanding that I believe allowed **AIG** to be set up as the target for the manipulation of all time. It was something I always laughed at when asked to join the **"Club"** and trade with them. I saw through the bullshit and knew they would turn on their own mother in a second if it made a profit. This was just the mentality of the people you were dealing with.

There was the rumor of the British CEO who traded with employee pension funds and lost about 200 million pounds, and then he fell off his yacht and drowned, because his trading would have exposed the **"Club"** back then. Whether there is any credibility to this rumor about Maxwell, could only be proven if someone rolled up their sleeves and worked hard. But the fact that the rumor existed, is more of a reflection of the lack of trusting character associated with this activity.

The ethics **Profits come First,** became the driving force to where there was no honor. The old ideas of servicing clients to build a loyal clientbase was out the window. Once the win at all costs mentality took over, I could not see how the **"Club"** would hold toge-ther lacking loyality. I believe, AIG became vulnerable lacking sophisticated management.

Did Someone Get NY State to Remove Hank Greenberg from AIG?



Hank Greenberg is truly the man who built **AIG** into the biggest insurance company with a credit rating of AAA that few ever enjoy. He accomplished this in his 30 year career.

It is true that **Eliot Spitzer** who was the famed Attorney General for New York State decided to take down **AIG** and Mr, **Greenberg** to pave his path to the public office of Governor and then who knows - perhaps the President. But this is the sad reality of American justice where prosecutors bring cases against big names to rise politically. If this is **NOT** stopped, they will eventually chase the best and brightest from the American shores. Prosecutions are not suppose to be about personal gain. Yet, this is how it is done, ie Gulliani and look at now Governor Christy in New Jersey. Quite frankly, anyone who will destroy another's life for personal gain is of the lowest possible character and should never be trusted for a second.

But there is another one of those nagging coincidences. This took place in 2005. **Eliot Spitzer** held a press conference and in 2005 he effectively pronounced that **AIG** and **Hank Greenberg** were guilty of accounting fraud trying to ride his righteous wave to public attention in the wake of ENRON. **Spitzer** managed to now create a name for himself on the body of **Hank Greenberg** for his press conference was designed to capture national news, not just local news. That is an indication of deep desires for national office. He thus now pronounced **Greenberg** was already guilty of accounting fraud. Prosecutors **MUST** be now prevented from ever holding office either elected or appointed in the Judiciary. If you want to prosecute people, there **CANNOT** be any conflicts or interest or motives. **NEVER** may there be any hidden agendas!

Spitzer would have destroyed **AIG** for no good reason. To save the company, **Hank Greenberg** was jettisoned from the board to appease **Spitzer** and thus avoid criminally indicting **AIG**. One must ask. If **AIG** should have been indicted, then why forcing one man to step down does this justify no indictment for the firm? It seems that this was just personally satisfying to help **Spitzer's** career.

This was the same curious timing when the accounting on CDS products was now being altered to **mark-to-the-market**. It was **Hank Greenberg** who was against the CDS products. Had **Spitzer** not gone after **Greenberg**, it is highly doubtful that the mortgage market would have imploded as it did. If **AIG** was not there to write these products, the game would have been over.

The head of the NY Insurance Commission was a **Goldman alumni**. This has caused great concern raising questions as to whose idea it was to target **Hank Greenberg** personally? It was not until **Spitzer** forced **Greenberg** out of **AIG**, did this whole Mortgage insurance nightmare go nuts. At the same time, the accounting rules were changed. Are all of these events just coincidences? Or was there at the core a deliberate plan to set-up **AIG**? Without sophisticate eyes at the top or just someone who could smell "risk" from a mile away, **AIG** became the perfect target.

The Nagging Question About AIG

AIG's roots go back to 1919. It formed from an international business perspective rather than domestic. It began with its foot in China. The company thus took the idea of insurance that began in modern times with the Jewish community in Amsterdam after they fled the **Spanish Inquisition.**

AIG was born truly from outside the United States and became largely a collection of independent businesses with a chief unifying executive named **Cornelius Vander Starr**, who was followed by **Hank Greenberg.**

These loose connections of independent businesses came to be consolidated by a unifying company formed in 1943 by the name of **SICO.** Mr. **Starr** thus established **SICO** and it was run by **Hank Greenberg,** along with 12 other former executives.

The purpose of such a unifying entity is to encourage working together. There is a need to create an incentive among all the partners in these independent companies to work together for the greater good of the group. This actually sparks the most truly vibrant growth of a company possible. This model creates a natural internal growth that will allow a company the bloom. It is the precise opposite of **Marxism** and its idea of centralized control.

Of course, this became a focus of the allegations against **AIG** for accounting irregularities. **AIG** argued that **SICO** existed for two purposes: (1) provide protection against a hostile takeover, and (2) compensation for current and future generations of **AIG** employees. However, the later was never put in a written contract.

By placing a incentive within **SICO,** this would have been a normal and practical solution to forging together a band of truly independent companies with the only common bond being there is one shareholder in each who owns some piece of all others. The problem from allegations perspective, emerges when they try to pretend this is somehow a fraud in accounting.

It is true, each of the partners could have earned their shares based upon a proportion of business connected and contributed ro the whole. In this case, **SICO** remained a separate entity and held shares in **AIG.**

It was thus 2005, that was the real turning point in this whole mess. That is when **Eliot Spitzer** forces **Greenberg** out of **AIG** to further his personal career. If the company was really committing accounting fraud, then why was it so personal? Why was the resignation of **Hank Greenberg** sufficient not to indict **AIG** back in 2005?

The real question becomes the abuse of fraud to further political careers. If this is not stopped, quite frankly, why the hell should any company have any headquarters in the United States? Fraud is the misreprestation for personal gain. The way it is use is constantly this disconnected approach that they claim there is this misrepresentation and by the way, your salary is so big that was the motive for the misrepresentation. That is just <u>NOT</u> fraud in the historical sense. But that is the way a jury must now decided whether or not **Goldman Sachs** should be held responsible or not for its actions.

On December 5th, 2007, the new CEO of **AIG, Martin Sullivan,** was clearly out of touch with what had actually taken place in these mortgage CDS contracts.

> **"We are confident in our marks and the reasonableness of our valusation methods. We a high degree of certainty in what we have booked to date."**

Based upon documents made public at the October 7th 2008 hearing at the Gouse Committee on Oversight and Government Reform, and reporting by the New York Times and Wall Street Journal (Sept 28, 2008, Octobet 31, 2008 respectively), the overall timeline of the **AIG**event appears to be that in early September 2007, **AIG** internal auditor **Joseph St. Denis** learned that **AIG** received a several billion dollar margin call related to the CDS positions. **St Denis** became concerned and sought more information about how the CDS positions were being valued. **Cassano** is alleged to have blocked his access to this information saying he would "pollute the process." **St. Denis** then decided to resign.

The collateral calls continued. However, **Cassano** at **FP** did not know how to value these

illiquid instruments. The denial of access to the valuations with respect to **St. Denis** took place on 2007. According to **Gretchen Morgenson** at the New York Times in here front page story on February 7th, 2010, there was a conference call was convened with 21 executives from **Goldman Sachs** with **AIG** on January 28th, 2008 to attempt to resolved the "rancorous dispute that had been escalating for months" regarding the valuation of the CDS positions.

In **AIG's** third quarter statement in 2008, they conceded a modest loss that they then attributed to these CDS positions. There was this ongoing dispute over valuation. This was based upon (1) the assumption that collateral should be posted as if this original insurance product was now a derivative, and (2) the value could be in fact established by the very buyer. These two assumptions proved fatal to **AIG** and the entire world economy. These two critical points seem to have somehow escaped all discussion.

As I will explain in detail, the second devasting event in 2005 besides removing **Hank Greenberg**, who I believe would have smelled a rat had it not been for **Spitzer**, was the **ISDA** changing of accounting rules from insurance to **mark-to-the-market** for these CDS products. That is the key to blowing up the economy! If these **REMAINED** as insurance products that only paid-off upon default, I seriously doubt that the melt-down would have been as significant as it proved to be in the end. Once these CDS instruments became **mark-to-the-market, then** what would happen was simple. Since there was **NO** common market valuation, **Goldman Sachs** did exploit this loop-hole and created valuations on products that did **NOT** actually default.

AIG paid $2 billion to **Goldman Sachs** as collateral. **AIG** was demanding money back and **Goldman** was refusing. **AIG** was arguing that the "potential" losses were inflated. **Gretchen** reported that the conference call lasted more than one hour, and a tape of that call was reviewed at the New York Times.

It was **Goldman's** relentless demands for cash from **AIG** that began in late 2007 and at last culminated in the government seizing **AIG** in September 2008. Prior to that seizure, more than $7 billion was paid from **AIG** to **Goldman. Gretchen** reported, "a portion of the $11 billion in taxpayer money that went to **Societe Generale**" for positions with **AIG**, "was subsequently transferred to Goldman under a deal the two banks had struck."

Naturally, **Goldman** argued the portfolios had declined in value more than **AIG** was then admitting. What I find astonishing, this is like asking: **"So how many times did you beat your wife, and can you provide the average number of blows you inflicted during each of your beatings."** The question presumes that there were in fact beatings. You are now put on the defensive to prove you did NOT beat your wife, but you are not allowed to call your wife as a witness. The burden of proof has just been shifted from a **presumption of innocence** to a **presumption of guilt.** The core question presented, is **How much collateral will you put up?** There is no debate as to putting up collateral. The accounting rules were changed, and the insurance has now been cleverly constructed into a futures contract. **AIG** has been turned from an insurer, into a speculator and **Goldman** is the broker.

PricewaterhouseCoopers addressed the **AIG** audit committee on November 29th, 2007 where **AIG** CEO **Martin Sullivan** was present, stating that there was a possible "material weakness" in the accounting valuation of the **FP** division. It was 6 days later when **Sullivan** made that statement about the the products "we have booked to date." He also stated that "AIG's exposure levels are manageable." **Cassano** then also spoke stating:

> **"We are highly confident that we will have no realized losses on these portfolios during the life of these portfolios."**

Clearly, some would argue that **Sullivan** and **Cassano** committed fraud by lying to the public and shareholders at that time. However, two months later on February 11th, 2008, **AIG** disclosed in an **SEC** filing that its outside auditor was declaring that there were "material weaknesses" in that valuation process at **FP**. About two weeks later, **AIG** used a different valuation technique for the final quarter of 2007 announcing a $5.3 billion loss caused in large part by taking an $11 billion write-down on its CDS portfolio.

The question of **"criminal"** conduct turns on the state of mind of **Sullivan** and **Cassano.** In all fairness, it does not appear that they understood what even took place? How could a insurance product that was originally declared to be so safe they did not require hedging, suddenly becomes a financial time-bomb overnight? **AIG** management did not know what had happened.

Who Changed the Insurance Rules To Mark-To-Market?

THERE appears to be yet another strange coincidence that took place in also in 2005 when **Hank Greenberg** was chased out of **AIG**. The entire accounting rules on these mortgage time bombs (CDS). They were now suddenly shifted to **mark-to-market**. This clearly took these insurance contracts into the new world of derivatives. For you see, insurance is and **event-driven-calculation**, not a **possibility-calculation**. In other words, if you have life insurance, you collect **ONLY** upon your death. You do not make a margin call against the policy to say you are sick and may die so put up 50% now. What seems to have taken place, is that since these products were sold by the **AIGFP** unit, they had in their mind commodity & option rules, yet at the same time, they seem to think they are insurance. When the rules were changed in 2005, this effected those who had purchased a CDS allowing them to now make a margin call as if it were a futures contract. The actual contracts written by **AIG** provided that **THEY** would put up more collateral if the (1) the price fell, or (2) **AIG's** credit rating was reduced. This feeds into the conspiracy theories since **BOTH** events happened giving rise to questions also about the credit rating companies and the fact that **Warren Buffett** is alleged to own 20% of **Moody's**, the first to then downgrade **AIG** causing it to require to put up more collateral. It was **Goldman Sachs** who took the lead in demanding collateral from **AIG**, and it was **Paulson**, Sec. Treasury, who then seizes **AIG** and pays off **Goldman Sachs** at 100% on these obligations that were still not in default. **Goldman** was paid on its own valuation of a margin call. There is no doubt that changing the accounting rules put further pressure on the who scheme and clearly took these far outside the concept of insurance transforming then into purely derivatives no different than a futures contract.

The changing of these accounting rules that altered the entire foundation of any insurance type product, was instigated by the **International Swaps and Derivatives Association ("ISDA")** in 2005. It needs to be investigated who at **ISDA** came up with this idea of altering these insurance products and converted them effectively into financial products. This clearly transformed the concept of a CDS from insurance into a derivative.

Once the accounting change was made, this set the stage for market manipulation. If the CDS product only paid on the actual damage when it took place, then nothing was subject to short-term manipulation.

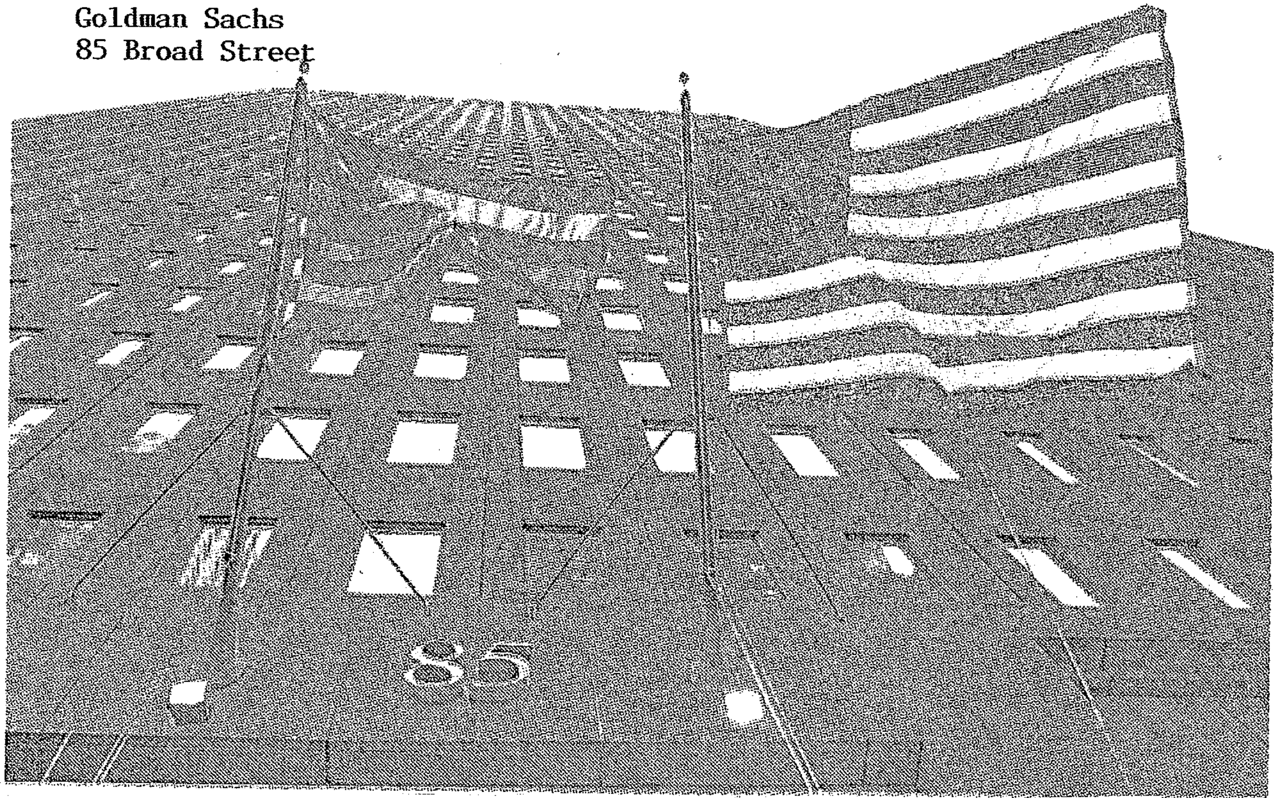
The primary target of manipulation has always been the small markets that are not deep. When you take a market like rhodium you can control the pricing. When the **Club** manipulated platinum, they bribed Russian officials to withdraw the supply from the market to allow them to manipulate the price freely.

Once you created a pooled product for mortgages, there was (1) no exchange where prices are established by the **Free Markets**, and (2) each portfolio is different that then prevents the organization of a single market. These two combined factors lent themselves to a manipulation opportunity that was far beyond anything that ever took place previously.

It is the inability to allow the **Free Markets** to establish the price that becomes the key. If you can create a market that is now independent of external correcting forces, you have a market subject to broadest of all opportunities for manipulation.

Since the claims of **Goldman Sachs** have been that they always make money because they have the best and the smartest guys in the world, then they are smart enough to know what they were getting into. You the jury should now decide whether you **THINK** they knew what they were doing, or **SHOULD THEY HAVE KNOWN** for they are both the same!

Goldman Sachs
85 Broad Street



By making this original insurance product **mark-to-market**, it ceased to be a insurance product and became a financial option or futures, but without an exchange. This allowed the manipulation of this core product by not merely creating mortgage pools designed to implode, but then to in fact alter the CDS from an insurance policy, **IF** the mortgages blew up inside the pool, into a ongoing futures-type contract that now required margin at all times.

It is hard to believe that **Goldman Sachs** who claims to be the smartest and brightest bulb in the box, did not understand what they were doing. They created a market that never existed, and backed it by **AIG** and all its AAA capital.

This structure allowed **Goldman Sachs** to obtain a payout before there was even a default. To accomplish that, it was really critical to have **Hank Paulson** in place for he sold the **"end of the world"** scenario if $700 billion was not put up instantly, and the government could not just seize **AIG** that had the effect of locking in profits.

Of course **Goldman Sachs** will deny this plan with either the **"conspiracy nut"** claim or its **"just a coincidence."** The question that emerges is: **How Many coincidences does it take to make a conspiracy?**

Changing the accounting rules was like taking a life insurance policy and forcing **AIG** to put up the whole value of the policy because you got sick, but did not die as yet. This is why there was so much confusion at **AIG** because a pay-out was demanded before loss.

The sensible thing would have been to impose a freeze on that entire market and no one could put any margin calls against another. A separate fund could have then bought all the portfolios, and the public could have bought shares in the new fund. They would buy the portfolios at the market value. This would have saved Bear, Lehman, and prevented windfall profits. But hey. Nobody asked me.

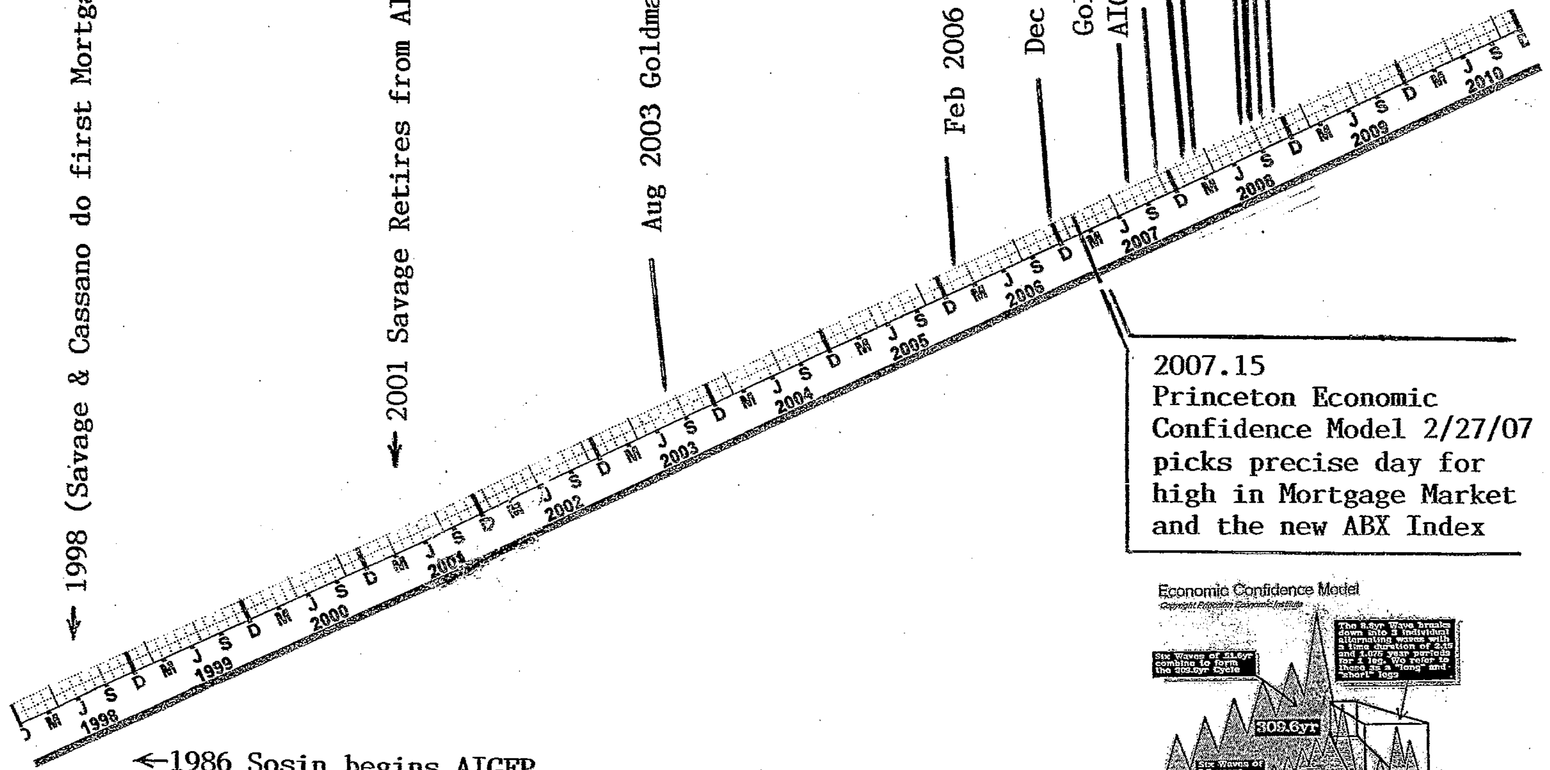
Goldman Sachs was in the position to mark its own prices and then demand the margin from **AIG** based on those numbers. It became the perfect trade!

TIME LINE

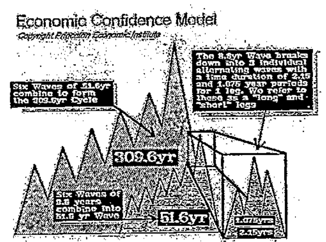
February 14th, 2008
UBS writes off $2 bil in
Mortgage Debt (Alt-A)

March 13th, 2008
Bear Stearns folds

- 1998 (Savage & Cassano do first Mortgage deals at AIGFP)
- 2001 Savage Retires from AIGFP/Cassano becomes CEO of FP
- Aug 2003 Goldman creates Mortgage Securities AIG Insures
- Feb 2006 AIG stops writing CDS on subprime mortgages
- Dec 2006 Goldman turns bearish on mortgage/real estate market
- Goldman demands $1.8 billion from AIG (July 2007)
- AIG post $450 million to AIG as collateral (Aug 2007)
- AIG post $2 billion with Goldman on $3 Bil demand(Nov 2007)
- March 2008 Goldman demands $6.6 billion from AIG/Bear Stearns
- Aug 18, 2008 Goldman research take bearish view on AIG
- Sept 2008 Gov't Bails Out Fannie Mae 9/7/08
- Lehman files Bankruptcy 9/15/08; AIG Bailout 9/16/08
- 9/20/08 Paulson Emails Congress with TARP
- Oct 2008: Congress passes TARP 10/3/08
- Goldman demands $1.3 bil more from AIG
- Nov 2008: Fed Creates Maiden III for Toxic Assets



2007.15
Princeton Economic
Confidence Model 2/27/07
picks precise day for
high in Mortgage Market
and the new ABX Index



←1986 Sosin begins AIGFP
←1992 Sosin leaves AIGFP

Shotgun Weddings A Dangerous Policy

SHOTGUN WEDDINGS have become the number one tool to solve a financial crisis, for they are like Marshall Law and eliminate all private rights. Yet, they are also subject to abuse. The question that arises is was Congress manipulated into a crisis by deliberately allowing **Lehman Brothers** to fall, and then that same day telling Congress you need nearly $1 trillion to prevent a Depression? **Shotgun Weddings** are a dangerous policy that are contrary to the foundation of a free democratic society. I was asked in one of these to buy a French broker-dealer by Japan. So I speak with experience being on the side of one of these phone calls to save a company to help out a government. I had advised many brokerage houses around the world, so I knew well the risks and the rewards. I had also been a partner in an old British firm **Rudolf Wolf** (a founder of LME) that was sold to the Australians in 1980s. Getting a request from a government puts you in the position of acceptance or being on their shit list for certain.

A **Shotgun Wedding** makes sense when there is only one institution on the line. I found myself in the middle of trying to sell an insurance company in Australia quickly over a weekend because of a financial crisis. This is not a situation in which one tends to enjoy life. They are crisis center operations with tons of jobs on the line, piles of cash and a lot of people expecting miracles.

At the same time, being on both sides of one of these financial crisis moments where I was trying to orchestrate a deal out of thin air with no notice, and being the one who is courted to rush and marry with some company you never considered dating. What emerges are social problems.

There are always a lot of jobs at stake. The people in the firm are scared. They assume they will lose their job. Management is unsure who the boss will be and if their heads will roll. Often the best people are the ones who jump ship right away. So what you end up with is truly a **Shotgun Wedding** without ever at least having the pleasure to have illicit sex that even caused the problem. So this is a wedding where someone else did the deed on top of the nightmare.

Resetting the management alone is a real problem. It is one thing to force a firm to buy another where there is NO overlap, but joining two firms with serious overlap means massive job losses.

When **Bear Stearns** filed for bankruptcy on March 13th, 2008, **Hank Paulson** put on his **Shotgun Wedding** outfit. He waited too long to save **Bear** and then two days later on the **Ides of March** it was announced that **Bear** was being sold to **JP Morgan Chase** at $2 a share. The stock was worth a lot more than that. Yet the price was being set by **Paulson.**

Paulson appears to have decided, one presumes, to punish his old rival. He began by setting the price at $1, and then claims it should be $2 and this was to prevent what he called "moral hazard." **Paulson** appears to have deliberately punished **Bear Stearns** for getting in trouble. Yet the rumors were that **Goldman Sachs** had been an aggressive short-seller on the stock. Some will always believe this was pay-back for the whole **Long-Term Capital Management** bailout refusal.

Whatever the reason, even **JP Morgan** had expected to pay much more. **Paulson** was trying to punish **Bear Stearns** as if it were some personal crusade. The shareholders, however, effectively revolted. **This** was certainly not a free market. This was dictatorship and it was **Paulson** passing moral judgment.

Only when the shareholders openly made objections to what **Paulson** was trying to do, then and only then, was the price suddenly reset at $10.

By June 2008, **Lehman Brothers** reported its second quarter of poor earnings. The key players began to smell blood in those numbers. But the assumption **Behind the Curtain** was that **Bear Stearns** was a personal vendetta and surely **Paulson** would not allow **Lehman** to go down as well. After all, **Lehman** was certainly far more important to the global economy than the hedge fund **Long-Term Capital Management.** The short-sellers were looking for profits, but at the same time, they were not arrogant enough to expect collapse. The real problem in the fall of **Lehman** would not be the derivatives. It would be the over $40 billion portfolio of commercial real estate.

Paulson is the one who insisted that once more, there had to be a private solution and there would be NO government money. He must have known what he was saying. By killing **Lehman,** he was setting in motion a far worse tsunami that would in fact swamp the entire financial system. This was not the CDS issue. This was now burning down the barn while the horse is still inside. The commercial real estate portfolio was global. **Paulson** could not have been that stupid to realize that the fall of **Lehman** would now put over $40 billion in commercial property at risk. That overhang alone, would ripple through the entire real estate market and add to the pressure on the CDS home market as well. It just made no sense. To those who tried to tell him he was wrong, he merely restated his position:

"No ... government ... money."

Everyone thought **Paulson** would relent and back down before it was too late. The only clear head who seemed to get it was **Greg Fleming** who was the President at **Merrill Lynch.** He tried to convince **John Thain,** the ex-Goldman CEO of **Merrill,** that there would be a dominoe effect if **Lehman** failed. He insisted a solution had to be found for **Lehman Brothers.** By September 12th, 2008, he saw **Lehman** shares were falling. He insisted to **Thain** "Let's talk to Bank of America ourselves now!"

To me, it is just hard to imagine how **Paulson** could ever say with a straight face he never saw this coming. The impact of just letting **Lehman Brothers** collapse would have no tsunami effect around the world or put further pressure on real estate spreading the crisis into the commercial sector and worldwide, is beyond contemplation. This is exceptionally true given the fact that the week before, **Fannie and Freddie had** to be seized on September 7th, 2008. CEO Daniel H. Mudd stated on February 27th, 2008, that they had "no current plans to go back to the market for capital" yet on May 6th, 2008, he was now seeking $6 billion increase in capital.

The policies of **Paulson** only began to turn **AFTER** the fall of **Lehman Brothers** come Monday morning when **Lehman** was finished and filing for bankruptcy. It appears from the **Time Line** that allowing **Lehman** to fall was necessary to usher in **TARP** in the middle of real panic on Capitol Hill. **Paulson** is now standing at the White House in a press conference stating he "never once considered that it was appropriate putting taxpayer money on the line in resolving **Lehman Brothers."** He climbed on his white horse claiming "Moral Hazard is not something I take lightly."

Paulson seemed determined to create the perfect economic storm in history. **Lehman** had at least a handshake with **Barclays.** But once more **Paulson** screwed up everything. He again stated there would be NO government money! This blew up and the British government now did not approve the deal. The deal required shareholder approval under British Law that does not allow these government seizures.

Tim Geithner informed **Thain** there would be no government money for **Lehman.** This at last sunk home to **Thain,** but he wanted to join with **Goldman Sachs** rather than Bank of America. **Fleming** is the one who made the call to **Bank of America,** but was told that **Thain** had to make the call. **Fleming** appears to have suspected that **Goldman** might not be too far behind and was cautious in dealing with them.

While **Thain** was still trying to cut a deal, he finally made that call to **Ken Lewis** CEO of **Bank of America. Thain** wanted to sell just a minority piece, and **Lewis** told him it would be the whole thing. Finally, on Sunday September 14th, 2008, **Paulson** told **Thain** to make the deal with **Bank of America** or **Merrill Lynch** would be history. **BoA** offerred $29 and the papers were signed. **Lehman** filed bankruptcy the next day.

It was on Friday September 12th, 2008 that **Paulson** and **Tim Geithner** (then NY Fed Director) whom **Paulson** appears to have relied upon more so that **Bernanke,** or former **Goldman Sachs** partner **Christopher Cox** of the SEC, then summoned the heads of Wall Street to the NY Fed's office at Italianate Palazzo. At about 6:15 that night, **Paulson** told the pillars of Wall Street, "There will be no bailout for Lehman." This is relayed in the bankruptcy filing of **Lehman Brothers. Paulson** had in fact just bailed out **Fannie Mae** and **Freddie Mac** on September 7th, 2008. To do the **Bear Stearns** deal, he even agreed to a $29 billion secured loan that the Fed made to **JP Morgan** to facilitate the acquisition. Why with any rational thinking lead one to just allow the 4th Largest Investment Bank to fail? This is one that is not understood given the holdings of commercial real estate that would also then create a contagion. The commerical real estate did in fact collapse in a broader sense, and many deals had been sold to investors for their 401K retirements. **Paulson** was now wiping out the babyboomers. Why? This would just not make sense. There has to be an explanation.

If we put this evidence together and then present it to the jury, we will see what verdict emerges.

(1) The very day **Lehman Brothers** collapses, **Paulson** is convincing President Bush there will be a depression.

(2) **Paulson** tells the press he has no choice for he does not believe in bailing out "Moral Hazard" of the big firms.

(3) By 9/20/08 **Paulson** is emailing the **TARP** proposal to Congress and in there he is giving absolute and full immunity for all remaining bankers on Wall Street, including **Goldman.**

(4) Congress enacts **TARP** on October 3rd, minus the absolute immunity for the very people that **Paulson** claimed he let **Lehman** fall because he did not want to reward their **"Moral Hazard."**

There is clearly something inconsistent here by allowing **Lehman** to fall because they should not be rewarded for "moral hazard" and then seek absolute immunity for all of his former buddies. **Andrew Sorkin** is pointing out that on September 17th, 2008, **Paulson** is now complaining he needs to be relieved of all conflict of issue restraints with **Goldman.**

"It's ridiculous that I can't deal with Goldman at a time like this!"

Sorkin reported: "Paulson was supposed to take part in a three P.M. call with Bernanke, Geithner, and SEC chairman Christopher Cox to discuss Goldman Sachs and Morgan Stanley, but unless he could get a waiver, he would be unable to participate." **Bob Hoyt,** general counsel to **Paulson, Sorkin** reported that **Paulson** and **Hoyt** even discussed keeping this waiver secret. **Hoyt** called White House counsel **Fred F. Fielding** and to **Bernard J. Knight, Jr** of **DAEO** and magically, all conflicts of interests were now waived by the Government with no hearings, vote, or anything remotely connected to what one calls a democratic process.

It was actually on September 20th, 2008 when **Paulson** emailed his **TARP** proposal to the Congress. **Sorkin** reported that this was the

same day when **Paulson** made the statement about **Goldman Sachs** who he feared would be next if **Morgan Stanley** went down:

> **"We've got to find a lifeline for these guys."**

Paulson and **Geithner** knew it was a pure confidence game. They began to push for a merger of **Goldman Sachs** and **Wachovia.** It was a potential merger laced with conflict time bombs. There were too many ex-**Goldman** people around the table.

Geithner was also trying to get to **Citigroup,** for a merger with **Goldman.** But the CEO told **Geithner** according to **Sorkin:**

> **"This is a bank. And a bank takes deposits and a bank has prudency culture. I cannot envision a bank taking its deposits and investing them all in hedge funds. I know that's not what Goldman is, but the perception is that they'd be taking deposits and putting them to work against a proprietary trade. That can't be right philisophically!"**

Warren Buffett came in to rescue his old friend, **Goldman Sachs** putting up $5 bil. because it was quite simple. He knew that **Paulson** would never allow **Goldman Sachs** to fail. **Sorkin** reported the comment even of **Tom Nides** at **Morgan Stanley** read the tea leaves correctly. On September 18th, 2008 when the SEC put in its ban on short selling financial stocks **AFTER** it appeared **Goldman** had been shorting **Bear** before and **Lehman, Nides** told **John Mack** that **Paulson** will **"keep us alive, because if he doesn't, then Goldman will go."**

It is curious, when the short selling turned against **Goldman,** suddenly the SEC now bans short-selling on 799 different companies. **Christopher Cox,** Chairman at the SEC, was also a former **Goldman** partner. There is just something that stinks at the center of all this nonsense.

The very purpose of the Federal Reserve was to be there during such panics as **J.P. Morgan** did in the Panic of 1907. The idea was to lend money against a short-term panic enabling the bank to survive to another day.

The entire way things were handled is very suspect. It appears that the nation was deliberately pushed to the edge and to blackmail Congress into putting up $700 billion. This is an unheard of number. Yet, the same day that **Lehman** is filing for bankruptcy, **Paulson** is standing at the White House arguing that this is going to be a 1929 Depression if we do not act right now. President Bush comes out and says this is the forecast now told to him by his advisors.

What I find amazing, here we have the top advisors to the President telling the whole world the end is here and we must act yet at the same time, **Christopher Cox** when he appears months later before the House Oversight Committee, he tells them the government should not have models. If they had a decent model, they (1) could have seen this coming, and (2) known that the advise of the President's advisors was **BULLSHIT!**

DID PAULSON LET LEHMAN COLLAPSE TO IMPRESS URGENCY UPON CONGRESS TO GIVE HIM FULL DISCRETION AND $700 BILLION TO PLAY WITH?

Why was it that **Paulson** then selects a former CFO of **Goldman** to now run **TARP?** It appears unlikely that **TARP** would have been passed if **Lehman Brothers** survived. There is something just not right about this whole **Time Line.** How can **Paulson** let **Lehman** fall because he does not personally believe in rewarding "moral hazard" yet in his first draft of **TARP** sent on September 20th, he includes absolute immunity for his buddies in the banks?

Then we have his comment **"We've got to find a lifeline for these guys"** referring to **Goldman** yet where is the white horse and the "moral" conviction then? There is just something not right about this mess. The actions do not match the statements.

The jury must decide whether or not this whole thing was a deliberate hoax to push this economy into the brink of pure disaster to enhance short-term profits?

How can someone who was head of a firm that claims to be the smartest in the world even say with a straight face he didn't see it coming when that firm turns bearish in December 2006 and is the most aggressive one demanding cash from **AIG?**

There is a serious problem lurking in the middle of all this mess. Any one with any experience in politics, will immediately realize that Congress would never had given approval for **TARP** if the threat was just a possibility. They needed to see some urgent threat. That is where **Paulson's** white horse comes in and he does not believe in rewarding "moral hazard" by coming to the rescue.

The <u>only</u> way to have got this package through before their puppet left office was to let **Lehman Brothers** fail. That would be the shock wave to force Congress to act. I have repeatedly stated, <u>**Congress will never prevent a crisis, for they only react when one appears**</u>. Anybody with any observational skills can figure that one out. So the only possible way to get nearly $1 trillion with full discretion to change your mind in mid-stream, is to create a near-death crisis. It was like the **Patriot Act**. The only Senator to vote against it was Russ Feingold. Everyone else, are merely cattle and with a crisis they fall in line.

It is the crisis that allows one to manipulate Congress. It works every single time. If **Goldman Sachs** is truly the genius firm of all time, surely they would have figured that one out. This is child's play. So the key to power is to create the crisis.

The same rumor has circulated for many decades about the Japanese being turned away by the White House to prevent them from delivering a notice of an act of war. If the Japanese did not provide such notice, then FDR could rally the people to outrage and Congress to war. Up to then, Americans were isolationists and wanted no part of the war. What is the truth, who knows?

The NY Times printed a huge article documenting that the Vietnamese never even attacked in the Tonkin Gulf. It was all just made up to create the war. Just as we have seen with the weapons of mass destruction in Iraq. There has to be a bullshit story to get the people and Congress emotional and that is when you strike to get whatever it is that you want. It is the oldest trick in the book.

Forgive me, but this one smell like the same duck. It makes no sense to let **Lehman** collapse, and then the same day you are crying that you did not want to use public money, but gee - look at what happened! I think you better give me a $1 trillion or else God knows what else will happen?

I find it curious that the first draft has absolute immunity built into it. If there is nothing there, then why do we give any immunity? That is something you hand out if there is a problem. Where is the problem and why did **Paulson** have that burried in the proposal?

Also critical to remember, **Paulson** got a full waiver from the government 3 days before he submits his proposal to Congress that nobody knows about. This waiver now allowed him to benefit **Goldman Sachs** and the government signed that waiver. Again, the timing appears to be very suspicious.

It was a shot. Was **Paulson** hoping to create that perfect storm that swirls around events whipping up the emotions into a real frenzy that creates that special moment where anything goes?

These special moments where **Shotgun Weddings** appear, are actually unconstitutional all the way around. The companies are being illegally seized in violation of the **Takings Clause** of the **Fifth Amendment** and what is most interesting, is that they are illegal in Britain without shareholder approval. You are taking private property! This is like saying your neighbor can't pay their mortgage, so the bank is going to seize your home and the one on the otherside, and readjust your payments to avoid a deafult by your neighbor. They are **ILLEGAL!**

The purpose of the Fed was to smooth out short-term cash shortages. If the damn system did what it was suppose to do, there would not have been this crisis and **Lehman** would still be here. The Fed should have provided the short-term funding. Within a few months, the whole thing would have been smoothed out. We cannot alter the cycle, but we CAN mitigate the amplitude.

It would have been a lot cheaper to just create a RTC fund. buy all the toxic assets, and sell shares that anyone could buy into and profit from the rebound. The way this was handled was the worst possible way and it was flat outright illegal.

The Ratings GAME

THERE is no question that the rating agencies completely blew this one big time. The Rating Agencies **Moody's**, S&P and **Fitch** clearly played a role in this entire economic boom and misled many people providing a false sense of confidence. It is true that many see **CONSPIRACY** lurking in here because **Warren Buffett** owned 20% of **Moody's.** But there has to be more than just the ownership to imply that the connection with **Warren Buffett** and **Goldman Sachs** can be implied as another leg in this giant mess. It is possible that the downgrades of **AIG** at specific points had a profound monetary impact upon the right to make margin calls by **Goldman** against **AIG**. But there just may be sheer incompetence rather than star-studded brilliance that led to the collapse of the entire **Ratings System.**

It was the SEC who named **Moody's, S&P** and **Fitch** back in 1975 as the official Nationally Recognized Statistical Ratings Organizations. A total of **Seven** companies have SEC licensing forming the **NRSRO** designation. The SEC thus establishes the very capital requirements, the degree of leverage, and then relies of the ratings from **NRSROs** to evaluate firms.

There is no doubt a conflict of interest at the very heart of the entire process. The companies doing the ratings are paid by those they rate. Even the G20 made a recommendation that these rating companies should be more transparent and thus be closely regulated themselves.

It is true that **Moody's, S&P**, and **Fitch** control 98% of the ratings game and **Moody's** is the only publicly owned firm where its shares trade. It is effectively a monopoly that has been nurtured by the SEC and is highly profitable. There is no real competition for big name firms.

After **ENRON**, there was an outcry on Capitol Hill and that produced the 2006 **Credit Rating Agency Reform Act**, that just handed more power to the SEC to now create a limited regulatory authority. But the SEC didn't bother to create rules until December 2008. This effectively banned the credit rating companies from rating a product they themselves created? The law did not give any regulatory power over how the companies actually analyze the companies.

The concept of credit ratings emerged from the Great Depression. They began with the presumption that debt was safe and stocks were risky. They ignored the fact tha **NEVER** does a nation pay off its debt and always will end up defaulting. They overlooked the defaults of Europe in 1931, and the methods of analysis are about as up to date that a classic 1957 Chevy. But there is a huge hole that is not even being discussed as far as I know, and that goes to the heart of the crisis - analytical methodology. There is something wrong!

FITCH CEO Stephen Joynt, **Moody's** CEO Raymanond McDaniel; and **S&P** President Deven Sharman Appearing Before House Oversight Committee

The ratings game is highly profitable for the companies that the SEC has made their special cartel. These are like OPEC in that sense. But simultaneously, markets will act even in anticipation of a change in ratings. The main focus on ratings for the big banks, is how much they will have to pay in the marketplace.

Ratings got it wrong with **ENRON** and they got it all wrong in the current mess. But they made a fundamental change back in 2003, that was in response to the **ENRON** failure. They went from the fire into the frying-pan. They embraced the new magic formula that became the craze developed by **David X Li**, the Canadian who worked at Risk Metrics Group at **JP Morgan Chase.** He published a seminal paper on the correlation of default risk. In other words, how default of one bond linked to default of another bond. It was a key and critical factor in the conversion of risk into a quantified tradable element.

Li's formula was adopted on August 10th, 2004 by **Moody's** and became the core analysis for incorporating default risk into the main ratings. This had the effect of substantially reducing the previous requirement that the collateralized debt obligations (CDOs) meet a portfolio diversification hurdle. This was now quickly adopted by **S&P**. What followed, was a sharp increase in the number of **AAA** CDOs.

I seriously doubt that this was part of a predetermined conspiracy. The problem that emerges is that there is a huge gap between the trading experience and those creating the models. If they are not traders, they cannot obtain the "feel" for the market that they are looking at. An experienced trader would have smelled a rat in the CDO markets. The ratings were fueling the amplitude and giving false confidence to bankers who look at these models and just assume **voila tout** (That's all). If there is a magic formula, it is far more complex than just this.

$$P=\phi(A,B,\gamma)$$

$$\Pr[T_A<1, T_B<1] = \Phi_2(\Phi^{-1}(F_A(1)), \Phi^{-1}(F_B(1), \gamma)$$

I believe that the future of education is going to be forced to change. As an employer, we had countless people apply at Princeton Economics from just about every school. It did not matter if they had a Harvard MBA or simply a Degree from Trenton State. No matter what school they attended, it did not prepare them for the real world. Each and every person had to be now retrained in reality.

Personally, in the 1960s, my father had at first wanted to hang an "and son" on the door of his law firm. I greatly disappointed him in that score. I did not have a clear idea of what I wanted to be when I grew up and I guess I still have that problem. So my father pushed me into computers where I then learned everything from electrical engineering, computer design, and programming. But I was not married. So I was being offered the spots like Greenland, Guam, and Vietnam. IBM in those days reminded me of parochial school with all the uniforms.

While I blazed my own path into finance, those years of computer training taught me to analyze any problem breaking it down to the minute elements, and to see the world in this light of individual variables. Thus, in my mind's eye, I could see the code behind the image like Neo in the Matrix.

The formula above was the original one published in 2000 by **David X Li**. To me, I could see the whole that was like the Grand Canyon. The correlation was far too simple and did not reflect reality. For when you gain trading experience in size, what emerges is the problem of global correlation. What also emerges is how fundamental analysis fails for what happens is society is trained linear and that presumes a step by step sequence that will always lead to the effect. Criminal justice is the same. They seek to prove an event and then presume a state of mind, and then pronounce you must have done it because they would have creating such a sequence.

The whole problem in this formula is the problem we have in society. There is just no dynamic thinking process. **Li** was not stupid. He was brilliant in math. But that does not translate into anything else. I can read a book on brain surgery, but it will not make me a brain surgeon. Truly understanding market behavior requires the hand-on experience that **Li** and other quants just don't have.

If you plot interest rates against the stock market for the past 100 years alone, you will find where the market rallied with high rates and declined with lower rates. Yet the entire theory driving the Fed and thinking in the theory classes of economics is exactly the opposite. Interest rates kept going up into 1929 and then collapsed into 1932 and so did the stock market. Japan had lowered its interest rates to nearly zero for a decade. It did not create a bullish revival.

The world is dynamic. It is like a rain forest with thousands of species all interlinked and thus forms a complex web of dynamic hidden connections. Remove one species, and you create a ripple effect that moves through the whole system. In Australia, they imported species to kill another and disrupted the entire chain. What shocked everyone was that when scientists went to investigate Chernobyl in Ukraine that melted down in 1986, they were shocked to find mice running around. When they had captured some to see how they could survive in this radiation, they found that the mice had mutated to now require the radiation. The induction of a new variable changes the dynamic mix of any system.

Li's formula was adopted quickly for the industry wanted to believe that there was a math solution to make risk tradable. But risk is far more complex than a simple one-dimensional correlation.

An experienced trader in size, would see that **Li's** formula produced a false sense of confidence that could be exploited even if they did not understand math. I do not in any way believe that this can be blamed on **Goldman Sachs**, yet at the same time, just by following their nose, they could see that the formula did not work.

Surveying the economic wreckage of this Perfect Economic Storm, shows the lack of education in dynamic structures and how this above all is responsible for sending society off the edge of the cliff in unison. **Li's** formula is indeed elegant and simple. It is known as a **Gaussian Copula Function.**

At first glance looking at this with linear eyes, it appears to be a mathematical breakthrough. It was hailed as a cornerstone of financial technology that suddenly allowed complex risks to be modeled with simplicity. This is the formula that overnight made it possible for traders to then create pools of new securities that became the CDOs. This was adopted not just up and down Wall Street, but by the very regulators and the rating agencies. Everyone jumped on this lifeboat and didn't bother to wait and see if there were any leaks.

The formula quickly fell apart as the mortgage market turned and the ABX peaked on February 27th, 2007 (2007.15). The sheer losses that followed were unfathomable to say the least. They are going to push the public debt sector into default and that is part of the dynamic hidden correlation that the formula failed to comprehend. This is the formula that allowed the financial industry as a whole jump on board once again expecting vast profits, but failing to ever understand what the hell they are doing!

It is not fair to blame **Li** for bringing the financial system to its knees. He lacked the trading experience and thus **did not comprehend** the dynamic structure in its full scope. What we must understand, once everyone thought they had conquered **"risk"** they lost all sense of reason.

The critical lynch-pin was the ratings and once those agencies rate these CDOs at **AAA**, they became acceptable collateral for short-term REPO borrowing. Therein lies the fault line. Once **UBS** took a downgrade loss of $2 billion on **Alt-A** mortgage securities, other firms were using these as security on short-term borrowing. That set off a full blown implosion that now fed upon itself. **Li** could not have foreseen such correlations for he was not a trader. Nor could he understand what would happen by using these new mortgage securities would serve the same role and T-bills in the overnight markets.

What **Li's** formula did was deal with the two factors that investors are familiar with and how they can make money with them in mind.

PROBABILITY & RISK

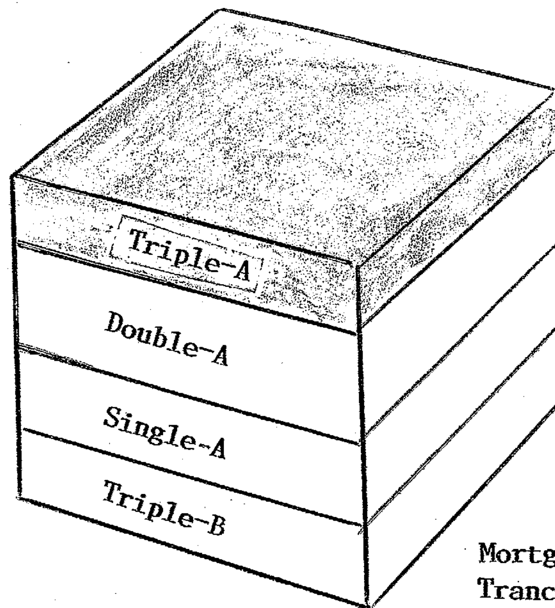
I use to be one of the largest buyers of Fannie Maes. I ran billions in them all the time because (1) they paid a little more than T-Bills and (2) they were <u>**NOT**</u> acceptable as collateral at exchanges. The decision process was rather simple. (1) What was the probability of a default when implicitly backed by the government? **ZERO!** (2) How could I protect my funds from overnight markets that the bank would take funds and lend them out without prior notice? **Fannie Mae!**

Pre-2000, I deliberately used the **Fannie Mae** because they were <u>**NOT**</u> collateral at the exchange. Thus, it was a way I was then trying to safeguard my cash by preventing the bank from using the funds behind my back and yet I had to weigh the "probability" of a default by **Fannie Mae.** The conclusion, I saw greater risk in the overnight REPO market than I did at **Fannie Mae.** This was my assessment of **Probility** and **Risk** to arrive at a investment decision.

Once the industry embraced **Li's** new formula, pooling mortgages became the flavor and then the pools were being sliced and diced according to **risk.**

The mortgage market in the USA was about $11 trillion. Yet, there had always been a problem with mortgages. They were really unique for the value of the property varied, and then you overlaid the risks of the borrower. Hence, mortgage pools were not truly investment grade and could be easily become a risk that was not possible to quantify. It was into this world that **Li's** formula came and allowed many to suddenly take a market that was never one that lent itself to pooling, without serious problems. Suddenly, that risk appeared solved.

David X. Li



Mortgage Pool
Tranches

Once you begin to pool mortgages, the variables actually increase dramatically. We now have some people who will default, others who will seek to refinance. There will still be others who will sell their home. This in fact has always tormented those who sought to create security pools from mortgages for the unpredictable nature is inherent within such a pool unlike sovereign debt where one need not worry about the government paying it off early. There is still the risk of default in sovereign and corporate debt, but there is also a flow of data connected to the entity that allows one to judge the risk. In pools of private mortgages, these are not possible.

A bunch of clever graduates with those impressive degrees from name brand schools, decided to solve this problem by slicing and dicing the mortgage pool into **tranches** that was suppose to now create slices of riskless **AAA** portions. Investors in the top **tranche** are scheduled to be the first in line to be paid off in the event of a default. Those who wanted a bit more risk in return for higher yields bought the second **Tranche** that is now rated **Double-A**, and so on.

The sales pitch to everyone was that the top **tranche** was **AAA** because there was no way hundreds of homeowners would ever default at the same time. If one person became ill and another even lost his job, this would have marginal impact upon the value of the pool. These **PRESUMPTIONS** were childish, for they illustrate that they may have been smart guys carving out **tranches**, but again they lacked the dynamic understanding of the economy. They failed to see the correlation to state debt and taxes, corporate as well as sovereign debt. The correlation extends outside the pool itself and now you are involving the **"business cycle"** where real estate collapse during the Depression. The whole thing just fell apart.

They failed to comprehend that it takes just about 5% of a given market to come under pressure before that spreads and then creates a **contagion** effect. In other words, a flock of geese in a field will suddenly take flight without any knowledge why, if you can just scare a few on the edge of the flock. Human nature is no different. A panic takes place often because everyone else is taking an action. This was the case in the 1987 Crash. People sold because the **Dow** had fallen 500 points and there was no rational **FUNDAMENTAL** explanation.

If a relative tiny portion of homes go on the block for sale because of hard times, your house will also fall in price because of the collective perception that effects the potential buyers. That is then a **"buyer's markets."** Therefore, what may not be ignored is there is a correlation between your equity in your home and everybody else around you. The correlation that was presumed was too simplistic, and was not tested over time to see if it would even stand-up. This is how brilliant minds can create disaster out of their own field.

Before the 1990s, the only way mortgage pools could be dealt with was through the creations of **Fannie Mae** and **Freddie Mac.** Here they would issue securities and they were the pool. The government effectively backed their pool. The investor was never concerned with who the mortgage was for. The actual homeowners were of no concern.

The idea of being able to correlate the risk of a private pool of mortgages, car loans, and credit cards, would open the door to vast pools where risk could be sold and the whole thing becomes a new security.

The inherent problem was the correlation between thousands of moving variables. Let us consider a correlation between the value of your home and the home next-door. The correlation may be 100%. However, the correlation to a home 30 miles away may be 50%. Now let us say your home is in the New York area. The correlation to a home now in Texas may be -10%. What complicates this correlation is (1) the home next-door is also effected by the local economy, and a stock market collapse may put more homes on the market in that area. (2) A home in Philadelphia may not decline as much as one near New York since that economy is not at all dependent upon the stock market. (3) A home in Dallas may have a negative correlation because the business cycle there is dependent upon oil. The higher the oil the higher the houses, but that may have the economic opposite effect in New York as we saw going into the 1980 high.

Correlation can be far more complex than meets the eye. The variables are also completely different dependent upon local economic trends that can be in synch with the global economy or running counter to that trend entirely. We suddenly jump now from thousands of variables into the billions.

Li published his paper in 2000 when he was working at **J.P. Morgan Chase.** It was published in **The Journal of Fixed Income** and entitled **"On Default Correlation: a Copula Function Approach."** The major error was **Li** lacked the trading experience and based his correlation with no history just using the market data concerning the prices of credit default swaps.

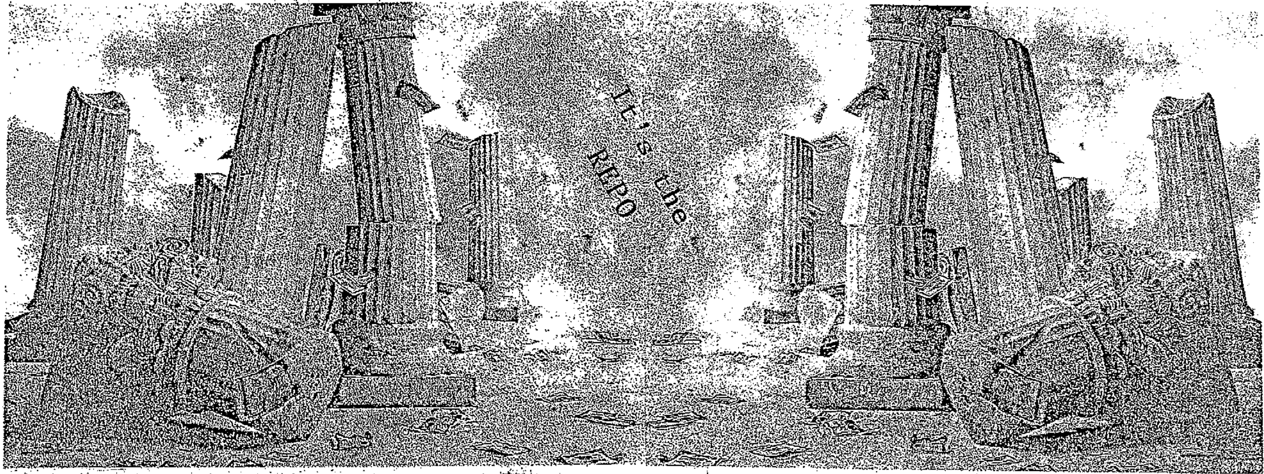
The need for history is so critical because it provides a map. Failing to test something against history is always inviting disaster. But only a student of financial history will understand that a model such as that of **Li's** simply cannot work.

Nevertheless, this formula led so many into a false sense of understanding risk. There were **TWO** effective ways that now appeared in which one could participate in the debt markets. (1) There was the old fashioned way that you actually lent money to the borrower. (2) You could now insure the risk by selling insurance to investors who lent the money. It was presumed that the risk was the same in both cases. If the borrower defaulted, in both cases one was out the face value of the borrowing.

However, there was also a subtle change between lending directly and issuing a CDS. In the first instance, there was only one transaction. In the CDS category, there may be multiple contracts on the same portfolio. It is like ten people take out life insurance on the same person. There is only one person and if he dies, then 10 people can collect in full the same amount of money. This also allowed the CDS market to explode in volume rapidly. It did not have to be even linked to title ownership of a single portfolio.

Li constructed his model only using the CDO trading data. Thus he did not actually seek to correlate the complex structure in synch with the rest of the global economy. This was quickly adopted by the regulators and the rating agencies assuming that these math guys must know what they are doing. Yet there was no experience by which to judge if there was anything wrong.

This led the quality concerns by the original lender to collapse for now this was going into a pool as being resold. This now created a new problem. Homeowners are not being informed of their rights for unless there is a **CERTIFIED MORTGAGE,** there can be no foreclosure. When you sliced and diced the mortgages, there is no single holder of the mortgage. Without proof of who has the mortgage, there is no standing in courts. This became the **Perfect Economic Storm** that was a combination suitable to an old movie of the Keystone Cops.



IT'S **THE R E P O MARKET** that brought the pillars of the financial system crashing down. While this no doubt became the **Perfect Economic Storm,** the complete lack of dynamic thinking and understanding of the whole economy and how it functions, led to the disaster that has befallen Western Society. It cannot be questioned that there were a series of mistakes that combined to create the **Perfect Economic Storm,** but the only thing that has been worse, is the manner in which everyone still approaches the problem from a linear perspective. They are trying to reduce the effect to one single firm, event, or conspiracy. However, one must ask if **Goldman Sachs** caused the entire event, then they must have been responsible for orchestrating every part placing each domino in position. Are they really that smart? Were they simply the catalyst whose greed may have toppled over the first domino, but did they really ever understand the full dynamics of their actions? In their defense, I would have to go with the later rather than the former. **Goldman Sachs** may have been a strategic component of the **Perfect Economic Storm,** and their alumni pulled every string to save their ass, but they too needed to be saved. That suggests to me that they may have found themselves in a European hotel shower in the 1960s when a cord would be hanging from the ceiling in the corner of the shower. There was no sign in those days. Americans didn't have such a cored, so what could it be for? You pulled it to see if perhaps you got more hot water. Suddenly, the door burst opens and a female maid is pulling back the shower curtain, and while you are standing their naked, her lack of English is telling you through hand jestures, the cord is a call for help in case you fall. **Goldman Sachs** may have pulled the cord expecting a new supply of abundant hot water. Instead, Brunhilda shows up and the water is damn cold.

All things considered, it was the rating of the mortgage pools **Triple-A** that allowed them to be used in the $2.5 trillion **REPO** market that caused the immediate type of cascade failure. Had the mortgage pools **NOT** been **Triple-A,** they could not have been used for collateral in overnight credit lines backing the **REPO** market. The effect of **ISDA** changing the rules to make things **mark-to-market,** also increased the core risk on a short-term basis. By placing the mortgage pools in the classification that was suitable for **REPO,** sealed the fate.

If these securitized pools were only on the books of firms and needed to be accounted on a quarterly basis, the volatility would not have been so great. Making them **Triple-A** became **REPO** and that is overnight funds. The accounting was now instant. That meant the collapse was also instant. There was no time to figure out what to do with the quarterly numbers. Therefore, it was more than just the derivatives written (CDSs), it was how these things were being used in the **REPO** market. This created a cascade failure that effected everyone and everything.

Did Goldman Sachs Manipulate the Seizure of AIG for Personal Gain?

IT may be shocking to say the least, but there is a serious question of whether or not **Goldman Sachs** in fact manipulated the illegal seizure of **AIG** in order to profit from the leveraged positions. We must now realize things would have worked out much differently. For a while, **AIG** in fact amazingly agreed to post collateral if (1) the price of the CDO product declined, or (2) **AIG's** credit rating was then reduced. **BOTH** of these things took place. This put serious pressure on **AIG** allowing **Goldman Sachs** to now demand collateral, but it was setting the price to which the margin call was now based. However, also in 2005, **ISDA** change the accounting rules and this rendered all CDS products derivatives by making them **mark-to-the-market**. That had the effect now putting pressure on the holders of these products to make calls upon the writers. This clearly took the products way out of the field of insurance. It certainly looks like **AIG** never properly understood what they had done. This was like a margin call on your life insurance policy because you just got sick and could possibly die.

If **Goldman Sachs** is the smartest and the brightest company of all time, then is it possible they deliberately planned to accelerate the decline, and then force **AIG** to pay up **BEFORE** any default, knowing they had **Hank Paulson** in place with also **Christopher Cox** at the **SEC**, so they could force the seizure of **AIG** to pull off the greatest trade of all time? By having the alumni in place, then they could sell the panic to the Government. If the Government just seized **AIG**, then **Goldman** would be paid on **WHATEVER** they valued the portfolio at since it did not default.

It is not something I would have preferred to reveal publicly, but it seems to be part of the puzzle. Many saw the movie **"W"** and how they portrayed Bush, Jr. as being less than bright. I was asked to meet with him by two Republicans. Often, I was asked if I would meet with candidates but really relay if I thought they had the mental power to comprehend the complex global economy. I even flew out and met with the Governor of Oklahoma. I was asked to meet with Bush, Jr in October 1999. I was told this would be different. I was told they really wanted me to advise him because he was "stupid." I was shocked. I asked, "If he was stupid, why would you make such a guy president?" I was told, he has the "name" and that was all that mattered.

I have no personal knowledge about the mental ability of former President Bush. What I can say, is that clearly his staff dealt with him in that manner. **Dick Chaney** assigned to himself about half of all the Presidential duties and set-up shop in the White House. He ran the place as if he was President. But the worse part of this problem was **Paulson** ran to **Bush** and convinced him there would be a depression unless he acted immediately on September 15th, 2008. To sell that, **Paulson** waited for **Lehman** to fail and he personally instructed then that they must file bankruptcy. He instructed **Thain** to sign with **BoA** on Sunday the 14th, or **Merrill** would be history. The stage was now set with the fall of **Leham** to illegally seize **AIG** and **Bush** provided the cover stating he was told by his advisors having **NO** personal knowledge at all.

There is a dark cloud that has very much so covered this entire financial event. It is true, that our model predicted the precise day of the high years in advance. I do not believe that the excess speculation has been created by **Goldman Sachs.** What is possible, was that the amplitude can in fact be increased or decreased. I conducted several experiments with the markets to see if one could prevent a turn in an illiquid market. The answer was **NO!** It is clear that there can be no such thing as a manipulated market that is in the core sense taking a bull market and making it a bear market. For example, the Japanese Government constantly attempted to manipulate the Nikkei 225 and failed. It cost them a decade and they lost about $2 trillion dollars in the process.

Consequently, the best we can hope for is to mitigate the amplitude. It was very possible that **Goldman Sachs** could in fact influence the uptrend by feeding into the speculation just as Congress can create the wrong policies that alter the capital flows among sectors. Likewise, it was also possible to feed into the decline using hype to accelerate the decline. This is the best anyone can do in manipulating markets. It is just impossible to convert a bear into a bull market out of thin air. Each market is connected to everything else and the complexity of a single trend is like that of a rain forest. There are too many variables that effecting just one will not alter the trend as a whole.

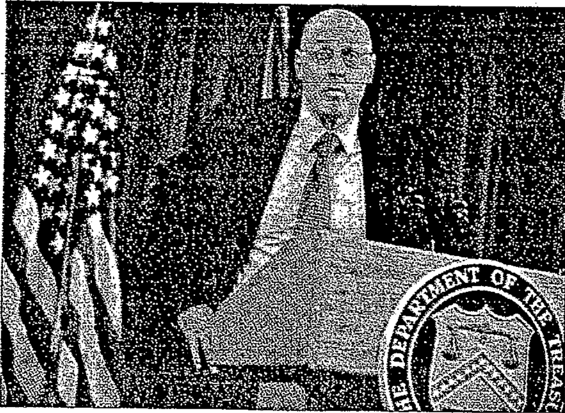
Now that we understand the limited scope within which a manipulation can take place, we can look closer at the evidence. It is very suspicious that **Paulson** claims he must punish **Bear Stearns** and even the vastly important **Lehman Brothers.** But he must **"find a lifeline for" Goldman Sachs** and **Morgan Stanley.** Had he waited 1 week after the fall of **Lehman** to change his mind and relent that his policy of **"no government money"** was a disaster and contrary to the very original purpose of creating the Federal Reserve, it may have been less suspicious. But it is the same day that **Lehman** folds and he forces **Merrill** to be sold to **BoA**, that just seems very, very suspicious. Had **Paulson** changed his mind 24 hours before, **Lehman** would still be here and the British would have supported the deal.

Had I been advising the British, I would have had to say the same thing - **NO!** Allowing **Barclays** to buy **Lehman** when the US Government was saying **"no government money"** presented a huge risk. This would have set Britain up for a contagion by direct insemination. Britain may need the same power to support its own banks. It made no sense to assume such risk.

What is clear, the seizures of any company even under this theory **"Too Big To Fail"** violates the Constitution directly that forbids precisely this type of act taking private property for public use. This violated the **Fifth Amendment Taking Clause** and illustrates above all how the United States is the closest thing today to a rogue communist state or at least very fascist. This allows the government to now claim there is a crisis, so we will just seize your company and give it to a rival with no court hearings, due process of law, or right to contest anything because the government claims immunity from any suit.

In a democracy, the shareholders of **Lehman, AIG** and possibly **Merrill Lynch** all have claims against **Paulson.** But because we do not live in a real democracy, there is no federal judge that would allow the suit to proceed. The appellate courts just goose step to the bench and are a waste of time, and the Supreme Court claims by Rule 10 it has the discretion to listen. Yet, it is stange how can a judge swear an oath to uphold and defend the constitution, and the claim he has discretion to enforce it? What **Paulson** did to **all** private rights in the United States was flush them down the toilet. There is no way to vindicate any constitutional rights when judges have anointed themselves with discretion to even enforce the law.

The seizure of **AIG** was illegal. Even in Britain, upon whose law the US was once based, does not allow these forced mergers. The whole idea was to do what **J.P. Morgan** did, provide short-term funding to avoid a cash flow problem that can cause the bank to fail. This **"moral hazard"** and **"no government money"** claims is nonsense and goes against precisely what the whole purpose of the Fed was even created for. What took place was illegal in a free democratic state and a national disgrace.


Former Treasury chief Paulson: Another Goldman alum

No doubt, there are more conspiracy theories running around about **Goldman Sachs** than ever existed concerning the **CIA**. But it is easy to dismiss these as absurd or just a bunch of people running around with tin-foil-hats. Yet, conspiracy is the crime for which the government prosecutes **EVERYONE!** So while the private sector call these type of theories "conspiracy" and thus should not be addressed, that is all that is needed to take someone's life until he dies. Just look at Ebbers of WorldCom. He was never allowed to call witnesses from the company, and so he was denied his right to present a full defense. The court decides if IT believes enough to present it to the jury. That way, the government can retain its 99% conviction rate.

Yet, **how many strange coincidences does it take to make a criminally prosecuted conspiracy?** It depends how high up your friends are in the government.

All we can do is look at the facts and judge for yourself if there is a conspiracy that is at the center of this coincidence.

So here we are, September 15th, 2008. **Paulson** has just let **Lehman Brothers** just collapse. Even **Bear Stearns** warranted a $29 billion loan to **J.P. Morgan** to buy it. But that was in March and the timing was just not ripe yet for the crisis. Even General Motors warrants attention to save jobs. One must assume that like 50,000 jobs being just flushed down the toilet in the financial industry of the United States was just not important to **Paulson**. What he was saying, Wall Street brokers do not deserve the same respect as auto workers.

There was still another issue. The very shareholders in **Lehman Brothers** were to be punished even though they may have been only involved due to some fund manager wiping out their retirement savings. They neither participated in the management decisions, nor did they understand the products **Paulson** himself helped create while at **Goldman Sachs**. Where is his "moral hazard" personally?

It is clear that on September 15th, **Paulson** is pitching the seizure of **AIG** to the President yet he didn't even wait for the corpus of **Lehman** to start to get cold. By the 17th, **Paulson** is free of all conflict of interests he agreed to previously and then states that **"[w]e've got to find a lifeline for these guys,"** speaking about **Goldman Sachs. Paulson** gets **Ben Bernanke** to now agree that **Goldman** needs access to Fed funds. He not merely wants to convert his friends into a Commercial Bank, but fires up **Bernanke** about the Great Depression.

One September 17th, 2008, the Fed now injects $85 billion seizing 80% of **AIG** on the same day **Paulson** accompanies **Bernanke** to Capitol Hill to make the case to bailout the entire bankings system. **Bernanke** tells **Paulson "We can't keep doing this. ... Both because we at the Fed don't have the necessary resources and for reasons of democratic legitimacy, it's important that the Congress come in and take control of the situation."**

Bernanke effectively told **Paulson** there could be no continued executive bailout and under the Constitution, Congress had to be informed. On the 18th, both went to **Bush** to **TARP**. By October 3rd, 2008, Congress passed the amended bailout removing **Paulson's** attempt to get absolute immunity. If there was no smoke, why did there even have to be any immunity clause? The following week, the Dow fell 18%, the worst in about 100 years. It now became evident, the failure to save **Lehman** was having profound problems by the natural forced liquidations and the effect was now spreading overseas.

The French Finance Minister **Christine Lagarde** described the actions of **Paulson** as simply "horrendous" that placed the entire global economy at risk. For what? There is something very strange in the timing of all these events and the positions taken by the key players. How can **Goldman Sachs** be the one pressing for collateral from **AIG** and yet **Paulson** never sees it coming? He won't aid **Lehman** that sparks the crisis that now allows him to seize **AIG** within 48hrs?

The collapse of these mortgage pools was certainly a major component. But there was something far more serious. These pools were sliced and diced, and that meant that with the aid of this new formula adopted by the regulators and rating agencies, it was possible to rate a slice of the tranche at **Triple-A** when the underlying components were never **Triple-A** using the snake-oil sales-pitch that everyone in the pool would not default, so thus at the end of the day, the investment was safe.

This is now married with changing the accounting rule to **mark-to-market** thanks to the **ISDA**, and that meant that this theory of just holding the mortgages to maturity no longer applied. For they were now to be treated for accounting purposes as if they were just a futures contract. The value of the contract at maturity is irrelevant when leverage is applied and one must come up at that instant with collateral to support the position relative to the value at that very moment.

Where there may have been a lot of key smart people in all these areas, there was certainly the missing-link of someone who would step back and look at all the components and say - **Hey guys! This is not going to work!**

Once the rating formula changed and allowed these mortgage slices to be rated as **Triple-A**, the issues went nuts and the danger for an implosion escalated for now it was the **REPO** overnight money market that could be satisfied with the mortgage slice rated **Triple-A**. This made any risk to the mortgage market exceptionally sensitive to any short-term problem whatsoever.

The problem of merely defaults was now magnified by the ratings and the new expansion into the overnight **REPO** market. This spread the impact of a default far beyond the core financial centers, and well into the broader economy since just about every bank, mutual fund, and hedge fund in the world participates in the **REPO** market that grew to $2.5 trillion. This was no simple **"moral hazard."**

IRONICALLY, as fate would have it, **Ben Bernanke** appeared clueless when he testified one day after the high in the **ABX** on February 28th, 2007. He told then the House Budget Committee, that he did not even see where any housing downturn was a "broad financial concern or a major factor in assessing the state of the economy." He actually maintained a positive outlook even during two large subprime lenders filed for bankruptcy - **New Century Financial Corp** and **American Home Mortgage**. The collapse in the **ABX from** February 27th, 2007, was filtering its way through the entire system. It was on August 3rd, 2007, when **American Home Mortgage** closed its doors, that the Dow now fell almost 300 points. **Jim Cramer** then accused the Fed of being "asleep" on CNBC. Just 4 days later, the **FOMC** met and left the federal funds rate unchanged. The Fed called the decline only a "correction" but stated its "predominant policy concern remains the risk that inflation will fail to moderate as expected." Clearly, the Fed was being an academic and could read all the books of the Great Depression, but knew nothing about reality.

The crisis was by now hitting Europe for on August 9th, 2007, **BNP Paribas**, a key major French bank, suspended all withdrawals from 3 of its investment funds that had investments in subprime mortgages. They then made a statement that there had been indeed a **"complete evaporation of liquidity in certain market segments of the U.S. securitization market."**

What **BNP Paribas** was stating there were no buyers. This caused investments in this area to now be frozen - unsalable! **Bernanke** did not understand fully what was taking place for he was not a trader. A second **FOMC** meeting was called, but the discount rate was left unchanged at 6.25%. This is the rate at which the Fed will lend to the commercial banks when in need of cash to stem the problems of a short-term crisis. Many banks had stopped using the window for they often could borrow funds cheaper in the marketplace. Thus, leaving the rate the same, the Fed **REMINDED** banks that the window

was available. Just 7 days later, the markets were swinging wildly and finally the Fed cut the rate to 5.75%. It then stated it was now "prepared to act as needed to mitigate the adverse effects on the economy arising from the disruption in financial markets."

During the third week of August 2007, **Bernanke** held a brainstorming session out of town at Jackson Hole. He posed the big question:

> **"What's going on and what do we need to do"**
> **"What tools have we got and what tools do we need?"**

Those in attendance were **Don Kohn, Brian Madigan, Kevin Warsh, Tim Geithner** and an alumni **William Dudley.** What emerged was the definition that this was a "liquidity crisis" that now caused the banks to hoard capital and fear lending, especially to any financial institution. What emerged is what **Geithner** had come to label the **"Bernanke Doctrine."**

(1) the Fed would cut rates by half point in September 2007, and then a quarter point in October taking it down to 4.5%

(2) the Fed adopted three programs TAF and TSLF.

a) TAF the Fed auctioned off funds
b) TSLF allowed swaping mortage securities for Treasury bonds

Effectively, this allowed the balance sheets at banks to be swapped with that of the Fed. Despite the often massive criticism of the Fed, in reality, before World War I, the Fed stimulated by buying corporate paper. It did not hold government paper. That took place when politicians feared interest rates would rise and ordered the Fed to hold their paper.

On January 4th, 2008, the unemployment rate jumped from 4.7% up to now 5%. Citigroup along with Morgan Stanley and even UBS were now all reporting losses. The implosion was clearly on its way. These movements in the employment sector were serious. Keep in mind, this is even before **Bear Stearns**, no less the **Leham Brothers** collapse. This was a reflection of what was taking place on main street and directly related to the real estate implosion. The Financial sector collapse as the year went on, would contribute to doubling the rate of unemployment within a year.

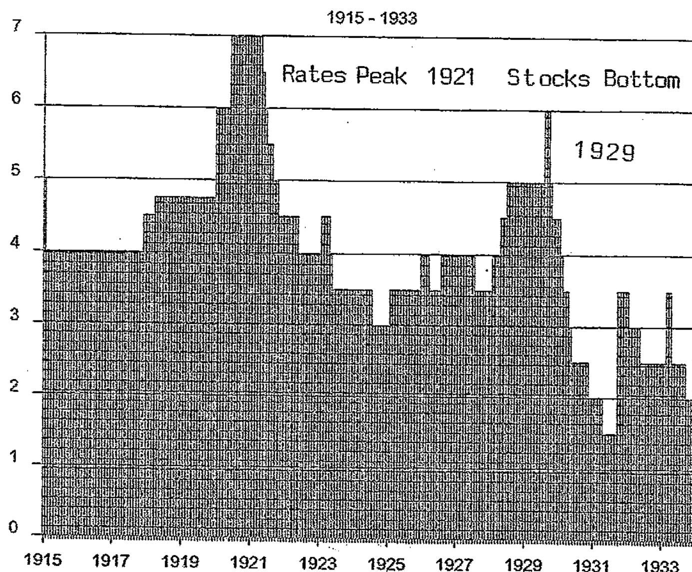
On January 21st, the stock market fell again around the world. The US was closed for Martin Luther King Day, but **Bernanke** had called an **FOMC** meeting any cut the rates to now 3.5%. On January 29th, it cut the Fed Funds rate another half-point. The decline in rates was unprecedented, and this brought criticism that they would fuel inflation.

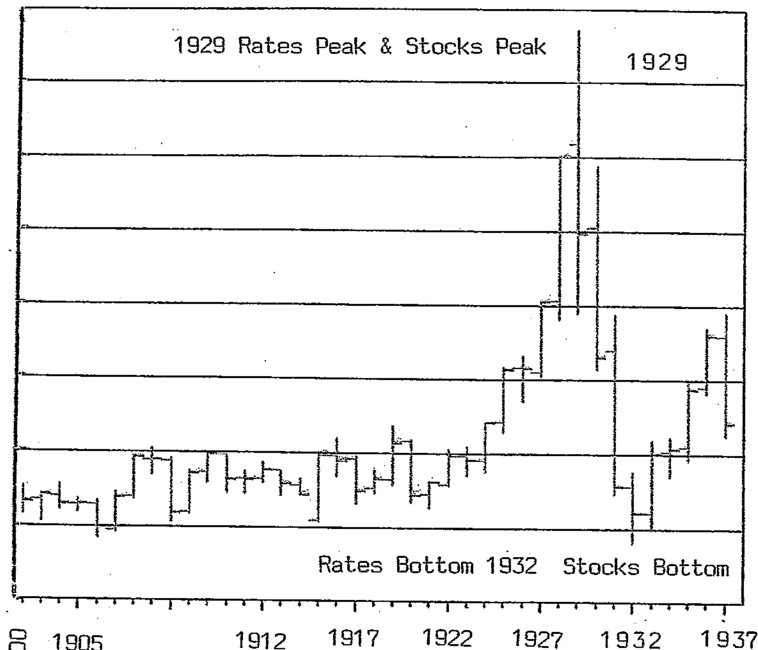
The crisis continued. This is when it appears that **Bernanke** began to listen to the advice of **Paulson,** who had become Treasury Secretary in June 2006. He was **Bush's** golden boy and **Bush** seemed to listen to **Paulson** perhaps more so than any other financial advisor. **Paulson** led the meetings of the **President's Working Group on Financial Markets.**

On February 14th, 2008, **UBS** writes off $2 billion in **Alt-A** mortgage debt. These were the same securities that were being posted in overnight REPO markets. The pure insanity of the ratings now began to come into play. The March 2008 Crisis hit for now the problem emerged that allowing the mixture of banking and securities that had been banned after the Great Depression, in fact came rushing forward. Investment Banks like **Bear Stearns** right to **Goldman Sachs,** were regulated by the SEC, not the Fed, and thus were outside of the **Bernanke Doctrine.** On March 13th, 2008, **Bear Stearns** folds.

It was a Thursday March 13th, but it might as well have been a Friday. The SEC and the NY Fed met that night at the office of **Bear Stearns** going over the books to try to understand what happened. They seemed not to fully appreciate how these mortgage pools were being rated **Triple-A** and then placed in as collateral in the overnight **REPO** market that was about $2.5 trillion in which **Bear Stearns** had been a significant participant. This revealed that a default by **Bear** would have a ripple effect through the **REPO** market. **Bear** also had been a trading CDSs with more than 5,000 clients. To just let a default take place would have had a ripple effect that could not even be really quantified in one night.

Geithner called **Don Kohn** who was head of monetary affairs at the Fed with **Kevin Warsh** and **Brian Madigan. At** the time, **Tim Geithner** was head of the NY Fed. The call took place about 2AM where **Geithner** now informed **Kohn** that he was not confident that





INTEREST MOVES WITH STOCKS

One of the greatest lies in market theory is that if you lower interest rates the cheaper rate will spark investment. It is simply a childish theory and illustrates that Western thinking is seriously and very profoundly flawed.

If we hope to ever graduate to the next level of Enlightenment, we better stop the bullshit and look at the facts. Every relationship is far more complex and as long as we keep trying to reduce everything to one cause & effect, we are doomed to just suffer under our own ignorance,

the fallout from a **Bear** collapse could be effectively contained. At about 4AM, now **Geithner** called **Bernanke** to convince him the Fed should intervene. This led to the 28 day loan to **Bear's** clearing bank at that time who was **J.P. Morgan. Bernanke** thus agreed to make the loan to **J.P.Morgan** under **Section 13(3)** of the Federal Reserve Act of 1932 that empowered the Fed to extend loans to financial institutions other than banks in **"unusual and exigent circumstancs."**

Under these terms, the Fed was passing the money through **J.P.Morgan** to **Bear Stearns** in order to prevent a ripple effect through the **REPO** markets. This at least covered the next trading day where the majority of the **REPO** transactions are just for one day overnight. The markets would survive and close, but this was still just a temporary solution. There would be the Asian opening on Sunday night to contend with.

The weekend was a hard and tough fight but the Fed wanted a permanent solution and this meant **Paulson** and **Bernanke** needed in their mind a quick and dirty **Shotgun Wedding.** Before the Asian Markets opened, they managed to get **J.P.Morgan** to agree to now buy **Bear Stearns** for that $2 per share, but only then after the Fed agreed to a $29 billion loan that effectively took on the **Bear** subprime securities positions. What the Fed began to see was the interconnected global market had created a web that is not really what is properly defined as **too-big-to-fail,** but **too-interconnected-to-fail.** It was very clear that **Bear Stearns** was not that huge insofar as being **too-big-to-fail,** but that the positions were just so interconnected that they cannot be allowed to fail without causing widespread chaos.

A lot of the lenders to **Bear Stearns** were money market funds. To default on that would have wiped out countless moms & pops. As I will explain further on, these CDOs were sliced and diced and then rated even **Triple A** even if the underlying tranche is not made up of **Triple A** securities. What would happen, in the case of a default, the CDOs posted by **Bear** would then in theory end up in money-market funds, who would then be trying to sell them and everything would just start to implode. There were many critics of this deal, but no one really understood the interconnected web an how that would create a real tsunami.

Ben Bernanke, Fed Chairman

While many of the criticisms have been simply unreasonable and dogmatic, in all reality, the very purpose of the Fed was to prevent failures due to short-term cash shortages. It was World War I and World War II where the Fed was effectively usurped and controlled politically under mandate to support the US federal bond market at par. The evolution of the Fed was hand-in-hand with the understanding of inflation. If inflation was defined by the increase in the money supply, then politicians pushed the responsibility of maintaining the overall economy to the Fed. This allowed the Congress to spend whatever it wanted and then let the Fed try to deal with the bad effects. This unfairly shifted far too much burden to the Fed, when its original purpose was to prevent such failures in the middle of temporary cash shortages.

The Fed **DID WHAT IT WAS SUPPOSE TO DO** when it was originally proposed. It was not designed to control inflation or manage the economy. There must be fiscal restraint and that is the job of elected officials.

The first casualty after **Bear Stearns** was now **Fannie Mae** and **Freddie Mac** who had $5.2 trillion in debt outstanding. It was on July 13th, 2008 that now **Paulson** told the press that "We could recognize the systemic risk here" and was now going to request from Congress an unspecified amount of money to sure up the companies. He did confirm that the Fed agreed to support the mortgage companies using the discount window until the Congress took action.

Many had been highly critical of both **Fannie Mae** and **Freddie Mac** that they had been squeezing out competition and were engaging in highly risky lending. But the appearance was still that they were implictly the US government backed institutions. A default there would have serious implications for the entire debt structure.

Finally, on September 7th, 2008, it was **Paulson** who announced that the government was going to place **Fannie** and **Freddie** into what he called a **"conservatorship"** replacing the chief executives and assuming an 80% ownership position in each company. In return, they would now have access to up to $200 billion dollars in capital. The following day, the Dow closed up nearly 300 points. The curious briefing that **Paulson** made was now to **Warren Buffett** who was said to have replied that it was the "right decision for the country."

Then on September 9th, 2008, the stock in **Leman Brothers** collapsed by 45%. It was a Tuesday. The news was that it had failed to obtain funding from a Korean bank. By the end of the week, Friday September 12th, 2008 the world seemed to be coming apart. That weekend will go down in history, and by Monday, September 15th, 2008, **Lehman Brothers** was filing for bankruptcy.

Some dogmatic "free market" supporters cheered when **Paulson** and **Bernanke** let **Lehman Brothers** fail. But less than 48 hours later, they were now putting up $85 billion to save **AIG**. They tried to cover-up the AIG deal with the bullshit of "moral hazard" and demanding extortionist rates of interest at 10% yet it was really doing a back-door bailout for the key concern **Goldman Sachs**. They took 80% of the company. But the actions of letting **Lehman** fold was disaster. By September 16th, the **Reserve Primary Fund** (money-market fund) had $700 million in **Lehman** paper and announced it was suspending all redemptions. This **contagion** was now spreading to the money-market funds and the result would create a flight to quality pushing government rates to near zero.

John A. Thain, Former Head of the Investment Bank = Merrill Lynch Ex-Goldman

There is a cloud of suspicion that has always covered the links between former people from **Goldman Sachs**. Even **John Thain** was trying to merge **Merrill Lynch** with his former firm. If we dance between all the conspiracy theories, there is just a degree of incest that emerges even if there is no predefined giant plan. **Paulson** had to direct **Thain** to sell **Merrill Lynch** to **Bank of America.**

Here we have the first choice of **Thain** was **Goldman Sachs.** Then we have **Paulson** who was trying to merge **Wachovia** with **Goldman Sachs.** As **Andrew Ross Sorkin** pointed out, **Byron Trott**, Vice-Chairman at **Goldman Sachs**, called **Warren Buffett** who he was trying for some time to get to invest in **Goldman Sachs.**

Sorkin explained that **Buffett** explained to **Trott** that when everyone thought about the idea, they would come to their sense and the deal would never go through. The basis for **Buffett's** insistance that the deal would never go through, was the acknowledgement of conspiracy theories. **Buffett** told him:

"Byron, it's a waste of time. ... By tonight the government will realize they can't provide capital to a deal that's being done by the former firm of the Treasury secretary with the company of a former vice-chairman of Goldman Sachs and former deputy Treasury secretary. There is no way. They'll all wake up and realize, even if it was the best deal in the world, they can't do it."

Indeed, **Sorkin's** excellent work provides great detail as to what took place. He shows that same day, Sunday September 21st, 2008, it was **Jim Wilkinson** who was **Paulson's** Chief of Staff, explained to **Paulson** that the **TARP** proposal was sent to Congress just the day before. He stress that handing **Goldman Sachs Wachovia** would present a public-relations disaster. He warned **Paulson** that he would then loss any credibility whatsoever. He thus told **Paulson:**

> **"Hank, if you do this, you'll get killed. ... It would be fucking crazy."**

What this illustrates is that protecting **Goldman Sachs** and helping it to expand, was in the minds it appears of ALL its former alumni. Those who want to yell and belittle people who are concerned about the power that has found its way into the hands of **Goldman Sachs** are all conspiracy nuts wearing tin foil hat and hidding in rabbit holes. are not in any way address the very concerns of the people and obviously even **Warren Buffett** seems to respect that you just can't piss in the face of everyone and then call them conspiracy niuts to avoid address the material issues.

The obvious concern is that **Paulson** got a call from **Goldman Sachs.** That cannot be now denied. **Goldman** had to call **Paulson** since it was the one pressing **AIG.** Therefore, **Paulson** lets **Lehman** collapse on the 15th, while he is running to **Bush** and then magically get $85 billion to seize **AIG.** How did he know about **AIG** unless someone told him, **"Hey. These guys owe us a shit load of money on our terms and can't pay."**

The seizure of **AIG** covered the alleged losses of **Goldman Sachs.** It looked that the only way to bailout **Goldman** was indirectly. It could not be merged with **Merrill Lynch** and too many ex-**Goldman** alumni are embedded both in government and private sector comp= anies, which prevented the **Wachovia** merger. The ONLY way to save **Goldman** was to illegally seize AIG, kick-out the mamagement, and now install a **Goldman** board member **Edward Liddy** to run **AIG**, who had over $3 million in stock of **Goldman Sachs.** This was the same back-door bailout scheme used in **Long-Term Capital Management.** It wasn't the fund being bailout, it was everyone it owed, including again **Goldman Sachs.** What can't be done directly, is done indirectly!

Neil M. Barofsky who was the appointed **Special Inspector General** for **TARP**, published his report in 2008. By that time, the bailout of **AIG** had risen to $182 billion. He has in fact shed more light on the whole problem and he criticised **Tim Geithner** who was the head of the **New York Federal Reserve** when all the cahos broke, but moved on to be now Secretary of the Treasury under Obama.

Barofsky pointed out that the Fed never developed any workable recue plan when it had just seized **AIG**. It pointed out that Fed had refused to exercise its power to demand any concessions at all from the main clients of **AIG** that included **Goldman Sachs**. The contracts were just simply paid out at 100 cents of the dollar. That was shocking in any crisis.

It was **Geithner** who approved the truly extraordinary pay-out of a 100 cents on the dollar. That would never have been done in a bankruptcy court. This raises the entire question about how and why **AIG** was illegally just seized arbitrarily. These positions in fact would have been at the very best worth perhaps 50 cents on the dollar.

The list to whom these extraordinary gifts were given to were **Goldman Sachs, Merrill Lynch** and **Socoete Generale** who were the top benefactors. Why did a few get 100 cents on the dollar while other firms were getting fire-sale prices? It was this report that first bestowed the label - **"Backdoor bailout"** that has stuck ever since. The **Inspector General Report** stated very bluntly:

> **"The very design of the federal assistance to A.I.G. was that tens of billions of dollars of government money was funneled inexorably and directly to A.I.G.'s counterparties."**

The report made it clear, **BUT FOR** the seizure of **AIG, Goldman Sachs** would not have received those funds has **AIG** gone belly-up. The report also called into question the Fed claims to withhold the names of those who received any funds. The Fed under **Geithner** and **Bernanke** were arguing "that disclosure of the names would undermine A.I.G.'s stability, the privacy and business interests of the counterparties, and the stability of the markets." The report pointed out that these arguments were effectively bullshit since when the identity of the benefactors was made public, they "did not all." The report made it clear that the arguments being put forth by **Goldman Sach** was also false that they would not have suffered any damage had **AIG** just collapsed. **Barofsky's** report was quite packed and revealing, yet it was only 36 pages.

Indeed, the constant defenders of the entire corrupt system told **Barofsky** that when he took the job, he was wasting his time. He told **Bloomberg News** what they said:

> **"Oh, they're bankers, and they wouldn't put their reputations at risk by committing fraud."**

That is the same defense they use to get rid of the critics by calling them just conspiracy nuts, but present no eveidence to counter any criticism. That is like saying a priest is a man of God and thus he would never commit a sex crime. Well we found out that one wasn't true either. I dare say, any so called fear about a reputation is in the same category.

It was **Lucas van Pragg**, who was the spokesman for **Goldman Sachs** who told the world that **Goldman** believed **"that a collapse of A.I.G. would have had a very disruptive effect on the financial system and that everyone benefited from the rescue of A.I.G."** While this much may be true, but the rest of the claims are would appears to be just lies to the common rational man. **Gretchen Morgenson** of the New York Times reported that on September 16th, 2008, when **AIG** was being illegally seized, it was **David Viniar**, Chief Financial Officer at **Goldman Sachs**, made the famous statement that the collapse of AIG would have had an impact that was **"immaterial."**

The real curious point is when the New York Times reported the concerns about the **AIG** bailout in September 2008, it was then **Geithner** who defended **Goldman Sachs**. He then stated publicly that the decision was "not my decision alone" and he then stated it was not "to protect any individual investment bank" and that claims purporting that by the New York Times and others, were just "unfounded." This answers nothing and it explains nothing. It is **Paulson** who is suspected, and the facts suggest otherwise.

House Attacks Fed

Representative Darrell Issa demands answers

Recently, it has now come to light the New York Fed told AIG not to reveal info on its bailout. This type of suppression by the **Federal Reserve** is very serious. While everyone has been looking at Treasury Sec. **Timothy F. Geithner** who was at the Fed then, they forget the head of NY Fed now is also a **Goldman** alumni, **William Dudley**.

This interesting "coincidence" deals with the disclosure of the bailout to AIG that many now see as a clever back-door bailout of **Goldman Sachs** at 100 cents on the dollar with several others.

Congressman Issa obtained an email message between AIG and the NY Fed, in which the lawyer for the Fed told AIG "there should be no discussion" of certain details of its required regulatory filing covering the bailout. This covered the most critical part of that bailout, the "backdoor" payout to third parties at 100 cents on the dollar. AIG provided details, but it was the NY Fed who crossed them out.

This is an old e-mail so it took place when **Tim Geithner** was the head of the NY Fed, during the period when the US tookover AIG acquiring a 79.9% stake in AIG.

In the dark corners of the Fed, part of the AIG bailout included establishing a new structure called **Maiden Lane III**. This new structure bought the debt products of some of AIG's clients, and then this allowed AIG to effectively tear-up the CDS products they wrote against them.

However, there is another $10 billion that could not be torn-up and reflects more of a outright speculation on the real estate market. This has yet to be fully investigated. What has been revealed, the NY Fed's lawyer at **Davis Polk & Wardwell**, Mr. **Ethan T. James**, wrote:

> "There should be no discussion or suggestion that A.I.G. and the N.Y. Fed are working to structure anything else at this point."

However, on February 7th, 2010, the depth of this nonsense keeps getting just deeper and deeper. This is not just the likes of **Goldman Sachs** playing games and manipulating the people, this is the Fed and the Treasury, i.e. the Executive as a whole. **Gretchen Morgenson** and **Louise Story** reported on the from page of the New York Times, that **Goldman Sachs** obtained about $7 billion from AIG BEFORE the bailout.

What has come to light now, is perhaps the reason why **Societe Generale**, a French bank, made it to that illustrious finish line to get the 100 cents on the dollar in the AIG bailout. It turns out, a large part of the money that went to **SocGen**, went to **Goldman Sachs** for what **Goldman** had actually done was place more contracts with AIG but indirectly through **SocGen**. It then appears that **Goldman** was instructing **SocGen** to in fact also make demands on AIG for colleral. It appears that **Goldman** could not have in any way expected AIG to come up with that cash and to make it appear as if they would not be the only one demanding cash, they got **SocGen** to park the trades. There is something fishy going on in these types of transactions. In the real world, they are called **"parking trades"** and that is thus a prosecutable conspiracy.

Did Goldman Sachs Push AIG Over The Edge?

GOLDMAN SACHS clearly pushed **AIG** over the edge. The question is, was it intentional expecting **Paulson** to convince **Bush** to let him seize **AIG** to then make sure **Goldman** got paid on all its contracts at 100%? Or perhaps **Goldman** was not the smartest on Wall Street and couldn't add up the total sum of all the contracts it did with **AIG** and realize they exceeded the cash liquidity of the company? Perhaps the smartest people on earth can't tie their shoes and use a calculator at the same time? It seems to me, that there is something being overlooked. As a trader, I had to do serious size. I had dealing lines around the world. When you are dealing in billions of dollars, you don't deal with somebody you never heard of. Why? Because they may not fulfill their side of the contract. **YOU MUST ALSO ASSESS CREDIT RISK!** That meant you paid attention to the credit your counterparty was capable of maintaining. You didn't call some start-up broker-dealer with $50,000 in capital and do a trade for $1 billion.

What seems to be missing in all of this has been that **Goldman** had to be aware of the scope of **AIG**. It turned bearish in December 2006. You just don't do contracts with any firm if you do not believe they have the wherewithall to do the deal. **Goldman** even had a internal unit that must approve who they do business with and how much of a credit-line they extended to that firm. Even if **AIG** is **Triple-A** with total assets of say $100 billion net, you don't sign them up for $1 trillion. In other words, there had to be internal checks and balances. That is part of every firm!

Now, we must look at what took place not from the naive eyes of Gee, **Goldman** had no idea what was going on and was somehow surprised by the collapse of **AIG!** This is just not how the real world functions. Yes, a firm can get caught up like **Lehman** and **Bear** when you are just trading stocks or dealing with them in **REPO** with good real **Triple-A** security. You may not be aware of the possible mortgage collapse.

Nevertheless, those naive mistakes are not even remotely possible when the very CDS instrument you yourself created, is at the center stage of the expected decline. Since **Goldman Sachs** insists that they are the most sophistcated and smartest firm around or to have ever existed, then you must presume that they had some idea of the credit risk in the very market that they are trading. To claim ignorance would place them at the bottom of the food-chain somewhere next to **Dumb-and-Dumber**.

Gretchen Morgenson and **Louise Story** of the New York Times, reported in a front page article entitled:

Testy Conflict With Goldman Helped Push A.I.G. to Precipice

This article of February 7th, 2010, is one of the best I have read documenting the fact that there was an ongoing dispute between **AIG** and **Goldman Sachs**. What is illustrated is that **AIG** had already posted $2 billion with **Goldman** on a collateral demand. However,

the dispute that was arising was over the valuation of the contracts. **AIG** was asking for part of that $2 billion back "insisting that Goldman - like a homeowner overestimating the damages in a storm to get a higger insurance payment - had inflated the potential losses. Goldman countered that it was owed even more, while also resisting consulting with third parties to help estimate a value for the securities." Ibid.

What also made these contracts highly subject to manipulation, was the fact that there was no exchange traded price. There was only opinion and that opinion as to a value was being set by **Goldman Sachs** who thus had a vested interest in marking that value as low as it possibly could.

The NY Times reported that this dispute became "one of the most momentous in Wall Street history." Ibid. They also reported that "Goldman's demands for billions of dollars from the insurer helped put it in a precarious financial position by bleeding much-needed cash. That ultimately provoked the government to step in." Ibid.

The NY Times reported that besides the $7 billion **Goldman Sachs** got out of **AIG** before the government seizure, they got at least another $12.9 more than any other firm after the rescue. However, what has come to light is the whole question of parking more trades through **Societe Generale.** The Times reported that "a portion of the $11 billion in taxpayer money that went to Socoete Generale, a French bank that traded with A.I.G. was subsequently transferred to Goldman under a deal the two banks had struck." Ibid

NY Times reported the dispute in the valuation was addressed quoting in March '09 **David A. Viniar,** who was the Chief Financial Officer at **Goldman Sachs.** He told reporters at that time:

> **"We believed that the value of these positions was lower than they believed."**
>
> Id./pg A27

The NY Times reported that when indeed **Goldman** was asked if it did anything wrong in pressing **AIG, Viniar** responded simply saying, **"I don't think there is any guilt whatsoever."**

The NY Times reported that **Lucas van Praag,** who was **Goldman's** spokesman, "reiterated that position. 'We requested the collateral we were entitled to under the terms of our agreements ... and the idea that A.I.G. collapsed because of our marks is ridiculous.'" Id./pg A27

Goldman Sachs never responds with any sort of evidence. The typical response is the person is crazy, conspiracy nut, or like here, its just "ridiculous." Nothing is ever put forth to rebut accusations. They are just summarily dismissed.

The question here that is staring us in the face, **How did Paulson find out that AIG owed Goldman and needed to be seized?** If the answer to that is somone from **Goldman** called **Paulson,** then I would have to say that the official statement that "ridiculous" is one more public lie.

The NY Times made it clear that the documents showed that **Goldman Sachs** "resisted, for example, letting third parties value the securities as its contracts with A.I.G. required." id./pg A27. These types of contracts also include an arbitration clause. A party agrees to seek arbitration before going to court. Once **Goldman Sachs** refused to allow a third party valuation, they violated the entire contract. Technically, the contract was now void. **Goldman** would have to go to court to collect and then a third party would have set the value. Therefore, the **ONLY** way to collect 100% of **YOUR** valuation was to pick up that phone and have **Paulson** seize **AIG** and then have the government pay in full the value you claimed all along!

Keep in mind that **AIG** is arbitrarily seized by the government purely as a sole Executive function. **Paulson** lets **Lehman** collapse on September 15th. **AIG** is then arbitrarily seized within 48 hours, and now **Paulson** is emailing the **TARP** proposal that contains the absolute immunity to Congress on September 20th. Don't forget **Paulson** gets the White House to waive all his conflicts of interest on September 17th.

This time line demonstrates that **AIG** was simply seized as an executive function without due process of law, and **BEFORE** the Congress passed **TARP** on October 3rd, 2008.

TIME LINE

September 15th	....	**Lehman Brothers** folds
September 17th	....	**Henry Paulson** is relieved by the White House of all conflicts of interest allowing him to deal with his beloved **Goldman Sachs**
	....	Fed announces a $85 bil injection into **AIG** and the taking of about 80% of the stock.
September 20th	....	**Paulson** emails **TARP** to Congress
October 3rd	....	Congress Approves **TARP**

"A November 2008 analysis by BlackRock, a leading asset management firm, noted that Goldman's valuations of the securities that A.I.G. insured were 'consistently lower than third-party prices.'"

Id./pg A27

It certainly appears that **Goldman** pressed **AIG** and whatever management that did exist at **AIG**, was not familiar with the overall structure of what they got themselves into. There appears to have been this presumption that the mortgage pools were (1) being correctly rated & (2) that **Fannie** and **Fredie** were behind the mortgage market. In Japan, the huge loss by **Yakult** of about $1 billion, was set in motion because of a faith in the true ability of government to control everything. The Chief Financial Officer was a Mr. Kumagai who had previously worked for the Government in a high office. His personal knowledge that government would come to the rescue may have been correct. But where I consistently warned him the Nikkei would decline, he simply just disagreed by saying the Ministry of Finance would never allow that. His faith in government led to a $1 billion loss and his imprisonment as a scape-goat. MOF tried, but lost over $1 trillion in the economy with not any lasting effect at all.

Here we had the same problem. There was this presumption that the Government would never allow the housing market to collapse so there was this presumption that mortgage pools were implicitly **Triple-A** and then you had the Rating Agencies agreeing. The government criminally charged and put on trial two fund managers from **Bear Stearns** and tried to blame thme for the collapse. **Matthew M. Tannin** and **Ralph R. Cioffi** were charged with the loss of $1.6 billion. The Government told the jury:

"They did the best thing that they could think of to keep those investors in the fund and with any luck keep their bonuses coming: they lied ... They lied over and over again to lull those investors into a false sense of confidence and make them think that these failing funds continued to be a good investment when the exact opposite was true."

Indeed, **Dean Baker** of the **Center for Economic and Policy Research** said of the fact that **Paulson** and **Bernanke** let **Lehman** just fold, he was stunned that they just let that happen.

"They've been doing things of dubious legal authority all year. Who would have sued them?"

New Yorker Magazine 12/1/08, pg 62

Indeed, Constitutionally, nobody even dares to talk about how these were just outright illegal seizures. British Law did not allow such actions. Under US practice, only in the United States will you find that federal judges are pawns of the state. They have crowned government agents with absolute and qualified immunity, so they will prevent anyone from ever suing **Paulson**, **Bernanke** or anyone else in government. The United States has NO rule of law, and this illustrates that point more than anything. The Federal Judiciary is indeed the greatest threat to the survival of the United States. They have turned the country into a virtual dictatorship that can now just seize any company it desires by executive action. We are formally a **Banana Republic Without The Bananas!**

The NY Times reported also in its key article on February 7th, 2010, that analysis by independent third-parties such as **BlackRock** agreed with **AIG** that **Goldman Sachs** was using aggressive pricing to push their own profits to which bonuses are attached.

Matthew M. Tannin (top) Ralph R. Cioffi

The government attorneys in Brooklyn wanted the lime light and brought the criminal case against **Tannin** and **Cioffi** as one of those career moves to stardom. But only the Manhattan Federal Court alters transcripts and the judges bend over backwards to make sure the Government always wins. Once you step outside of Manhattan, there is a small minority of Federal judges who still care about America as a nation.

Tannin and **Cioffi** should get down on their hands and knees and thank the stars that Brooklyn tried to pre-empt Manhattan. They got **Judge Block** who was not confortable with the allegations of the Government. He warned the government this would not be a case where he would allow a **"revenge opportunity."** These two guys were being prosecuted because there was no **Bear Stearns** so they were now fair game just as those in **Drexel Burnham.** The Government will take a single partial line out of a email or letter, and put you away for life while most judges will hide the whole letter or email from the jury. They never see the context in which it is written. **Judge Block** did the right thing and let the jury see the whole email. After acquitting these two men, a juror told the press:

> **"The entire market crashed ... You can't blame that on two people."**

The thrust of the case was also claiming they represented that the subprimes were backed also by **Fannie Mae** and that meant they were really **Triple-A.** But that is in fact what was the sales pitch coming from many who created the pools. It is also a presumption that the government would defend the mortgage market. The whole **Long-Term Capital Management** collapse caused by the Russian debt crisis, was also created because of a presumption that the **IMF** and all the countries were behind Russia and would never let it default. **LTCM** folded on that presumption. It is always the same story!

Jeffrey K. Skilling ENRON CEO

Jeffrey Skilling was found guilty and sentenced to 24 years in prison when the Feds admitted his acts **WERE NOT INTENDED TO ADVANCE HIS OWN INTERESTS INSTEAD OF ENRON'S.** You do not have to profit to lose your life in the USA.

If we look at the allegations that were made to get the indictments against **Tannin** and **Cioffi** and how **Skilling** was thrown in jail for life without having to show that he personally benefitted, why is there nothing brought against **Goldman Sachs** when Manhattan is the most corrupt court in the Federal System where they could find Santa Claus guilty for pretending he is a real person misleading children in stores - **That's FRAUD!**

The two traders at **Goldman Sachs** who structured the deals with **AIG** were **Jonathan Egol** and **Ram Sundaram.** The central target of their deals was **AIG** and when the government illegally seized **AIG,** about $5.5 billion in their deals were still on the books at **AIG.** It was Mr. **Sundaram,** according to the New York Times, who "used financing from other banks like Societe Generale and Calyon to purchase less risky mortgage securities from competitors like Merrill Lynch and then insure the assets with A.I.G...." Id./pg A27. The New York Times reported:

> **"after A.I.G. collapsed, Goldman made Mr. Sundaram a partner."**

Was this a reward for creating the **AIG** debacle? The New York Times reported that **AIG** "probably did not know it, but [t]he[y] w[ere] working with the bears of Goldman." Id./pg A27 (quoting an annonomous source who did not want their name released).

There appears to be a serious issue at large that **Goldman Sachs** in fact set up **AIG** for a fall. I doubt that they realized the extent of the contagion, but they were in fact looking to take **AIG** for everything they could. They clearly kept the pressure to force **AIG** to put up more and more collateral. Even on October 8th, 2008, just 5 days AFTER Congress passed **TARP,** you have **Goldman** again demanding yet another $1.3 billion.

The New York Times uncovered internal emails from March 7th, 2008 where **Cassano** of **AIG** is insisting upon an independent 3rd party valuation. **Michael Sherwood,** the Vice Chairman at **Goldman Sachs,** refused to comply. **Goldman** was demanding $4.6 billion from **AIG** and they were insisting it should be only $1.2 billion. There will never be a court decision because **AIG** was illegally seized by **Paulson** under Executive decree.

To further demonstrate the stark difference between Manhattan Federal Courts and just about every other place, the fact that judges there will never protect the citizens against the government is reflected in the wholesale editing of transcripts changing the very words spoken in court altering even witness testimony, but they just will not allow civil suits against any of the **"Club"** members.

Judge Pollack dismissed an attempt to sue **Merrill Lynch** in a class action suit. And now Judge Kaplan dismiss a suit against the Rating Agencies. In fact, I had met an inmate who went to trial before Judge Kaplan and the government witness screwed the whole case up mixing up two people say A did y and B did x when the indictment said the opposite. The lawyer moved for acquittal, and the prosecutor told the court reporter to switch the names throughout the whole trial transcript. The inmate showed me the letter to the court about the prosecutor even changing the transcripts. Kaplan reversed to reverse the convinction and rules this was a **"normal gramatical correction"** that the prosecutor did nothing wrong!

Now Judge Kaplan dismissed a case brought against the rating agencies by **Lehman** bond holders. The rating agencies claim they are like journalists and are protected by the First Amendment. The investors were represented by David J. Grais and Kostas D. Katsirs or the law firm **Grais & Ellsworth.** They retorted arguing "the rating agencies are not journalists gathering information and reporting to the public, but rather participants in the transactions that they rate. They pointed out that the rating agencies participated in the whole process of crating these mortgage time-bombs telling the issuer what to do to get specific ratings. The investors argued that, it was the ratings agencies and not **Lehman** who

> **"largely determined the composition of the securitized pool of loans, the amount and form of the certificates' levels of credit enhancement before the certificates were created and the ratings agencies were 'engaged' to rate the securities."**

If the government had brought these charges, it would have been a properly alleged conspiracy and no federal judge would summarily dismiss such a case. Here, it was investors

who were trying to bring the action and they found out how New York protects New York and the **"Club"** at all times. Had the suit gone ahead, this would have opened the door to the ratings in **AIG**, **Goldman Sachs**, and just about every other firm involved. From the government's perspective, that could not be allowed. The courts must prevent the people from truly exercising their rights or my God, we could actually have a Free Society ruled by a real Democracy!

Judge Kaplan could not really disagree with the argument that the rating agencies were not impartial and independent journalists. He conceded that the rating agencies were **"no different than those in designing and constructing a house."** Had the government been the mover of this case, that established they were part of the conspiracy. However, he still dismisses the case rationalizing that the rating agencies did not own the house.

> **"While it doubtless is true that the architect or builder had a lot to do with the characteristics of the house - no doubt characteristics that made it an attractive and salable product - they cannot properly be said to have participated in any legally relevant sense in its resale down the line."**

Andrew Ross Sorkin who covered this story for the New York Times on February 16th 2010, pointed out that Judge Kaplan "seemed to acknowledge that he might very well have the rating agencies guilty." Id./pg B8. He goes on to report what Kaplan said:

> **"The collapse of the mortgage-backed securities market has been a national disaster. Many actors, quite likely including the rating agencies, contributed to the catastrophe ... [but the] task before this court is a narrow one."**

Sorkin reported that many lawyers were outraged by the events, and now warned that other courts would follow Kaplan and block the people from seeking damages. Numerous people are being thrown in prison on this whole mortgage collapse. But they are the small time security people selling a product and no big names will ever be prosecuted at all. They will use the small people to claim they are doing their job.

The whole problem in **FRAUD**, is that the total amount is presumed to be the "intended" fraud. In murder, you cannot <u>PRESUME</u> that the event was an intended First Degree murder. The government must prove your state of mind. It is like you backed your car out of the driveway and killed someone walking on the sidewalk. If the presumption is you **DELIBERATELY** rammed the car into the person to kill them, you are facing death. Now you must prove you did not **INTEND** that result, and were distracted and thus only negligent - **MANSAUGHTER**.

In **FRAUD**, the government presumes everything is the fraud and you are not even given the dignity to show otherwise. It is as if you went into a bank and robbed a teller and she gave you $100. You are then charged with intended bank robbery for $1 billion for that was the total deposit in the bank. This is the way the amount of money is set so those career eager prosecutors can get the headlines and carve their name in headlines.

So against this backdrop, one must at least wonder what the hell is going on. Is there enough evidence to make it appear that there was a criminal conspiracy to push **AIG** over the cliff? Based upon how fraud is even charged, **Madoff** was $50 billion, whereas the number alone in **AIG** was $182 billion. This would be the largest fraud case in history that could reach into the trillions of dollars. So why are the courts protecting even the big Rating Agencies?

It does not appear that there will ever be any real addressing what took place. The system is just too corrupt and rotten to the core. As **Thomas Jefferson** warned, the fall of the United States would come from the judges in the Judiciary. They were to be the check and balance against corruption. But they no longer fulfill that constitutional duty. They claim "discretion" when to even enforce the Constitution, which means it ain't absolute!

There is perhaps no hope. But you decide if **Goldman Sachs** pushed **AIG** over the cliff to further their own profits? The two fund managers at **Bear Stearns** were put on trial and it was their bonuses that the government argued was their motive for the crime. If that is the tactic, then come on. Let's call a spade a spade. There is something seriously wrong and the Congress will never investigate the Judiciary. So what hope is left?

Did Goldman Sachs Deliberately Provide False or Misleading Analysis and then take the Opposite positions?

ONCE UPON A TIME there was integrity in research. One built a serious business by providing the best advice possible to clients. They would return that respect with loyality. But there has been a serious sharp decline in research when it is provided by the very firm who is taking proprietary positions that may be opposite of the very advice it is giving out. The problem presented here, is that there is a question arising whether or not **Goldman Sachs** has used its research arm as a means to influence the market. They clearly touted oil incorrectly and they even put out sell recommendations on **AIG**, and then had **Paulson** convince President bush he needed to seize **AIG** and pay the margin calls to **Goldman Sachs** 100 cents on the dollar. Even back in 1987, **Merrill Lynch** took out full page advertisements showing their analysts announcing they were "Bullish on Bonds." I knew someone in those photos and asked how could he be bullish on bonds? He said the lawyers made that call for their could not be sued if clients lost on US bonds. There is simply too great a temptation when there is a conflict between the firm's desires and the analysis it pretends is independent.

Eliot Spitzer

In 2002, Atty Gen **Eliot Spitzer** filed a suit against **Merrill Lynch** when he was the Attorney General for the State of New York. The suit argued that **Merrill** had blurred the lines between its research and its investment banking divisions. It is just too tempting to put out research and then be the proprietary traders looking to make money with no loyal ties to the customers. The ethics completely broke down when these firms became proprietary traders who then have access to inside info as to what their clients are doing in other divisions. This is simply unacceptable.

Jack Grubman

The same probem hit **Salomon Smith Barney** in 2002 when their analyst **Jack Grubman** was forced to step down following allegation that he was advising clients to buy companies such as **WorldCom.**

Andrew Ross Sorkin of the New York Times reported that **Goldman Sachs** had finally at last admitted that the firm had already taken positions in something and then it fundamental strategies group put out its forecast. It was reported: "Sometimes Goldman has even taken the opposite approach, betting against particular instruments that the group has recommended." **Id./NY Times, Business Day**

There is something inherently wrong when the advisor can be influenced by any external sources or by personal interest. In the mid 1980s, the requests I use to get for various interviews became persistent. In 1983, the **Wall Street Journal** did an article on me talking about how I was the highest paid advisor in the world. **"Those who think talk is cheap, haven't spoken to Martin Armstrong."**

A few years later, I consented to do an interview with the international paper the **Herald Tribune**. The journalist flew in and came to the office. However, it became a crazy day in the world currencies. From almost the time he arrived, the world was going crazy. We were so busy, there was no lunch break. It was call after call all day. When the markets finally closed, I was just exhausted. I apologize for not having time. He was in total shock. The first words out of his mouth, **My God. You know what every one is doing. You could make a fortune.** I promptly replied. No one in that room was allowed to have any personal trading account. I informed him, I had no personal account and neither did any member of my family. That's why people pay what they do. At the rate of $10,000 an hour, we were well paid for what we did. He respected that. I then pointed out he had been there all day. He never once saw anyone call a trade in on their own account.

The point is, you cannot be advising clients and then at the same time trade against them. That is just not the way to build a business. You might get away with it once or twice. But the clients are not stupid and will quickly figure out what is going on.

There is just something wrong when a firm is (1) the market maker, (2) the broker, (3) the proprietary trader, and (4) the advisor. You can't wear that many hats conflict free.

In fact, because I would run around the world giving public lectures and even advising many of the biggest institutions in the world, I had asked lawyers around the world what regulations needed to be complied with in so many different nations. The **ONLY** way was to give up all personal investment whatsoever. That included my family. There was too much conflict among nations to dance between rain drops.

For someone who advised on over $3 trillion back when the national debt was $6, the contempt was for $1.3 million and they could never bring insider trading allegations when I knew of countless deals. Even HSBC's purchase of Republic National Bank, former Chairman Mr. Swift who brought HSBC to London, met with me in my London office and asked my opinion on buying Republic. I told him I had problems with their accounting and to count his fingers when he was done shaking hands.

Research firm **MUST** be separate from the brokerage and Investment Bankers. They should pay for the research a client requests, but they should not provide research to clients when they have proprietary trading positions. This has been a huge problem for decades.

Goldman Sachs had an oil analyst named **Arjun Murti** who became dubed by the New York Times as the **"oracle of oil."** This is the guy who was calling for $200 oil. **Salomon Brothers** had its **Henry Haufman**. The temptation is too great to start playing games with the analysts.

In the 1980s, I had a very large Arab trader. He loved trading gold and the yen dmark spread. One day he called from Europe and asked me what gold would do tomorrow. I told him it looked like it would go up $7, but the fundamentalists were waiting to see what **OPEC** would announce at the close of their meeting. He asked me if that was important. I told him yes from a volatility perspective. He asked me to hold on. He then dialed into the **OPEC** meeting picked me back up on the phone, and conferenced me into the meeting. He asked: **What are you guys going to say?** They told me after greeting me. I then replied that gold should indeed rise by that $7 that appeared likely on the technical level. This was not manipulating what would be said. But when the firm owns the analyst and has the proprietary trading center, then what does come out can be manipulated for personal gain.

As **Sorkin** pointed out in the **NY Times**, it also came out that research at **Goldman** where the analysts had "huddles" with the traders giving them info they would later release to clients. "Goldman does not always disclose its own positions when it shares its trading ideas." **Thomas C. Mazarakis** (head of research) stated:

> **"We may continue to act on trading ideas, and may trade out of any position, based on trading ideas, at any time after we have discussed them with you."**

(NY Time 1/13/10; B2)

Did Goldman Sachs Construct Mortgage Pools Designed to Fail?

PERHAPS there is nothing more damaging than the report by the New York Times that again made the front page wirtten by **Gretchen Morgenson** and **Louise Story** that appeared on December 24th, 2009. Perhaps because it was Christmas Eve, but this one story more than anything else, has sparked a sense of true question as to a matter of character. The title was: "**Banks Bundled Debt, Bet Against It and Won / When Mortgage Deals Soured, Clients Lost but Not Goldman.**" The story focused on the fact that **Goldman Sachs** had put together mortgage pools and then turned around and took short position against their own pools. The article reports that **Jonathan M. Egol** rose to be made Managing Director at the act of 37 for being the first to create the **Abacus** pool that was designed to "protect Goldman from investment losses if the housing market collapsed."

It is one thing to take a bearish view on a market as a trader. It is something quite strange when you are (1) an aggressive proprietary trader, and (2) an investment bank selling products. If you are selling pools, then you have inside info how that pool is constructed. You know the strengths and the weaknesses.

The New York Times explained that as the market fell, **Goldman Sachs** made a real fortune, but its "own clients who bought them, however, were less fortunate." The article continued to explain:

> **"Pension funds and insurance companies lost billions of dollars on securities that they believed were solid investments, according to former Goldman employees with direct knowledge of the deals who asked not to be identified because they have confideniality agreements with the firm."**
>
> ibid.

Because of this article, Congress has started to try to look into what the hell is going on at **Goldman Sachs**. This will not ever once lead to any criminal prosecutions you can bet on that. Nevertheless, what is being revealed here is the complete breakdown in corporate ethics. The day when the client came first is gone, and that is due to the merger of so many aspects under one roof.

You cannot be a Investment Bank structuring products for corporate clients, and then have your proprietary traders handed inside info on those portfolios who then immediately start shorting the hell out of them betting on the client will lose money. You cannot have one firm wearing so many hats. The temptation is clearly too great. Each and every department only feeds back to the proprietary trading.

Goldman Sachs was **NOT** the only firm to engage in such products. **Gretchen** made it clear that **Deutsche Bank** and **Morgan Stanley** did the same thing. This is why they will never criminally indict anyone on this matter. It has become standard practice and thus Congress is looking at changing the rules to prevent this conflict of interest. Perhaps it will work. But unlikely!

The investors who bought these pools are just screwed. No court will help them, and if anyone tries to bring suit, go to at least a court outside of New York. The best place is California. That is the only Federal Circuit where there is some justice left - the **Ninth Circuit.** The rest goose-step to the bench to be patriotic to support the government at all times against those damn liberal people who think they should have any rights at all.

The New York Times reported that the pools put together by **Goldman Sachs** "ended up being so vulnerable that they soured within months of being created." **Id. Front Page, Dec. 24th, 2009. Goldman's** reply to the allegations saying "they typically employ many trading techniques to hedge investments and protect against losses. They add that many prudent investors often do the same. Goldman used these securities initially to offset any potential losses stemming from its positive bets on mortgage securities." Ibid.

However, **Goldman Sachs** was proud that it turned bearish in December 2006. It had no positive positions in real estate pools itself. It sold products, but it was not in fact investing in these pools itself. So, there is no "hedging" strategy. They were net, net shorting the real estate market. I see no problem with that. But why bullshit the world unless you are trying to hide the dirt beneath?

The NY Times quoted a consultant from **R & R Consulting** who commented:

> **"The simultaneous selling of securities to customers and shorting them because they believed they were going to default is the most cynical use of credit information that I have ever seen. ... When you buy protection against an event that you have a hand in causing, you are buying fire insurance on someone else's house then committing arson."**
>
> (quoting: **Sylvain** R. **Raynes**)

The NY Times reported that **"Michael DuVally**, a Goldman Sachs spokesman, declined to make Mr. **Egol** available for comment." The NY Times reported that **"Mr Egol kept most of these wagers** [short positions] **for his firm."** It was reported that **Goldman Sachs** did allow one hedge fund to buy some of the short position on the pools. That was the hedge fund **Paulson & Company**. However, it stated that **John Paulson** "declined to comment." Id./p B4.

The NY Times also reported: **"Goldman declined to discuss the selection of the assets in the C.D.O.'s, but a spokesman said investors could have rejected the C.D.O. if they did not like the assets."** Id./PB4

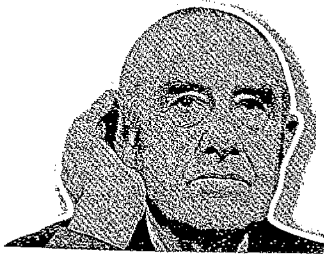
Like the government, **Goldman** shifts the burden to the client. But then, they also hold themselves out to be advisors and they publish research . This whole thing starts to smell. There are just too many hats and there may be sophisticated clients, but there is also something that is at the core of all business relationships - **"TRUST."**

I would not deal with anyone with whom I did not trust. We had one Japanese company that took a fixed exchange rate note and then tried to get slick. I immediately then returned all the funds and cancelled the note. They now complained that they wanted to buy more. I simply said - thanks, but no thanks. Contracts are only as good as the person signing them. It is like the Federal Constitution. It is just a scrap of paper. If courts claim "discretion" to enforce any right, then it does not exist. Article III that created the Supreme Court, does not in any place given the court discretion to even listen to the citizen. Yet, they say you have no right to be heard unless they want to listen. That conflicts with the **First Amendment Right To Petition.** That cannot exist if the Supreme Court has <u>any</u> discretion to listen to the people. It was an ABSOUTE right. Business contracts are the same. If there is something in writing, it is worthless if the counterparty refuses to comply.

Goldman Sachs designed pools to in fact implode is what it appears. The NY Times makes it clear, the structure was designed to "multiply the value of their bets, to as much as six or seven times the face value of those C.D.O.'s." Ibid. Thus, the entire scheme was to magnify the decline with the maximum leverage. But they were dealing in a market that was purely over-the-counter and there were no exchange quotes established by free markets. So we add to the case the possible deliberate design to fail structure to increase the profits from a collapse.

Did Goldman Sachs Deliberately Create a Strategy to Infiltrate World Governments with its Alumni?

LITTLE doubt exists in the minds of the majority that when you look at the sheer scope of the alumni around the world in strategic political posts, the impression that **Goldman Sachs** has become the new **Illuminati. Goldman Sachs** was not the first to send its high ranking CEOs to Washington. The first of any note was **Averell Harriman** of the world renown **Brown Brothers Harriman. Averrell** was the first to become a cabinet post, **US Commerce Secretary.** He went on to become the **Governor** of New York State, and then served as **Ambassador to USSR.** He then attempted to run for President in the 1952 and 1956 elections with the endorsement of President Truman without success. But there was never a question of a conflcit of interest. Those were the days when such things were undignified. They certainly would detract from one's legacy.



Averell Harriman of Brown Brothers Harriman

There probably is no other firm who has remained with the time honored tradition of putting the client first other than **Brown Brothers Harriman.** They weathered this huge economic crisis with no problem, because they remain perhaps the last of the big names from an era that is long since past, and need to be restored. **Averell** was a man of integrity and developed a personal interest in trying his hand at politics.

The next in line of the big names from Wall Street was **Douglas Dillon** of **Dillon Reed. President John F. Kennedy** appointed **Dillon** who was a Republican, as the **Secretary of the Treasury.** It was **Dillion** who argued for the Tax cuts and is generally credited with helping to create the long and dynamic economic expansion of the 1960s. Of course, while not strictly from Wall Street, **Herbert Hoover** had appointed **Andrew Mellon** as Secretary of the Treasury. What is very interesting, it was **FDR's** Secretary of the Treasury Morgenthal who pursued **Mellon** to get him indicted.

Douglas Dillon

Next in line was **William Simon,** who left the **Saloman Brothers** firm to become the Energy Czar in the midst of the Arab Oil Embargo. He then became a Secretary of the Treasury in 1974-75 during that big economic downturn. **Simon** was a major conservative.

Of course, then there was **Robert Rubin** who was co-chairman of **Goldman Sachs** who then became **President Bill Clinton's** Secretray of the Treasury. It was clearly his policies that allowed the economic meltdown, and he has not departed from the Wall Street environment. Then there came **Hank Paulson** who became **President Bush's** Secretary of the Treasury who benefited **Goldman Sachs** in spades.

CLINTON ADMINISTRATION

Robert Rubin Secretary of Treasury
(Co-Chairman of Goldman Sachs 1990-1992)

Kenneth D. Brody Chairman Export-Import Bank of US
(Goldman Sachs head of High-Technology Investment Banking Group, and Real-Estate Investment Banking Group)

James Johnson Former CEO Fannie Mae
(Member of Obama's Vice-President Selection Committee, Goldman Sachs Board Member)

BUSH ADMINISTRATION

Joshua Bolten White House Chief of Staff
(Former Directot Office of Management and Budget
Goldman Sachs Int'l 1994-99 Executive
Director Government & Legal Affairs)

Henry Paulson Secretary of Treasury
(CEO Goldman Sachs 1999-2006)

Neel T. Kashkari Treasury's Office of Financial Stability
(Goldman Sachs Technology Investment Banker until 2006)

Robert K. Steel Undersecretary of the Treasury
(Goldman Sachs Former head of equities in Europe & New York)

Dan Jester TARP Adviser
(Goldman Sachs Former Deputy CFO)

Reuben Jeffrey
Undersectretary of State, Economic, Energy & Agricultural Affairs)
(Magaging Partner Goldman Sachs Paris 1997-2001
Managing Partner European Financial Institutions Group 1992-1997)

Foryar Shizad Top Economic Aide
(Global Head of Government Affairs Goldman Sachs)

Cristopher Cox Chairman of Securities & Exchange Commission
(Former Partner Goldman Sachs)

Arthur Levitt Chairman of Securities & Exchange Commission 1993-2001
(Goldman Sachs Adviser on Public Policy & Other Affairs)

OBAMA ADMINISTRATION

Diana Farrell Deputy Director National Economic Council
(Goldman Sachs Financial Analyst)

Robert Hormats
Undersecretary of State, Economic, Energy & Agricultural Affairs
(Goldman Sachs Vice-Chairman until 2009)

Mark Patterson Chief of Staff to Secretary of Treasury Tim Geithner
(Goldman Sachs Chief Lobbyst until 2008)

Gary Gensler Chairman Commodity Futures Trading Commission
(Goldman Sachs Partner & Co-Head of Finance until 1997)

Adam Storch COO Securities & Exchange Commission Enforcement Division
(Goldman Sachs Vice President, Business Intelligence Group until 2007)

William Dudley President NY Federal Reserve
(Goldman Sachs Chief Economist & Managing Director until 2007)

There is something just overwhelming when we start to catalogue the number of people in government pouring out of **Goldman Sachs.** There are TWO ways to look at this. (1) A possible conspiracy walking in the footsteps of the noted **ILLUMINATI** with the hidden agenda to dominate the world, of (2) this is a covert effort to control and temper the real beast - government.

In February 22nd, 2010 edition of **Time Magazine**, they published on page 4, 10 Questions that people presented to **Henry Paulson.** Of course, one of those 10 was this one that has so many people suspicious about **Goldman Sachs** and its worldwide web of political controlling figures, as has been put together running to the left.

WHY ARE SO MANY GOVERNMENT OFFICIALS FROM YOUR FORMER COMPANY GOLDMAN SACHS?

Paulson answered stating bluntly:

"When I looked to bring people in to work with me, I was looking for people who had the skills and the experience and were willing to do the job. I was fortunate to work in a firm where government service was stressed as a virtue."

I must say, I have dealt with people from **Goldman Sachs** and they cut jokes about the stupidity of government just like everyone else. I could have bought any rational explanation. But this rings up there with **Blankfein's** line that **Goldman Sachs** was doing God's work. I'm sorry. But I for one just don't buy this line of bullshit. Tell me its a coincidence. Tell me that the firm has become a stepping stone. Don'y give me this shit!

Sonal Shah Director of
Office of Social Innovation & Civic Participation
Advisory Board Member Obama-Biden Transition Project
Former Treasury Official

(Goldman Sachs Vice-President 2004-2007)

Robert Zoelick President of World Bank
Previously Deputy Secretary of STate

(Goldman Sachs Managing Director 2006-2007)

NEW JERSEY

Jon Corsine Defeated Governor

(Goldman Sachs Senior Partner until 1998)

New York Stock Exchange

Duncan Niederauer Chairman & CEO NYSE

(Goldman Sachs Managing Director until 2007)

John Thain Former President NYSE
who Becomes Head of Merrill Lynch in time for Crisis

(Goldman Sachs President & COO 1999-2004)

NEW YORK FEDERAL RESERVE

William Dudley President NY Fed

(Goldman Sachs Chief Economist & Managing Director until 2007)

Stephen Friedman, Chairman of NY Fed 2007-2009
Former Director of Bush's National Economic Council

(Goldman Sachs former Chairman)

E. Gerald Corrigan, President NY Fed 1985-1993

(Goldman Sachs Bank USA Chairman, Partner & Managing Director)

CAPITAL HILL

Foryar Shirzad, Republican Counsel to
Senate Finance Committee & Former Top Economic Aide to Bush

(Goldman Sachs Global Head Government Affairs)

Michael Paese Chief Staffer to
Barney Frank House Financial Services Committee

(Goldman Sachs Director of Government Affairs)

Marti Thomas Executive Floor Assistant to
Congressman Dick Gephardt 1989-1998
Deputy Assistant Treasury Secretary, Tax and Budget 1998-1999
Assistant Secretary of Legal Affairs and Public Policy 2000

(Goldman Sachs Federal Legislative Affairs Leader Unitil 2009)

but don't give me this really bad nonsense. **Goldman Sachs** has no public virtue that is self-evident from its actions. And I serious doubt it is a monestary for God's work.

I have never heard that there are staff meetings at **Goldman Sachs** telling the staff it must sacrifice profit and give their lives for the state good. Then, go short the hell out of the housing market.

I did not buy into the conspiracy theory about how it was **Goldman Sachs** trying to control the world government. I was told that even the whole Bank of New York money laundering scandal that was used to get rid of Yeltsin and lead to putting Putin in power who they thought would be a puppet to gain control of all the oil and gold resources, was over the top.

However, once you start to catalogue just the government appointments and officials, something again begins to just stink. Unlike those who think **Goldman Sachs** is the modern **ILLUMINATI**, I do not believe that they are motivated by either public service nor pubic dominance. I see it more as gaining inside information and controlling the reigns of power to such an extent, they get a **Get Out of Jail Free Card.**

Notice that both in the **Bush** and **Obama** Administrations, the post of **Undersecretary of State, Economic, Energy & Agricultural Affairs** has to do with a very key burried post for the commodity markets.

I do not see **Illuminati**, but strategic posts being filled with people from **Goldman Sachs** that can provide inside info, contacts to clients, and protection. You can bet just as the case against regulators

ITALY

Mario Draghi Governor of the Bank of Italy
(Goldman Sachs European Vice-Chairman and Managing Director until 2006)

Romano Prodi Twice Prime Minister of Italy
(Former Paid Adviser to Goldman Sachs)

Massimo Tononi Deputy Treasury Chief 2006-2008
(Former Partner in Goldman Sachs)

GERMANY

Philip Murphy
US Ambassador to Germany
(Former Head of Goldman Sachs Frankfurt)

CANADA

Mark Carney Governor Bank of Canada
(Goldman Sachs Managing Director of Canada until 2003)

UNITED KINGDOM

Lord Brian Griffiths Former Director Bank of England

UNITED KINGDOM

Lord Brian Griffiths, Former Director Bank of England
Special Adviser to Prime Minister Margaret Thatcher
(Goldman Sachs International Adviser)

Gavyn Davies
Husband of Sue Nye, Special Adviser to Prime Minister Gordon Brown
(Goldman Sachs Former Chief Economist)

Paul Deighton
Head of London Olympic Games Committee
(Goldman Sachs former COO)

AUSTRALIA

Malcolm Turnbull Leader Liberal Party
(Goldman Sachs Partner 1998-2001)

was dismissed in the Federal courts at the Southern District of New York by Judge Kaplan. There will **NEVER** be a successful lawsuit against **Goldman Sachs** in New York City. Even the Rating Agencies, any lawyers better try the District of Columbia. You will not win the the 1st, 2nd, 3rd, or 4th Circuits. Forget it!

This is just the list of official government positions. You can then go to the next tier and find former **Goldman Sachs** CEO **Edward Liddy** who the government installed as the new head of **AIG**. Even the **TARP** administer was from the **Goldman Sachs** firm.

The question that is not being answered here, is anyone at any other firm just not as qualified? Is it true that only those who have worked at this firm are just smarter than any other person so government no longer bothers looking for anyone else?

What is also overlooked is that when people have often worked together, they retain those personal contacts. Thus, with so many alumni around the world, there is the ability for that personal call to just get the edge on some info when needed, or introductions.

Goldman Sachs claimed it wanted to pay back **TARP** money because it was its "duty" as reported by **John Gapper** at the **London Financial Times.** This sense of public duty didn't stop **Goldman** from using the new **FDIC** insurance status to issue $28 billion in bonds at a much lower interest rates than it could have without the government backing. So the duty to pay back **TARP** included a duty to now exploit the **FDIC** to raise money at a cheaper rate for proprietary trading.

The Modern-Day Financial Alchemist

CORPORATE & COUNTRY SEARCH & RESCUE is not a course taught in any Ivy League School. Nor is how to be a **Modern Day Financial Alchemist**. There is without question, another vast world **Behind the Curtain** of deal making that goes on that I serious doubt most academics would ever try to comprehend. I have stressed the vital need for dynamic thinking and how we have to get away from the **LINEAR** thinking. When I have referred to running around the world from one crisis to another, there is just so much more depth to dealing at these levels I am not in the least anxious to even explain.

What is starting to now also emerge is the role that **Goldman Sachs** has played in helping Greece to hide its spending to meet the **EU** requirements to be in the **EURO**. What I am about to explain, I doubt you would have read anywhere else.

On February 14th, 2010, the front page story in the New York Times by **Louise Story, Landon Thomas Jr.** and **Nelson D. Schwartz**, appeared with the title:

WALL ST. HELPED TO MASK DEBTS SHAKING EUROPE

Complex Deals Allowed Greece to Overspend Fueling a Crisis

The article reveals a shocking reality that perhaps for the first time has bubbled to the surface.

"The bankers, led by Goldman's president, Gary D. Cohn, held out a financing instrument that would have pushed debt from Greece's health care system far into the future, much as when strapped homeowners take out second mortgages to pay off their credit cards."

The NY Times reported that in "2001, just after Greece was admitted to Europe's monetary union, Goldman helped the government quietly borrow billions, people familiar with the transaction said. That deal, hidden from public view because it was treated as a currency trade rather than a loan, helped Athens to meet Europe's deficit rules while continuing to spend beyond its means."

Goldman Sachs

There is a whole world out there that most bankers do not even know about or how to deal in such a world. The plain vanilla version of high finance is routine and becomes quite boring. Once you step into the this other world where you become the modern day **Financial Alchemist**, dynamic thinking is simply required to function. Instead of operating as the medieval chemist who practiced

the philosophy that base metals could be transmuted into gold and that there had to be the elixir of life or longevity, you now are expected to mix miracles to save the day, or just destroy it if you want.

This is a subject so complex, it is not easily put into words. The art began in the 1970s arising from futures contracts for what the span of contracts did laid out for up to several years, was introduce the concept of **TIME** and **FUTURE VALUE.** As each monthly contract was related to the next furthest contract, the difference became known as the "carrying cost" that in effect was the implied interest rate.

What began to emerge was two concepts that (1) **TIME** was indeed money, and (2) the label "carry cost" and "interest rate" were interchangable. It is widely known I did a lot of business in the Middle-East. Part of that business in the early days, was indeed showing Islamic investors who could **NOT** at all earn "interest" because it was a sin, how to get around that using commodities & futures as well as forwards in the cash market. In reality, the Arabs were providing the depth to markets by paying for the cash commodity and then selling it forward. They collected the net premium for the forward contract relative to the cash spot market. Thus, this was a way to create "interest" income that was not formally lending money for interest. They bought today and sold forward.

Then there was the invention of how to use the futures markets to play with the element of **TIME.** The big trade that became highly popular during the 1970s was called the **"Tax Straddle"** whereby you bought the December contract of gold when you knew it would drop, and you sold the March contract of the next year in an equal amount. You now took a loss on the December contract while you were pushing the offsetting profit into March the next year. You could then use **TIME** itself to push your income from year to year avoiding the taxes. The **IRS** woke up and then shut that one down.

From these early concepts, what grew was a much more dynamic approach to markets. This became the imprint of a commodity background that was starkly different from the bankers and stock brokers.

These were the **humble beg**innings that eventually grew into a whole new way of thinking. This sparked a plethora of endless possibilities. The space here does not permit me to go into all the history of this very interesting art form nor into the countless problems it was applied to over the years. Suffice it to say, I was coming out of this from the advisory end whereas firms like **Goldman Sachs, Credit Swiss, Merrill Lynch, JP Morgan Chase,** and many others, came at it from a commission fee perspective as being the broker-dealer who executed the strategy.

Because I was coming from the advisory side and not the broker side, my incentive was to create imaginative solutions for my clients and countries in distress that would "solve" the problem. My competition came at this from the approach of creating fees. This is why we began to clash for when they would create a situation that exploded in a client's face, I started to be the one who was called to clean up the toxic waste left behind.

For example, the whole **Orange County** collapse emerged from this idea of creating a product that generated huge commissions. They would take funds and then leverage them 10 times and then the small difference between selling one instrument against another would produce a tiny percentage profit and when reflected back to the original investment of 1/10th of the leveraged position, your yield was dramatically enhanced. The problem that took place was when the macro trend within the interest rates flipped directions, the leveraged amounts would wipe out the capital that was 1/10th of the leverage.

All of these schemes are what became the new **Financial Alchemist** creating that dramatic profit or even hiding losses. In Japan, **Credit Swiss** had its license revoked in 1999 because it was using these types of strategies to now shift losses offshore, and instead of using two months to shift income forward, it could now be used on a global scale to shift income or losses. An offshore company could be set up and then positions could be taken with a brokerage firm using two of its offices. One onshore could create a profit that was directly offset by the opposite position in the offshore entity. The statement produced by the broker reflects only the profit with the

main onshore company. The same broker provides the credit between the two companies knowing it had both sides. This way, the profit or the loss can be moved from the onshore company.

This was the popular scheme in Japan. The problem was, the brokers were **NOT** even trying to solve the problem. Instead, they generated more fees and caused the losses to grow. The NY Investment banks deliberately lied to the government to get **Princeton Economics** seized claiming we were managing money when we were not. We were always the the toxic clean-up crew. We issues two notes (1) was a rescue product that actually just purchases the toxic portfolio. The company now showed only a **Princeton** note on their books. Each note was individually approved by the Japanese Ministry of Finance. We indeed restored over 100 companies. The fixed rate note (2) was a straingt borrowing of yen at 4% when the local rate was 0.1%. In neither case was there **ANY** solicitation for management. The Japanese got burned in their own portfolios holding Japanese securities. The Western Investment Banks were creative, but simply offered derivative structures that moved losses offshore and hid them.

We were the antithesis of the Investment banks because we approached the crisis from the perspective of silving the problem. We would restructure portfolios, and at times buy them outright to relieve the company of having to deal with the toxic problem within.

What the New York Times revealed seems to have opened a crack into this world of the **Financial Alchemist** and like everything else, there are the two opposing forces of **Yin** and **Yang**, the symbol of dark and light, male and female, effectively the cosmic principle in Chinese dualistic philosphy. We have this even in Christianity, the opposing force of good and evil.

The structures that the New York Times has revealed, illustrates only one side and that is the side created by brokers whose only goal is to generate their fees. They routinely create time-bombs that blow up for they are not their to advise people to generate their income. They are there to get the target to trade. That is their focus. They are not there to solve problems. They are brokers who are earning based upon trades.

The problems could be farreaching. For Mercedes, I was called in because they had hedge against the pound going into the Euro relying on the hype that the Euro would just devaste the dollar and the pound. Instead, the pound rallied as an initial port of safe capital until many could see what the Euro would do. I flew to Germany and got them out of the trades. I then provided advice on how to restruct the German car market pricing their product in local currency and bringing the currency risk home setting up a internal hedging desk. The hedging decisions were at that time being made at board level.

The structured designed by the Investment banks were all derivatives that pushed losses offshore or hid them. This is one of the reasons Japan blew up. As the NY Times made clear, these types of structures just "enabled politicians to mask additional borrowing in Greece, Italy and possible elsewhere." Id./A16.

> "In dozens of deals across the Continent, banks provided cash upfront in return for government payments in the future, with those liabilities then left off the books. Greece, for example, traded away the rights to airport fees and lottery proceeds in years to come."
>
> Id,/A16

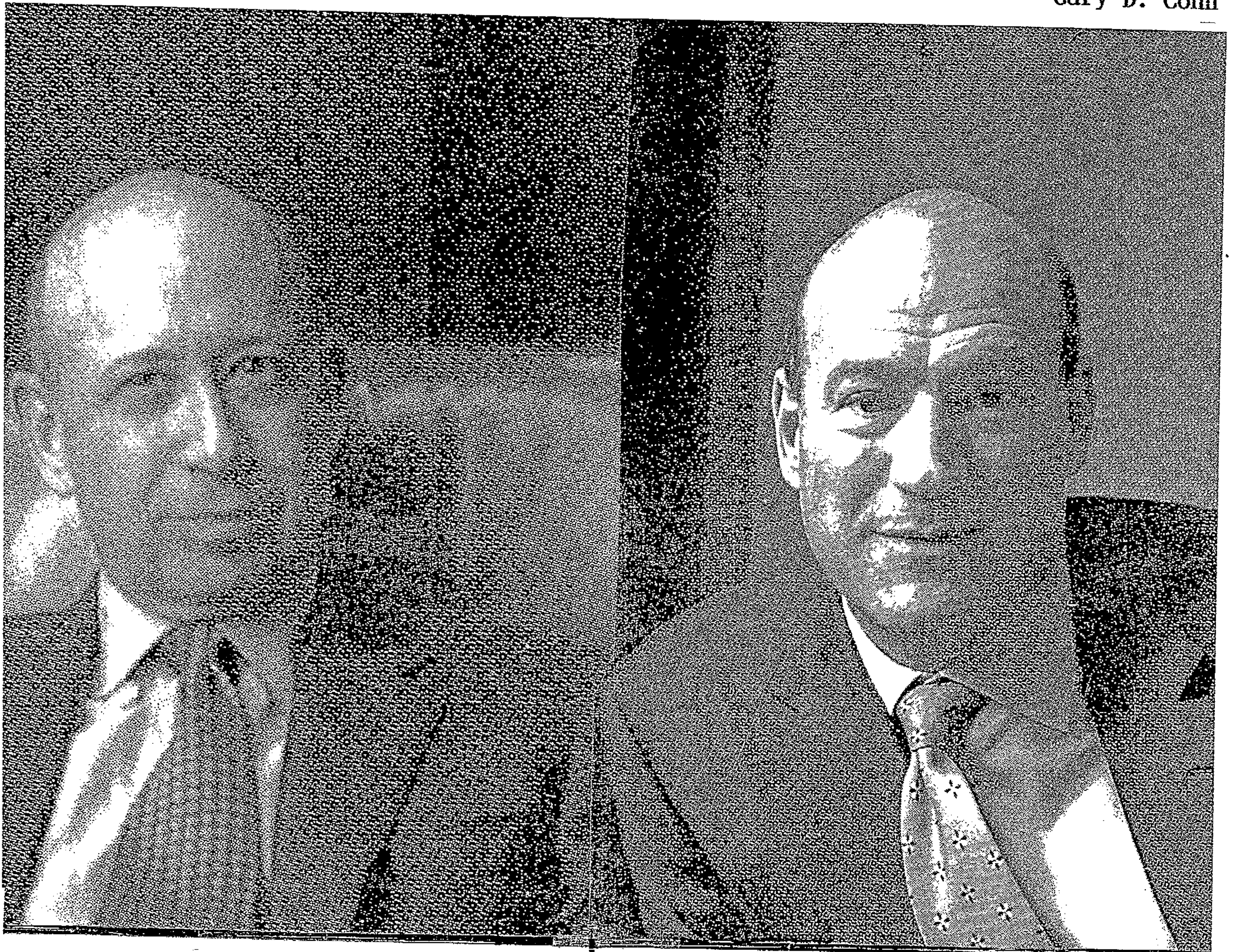
These are at least sales of revenue streams into the future. They are like giving a drug junkie a fix today in return for the sale of his liver tomorrow. The greatest part of the problem is the use of derivatives to mask the deficits that can only create toxic financial waste.

Princeton Economics was the only group that I know of that opperated on the opposite side. We were paid to solve problems, not sell them derivatives to move stuff around to make the books look good today. You truly have no idea how wild things can get when we come to that inevitabel day when sovereign debt simply collapses. This has been one of the primary reasons I have argued it is just time to monetize the debts and wind-down the national debts. Either we fact the facts that no national government in the West, or Japan, has properly managed the debt. Japan is the worst of all as a % of GDP being over 200 and the US is the 4th worst at 85%. This is just nuts!

Maybe We Should Take Goldman Sachs at its Word It is the Smartest Firm In the World

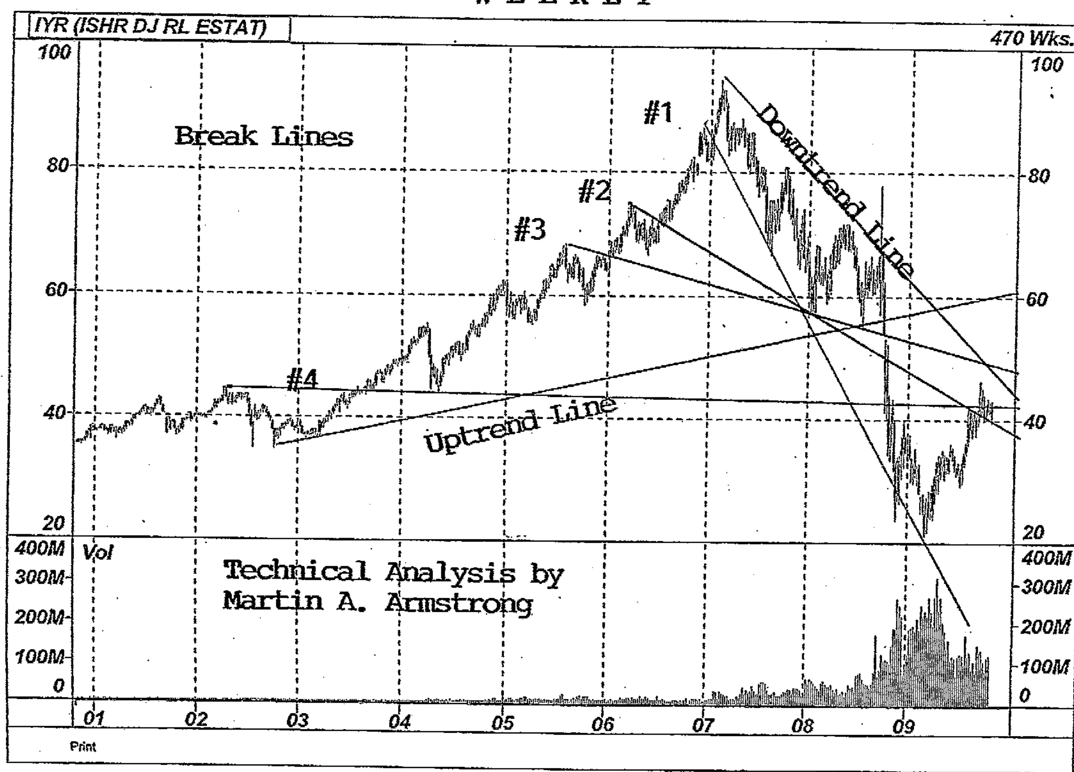
Lloyd Blankfein

Gary D. Cohn



MAYBE we should take Goldman Sachs at its word. It is the smartest firm in the world! The rest of us are mere lowly mortals who could never even hope to understand how events unfold and why. We are just not worthy in the eyes of its CEO **Lloyd Blankfien** who had told the press **Goldman** was doing God's work. Or in the eyes of the President **Gary D. Cohn** who like **Blankfein** came from the trading side - **J. Aron & Co.** The rest of us just can't hope to understand any explanation so why should they bother to give one?

In such a firm that does **"God's work"** as **Blankfein** said and has such a driving force that it instills within all its people to **"go forth and multiple as government employees"** out of a sense of "public duty" as **Hank Paulson** explained, surely we cannot hope to even get a janitor job at such a firm. The mere mortal is just not worthy to even clean the street at which **Goldman** resides in New York - at 85 Broadway. Perhaps it just takes more than 1,000 coincidences before it becomes a real viable conspiracy. Surely, money has not surpassed self-worth, dignity, and a sense of accomplishment. We just don't understand.



Real Estate: It was real estate that peaked precisely with the **Economic Confidence Model** in February 2007 reflecting the **Capital Concentration,** on a Sectorial Perspective

There is no question that the Real Estate market peaked on February 27th, 2007. **Goldman Sachs** began to turn bearish just a few weeks ahead in December 2006. They are very proud of reversing their strategy in near perfect timing with the market.

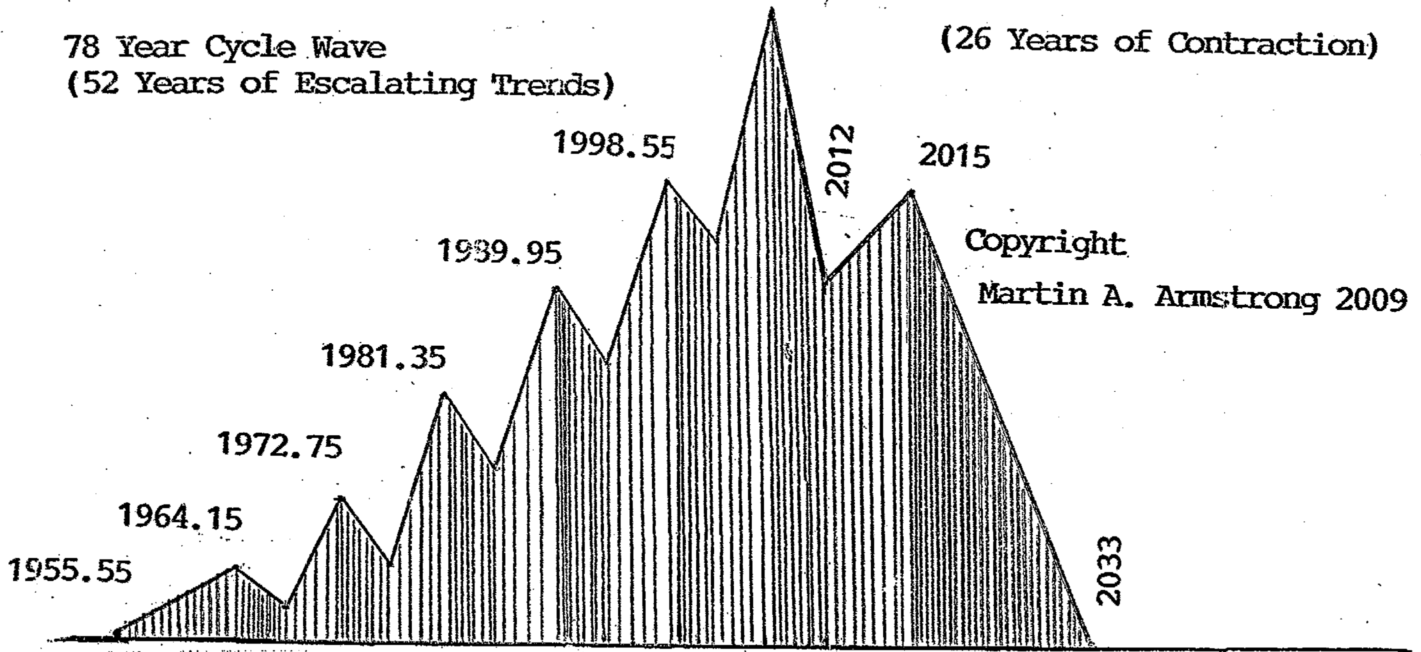
There is nothing wrong with adopting a bearish position at the top when everyone else is bullish. That is what a good trader should be doing. If you cannot "smell" such a top, return to the trading oven, for you are not quite ready for prime-time.

Those who would like to claim that this is somehow part of a conspiracy theory, you are now just connecting coincidences with nonsense that distorts the whole picture of what is real and what is not. The reversal of their fortunes was correct and has nothing to do with even market manipulations. Nobody could force any market to reverse. That is just total nonsense.

The real question is not that Goldman turned bearish. The real issue is how did they trade the market? Not even whether they were short or long. How did they trade in the marketplace? Did they trade from a preditorial perspective ~~attempt~~ to cheat or fuel the trend? Or did **Goldman** trade simply against the former trend and relied upon their trading expertise? If they failed to trade honorably and sought to rig the game to make the trend worse to ensure profits, now we are into a whole new area.

In other words; Did **Goldman** short **Bear Stearns** and **Lehman Brothers** to force the demise of those firms? Did they deliberately push **AIG** off the cliff? These are the real questions that must be investigated and the details gathered by the press.

I find it curious that when the short selling turned against **Goldman**, then and only then did the SEC ban shorting financial stocks. They did not bar shorting **Bear** or **Lehman.** The incest with government is what is creating the conspiracy theories as well as the growing **Tea-Parties** because there is just a collapse in confidence in government as a whole. Neither Democrat nor Republican is trusted. People are tired of getting so screwed, and this time the babyboomers lost their retirement equity in real estate.



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The Economic Confidence Model Published Originally 1977

The question should not be how much they paid in bonuses. If the trading was honorable, the so were the bonuses. What we are actually talking about, is **Corporate Culture.** If there is inside **Goldman Sachs** no self-restraint in refraining from making a downturn far worse and taking advantage to target specific competitors, then we have a real problem. This is the same cancer that has infiltrated the government. There is no concern about doing the right thing. Members of Congress vote on party lines because the object is to make the other party look bad so you can win power. It is self-interest, not representative forms of government. this is the **SAME** thing that we are looking at inside **Goldman Sachs.** There appears to be no sense of public duty. Just **Show me the money!**

This is the collapse of both the real integrity of **Corporate** and **Government Culture.** What we face as a nation is more screwed up that just the mortgage collapse. What we are discussing is the collapse of society that we once knew. There is no **Rule of Law** for it can be manipulated and controlled for a price. You won't find written agreements. Just deeds. What was set in motion was not created by **Goldman Sachs.** They merely went along for the ride and had a **very good time!**

Goldman Sachs indeed has contributed to the volatility, while they did not in any possible way create the bear market out of thin air. It was just time. They made the last rally into February 27th, 2007 a huge **SPIKE HIGH** no different that the Nikkei in 1989, or gold and silver in 1980.

The contagion that was set off is by far massive. It is still spreading to the commercial real estate sector. This is also pushing the debt collapse among nations. The trouble in Greece is just the beginning. The entire debt superstructure has been cracked. The real estate was the **BIGGEST** investment sector among private citizens. It was their future. But the greed of the states and the relentless deficit spending from federal government, prevents any resolution that is going to be reasonable.

The collapse that we are looking at here is a serious one. There will be no material recovery in real estate. The debt crisis is moving into the states and then federal. We are looking at a serious crisis in public debt that is beginning in the weakest (Greece & states) and will spread throughout Europe and the United States. It's a **DEBT CRISIS!**

Goldman Fueled

the crisis. That much seems to be a fair statement. It's conduct even as **Financial Alchemist** has been designed to produce the greatest amount of profits, not to solve the problems. This attitude of **"buyer beware"** does not shake-off the responsibility owe to society. Perhaps **Goldman** is doing God's work, and that was to push us over the edge as a whole? Yet when I look at the horizon and see what is lurking there in the midst, and then a turn and look at those who are in Washington and those who wearing the black ropes and hurl thunder-bolts at those of us who are in the non-Public circles, I lament that we do not have our leader such as the Romans had their **Cincinnatus** who will step forward and right all wrongs and then retire. The Greeks had their **Solon** to purge the state of the same type of corruption infested and nurtured by **Draco**.

What I do find very distasteful is the testimony by former Chairman of the Securities and Exchange Commission, **Christopher Cox**, who appears to a rational disinterested observer, that he did everything in his power to ensure that government remains blind. When testifying before the **House Oversight** committee, he was asked by **Congressman Darrell Issa** "should the Congress bring to bear additional resources [to create] predictive modeling..." (Tr, p122, L2933-35). Mr. **Cox** appears to have deliberately did his best to make sure that government has no models, and that enabled **Paulson** to demand $700 billion telling them the world would collapse, and this was his personal learned opinion. Had a model existed, then what he was saying could have been verified. Instead, he just used the boogeyman would smote the USA with a depression unless they gave him $700 billion with full discretion. Had there been some modeling, then **Paulson** could have been tested, but he was not. **Cox** thus warned that such things like models ought not to be consulted.

> "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

I fail to see how **EVERY** firm uses something on Wall Street including **Goldman Sachs**, but the people should not be allowed to have the same technology. That smacks of **Dark Age** nonsense when priest alone could read the bible, and thus the common person need not know how to read because they are not permitted by God to read the Bible. This is very strange and dead wrong!

Volcker's Outrage!

PAUL VOLCKER

What I have tried to present in Part I is that there were completely different experiences and thinking processes that emered from **Banking, Stocks,** and **Commodities.** In the **Glass-Segal** reforms coming out of the Great Depression, kept these industries apart. This was also true with respect to insurance. What has happened is very clear to me. The blending of these industries has in fact produced a completely different world than ever existed in the past. **Goldman Sachs** use to be the most conservative. They use to put their clients first. Those days are now gone. What has taken place, is they are a mean and lean trading machine. They are not a bank as we in anyway expect them to be. They created products designed to fail, and then took short positions against them as outlined by **Gretchen Morgenson** in her piece written for the **New York Times** on December 24th, 2009. That piece has set in motion cries to now pass regulations against such practices. Meanwhile, **Paul Volcker** is seeking to limit proprietary trading among such entities. Let me make this perfectly clear. **Goldman Sachs** would have failed **BUT FOR** the bailout and $5 billion in cash from **Warren Buffett.** They can pretend they are the smartest, but they still blew it, and that proves there must be separation to prevent a complete cascade failure. There is something wrong when one has inside knowledge, creates the product, sells it to the client, and then shorts the hell out of what they just sold.

There is little doubt that such a practice is something that is not getting very good reviews anywhere. **Goldman Sachs** was in the 1970s, one of the most conservative firms around. The first of self proclaimed **14 Business Principles** was the motto under which many operated.

> **"Our clients' interests always come first."**

Goldman Sachs refused to participate in hostile takeovers. They did not manage money for wealthy clients, for it refrained from competing with money-management firms who may have been one of their clients. There use to be honor behind those walls. But the bottom line was all changed once they took over **J. Aron & Co.** The trading culture at **J. Aron** simply became too great of a lure and the temptation that **Waddill Catchings** to steer the firm into the trading arena with the **"investment trust"** that nearly destroyed the firm in the 1930s, has once again taken hold of the power behind the throne. **Goldman Sachs** is reliving history.

As Andrew Sorkin reported, **Gary Cohn** at **Goldman Sachs** threatened **Stanley Druckenmiller** when he found out he had withdrawn his fund.

> **"I have a long memory. ... Look, the one thing I'm doing is I'm learning who my friends are and who my enemies are, and I'm making lists."**

Druckenmiller replied:

> **"I don't really give a shit - it's my money!"**
>
> **"It's my livelihood, I've got to protect myself, and I don't really give a shit what you have to say."**

Vanity Fair, Nov. 2009, p178, P180

That is a far-cry from client's come first. On this score, **Volcker** is correct. However, **Goldman Sachs** should be split up and its trading section should be a stand alone. It has no business being a bank with FDIC & Fed powers nor an investment bank with inside information.

So What Do We Do Now?

MANY people want to know what do we do now? I, for one, do not see where the Puritan attitude of locking up everyone does much good. It is a combination of the tyranny of the former king who killed you for every felony and used Treason as we use conspiracy today. Treason against the king was to violate any of his laws and thus that created the felony and justified confiscating all your property and throwing your wife and kids out on the street. Imprisoning nonviolent persons only punishes the families of those whose liberty is taken. Just as the English judges acknowledged by sentencing people to be indentured servants in distant lands, the court was relieving them of all moral obligation to their family. The USA has reverted back to that very attitude that serves no purpose and inflicts more punishment of the family than the prisoner.

The problem we have is that the very justice system is so corrupt, there is no real rule of law any more. We need to now replace the justice system altogether. We need the **American Bar Association** to in fact require all lawyers to also serve as a judge on a rotating basis. No government case may be brought before anything less than a 3 judge panel. Every order that in any way deprives a defendant of presenting evidence, must also be immediately appealable. The names of judges must be placed in a cage that spins, and the parties will pick the names, not corrupt clerks in some back room.

NO such case may be brought by the government. **ALL** cases must be initiated only by private citizens who sign a valid complaint, except in cases of treason or national security that is limited to the terrorist type attack of violence, any deliberate acts against the government such as breaking into a computer, robbery, or some direct act, and espionage.

Only the Grand Jury may indict, and any prosecutor who knowingly withholds any evidence whatsoever, shall suffer the very same penalty that he sought and the case must be dismissed. No agency may file any parallel case, for there shall be only ONE case and that shall be either civil or criminal, but not both. Double Jeopardy shall mean one case from one incident, and that cannot be circumvented by making multiple offenses from a single event.

These reforms will prevent the control of the rule of law by powerful parties. We must also eliminate **ALL** claims of immunity by any government official except those in Congress under the **Speech & Debate Clause**.

The Supreme Court must be restored to its constitutional role. It is impossible that a Justice swears an oath to defend the Constitution, and then claims they have discretion to even listen to a case. This is the biggest con-job in the system. This defies the **Supremacy Clause** that states no law or rule may ever trump the Constitution, when in fact every judge claims he has the "discretion" to just rule as he likes. There should be NO Judicial Immunity and that all judges and justices must be held accountable to the same laws as every citizen. Enough of this bullshit!

Before this corruption has seized the government, the Supreme Court defined what "discretion" meant.

"The term 'discretion' denotes the absence of a hard and fas rule."
Langnes v Green, 282 US 531, 541 (1931)

Today, the government assumes "discretion" means the right to do anything to the citizen its likes. They shifted the burden to the citizen to **PROVE** he has any rights at all. They act first, presuming they have power, and it becomes your burden to prove even what the constitution says.

Prosecuting **Goldman Sachs** and even throwing everyone that works there in prison may make people "feel" better, but it will neither restore the economy, nor prevent the very same thing from happening again. The system is corrupt, and this presents the same problem as the war on drugs that has turned into funding crime. By making drugs illegal, they drive the price up and that attracts poor kids trying to get rich. The people will always buy drugs just as they tried with alcohol. That created the Mafia and that expanded into everything else from gambling to prostitution.

By making the drugs illegal, they are funding other crimes, for that brings the people together and then they look for new types of crime that is becoming gangs and kidnapings. Just as the alcohol brought together people who formed organizations, the same is happening again. Worse still, the money is corrupting the governments and undermining democracy creating a very unstable environment. Police are becoming corrupted because catching a drug dealer with millions in cash, allows (1) police to be paid off, or (2) the police keep half the funds. The Mafia eventually had controlled unions and then they too bought the courts in New York City. You couldn't become a judge without the approval of the Mafia.

It is the system, not the people, that must be changed. The prisons are full of kids locked up for 10 to 20 years for any involvement with drugs. But they are the street sellers, not the importers nor the manufacturers. For every kid locked up on drug charges, there is one or two ready to replace them. It is like terrorists. We can lock up every one you catch, but it will not stop the problem. Those caught are typically the soldiers. The leaders will remain free and every terrorist that is locked up, is simply replaced. It will not solve the problem.

The corruption of government will always take place. Eliminate **Goldman Sachs** and there will be another to rise behind them. We have to revise the system. If we don't start to seriously reform what is going on, then history will repeat again and your children will be robbed of their future as well.

It is the system that has to be now changed. Government has to be held simply accountable, and it refuses to do so. The polls are getting scary. The latest now shows that **86% DISAPPROVE OF GOVERNMENT!** Republicans will not vote for anything that Obama presents and will only vote along party lines. Likewise, the Democrats take the same position. It is no longer what is good for the country, but how one party can grab power from the other. The whole system is just broke.

In a democracy, the **PEOPLE JUDGE**, not the government! It was the people who were to create what is a crime through their elected representatives, **CONGRESS**. This is why bills were to be originally presented in the House of Representatives. Then, it was to be the citizens sitting in the Grand Jury who indict people. This safeguard was removed because the Supreme Court has held the prosecutors can commit fraud for they are under **NO** obligation to tell the truth. They can deliberately indict the wrong person because they have **ABSOLUTE IMMUNITY** and courts will rarely give up the Grand Jury minutes to show what was said and how an indictment was obtained. The Supreme Court claims the **Petit Jury** at trial will correct any errors. But the judge restricts what they will hear. Most cases are settled by plea agreements 98.5% so there is never a **Petit Jury** to correct the corruption of prosecutors. And as for the people actually making the laws, that is only in theory. The judges are mostly former prosecutors who rarely will ever rule against the government. So whatever notion of a real democracy that once existed, remains in the minds of the dead founders.

Citizens cannot even sign a complaint to bring criminal charges in the federal system. **ONLY** the government can do that. So if you really think the government will ever prosecute their friends or someone who will expose how they got so many alumni, think again.

We need to take the office of the **Inspector General**, remove it from the Justice Department (known to the black community as "Just Us" Department), and give it the power of a Roman Tribune to prosecute anyone in government and remove all immunity claims! The **Inspector General** should be an elected person, not appointed.

One of the most widely quoted lines ever written by **William Shakespeare** comes from **King Henry VI, pt ii, Act Iv, scene 2, line 72:**

> **"the first thing we do, let's kill all the lawyers."**

People generally associate that with private defense lawyers. What they do not realize, is that **Prosecutors** and **Judges** are the king's lawyers. The primary focus of the Bill of Rights in our Constitution was to prevent what many regarded as simple the king's **"legal persecutions"** whereby the law was used to justify his arbitrary actions against you and your family. If he could at all charge with a felony, you were then just executed and ALL your property was now that of the the king and your family was thrown out on the street. The whole **Fifth Amendment** right to remain silent, was that the king simply tortured you until you confessed and then you were executed and your family lost everything.

During the Spanish Inquisition, they would dig up your corpse and put you on trial to find you guilty so they could then just "legally" confiscate the property of your family.

The **First Amendment** secured your right to petition the court for help. About 99% conviction rate is matched by the 99% rate of rejection of habeas corpus and appeals. The **Second Amendment** was the right to have weapons to protect yourself against the tyranny of the state. The **Fourth Amendment** was to prevent illegal seizures as the government did to AIG, and your personal property as well as your person. That is no longer respected by Federal courts. **Fifth Amendment** secured Due Process of Law. I am the symbol for that one where President Bush's cousin **John M. Walker, Jr.** held that a judge has unlimited power under contempt to take your liberty for life and you don't even have a right to appeal. Where Supreme Court held "[a] statute permitting indefinite detention ... would raise a serious constitutional problem. The Fifth Amendment's due process clause forbids government to deprive a person of liberty without due process of law. Freedom from imprisonment ... lies at the heart of the liberty that clause protects." Zadvydas v Davis, 533 US 678, 690 (2001). Nice words, but they mean nothing to judges at all!

I am by far only the tip of the iceberg. A Mr. Chadwick was held for 14 years in contempt in a divorce case. Another man was held in the same Third Circuit for 5 years until he would stop trying to sue a federal judge - Mr. Harris. So much for the right to petition.

The **Fifth Amendment** was also to secure the right to remain silent. That was to prevent the practice of torture to extract confessions that eliminate trials and just allows the state to imprison you for life or execute you, while taking you family's property. I was told by a Republican who is suppose to be pro-business, **Judge John M. Walker, Jr.**, that because I was a mere corporate officer, I had no rights since corporations have no rights. That is a easy step to remove ALL constitutional rights from anyone working for **Goldman Sachs** or any corporation, that would be about 70%+ of the entire population. So, they can imprison you with no limit, deny you the right to appeal, counsel, use of your own funds, and leave you there to die because you worked for a corporation. So much for that right to be free from torture. The only reason why the CIA has secret prisons hidden around the world to torture people, is the world is watching, but that concerns terrorists. This alone has hurt the United States more than anything else feeding the image of hatred that America doesn't even obey its own laws for citizens no less terrorists. The US kidnapped an Italian citizen, tortured him in Egypt, and when they discovered he wasn't a terrorist, Italy has indicted the FBI agents who went to their country to kidnap him, but the US protects their thugs and will not produce them. Then, the NY Second Circuit won't let the Italian sue for his torture granting the US of course absolute immunity

The **Sixth Amendment** was to be the right to counsel. I was denied that one. The right to a Speedy Trial to prevent more than 7yrs of imprisonment with no rights. That is not enforced. The right to impartial judge and trial by jury. All of that is bullshit. The **Seventh Amendment** was to secure a civil trial and that you could not be charged twice for the same thing. I was charged 3 times with 3 court proceedings simultaneously, and told I could not move to trial because the USA prosecutors didn't want to try the civil case first, even though that is where the contempt was imposed and trial would have ended that,

The founders of the nation set out the Constitution and the **Bill of Rights** to in fact prevent the very corruption that exists today. It has been the Judiciary and their claims of "discretion" that prevents the dignity of which we ask our friends and our children to die in battle. Of the first 10 **Amendments** that formed the **Bill of Rights**, <u>**SEVEN**</u> were dealing with criminal rights. Why? **John Stuart Mills** wrote in his truly magnificent work, **"On Liberty"** in 1859,

> **"let us not flatter ourselves that we are yet free from the stain of legal persecution."**

<u>Ocford World Classics, p34 1998 edition</u>

Even **Charles Dickens** wrote in **Bleak House** about the sheer corruption of the courts in the introduction,

> **"Suffer any wrong that can be done you, rather than come here!"**

<u>Bleak House, Introduction, Chapter I, p1</u>

Until we DEMAND Judicial reform, there will be no reform. Just as the Mafia owned all the judges in New York City, the same trend has re-emerged. The Senate will not even investigate because they know in fact what they will find.

The last of those 7 Amendments that formed the **Bill of Rights** was the famous and celebrated **Eighth Amendment** that was to secure the right to bail. My contempt was for $1.3 million. Friends were so angry they offered to put up the whole amount in cash. **Judge Richard Owen** simply refused to honor that right as well. The **Cruel and Unusual Punishment Clause** bars nonstatutory imprisonment. I asked what statute was I being held under? **Judge Owen** declared it was the "inherent power of equity" that he claimed went back to the English monarch and President's Bush's cousin, **Judge Walker** affirmed.

Justice Scalia in overruling **Judge Walker's** corrupt Second Circuit in another contempt case, made it clear that "no one has ever supposed that the Judiciary has an inherent power to arrest and incarcerate." <u>**Young v US ex rel Vuitton**</u>, 481 US 787, 818 (1987). What you quickly come to realize is that you cannot even enforce ~~whatever~~ the Supreme Court rules. The Supreme Court puts on a show, for it will not defend its own rulings and there is no way to force lower courts to comply with the law. **Justice Scalia** made it perfectly clear that both **Judge Owen** and **Judge Walker** were dead wrong. But they also know that if 10,000 people petition the Supreme Court and they claim discretion to listen and only take 100 cases, the odds are in favor that they can do whatever they want and the citizens have no rights unless they want to give you them.

> **"Prosecution of individuals who disregard court orders (except orders necessary to protect the courts' ability to function) is not an exercise of '[t]he judicial power of the United States.'"**

<u>**Young**</u>**, 481 US at 815**

None of this means anything. Every government branch and employee presumes they have the power to do as they like, for only a federal judge can say otherwise. Just as the Mafia controlled the courts of New York, tyranny now controls the courts.

For example, the Bureau of Prisons must have a order to imprison someone and that order must be only a statutory authority from Congress 18 USC §3621(c). They are to provide credit toward any such order without discretion.

> **Credit for prior custody. - a defendant shall be given credit toward the service of a term of imprisonment for any time he has spent in official detention prior to the date the sentence commences.**

18 USC §3585(b)

In my case, they simply say they will not recognize civil contempt. The statute states "shall" that means there is no such discretion, and "any" time with no exception for civil contempt. It becomes my burden to say they are breaking the law, but meantime, they can imprison you. Deny counsel, reasonable medical care, and engage in torture. There is no one to whom you can petition because the judges are usually former US Attorneys. Good luck! Congress had even codifed the **Eighth Amendment** stating no one

shall ever again be just thrown in prison after the Japanese internment. The Executive just arrested everyone who looked Japanese no matter how long they had been here and the Supreme Court upheld it. That prompted Congress to codified what the **Eighth Amendment** was suppose to prevent.

18 USC §4001(a)

> **No citizen shall be imprisoned or otherwise detained by the United State except pursuant to an Act of Congress.**

There is no statute at all authorizing the Bureau of Prisons not to credit civil contempt. There is no statute that allows a judge to just throw citizens in jail until you die without no trial, right to appeal, right to hire lawyers, or any right that you would assume we as a nation stand for. They can do as they like at any time because they always shift the burden to you to prove you have any rights at all.

This is part of the historical cycle of how government corruption permeates just everything until there is nothing left. What was done to me was to protect the New York banks. For you see, even looking at the **Magna Carta**, back then too, we find the same complaint was the corrupt courts and the king was forced to sign that he would stop stuffing the courts with pro-government judges. **Chapter 45** read, the King would not appoint anyone as a judge unless they **"are competent and willing to uphold the law."**

It has been the same collapse in the **Rule of Law** that has stripped the babyboomers of their retirement that they counted on the equity in their home. Now, the taxes on property will prevent those who worked all their lives from reaping those savings they believed they had thanks to the judges who are so corrupt, and will never allow the issues presented here to be settled in an public hearing. They will manipulate the law and then rule to protect those in control of the power strings. And that is the sad state of affairs.

This is what **Shakespeare** wrote about. But the lawyers are not the private lawyers, they are the Lawyers of the state. This has been the source of all corruption and it is the stick by which it is maintained. Today, the famous line of **Shakespeare** is not the real solution. Even eliminating the corruption in only the Justice Department and the Judiciary will not restore the America that once was. Eventually, there will be a political solution as there was in China and Russia. The state will collapse of its own corruption.

Trying to create regulations to solve the perceived Wall Street problems will not work. The focus on bonuses will only send them overseas. The problem is separating the proprietary trading from the other type of functions. This provides far too much inside information and the bulk of the rebound in profits at **Goldman Sachs** has been from trading, not banking.

Blankfein and **Cohn** are traders. They were earning around $50 million annually before their management jobs based on the trading bonuses. That is how traders are paid. A percentage of the profits they do in fact earn. That should **NOT** be altered and we have to stop this nonsense of pretending that had anything to do with this collapse.

The problem is the repeal of **Glass-Siegal** and these industries must be separated to prevent incest. We must also regulate the **REPO** market. Even creating the derivative products alone, did not create the full collapse. What made it much more immediate was rating these things **Triple-A** and that set up the **REPO** market causing the demise to create an instant contagion.

Mortgages should not be pooled other than through a single company that buys the mortgages. The individual ownership of a mortgage must be maintained and thus the accountability to reliable lending cannot be disturbed.

No company should be allowed to groom so many employees for government. Nor can there be any waivers of conflicts. If you own stock, it must be sold, ie **Paulson** and **Liddy**. Likewise, there should be no selling a product and then shorting it. Nor should research be provided by any firm. They can pay for independent research of the client's choice, but that is it.We have to clean up this entire mess.