

A RECIPE FOR DISASTER

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Take the following ingredients:

1. A banking system which is on the verge of collapse
2. Add a few \$ trillion of government liquidity and guarantees
3. Inject \$ 100's of billions in loans and capital
4. Keep all the bank management that have caused the crisis
5. Pay them astronomical bonuses because otherwise they might be snapped up by a bankrupt competitor
6. Change the method for valuing the banks toxic and worthless assets so that they can publish hocus pocus increases in profits
7. Construct a stress test that all banks can pass, some with minor capital injection
8. Let some of the banks repay the government money to make the markets believe that the banking system has been saved and is sound

And what do you get?

A BANKING SYSTEM WHICH:

- Is still on the verge of collapse
- Is leveraged 25-50 times
- Will go under with a 2-4% write off of total assets
- Has loan books that are deteriorating at an alarming rate
- Is not recognising or extrapolating the rapidly rising default rates
- Has a high percentage of prime residential mortgages in negative equity
- Has not provided for commercial property loan defaults with property values falling 40-50%
- Has a high level of personal loans and credit card loans which will never be repaid
- Has worthless paper assets which are valued at fantasy prices with the blessing of the government
- Has \$ 100's of trillions of derivatives for which there is no market and with no reserves for losses
- Is too big to fail
- Will soon require more support
- Will need \$ trillions and probably tens of trillions to survive which governments will of course print

That, ladies and gentlemen, is the state of the world's financial system today and that is why you need to protect yourselves

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