

ARRO Capital Trends

Investing in Insight



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Financial Fraud – It's Systemic

It has now become quite apparent to those investors seeking an opportunity to work within open and honest financial markets that the government interventions over the last several months have not only not worked to stem the bleeding in the corporate sector, but have actually alienated taxpayers and investors alike and have done absolutely nothing to slow the job losses now cascading throughout the entire world economy.

In this newsletter I will attempt to shine a light into the dark corners of an ongoing systemic financial fraud that has allowed for insider market manipulation in every investment category that matters, including but not limited to the gold and silver market. I will attempt to help you, the reader, comprehend the massive fraudulence that exists within the market, and how a group of insiders has been using their position of power to manipulate not only the world financial markets but also world politics through their institutions of world lending. What is now required is a total revisioning of how markets should function and how they can be sustained in a new accord of stability rather than in an inflationary and exponential growth model that inevitably leads to wealth destruction for the many to the benefit of the few.

To begin let us take a look at what is now occurring in the realm of wealth protection and long term savings for the working middle class, namely pension plans. Since the beginning of the deleveraging event of 2007 pension plans have taken a serious hit, bringing into question many of the investment strategies employed for what were considered low risk funds. Just a few weeks ago it was reported that Caisse de dépôt et placement du Québec lost \$39.8 billion last year, one quarter of its entire asset base in a matter of months. Caisse manages the pension plans of over 500,000 government employees and is the largest institutional pension manager in Canada. Caisse president and CEO Fernand Perreault stated, "In hindsight, we placed too much confidence in these securities It was a mistake to accumulate so much ABCP. We mistakenly believed that these products were as safe, or almost as safe, as other money market instruments." (1)

ABCP stands for Asset Backed Commercial Paper and is a mish-mash of bank debts such as mortgages, lines of credit, car loans and other 'assets' that are designed to pay investors interest. When the US subprime mortgage bubble began to burst many of these bundled debt based bank 'assets' could no longer be considered investment grade due to the high level of loan and mortgage delinquencies being reported, thus the market rating of these investment vehicles was slashed. Banks had long since begun the practice of bundling their outstanding investments in mortgages and loans (consumer debts) and reselling them into the market where hungry investors would gobble them up enjoying the steady stream of easy interest that they seemed to provide. Except that when the rating of these investment vehicles was cut the market for willing buyers dried up and their value sank. Since these bundled investments were insured by credit default swaps the draw these vehicles caused in insurance claims created a ripple effect, and the huge derivative value of credit default swaps and all the derivatives built upon them (CDOs, default baskets) came into question. The real value of these packaged debts and debt obligations was no longer known. The market could no longer value these instruments and so these investment vehicles effectively froze, locking up huge amounts of capital in the process and decimating the balance sheets of banks, insurance companies and investors alike.

One victim of this scenario happens to be pension plans, whether these plans are public pensions insured by an institution like Caisse, government controlled (CPP – Canada) or corporate, pensions of all forms have taken significant hits and are experiencing shortfalls across the board. An article dated Tuesday, March 24, 2009 of the National Post reads:

"The union that represents 27,000 Ontario university workers says it is under pressure to reopen collective agreements as universities face shattering losses to their pension plans.

At a news conference yesterday morning, CUPE Ontario president Sid Ryan, who represents university workers ranging from contract lecturers to teaching assistant and clerical and maintenance workers, said administrators at the University of Guelph met with union leaders on March 10 and told the union to open up collective agreements or face the university closing its doors in 2010.

"It seems the University of Guelph is taking a page out of the Chrysler play book by blackmailing employees and threatening closure if they don't open up collective agreements and give concessions," said Mr. Ryan, who added similar meetings have been held between union officials and administrators at three or four universities.

Ontario universities are facing budget shortfalls as they grapple with losses of 15% to 25% or more to their pension and endowment funds. The strain is showing: departments at some institutions have been asked to produce a list of cuts and building projects have been put on hold." (2)

Following in the trend is this \$21 billion loss as reported on the Teachers Pension Plan website:

The Ontario Teachers' Pension Plan ended 2008 with assets totalling \$87.4 billion, compared to its record \$108.5 billion level at the end of 2007. The fund's investment return was -18% compared to its composite benchmark return of -9.6%.

The fund's 2008 returns largely reflect its exposure to equities, non-government fixed-income securities, externally managed hedge funds and real estate – diversity that has traditionally cushioned the fund in a downturn.

The current funding shortfall is \$2.5 billion; however, \$19.5 billion in losses have been held back in the smoothing adjustment and will be recognized over the next four years. Accordingly, the shortfall will grow unless the investment climate turns sharply positive.

The Ontario Teachers' Pension Plan is the largest single-profession pension plan in Canada, with \$87.4 billion in assets as of December 31, 2008. An independent organization, it invests the pension fund's assets and administers the pensions of 284,000 active and retired teachers in Ontario. It manages one of the largest payrolls in the country, with \$4.2 billion in annual pension payments. (3)

These staggering losses, as large as they may seem are based on 2008 numbers, not mentioned is that the first few months of 2009 produced losses nearly the equivalent of all 2008. This is the dirty little secret that these pension funds do not wish to discuss. What this means is that pension funds across Canada, and the industrialized world for that matter, have lost anywhere from 30 – 50% of their value in a matter of 18 months. The brains behind these funds will remark that as a matter of recourse everyone is down, that we are experiencing a massive down trend and things will rebound given enough time, yet this argument only magnifies their ignorance of the macroeconomic conditions that now prevail.

Market analyst Chris Martenson (4) succinctly describes the dilemma nations now face as pensions and family safety nets disintegrate:

So we are now facing the first actual set of hard choices in several generations. Choices that increasing look like they can no longer be passed to the future. The future is here, it has arrived. Will states decide to pay their retirement obligations, pave roads, educate children, or feed the hungry? These are the choices that now sit before us and I remain skeptical that we will successfully borrow our way out of the predicament this time.

It would seem that decades of intellectually weak and fiscally negligent political leadership has finally caught up with us.

The pain of this adjustment is going to send up a mighty hue and cry from the populace and politicians alike and the response, I fear, will be the same as it always is; print more money.

That is the weak and easy road to take, and so, with history as our guide, we can be nearly 100% sure that our leadership will follow that route as certainly as water will seek a drain.

Why have those in charge of pension funds been so careless in their investment strategies? It can be said that nobody saw the deleveraging event coming, but this ignores the facts, many voices were warning of an unsustainable build up of the derivatives market and that this would lead to an implosion of value. Is it simply that the profits at the time were too irresistible? And that the human tendency to deny and even ignore the warnings is what caused this situation. Well, yes, and no.

For some history of the struggle that has taken place over money and what constitutes money and how it should operate we need to go back some years, all the way to 1899, the year that M. W. Walbert published 'The Coming Battle' (5) wherein he describes how the current system of credit (debt) was foisted on the people by the premeditated destruction of silver coinage:

"The success of the national banking money power in securing control of Congress, and, through that body, an oppressive monopoly of the currency of the country, met the most sanguine expectations of the men who hoped to rule the industries of the people with an iron hand.

The outlines of that great scheme of the national banks, which aimed to throw the entire business of the country on a credit basis, were now plainly apparent, and it became patent that the plan was to be consummated by placing the entire volume of currency in the hands of the bankers.

Under the workings of the national, bank system, all circulating bank notes, before they would reach the hands of the mass of the people and thus be thrown into the channels of trade, must first pass through the toll gates erected over the counters of the bankers, making them at once the lenders of money, and the great majority of our citizens, borrowers of that currency, gratuitously bestowed by the government upon the wealthiest moneyed corporations of the United States.

All the industries were compelled to pay usury to the most traitorous class of our citizens. The banks were enabled to lay the foundations of that colossal structure of credit, which has plunged the people into an abyss of indebtedness from whence they will not emerge for generations.

Up to the time of the passage of the Resumption Act, the banking monopoly saw no difficulty standing in its way to keep it from being the master of all the property and industry, While corrupt congresses, notorious for the infamous scandals which smirched the reputations of some of the foremost men of the Republican party, bartered away the most precious rights of the people, nature came to the rescue by affording a great supply of that most precious metal - silver.

The bank monopoly at once caught the alarm, and the plan was matured in London and Wall Street to assassinate the silver dollar.

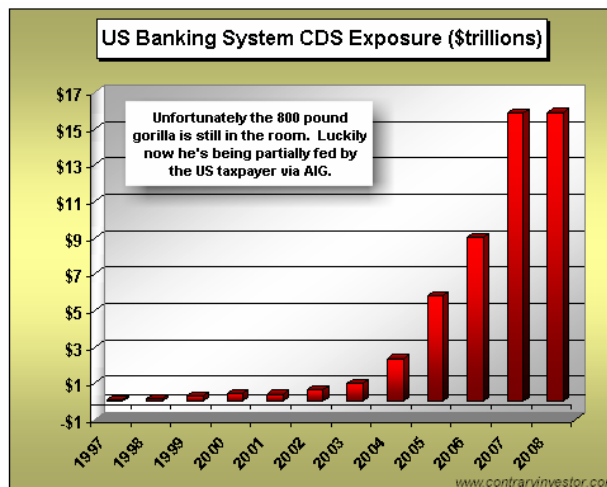
Under the free coinage of gold and silver, the national banks could not control the volume of money, and, therefore, the position taken by this monopoly was an essential part of that gigantic conspiracy to demonetize silver, and thus maintain its grasp on the property of the people; furthermore, a fight had to be waged against the standard silver dollar as a part of the scheme to sustain the supremacy of New York City as the great money center of the country.

Moreover, an adequate supply of silver meant the freedom of the agricultural districts of the West and South from the financial domination of the percent men of the East.

The national bank autocrats saw, in the rich deposits of silver in the Western States, the danger that menaced their power, and they made haste to strike down the silver dollar, which, in their fears, would become the regenerator of the financial condition of the people. Silver dollars meant cash, national bank notes meant credit, and therefore the bond-holders and bankers of London and New York City decreed that silver must die."

The United States of America has been setting the tone for the world for almost 200 years now, and it is the United States that has been the greatest proponent of fiat paper currency. As a result of American industrial might following World War 2 the US was accorded world reserve currency status, this had the effect of subsidizing US expansionism and militarism, not least of which included American finance and its eventual adoption the world over. This near wholesale adoption of American economic policy has been without a doubt the grandest political manoeuvre of all, since all the worlds oil had to be purchased with US dollars this provided an advantage that can hardly begin to be outlined.

Needless to say, this economic structure based upon the might of the US petrol dollar allowed for imbalances to accrue in global trade to such an extent that flaws began to become apparent to those observers who were keen witnesses of economic history. The true value of America had become overstated, its currency had become too abundant, its relative value industrially was a mere shadow of its former state, and its economic system was teetering on the edge of a corrupt edifice. First was the savings and loans scandal, then it was the manufactured dot.com bubble, then Enron and the realization of systemic fantasy accounting and finally subprime mortgages, the commercial real estate bubble and the most massive of all, the \$1.144 Quadrillion (1,144 Trillion) derivatives bubble that was spawned in the backrooms of Wall Street and the banking city of London. In the form of packaged assets (consumer debt) and the insurance vehicles (CDOs) attached to them an illusion of wealth was created that had no basis in reality. Anyone with a sense of common observation could see that home prices relative to personal income levels was way out of proportion, that low to no interest teaser mortgages would cause a massive convulsion and that derivatives attached to these unsound principles were destined to fail simply because nobody really knew anything about them. As it turns out many of the mortgages that were bundled and resold were themselves bundled multiple times thus creating investments that did not even exist.



Now market observers find themselves reflecting on a G-20 political summit that has convened and agreed to print ever more money in order that prosperity may return to the markets. There is one problem with this 'political' solution however, the market is still saturated with over 1,000 trillion dollars of derivatives that have little to no value. The politicians in office are now prepared to print a whole lot of dollars and face the inevitable fate of a 1920's Weimer inflation scenario on a global scale.

Consider if you will that perhaps, just perhaps this is indeed the plan, since in an inflation scenario those with the most obscene levels of money win.

It has become apparent from the bailouts issued by the US government that there has been no accountability as to where these funds have been allocated. Federal Reserve chairman Ben Bernanke refused to disclose how and where the government bailout funds were used. Bloomberg covered the story:

The Federal Reserve is refusing to identify the recipients of almost \$2 trillion of emergency loans from American taxpayers or the troubled assets the central bank is accepting as collateral.

Fed Chairman Ben S. Bernanke and Treasury Secretary Henry Paulson said in September they would comply with congressional demands for transparency in a \$700 billion bailout of the banking system. Two months later, as the Fed lends far more than that in separate rescue programs that didn't require approval by Congress, Americans have no idea where their money is going or what securities the banks are pledging in return.

“The collateral is not being adequately disclosed, and that's a big problem,” said Dan Fuss, vice chairman of Boston-based Loomis Sayles & Co., where he co-manages \$17 billion in bonds. “In a liquid market, this wouldn't matter, but we're not. The market is very nervous and very thin.” (6)

The allocation of these funds and the funds that have been issued since remains a mystery. Just who is getting these hundreds of billions of dollars taken from the tax base of the United States public?

So how does silver play into this?

On the eve of the founding of the Federal Reserve in 1913 upon the passing of the Federal Reserve Act Congressman Charles Lindbergh stated: *“This Act establishes the most gigantic trust on earth....When the President signs this Act, the invisible government by the money power, proven to exist by the Money Trust Investigation, will be legalized....The new law will create inflation whenever the trust wants inflation....From now on, depression will be scientifically created.” (7)*

Lindbergh the father of the famous aviator Charles Lindbergh knew what the passage of the Federal Reserve Act meant; it signalled the end of US sovereignty over its own economic policy and placed such a power into the hands of a private for profit banking institution that would be given monopoly power over national money creation. This organ was called the Federal Reserve, a non government agency that answered to no one and which was entirely opaque as to its list of board members and even its internal transactions.

For a recent Congressional perspective on the Fed please view Congressman Dennis Kucinich's remarks before a panel of bank executives:

Kucinich: Federal Reserve No More "Federal" Than Federal Express

Additionally, here are a few quotes in regards to the now socially normalized Federal Reserve (which is not 'Federal' at all except in name):

"We have in this country one of the most corrupt institutions the world has ever known. I refer to the Federal Reserve Board and the Federal Reserve Banks. Some people think the Federal Reserve Banks are U.S. government institutions. They are not government institutions. They are private credit monopolies; domestic swindlers, rich and predatory money lenders which prey upon the people of the United States for the benefit of themselves and their foreign customers. The Federal Reserve Banks are the agents of the foreign central banks. The truth is the Federal Reserve Board has usurped the Government of the United States by the arrogant credit monopoly which operates the Federal Reserve Board." [Congressman Louis T. McFadden, Chairman of the House Banking & Currency Committee, speech on the floor of the House of Representatives, June 10, 1932]

"In the united States we have, in effect, two governments....We have the duly constituted Government....Then we have an independent, uncontrolled and uncoordinated government in the Federal Reserve System, operating the money powers which are reserved to Congress by the Constitution." [Congressman Wright Patman, Chairman of the House Banking & Currency Committee, speech on the House floor, 1967]

"Most Americans have no real understanding of the operation of the international money lenders....The accounts of the Federal Reserve System have never been audited. It operates outside the control of Congress and....manipulates the credit of the United States." [Senator Barry Goldwater]

"Federal Reserve Notes are illegal" [US Representative Dr. Ron Paul]

Prior to the creation of the Fed there had been an ongoing war in America between constitutionalists and European banking powers who were determined to set up a private central bank that would issue paper fiat money at interest (usury). Andrew Jackson the seventh President of the United States (1829–1837) took it upon himself to deal a blow to the powerful banks of his time which had used their massive European capital pools to buy favour within government. In Thomas J. DiLorenzo's enthralling book 'The Real Lincoln: A New Look at Abraham Lincoln' he describes the environment at that time:

The best published account of the "bank war" between Andrew Jackson and Nicolas Biddle is Robert Remini's Andrew Jackson and the Bank War. Jackson considered fiat money to be "the instrument of the swindler and the cheat. For Andrew Jackson, hard money – specie (bullion) – was the only legitimate money; anything else was a fraud to steal from honest men." (Remini, p. 19). Jackson also believed that the doctrine of states' rights meant that a central bank was unconstitutional. This view was quite pervasive, especially in the South. As Timberlake writes (p. 83): "The states . . . were properly jealous and fearful of encroachment by the federal government. Since a central bank would necessarily be a federal bank and would

maintain and operate state branches from a distant center, proponents of states' rights found opposition to a national bank almost mandatory."

Jackson's Treasury Secretary, Roger B. Taney (the future chief justice of the U.S. Supreme Court) complained of the bank's "corrupting influence" and "its patronage greater than that of government".

The U.S. Supreme Court ruled that a central bank was constitutional, but it is important to keep in mind that, prior to the War for Southern Independence, it was not at all universally agreed that the federal government itself should be the arbiter of the limits of its own powers. That is, Supreme Court decisions were viewed by many, including President Andrew Jackson, as mere opinions and not Holy Writ, as they are today. As Jackson said in response to the Court's decision:

To this conclusion I cannot assent. Congress and the president as well as the Court must each for itself be guided by its own opinion of the Constitution . . . the opinion of the judges has no more authority over Congress than the opinion of Congress has over the judges, and on that point the president is independent of both. The authority of the Supreme Court must not, therefore, be permitted to control the Congress or the executive when acting in their legislative capacities.

For the next several decades the political battle would continue over central banking, with such advocates of a more centralized and omnipotent state as John Quincy Adams, Webster, Clay, and Lincoln on one side, and John C. Calhoun and the Jacksonians on the other. As Remini writes, "Calhoun argued in favour of a system that would convert the United States to the gold standard exclusively."

The Independent Treasury System

*The demise of the BUS led to an alternative banking system known as the Independent Treasury System, which was put into place in 1840, ended by the Whigs in 1841, resurrected in 1846, and ended finally during the Lincoln administration. As Jeffrey Hummel wrote in an essay on President Martin van Buren in *Reassessing the Presidency, the Independent Treasury System*, under which the only legally recognizable money was gold and silver coins and all currency was redeemable in specie on demand, "ushered in an era of financial deregulation at the national level." It was probably the most stable monetary system in American history, according to Hummel. Timberlake writes that "The Independent Treasury may well appear in retrospect as the optimal monetary-fiscal institution within the basic framework of a gold standard."*

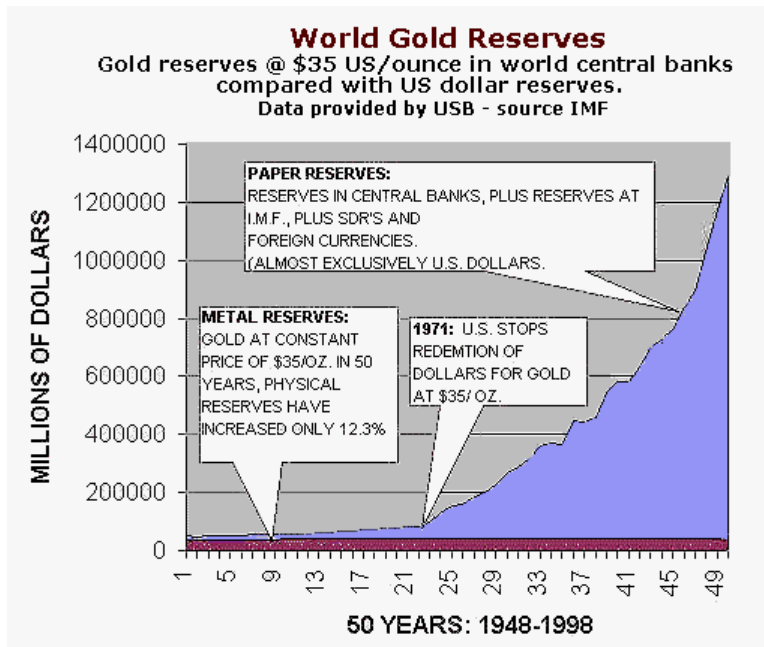
Lincoln the Bank Whig

Abraham Lincoln was fiercely opposed to the Independent Treasury System. On December 26, 1839, he gave a speech in opposition to it and in support of central banking in Springfield, Illinois. The speech was Clintonian in length and charged that the system would generate economic instability, be extremely expensive to operate, would be an insecure depository of money, and would "reduce the quantity of money in circulation." These turned out to be red herring arguments. (8)

The song and dance about precious metals being a relic that can no longer act as a viable and modern form of money control is still heavily chanted in the circles of elite

finance. This argument against specie is the clarion call of the 'Friedmanites', the followers of Milton Friedman's economic theories, theories which are the very cornerstone of the chaotic economic relativity we are now experiencing. The desire for a non-resource interest based fiat money system has been the hallmark of those who would wish to corner the money markets and carry out massive wealth transfers using inflation as the tool of choice. A non-resource interest based money system will always grow exponentially and will always net the lender (usurer) a greater portion than the recipient, thereby creating, by design, a one sided equation of wealth distribution that favours the banking classes above all others.

Which is why, as noted by M.W Walbert in 1899, the banking interests needed to destroy silver as an accepted form of money. For with silver and gold in circulation the money supply would remain outside their hands and in the hands of the producers which was anathema to the banking elites of Europe who situated themselves in the urban finance districts of New York and London. If the circulation of silver and gold as the economic lifeblood of a young United States could not be stemmed then the money supply could not be increased exponentially, therefore the wealth of the bankers would be restricted to only a portion of a slowly growing supply of silver and gold, the annual production. It was this annual production which was obviously limited by labour and technology that guarded against wanton money supply inflation and excessive wealth in the hands of a few. The introduction of the Federal Reserve Act of 1913, which was and is in fact a clerical fraud (9), enshrined fiat currency and doomed silver and gold to the status of a mere market guest. Gold held its redeemable status until 1971 when it was finally abolished by then US President Richard Nixon at which point total control of the money supply had been won by the banking elites.



The rest is as they say history. We now have a world where the disparity between rich and poor is the highest it has ever been, where money creation is the business of a centralized group of banking interests that earn profit simply from the issuance of paper and digital credits. A world where inflation, a hidden taxation due to money

oversupply, is becoming and will become THE economic story of our times. A world where the technology to create a balanced and earth friendly civilization exists but where the distribution of wealth prevents it.

So who exactly are these banking elites and how have they surreptitiously brought the economic world to its knees? For some direction on this matter I will refer to a commentary from the indefatigable F. William Engdahl, corporate economic advisor and author of 'A Century of War: Anglo-American Oil Politics.' He writes:

The 'dirty little secret' which Geithner is going to great degrees to obscure from the public is very simple. There are only at most perhaps five US banks which are the source of the vast portion of toxic poison that is causing such dislocation in the world financial system. What Geithner is desperately trying to protect is that reality. The heart of the present problem and the reason ordinary loan losses as in prior bank crises are not the real problem, is due to a variety of exotic financial derivatives, most especially so-called Credit Default Swaps.

In 2000 the Clinton Administration then-Treasury Secretary was a man named Larry Summers. Summers had just been promoted from No. 2 under Wall Street Goldman Sachs banker Robert Rubin to be No. 1 when Rubin left Washington to take up the post of Vice Chairman of Citigroup. As I describe in detail in my new book, Power of Money: The Rise and Fall of the American Century, to be released this summer, Summers convinced President Bill Clinton to sign several Republican bills into law which opened the floodgates for banks to abuse their powers. The fact that the Wall Street big banks spent some \$5 billion in lobbying for these changes after 1998 was likely not lost on Clinton.

One significant law was the repeal of the 1933 Depression-era Glass-Steagall Act that prohibited mergers of commercial banks, insurance companies and brokerage firms like Merrill Lynch or Goldman Sachs. A second law backed by Treasury Secretary Summers in 2000 was an obscure but deadly important Commodity Futures Modernization Act of 2000. That law prevented the responsible US Government regulatory agency, Commodity Futures Trading Corporation (CFTC), from having any oversight over the trading of financial derivatives. The new CFMA law stipulated that so-called Over-the-Counter (OTC) derivatives like Credit Default Swaps, such as those involved in the AIG insurance disaster, (which investor Warren Buffett once called 'weapons of mass financial destruction'), be free from Government regulation.

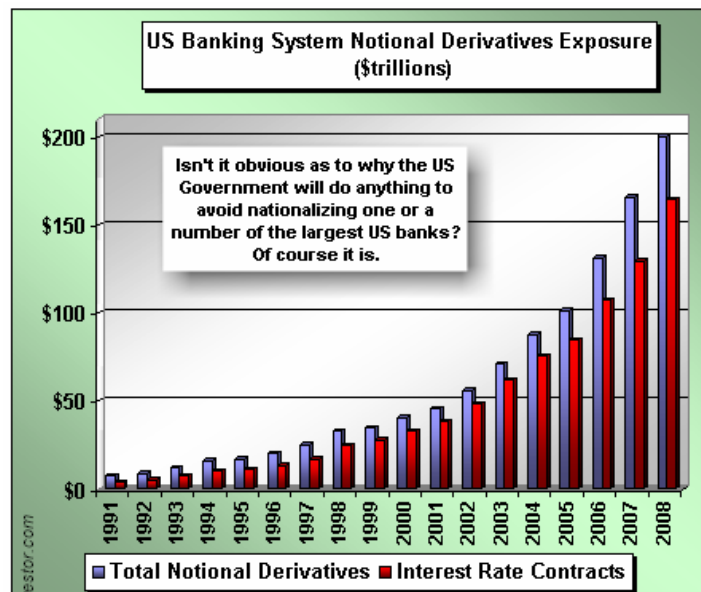
At the time Summers was busy opening the floodgates of financial abuse for the Wall Street Money Trust, his assistant was none other than Tim Geithner, the man who today is US Treasury Secretary. Today, Geithner's old boss, Larry Summers, is President Obama's chief economic adviser, as head of the White House Economic Council. To have Geithner and Summers responsible for cleaning up the financial mess is tantamount to putting the proverbial fox in to guard the henhouse.

What Geithner does not want the public to understand, his 'dirty little secret' is that the repeal of Glass-Steagall and the passage of the Commodity Futures Modernization Act in 2000 allowed the creation of a tiny handful of banks that would virtually monopolize key parts of the global 'off-balance sheet' or Over-The-Counter derivatives issuance.

Today five US banks according to data in the just-released Federal Office of Comptroller of the Currency's Quarterly Report on Bank Trading and Derivatives Activity, hold 96% of all US bank derivatives positions in terms of nominal values, and an eye-popping 81% of the total net credit risk exposure in event of default. (10)

The repeal of laws that would have acted as protections against massive positions in the hands of a few institutions has been the handiwork of a core group of banking interests, who through government lobbying channels produced their desired effect, the removal of market integrity for the purposes of centralized control of specific investment markets. It now appears that nearly 100 years after the assumption of the Federal Reserve Act that the banking elites have finally removed all barriers between themselves and unhindered access to the US treasury, which they are now using to insure their high level risks and market manipulation schemes. The U.S. government and the Federal Reserve have now spent, lent or committed \$12.8 trillion, an amount that approaches the value of everything produced in the United States in 2008 (11) under the rubric of unfreezing the credit markets. Yet there is no assurance that even this amount will suffice since the allocation of these funds is so convoluted and non-transparent. What in effect is a massive blank cheque has been written on the backs of the taxpayers for the transgressions of 5 major banks who hold 96% of all US bank derivatives positions, derivatives that have been shunted into the world economy creating a market panic that reaches far beyond the confines of Wall Street and London City Centre.

US BANKING SYSTEM DERIVATIVES EXPOSURE			
Bank	Total Assets (\$billions)	Total Derivatives Exposure (\$billions)	Credit Exposure To Risk Based Capital
JP Morgan	\$1,746	\$87,363	382%
Citi	1,472	38,305	278
BofA	1,231	31,888	179
Goldman	162	30,230	1,056
Wells/Wachovia	1,174	5,160	NA



To what extent did these large banks understand the risks they were taking? If they did understand the risks why would they carry out such a strategy? Nobody could answer this question better than Catherine Austin Fitts, former Assistant Secretary of

Housing at the US Department of Housing and Urban Development who learned the hard way about the dirty tricks employed by the financial insiders.

Catherine Austin Fitts offers a unique perspective on the global financial system and on the political economy. Her background includes Managing Director and member of the Board of Wall Street investment bank Dillon Read & Co. Inc., Assistant Secretary of Housing - Federal Housing Commissioner in the first Bush Administration and President of Hamilton Securities Group, a Washington DC investment bank. Catherine has designed and closed over \$25 billion of transactions and investments to-date, has led portfolio strategy for \$300 billion of financial assets and liabilities and has participated in the private and public workout and turn around of billions in mortgage, real estate and banking fraud.

Through Solari, Inc. (11), Catherine and her colleagues provide speeches, audio seminars, radio talk shows, on line articles and blog to collaborate on actions and transactions which will promote a freer, more civilized world, particularly healthy communities. Through Solari Investment Advisory Services, LLC, Catherine works with investors who wish to improve the total economic returns of their assets — both their investment returns and the returns to the people, communities and environment impacted by their investments.

Catherine serves on the board of the Gold Anti-Trust Action Committee (12), a non-profit civil rights and educational organization which advocates and undertakes litigation against illegal collusion to control the price and supply of gold and related financial securities. Catherine publishes a column “Mapping the Real Deal” in Scoop Media in New Zealand.

In a February 2009 article called ‘Financial Coup d’Etat’ Catherine Austin Fitts writes:

In the fall of 2001 I attended a private investment conference in London to give a paper, The Myth of the Rule of Law or How the Money Works: The Destruction of Hamilton Securities Group.

The presentation documented my experience with a Washington-Wall Street partnership that had:

- *Engineered a fraudulent housing and debt bubble;*
- *Illegally shifted vast amounts of capital out of the U.S.;*
- *Used “privatization” as a form of piracy - a pretext to move government assets to private investors at below-market prices and then shift private liabilities back to government at no cost to the private liability holder.*

Other presenters at the conference included distinguished reporters covering privatization in Eastern Europe and Russia. As the portraits of British ancestors stared down upon us, we listened to story after story of global privatization throughout the 1990s in the Americas, Europe, and Asia.

Slowly, as the pieces fit together, we shared a horrifying epiphany: the banks, corporations and investors acting in each global region were the exact same players. They were a relatively small group that reappeared again and again in Russia, Eastern Europe, and Asia accompanied by the same well-known accounting firms and law firms.

Clearly, there was a global financial coup d'etat underway.

The magnitude of what was happening was overwhelming. In the 1990's, millions of people in Russia had woken up to find their bank accounts and pension funds simply gone – eradicated by a falling currency or stolen by mobsters who laundered money back into big New York Fed member banks for reinvestment to fuel the debt bubble.

Reports of politicians, government officials, academics, and intelligence agencies facilitating the racketeering and theft were compelling. One lawyer in Russia, living without electricity and growing food to prevent starvation, was quoted as saying, "We are being de-modernized."

Several years earlier, I listened to three peasant women describe the War on Drugs in their respective countries: Colombia, Peru, and Bolivia. I asked them, "After they sweep you into camps, who gets your land and at what price?" My question opened a magic door. They poured out how the real economics worked on the War on Drugs, including the stealing of land and government contracts to build housing for the people who are displaced.

At one point, suspicious of my understanding of how this game worked, one of the women said, "You say you have never been to our countries, yet you understand exactly how the money works. How is this so?" I replied that I had served as Assistant Secretary of Housing at the US Department of Housing and Urban Development (HUD) in the United States where I oversaw billions of government investment in US communities. Apparently, it worked the same way in their countries as it worked in mine.

I later found out that the government contractor leading the War on Drugs strategy for U.S. aid to Peru, Colombia and Bolivia was the same contractor in charge of knowledge management for HUD enforcement. This Washington-Wall Street game was a global game. The peasant women of Latin America were up against the same financial pirates and business model as the people in South Central Los Angeles, West Philadelphia, Baltimore and the South Bronx.

Later, courageous reporting by Naomi Klein and Greg Palast confirmed in detail that the privatization and economic warfare model I discussed in London had deep roots in Latin America.

We were experiencing a global "heist": capital was being sucked out of country after country. The presentation I gave in London revealed a piece of the puzzle that was difficult for the audience to fathom. This was not simply happening in the emerging markets. It was happening in America, too.

I described a meeting that had occurred in April 1997, more than four years before that day in London. I had given a presentation to a distinguished group of U.S.

pension fund leaders on the extraordinary opportunity to reengineer the U.S. federal budget. I presented our estimate that the prior year's federal investment in the Philadelphia, Pennsylvania area had a negative return on investment.

We presented that it was possible to finance places with private equity and reengineer the government investment to a positive return and, as a result, generate significant capital gains. Hence, it was possible to use U.S. pension funds to significantly increase retirees' retirement security by successfully investing in American communities, small business and farms — all in a manner that would reduce debt, improve skills, and create jobs.

The response from the pension fund investors to this analysis was quite positive until the President of the CalPERS pension fund — the largest in the country — said, "You don't understand. It's too late. They have given up on the country. They are moving all the money out in the fall [of 1997]. They are moving it to Asia."

Sure enough, that fall, significant amounts of moneys started leaving the US, including illegally. Over \$4 trillion went missing from the US government. No one seemed to notice. Mised into thinking we were in a boom economy by a fraudulent debt bubble engineered with force and intention from the highest levels of the financial system, Americans were engaging in an orgy of consumption that was liquidating the real financial equity we needed urgently to reposition ourselves for the times ahead.

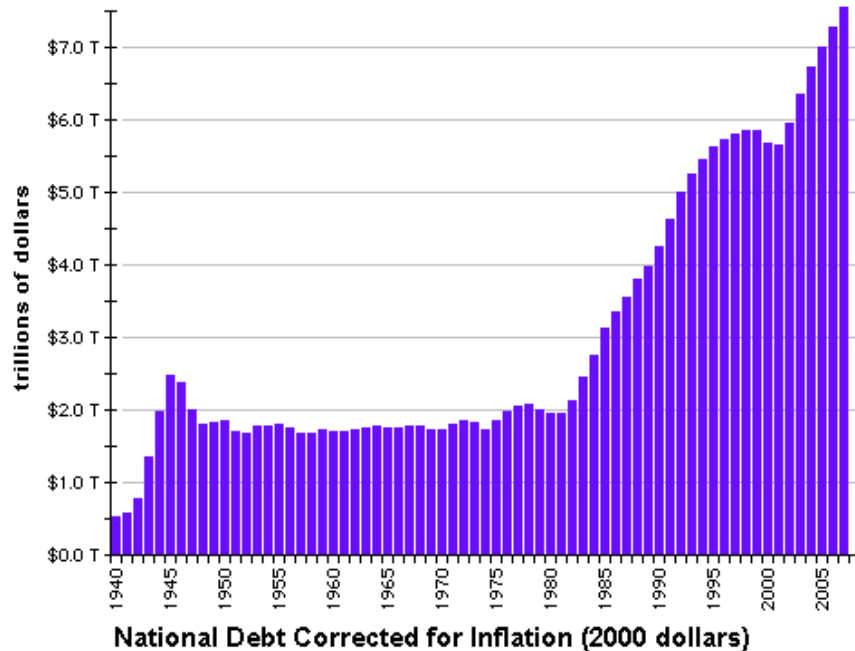
The mood that afternoon in London was quite sober. The question hung in the air, unspoken: once the bubble was over, was the time coming when we, too, would be "de-modernized?"

In 2009 — more than seven years later — this is a question that many of us are asking ourselves. (13)

A systematic looting of the wealth of nations is what is presently occurring, and the most recent manufactured bubble, the derivatives bubble has reached global proportions, laying the groundwork for a new economic order that will place more power into the hands of central bankers while robbing the nations people of their hard earned monies through an inflationary scheme that investing giant Jim Rogers described as an 'inflationary holocaust.' While some may debate whether the policy of the Fed and the central banks in general are merely the result of incompetence or outright systemic fraud the result will nonetheless be the same, a massive flood of liquidity into the world markets that will devalue all currencies that are not strictly supported by a balanced internal budget. At the end of the day a nation's budget, its levels of externalized debt decides what happens with its currency, and one only needs to look at the books to see which way the wind is blowing.

Through the process of hyperinflation those institutions and investors who have the upper hand on the market can allocate to themselves massive pools of capital with which they can purchase tangible assets such as land, corporate productivity and precious metals. That is exactly what is occurring within the framework of the bank bailouts that are now occurring across the industrialized world. The infusions of liquid cash are being used to buy up assets that have been eroded in value due to the slumping global economy in what is a short term deflationary window. In this overall inflation play there is a lag time whereby the infused cash still working into the

system does not yet produce hyperinflation, this is the phase of asset accumulation that can be referred to as a wealth transfer. As assets are bought up by large investors using their inside knowledge of the play and their seemingly limitless supply of taxpayer money, inflation begins to creep in, pushing asset values higher relative to cash savings. The insider's goal is to convert the massive pools of liquidity they have received from government into tangible assets. In this play the liquidity is converted into real wealth, the inflationary aspect of massive liquidity in the market then devalues the currency and increases the value of tangible assets, assets which act as a buffer and thus as a store of value against fiat paper.



Source: U.S. National Debt Clock
http://www.brillig.com/debt_clock/

The insiders are preparing their portfolios for hyperinflation and are setting themselves up very nicely to profit at the expense of the average man and woman on the street who will have little in the way of tangible assets yet will be left holding savings in paper currencies that are worth less by the day.

To some of you reading this it may seem an outlandish perspective but it is in no way unprecedented, for if one studies the boom and bust cycles, which are manufactured events, the transfer of wealth into the same institutions over and over again throughout the past century becomes all too apparent. At the core of these boom and bust cycles is the suppression of silver and gold, the monetary metals that have historically been the market signals of excess, inflation and looming correction. What follows is an extract of an interview conducted by Russian Television with Adrian Douglas the director of the Gold Anti-Trust Action Committee, a group that has been pursuing investigations into the manipulation of the precious metals market for the past decade:

RT: You are the head of the Gold Anti-Trust Action Committee. And from what we heard the gold market was suppressed for over ten years. What does that mean? That there was suppression of the gold market in US for over a decade?

A.D.: In the first place in 1999 we recognized that there was a total mismatch between the demand for gold and its price performance. And we have met a lot of evidence over the years that was showing that the gold market has been suppressed. This suppression is an effort to maintain the value of the US dollar and also to keep trust rates low.

The whole mechanism for this has been described in a paper by Lawrence Summers, who was ex-Secretary of the Treasury, but when he was professor of the economics of Harvard University he wrote a paper called "The Gibson paradox and the gold standard". In that research he explains how in a freely traded gold market the real interest rates and the gold price should move in inverse relationship to each other. In other words, if trust rates are low, the gold price should be high and visa versa.

What we've seen through the 90s and most of this decade is that we've had a low gold price and low interest rates. So, the conclusion we made was that the gold market is not freely traded and it has been suppressed.

RT: Lawrence Summers is part of President Obama's cabinet.

A.D.: Yes, he is one of his economic advisers and so we can summarize that the suppression to gold price is ongoing.

RT: You've referred to this as basically a Ponzi scheme.

A.D.: Yes, the Western central banks, with the leaders of federal reserves and governments, have investigated this scheme of suppressing the gold price. And this is what is at the core of the strong dollar policy. If you can suppress the gold price and not make it a free market then you can have low interest rates and a low gold price.

The low gold price essentially switches off the alarm in the financial system. What the purpose of the strong dollar was so that the US Government could issue lots of dollars without the alarm bells going off. The benefit for the US has been to live beyond their means. They managed to import goods from foreign countries and they have paid for them essentially with overvalued treasure debt. And they have even been so successful they have convinced other central banks that US treasure debt is a reserve asset. Now central banks around the world are sitting on trillions of dollars of treasure debt as a reserve asset which has a huge counterparty risk now of the American government – they will not repay it.

RT: So we've been inflating the dollar like a balloon. Is this balloon going to pop?

A.D.: Yes, the suppression of the gold price is coming to an end. The gold prices have already risen from as low as \$255 in 2001 to a high recently of \$1000. This is a sign that the scheme is starting to lose attraction because it depends on central banks being able to continue to put an extra supply of gold into the market to keep the price down. The central banks have been doing this for 15 years. Now, on our

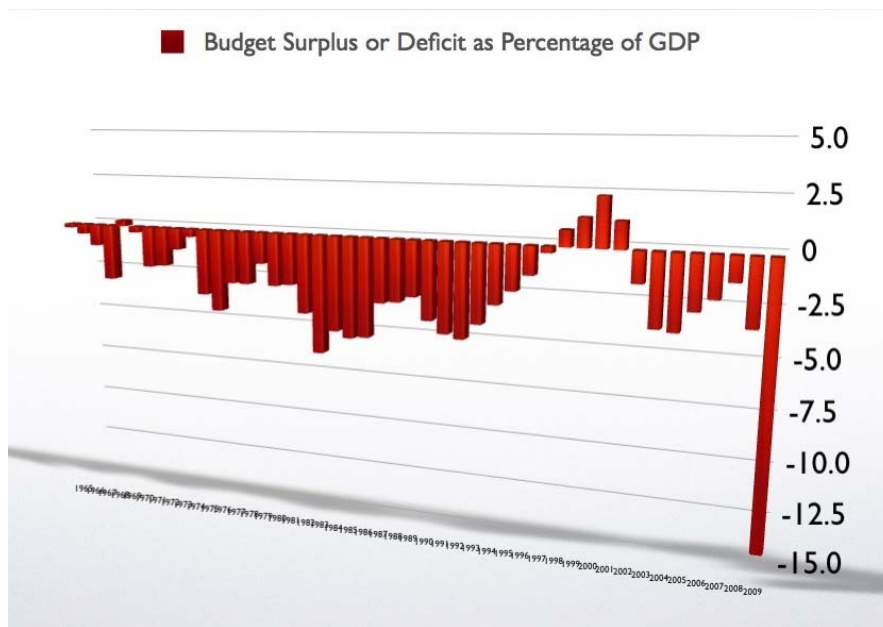
estimates, they have probably consumed 50% to 60% of their gold reserves. At the same time demand for gold by the general public is going up. Obviously the breaking point is coming where gold will skyrocket and it will go to numbers which will probably surprise even the most bullish people.

RT: In 2008 the Wall Street Journal published a warning of impending financial disaster due to the suppression of the price of gold. What was their response?

A.D.: What they say was ignored for 10 years has largely been ignored by the US press and of course by the government officials.

And we've got frustrated with that. We took out this full page ad in Wall St Journal, it cost us \$64,000 and warning the general public that if this manipulation of gold price has not stopped, then there would be a significant catastrophe and disaster in the market. (14)

In a future newsletter I will discuss in greater detail the specifics regarding the manipulation that has been ongoing in the silver and gold market, but suffice it to say, the top heavy arrangement of the capital markets has become a threat to all investment vehicles regardless of their nature since the ability to use phantom leverage and government backed securities is at the insiders disposal.



United States budget as a % of GDP

Due to this imbalance in the flows of capital unemployment has reached levels unseen for decades as businesses no longer have ready access to running credit. This loss of credit has hampered the ability of businesses to acquire products and materials leading to slowdowns and even bankruptcies. The resultant effect of this increasing unemployment is that state/provincial and local governments primarily are experiencing budget shortfalls that cannot be readily remediated, and as businesses shutter their doors higher rates of unemployment insurance claims ensue, as well as increased demand for social services. To make matters worse, as social needs increase tax income drops creating greater budgetary strain at all levels of government, which has led many pension managers and public sector investing firms to take greater risks, to the ultimate detriment of the very people who they are supposed to protect.

As a result of these difficult circumstances there has been a move by many government bodies, especially in the United States where the downturn is more mature, to pass resolutions for a return to specie payment - the acceptance of gold and silver for taxes and fees. On March 16, 2009 WorldNetDaily ran the following story:

A bill being considered in the Montana Legislature blasts the Federal Reserve's role in America's money policy and permits the state to conduct business in gold and silver instead of the Fed's legal tender notes.

Montana H.B. 639, sponsored by State Rep. Bob Wagner, R-Harrison, doesn't require the state or citizens to conduct business in gold or silver, but it does require the state to calculate certain transactions in both the current legal tender system and in an electronic gold currency. It further mandates that the state must accept payments in gold or silver for various fees and purchases.

While Wagner was unavailable for comment, the bill's language clearly alleges the nation's current financial system, with its reliance on the private Federal Reserve system for money supply, is a danger to American freedom.

"The absence of gold and silver coin, whether in that form or in the form of an electronic gold currency, as media of exchange," the bill states, "abridges, infringes on and interferes with the sovereignty and independence of this state ... and exposes this state and Montana citizens, inhabitants and businesses to chronic problems and potentially serious crises that may arise from the economic and political instability of the present domestic and international systems of coinage, currency, banking and credit."

Further, the bill states, relying only on the depreciating legal tender issued by the Fed subjects citizens to "losses in purchasing power" inflicted by the government, a dilemma the bill says amounts to the "incremental confiscation" of property by government in violation of the U.S. Constitution's protections for just compensation and due process.

The Fifth Amendment states, "No person shall be ... deprived of life, liberty or property, without due process of law; nor shall private property be taken for public use, without just compensation."

Critics of the current financial system argue that using Federal Reserve notes as legal tender, rather than gold- or silver-backed currency, means the value of Americans' money – and thus their "property" – is siphoned away by inflation, a process perpetuated by the government's reliance on legal tender. Gold and silver, critics say, don't lose their value on the whims of the Federal Reserve.

U.S. Rep. Ron Paul, R-Texas, even favors abolishing the Fed's system of fiat currency to return to dollars backed by gold.

"Throughout its nearly 100-year history, the Federal Reserve has presided over the near-complete destruction of the United States dollar," the Texas Republican said. "Since 1913 the dollar has lost over 95 percent of its purchasing power, aided and abetted by the Federal Reserve's loose monetary policy.

"How long will we as a Congress stand idly by while hard-working Americans see their savings eaten away by inflation? Only big-spending politicians and politically favored bankers benefit from inflation," he said.

Wagner joins legislators in several other states encouraging their respective governments to reconsider accepting gold as a form of payment. Indiana's S.B. 453, Colorado's H.B. 09-1206, Missouri's H.B. 0561, Georgia's H.B. 430 and Maryland's H.J.R. 5 are among the gold currency bills introduced just this year in various legislatures. (15)

It is clear that a movement is afoot in the US to secure wealth and income by means of a return to 'real money', money that has no counter party risks and which is not affected by inflationary principles. It is also becoming obvious that the current model of finance does not benefit the working class whose purchasing power and wage levels have dropped in tandem, while alternatively CEO salaries at the large finance houses has ballooned to levels unimaginable even ten years ago.

Therefore my primary suggestions going forward, considering the economic and political environment I now see is to move a large portion of liquid cash assets into gold and silver bullion. As those who speak with me often know, I believe the upside for silver is much higher than that of gold for reasons I will touch upon in a future newsletter. Based on my research it has become clear that fiat currencies that are not backed by a government of high productivity, market transparency and balanced budgets will become virtually worthless. Fortunately, or unfortunately depending on how one looks at it, this leaves much of the Western industrial group of nations with serious social issues that are already becoming apparent. I believe it will become increasingly clear that military might alone will no longer be enough in a multi-polar world to uphold and buttress western economic policy in the face of world wide shortages due to an increasing global population and growing environmental degradation.

In the interests of investing, protecting and growing wealth I recommend, based on my insights, a few important opportunities.

The opportunities I see on the horizon that show the greatest promise revolve around local production processes. In the coming years, as fiat money valuations drop and as energy prices continue their overall uptrend it will become very expensive to continue the importation of goods from overseas. The new prices

associated with many imported goods will be out of the range of many. Local manufacturing facilities that learn to model and source their inputs locally and produce finished products will do very well. Manufacturers who are dependent on materials from across the world will find their bottom-line bottoming out. Wood working shops, metal fabrications and agriculture ventures, among others, that learn to market locally, source locally, and build local brand loyalty will be light years ahead of even the large manufacturers who rely on overseas customers and overseas inputs.

As real estate continues to devalue the opportunity to acquire cleared or partially cleared land with an available body of water will provide a positive return in that land of this sort can be used for agriculture and energy harvesting. For those who do not yet recognize the increasing value of agricultural goods I recommend you consider that climate change is now drastically reducing crop yields and that the demand for bio-fuels is cutting food staple production across the world. In fact global food reserves have reached a 50 year low (16). For a list of drought affected areas and resulting crop damages I highly recommend you check out this analysis by the [Market Oracle](#).

Considering climate effects I'm very keen on the prospects of green house food production, I believe that in the next 5 - 10 years those agricultural ventures that have developed an understanding of and have implemented water saving drip irrigation will be much advanced over their peers. I expect prices of food to escalate consistently for the foreseeable future.

Analysts that I trust and who were early in calling the market collapse of 2008 - 2009 by at least a year or two are expecting a DOW around 3000 by 2010-2011. The current episode of market stabilization, if we can call it that, is but a short ledge on the fall further down the mountain of questionable market value. There is still massive over leveraging in residential and commercial real estate and huge amounts of OTC derivatives to take into account. There are continued massive corporate layoffs and unemployment which show no sign of slowing. The 'hurting phase' of this debacle that was directed from the top is just now beginning to materialize and show its head in the real economy, especially here in Ontario where we have lagged behind our neighbours to the south by several months.

Gold and Silver

For those who have recently purchased gold and/or silver bullion I say congratulations for diversifying into 'real money', you now have money that is accepted the world over and carries no counter party risks.

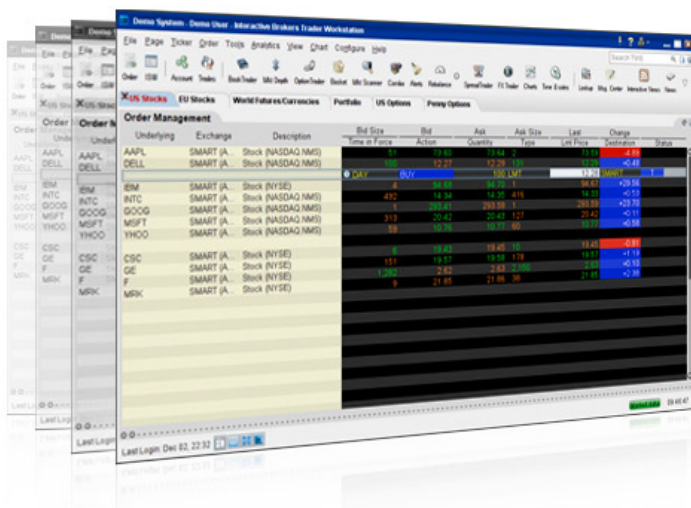
To those who may be concerned about where gold and silver prices stand today in relation to where they were 3 weeks or a month ago I would say that in terms of the larger macro-economic trend this is an amazing buying opportunity, since gold and silver shortages are being reported in nearly every country. The spot price for silver for example may be \$12.76 USD (as of this writing) but try buying a one ounce silver coin for less than \$20 USD! The cost above spot is higher than ever. Gold and silver have both gone into backwardization in the past several months and silver is consistently in backwardization (I will discuss backwardization in a future newsletter). So this is not the time to quibble over a dollar or two this way or that, the reality is that in a year from now you may not be able to buy silver at all....

Thank you for taking the time, and enjoy the wonderful spring weather!

May you all prosper,

Angelo Zachos

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