

ARRO Capital Trends

Investing in Insight



July 8th, 2009 - ARRO Capital Trends Newsletter, 4th Edition

At a Crossroads

A theme I have been attempted to convey in my newsletters is that we are at a crossroads, and I don't just mean economically, but also socially and spiritually. The dynamic of world events has been under a great amount of agitation, as people movements the world over are beginning to emerge seeking justice from under the yolk of bureaucratic and economic oppressions. The systems of yesteryear are no longer effective representations of the will of the people, younger generations have evolved new images of the world, and in a very short amount of time the old images and concepts of a past era are now found lacking the malleability required for a much more fluid media environment. The information age has transformed the media landscape and created a tidal wave of information on demand that has brought into disrepute the opacity found within governments worldwide. Access to a ready flow of highly specified packets of information, made available by the digital environment, has obsolesced the protective and rigid governmental apparatus, and its orientation towards greater control and conformity for the sake of a theoretical efficiency and perceived need for hyper-security.

What we are witnessing across the world in all realms of human activity is a speeding up of the process of change; the size of the population, the explosion of technology and environmental climax have created a new dynamic that has never existed on this planet in quite the same way before.

We each live in these times of massive upheaval and change, and in order to navigate the future we will need a comprehensive understanding of the global context, without blinders and without restrictions as to the facts. Those so prepared will find themselves overwhelmed with opportunities to make much needed positive change in a world seeking this type of change above all else.

Looking across the vast landscape of world events, which I spend a great deal of time surveying, certain trends prompt me to take to the keyboard in order to capture my insights. The trends that capture my attention are those that I feel best prefigure the direction of events to come, this process is based entirely on a wholistic understanding of the dynamics at play in human society on a global scale.

It is my observation that each age has its own signature and corresponding event string that reflects an unfolding pattern in what some may perceive as unconnected events. Yet what was once considered unconnected has now been shown by the recent findings of particle physics, particularly the observation of wave-particle duality, to be very much interrelated and without separating boundaries at all. This new perception which overturns the mechanistic foundation of reality is slowly arising in the field of human social life and not without profound effects. To most social commentators this dynamic of cosmological uprooting is not even taken into consideration, a defect of an old linear based thinking model that has yet to grasp the symbiotic relationship of observer and observed. The bottom line, as they say in the business world, is that reality is much more malleable than we have been taught, and that the implications of this reality in practical application is the single most profound psychological transformation since the middle ages.

Everything from systems design to management is being slowly impacted by a deeper understanding of the synergistic mechanism that comes into reality when information is allowed to freely interact in a non-compartmentalized and unrestricted way. This synergy of integral ideas leads to a much higher rate of creativity which is the essence of humanity itself. This reality however is slow to take hold in the older institutions of the world, some of which are now threatening to cause a great deal of social harm in their attempts to survive in an unknown territory. Here I have in mind the banking establishment's old order, which has been used as a vehicle of market manipulation and monopoly with the blessing of government for far too long. The era of transparency is upon us, yet despite this very powerful undercurrent in society, the large financial institutions such as the Federal Reserve, Goldman Sachs and JP Morgan Chase, among others, refuse to enter the age of transparency and accountability. The outright abuse of accounting procedures has become so endemic that the system itself is no longer considered stable by any truly objective financial analyst. The very structure of fractional reserve lending and the use of massive amounts of leverage is shown to be but a large ponzi scheme that will inevitably fall under its own failure to factor in complexity.

To support this argument consider the theory of the Black Swan:

*"The theory was described by Nassim Nicholas Taleb in his 2007 book *The Black Swan*. Taleb regards almost all major scientific discoveries, historical events, and artistic accomplishments as "black swans" — undirected and unpredicted. He gives the rise of the Internet, the personal computer, World War I, and the September 11, 2001 attacks as examples of Black Swan events.*

The term Black Swan comes from the assumption that 'All swans are white'. In that context, a black swan was a symbol for something that could not exist. The 18th Century discovery of black swans in Western Australia metamorphosed the term to connote that the perceived impossibility actually came to pass. Taleb notes that John Stuart Mill first used the Black Swan narrative to discuss falsification.

Coping with Black Swan Events

The main idea in Taleb's book is not to try to predict Black Swan events, but to build robustness to the negative ones, while being able to exploit positive ones. Taleb contends that banks and trading firms are very vulnerable to hazardous Black Swan

events and are exposed to losses beyond that predicted by their defective models. Taleb considers that a Black Swan depends on the observer. A Black Swan surprise for the turkey is not going to be a Black Swan for the butcher—hence his idea is "to avoid being the turkey" by finding out where one may be exposed to be a turkey—and "turn Black Swans white". (1)

The reality of 'complexity beyond preparedness' within a system can only be denied for so long. Unfortunately the current denial of the largest financial institutions in the world is being subsidized by governments whose political establishment has largely fallen to the big bank accounts of lobbyists and their well funded firms. The market has become so displaced by government intervention that even the network news stations can't keep their analysts from speaking the truth. Here is a **video link of an astounding admission by Larry Levin**, a futures trader on the CME who calls out the market intervention during live television. (Note - the video above has been down repeatedly during the writing of this newsletter, if the link doesn't work I've pasted a shortened text version of the exchange below.) Here's a portion of the live discussion:

"Larry Levin: "...this market continues to be propped up by government intervention and manipulation and unfortunately as that continues to happen this market can go higher... the government has been doing a good job of keeping it that way no matter what the real underlying current is. ...

Question CNBC anchor: "What happens when we go into the second half? Is reality going to hit in a bad way?"

Levin: "If the government can keep putting out all these IOUs and printing money, I guess not. Many professional traders would have told you that this market should not continue to move up as it has; move up 4 months in a row basically months ago, ... You're gonna have to pin it on Obama and his staff that they've kept this market propped up the way they have..... Every single day we have some backstop from the government. These are NOT free markets anymore. "

*Wilbur Ross (fund manager) adds his 2 cents: "We're facing an environment where Washington is the new Wall Street. It seems like no capital transactions get done at all without some kind of intervention from Washington. And it makes me wonder; How do we ever get off those vitamin pills?...**all we are doing is transferring liabilities from private to public sectors.**" (2)*

Speaking directly to the intervention of government in the transactions of the business world is Rep. Michele Bachmann (R-Minn.) speaking on the House floor where she denounces the US administration as a gangster government that has placed itself between businesses and access to capital and favours, acting not unlike a criminal cartel.

Video Link - Rep. Michele Bachmann

We live within a complex system that is growing more complex by the minute, and perhaps the best indicator of this growing complexity is the global marketplace where speculative investment products have created a greater level of uncertainty than anyone could have possibly imagined. This uncertainty has overwhelmed the risk assessment tools of the old paradigm institutions and as a result these dinosaurs

of finance and industry are leaning on the apparatus of government to keep them alive. This situation is no different in Canada than it is in the United States. In January of this year the Canadian government put into effect a 40-billion dollar (CDN) stimulus.

On January 27th AP newswire released an article on the Canadian stimulus package which contained some interesting facts and figures:

*"This stimulus will result in a 64-billion dollar budget deficit over two years. And Canada is now **not expected to see another surplus until 2014 -- if the stimulus works.***

The stimulus includes 20 billion dollars in tax relief over five years, aid for sectors in peril such as Canada's auto, shipbuilding, tourism and resource industries, and "one of the largest building projects in Canada's history."

As well, Ottawa has earmarked 200 billion dollars for business loans." (3)

I would be very interested to see a list of which businesses actually received/receives those 200 billion in business loans, forgive me for thinking that it wasn't small businesses that the government had in mind when making this massive allocation. The argument for these stimulus policies in both Canada and the US had been for the stabilization of the economy as well as the rebuilding of social infrastructure in what had been termed 'green projects'. Yet despite the rhetoric surrounding the stimulus packages the North American economy is contracting much more than was expected (4) with both countries hemorrhaging jobs at an unprecedented rate.

In my last email update I wrote the following:

In Canada the unemployment situation per capita is equivalent to that of the U.S. In May alone Canada shed over 58,000 jobs, and Ontario Canada's industrial base, has led the charge. The Toronto Sun reported:

"OTTAWA—Unless the federal government does more to help manufacturing, the industry's continued decline will cripple Canada's ability to claw its way out of recession, says Jayson Myers, president of Canadian Manufacturers and Exporters.

According to Statistics Canada, 58,000 manufacturing jobs were lost in May, most in Ontario. That means there are now only 778,000 manufacturing jobs left in the province — the lowest number since 1976.

"It's a very serious situation, particularly in Ontario where manufacturing only three years ago accounted for over 20% of the provincial economy," said Myers, adding he wouldn't be surprised if manufacturing jobs accounted for only 12% by the end of the recession."

The equation is really quite simple, if American consumers are consuming less, Canadian businesses will find their export market weakened since the U.S makes up for the vast portion of Canadian exports.

Reuters news service reported the following in regards to the US job situation:

"WASHINGTON - U.S. employers cut far more jobs than expected last month and the unemployment rate hit 9.5 percent, the highest in nearly 26 years..."

The loss of 467,000 jobs reported by the Labor Department on Thursday was 100,000 more than Wall Street economists had expected, with virtually no major economic sector spared.

Since the economy fell into recession in December 2007, 6.5 million nonfarm jobs have been lost and the unemployment rate has nearly doubled.

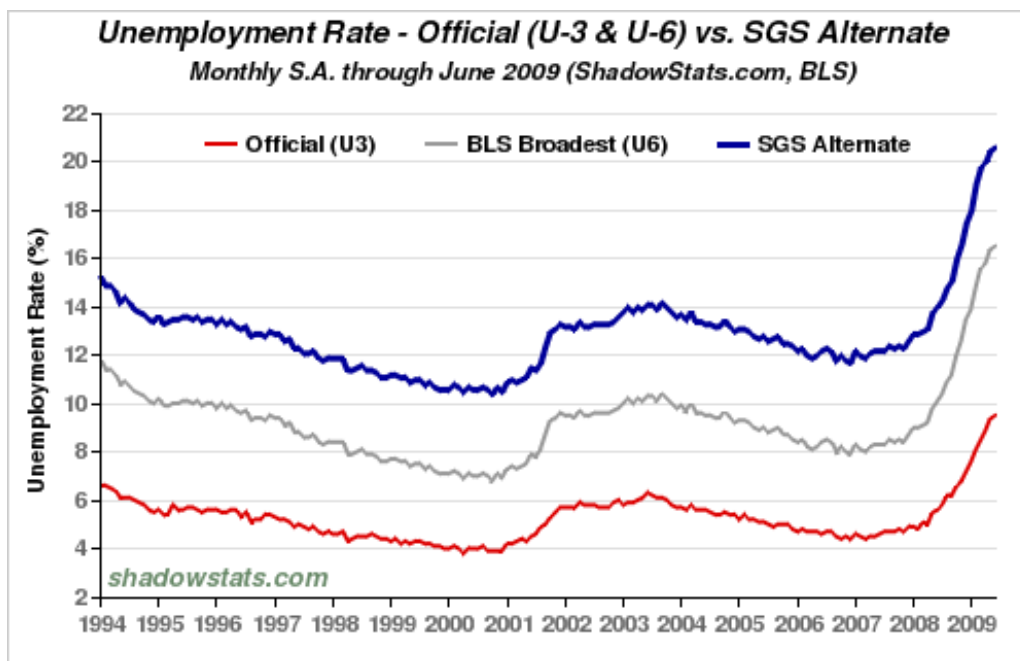
"It looks like the economy was still losing substantial momentum as the second quarter came to a close. This report is weak across the board," said William Sullivan, chief economist at the JVB Financial Group in Boca Raton, Florida.

...

"The labor market is still in shambles," said economist Harm Bandholz of Unicredit Markets & Investment Banking in New York.

U.S. businesses have slashed payrolls sharply in an effort to protect their bottom line in the face of a plunge in consumer demand." (5)

If you are a skeptic of government statistics as I am then you might find the chart below a better representation of the true level of unemployment in the US.



The blue line above, referred to as the SGS Alternate, is actually the very same index that was used to measure unemployment under the Carter administration. The official U3 index that is now referenced in the media (as in the article above) is the child of many revisions and omissions and was designed to minimize and hide the true jobs picture from the marketplace. Based on the SGS the real unemployment

rate in the United States is now over 20%. This much higher figure includes the category referred to as 'discouraged' – those who have given up looking for work, and those who have taken on part time employment while still seeking full time work. The manufacturing of statistics is yet another example of institutional deception that attempts to artificially support the perception that things are not as bad as they truly are. In recent years the US government has abolished the M3 money supply data in order to hide inflation (6), has removed food and fuel from the national inflation index and downgraded its unemployment statistics by removing those no longer enrolled in government job search programs. Does the government have something to hide?

Hiding Something?

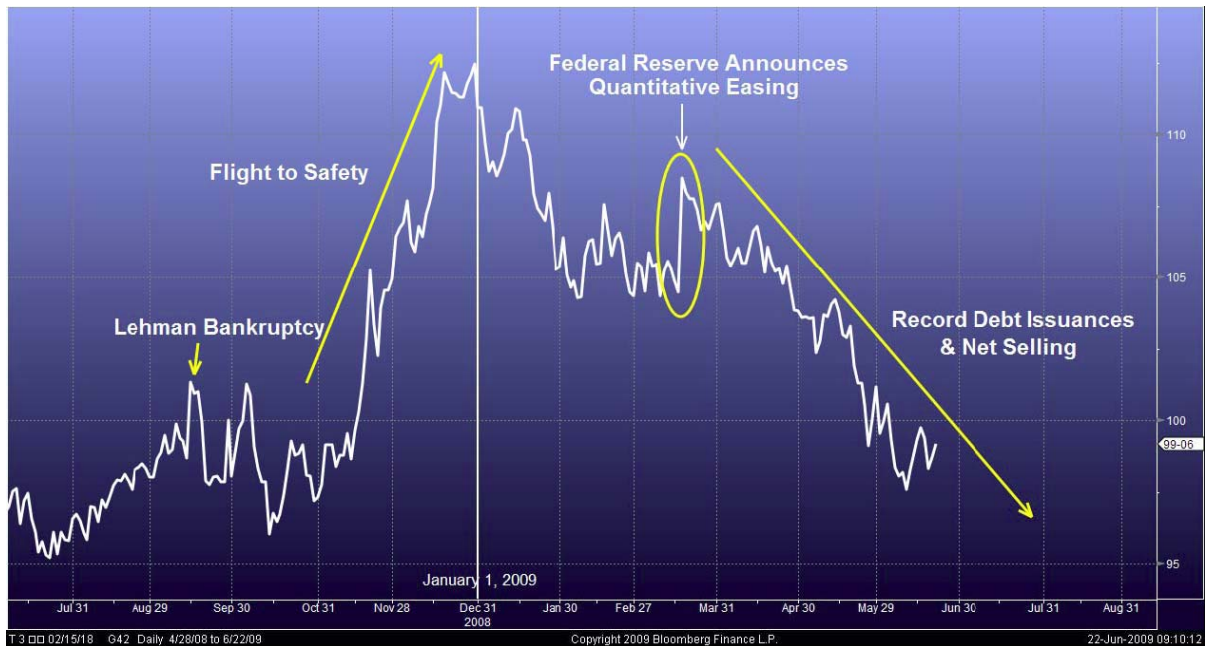
To illustrate why the US government is attempting to hide the truth regarding the US money supply I will turn to Canadian investment analyst Eric Sprott of Sprott Asset Management LP (7) who outlined very succinctly in a recent special report that the US Bond market is nearing collapse. He writes:

“Quantitative Easing is an extreme form of monetary policy used to stimulate the economy when interest rates are at or close to zero. In practical terms, the Federal Reserve purchases assets, including treasuries and corporate bonds, from financial institutions using newly created money. The Federal Reserve typically controls the ‘cost’ of money with interest rates, but since interest rates can't be negative, the Federal Reserve now manipulates the quantity of money itself by printing more of it. The official announcement proclaiming this practice was made in March of this year, and it was hailed as a new stimulative mechanism to kick start the economy.

The Federal Reserve's ‘solution’ to the debt problem is the problem. It has resulted in the Federal Reserve doubling the monetary base of the United States over the span of a mere nine months. Rather than stimulate the real economy, the QE program has instead resulted in increasing weakness in the international market for US bonds - the proof of which can be seen in the chart below. Bond investors are running for the exits. Traditional buyers of US bonds are now sellers, and they are exercising a non-confidence vote in the US dollar and in US debt.



CHART A – US 10 Year Bond Price



Source: Bloomberg

As we hope the breakdown above has revealed, the future solvency of the United States as a nation state is currently in jeopardy. It is in far deeper trouble than the mainstream press cares to admit. There are simply not enough new buyers of debt on this planet to support the spending programs of the United States government - and it appears that current holders of debt are beginning to sell. Because it is impossible to balance the budget from outside sources of capital, the only source of funds left for the US, in all reality, is continued money printing.

The Federal Reserve's policy of Quantitative Easing is failing. The US budget is ludicrous, spending is out of control, spending promises are out of control, the world knows it - and we know it. For all the pundits who see the economy improving over the next year, we invite you to explain to us how this debt crisis will resolve itself without significant turmoil. We've tabulated the numbers above - and they do not lie. As we wrote this past January, welcome to 2009."

The economy is now at an extremity unlike any other time in history. The tower of debt that has been allowed to accrue due to the falsification of statistics and the suppression of interest rates is now collapsing. The debris from above, the fallout from the inflated value bubble, is decimating the balance sheets of institutions world wide as investments implode and vast sums of wealth are summarily destroyed. In this phase of wealth destruction which stretches from mid 2007 to mid 2009 it is estimated that \$30 trillion (USD) worth of market value (8) has been lost from the global economy, \$13 trillion from the U.S economy alone. This amounts to a loss of about 40% of total value, an astounding rate of wealth destruction for such a short time period. It is this \$30 trillion dollar chasm that has opened up which has compelled a coterie of developed nations to embark on the 'print your way to prosperity' program, and considering the size of the gap, the need for ever more stimulus is guaranteed. In fact it's baked into the cake.

When the Obama administration finally got their contentious \$787 billion stimulus packaged passed by congress (9) most of the public was not aware that this was only an initial step, that further stimulus would be needed, in fact absolutely necessary; in perfect political style the package was massaged as a one time deal. Though now only four months later US vice president Joseph Biden admits that the economy is worse than initially thought, wherein he proceeds to fashion a precursor for another stimulus package. From the July 5th ABC interview with Biden:

"The truth is, we and everyone else misread the economy," Biden told me during our exclusive "This Week" interview in Iraq.

Biden acknowledged administration officials were too optimistic earlier this year when they predicted the unemployment rate would peak at 8 percent as part of their effort to sell the stimulus package. The national unemployment rate has ballooned to 9.5 percent in June....

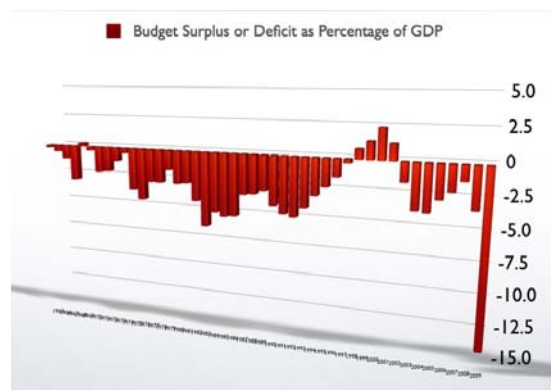
Biden didn't rule out a second government stimulus package, but downplayed calls from Nobel Prize-winning economist Paul Krugman this week that a second stimulus will be needed.

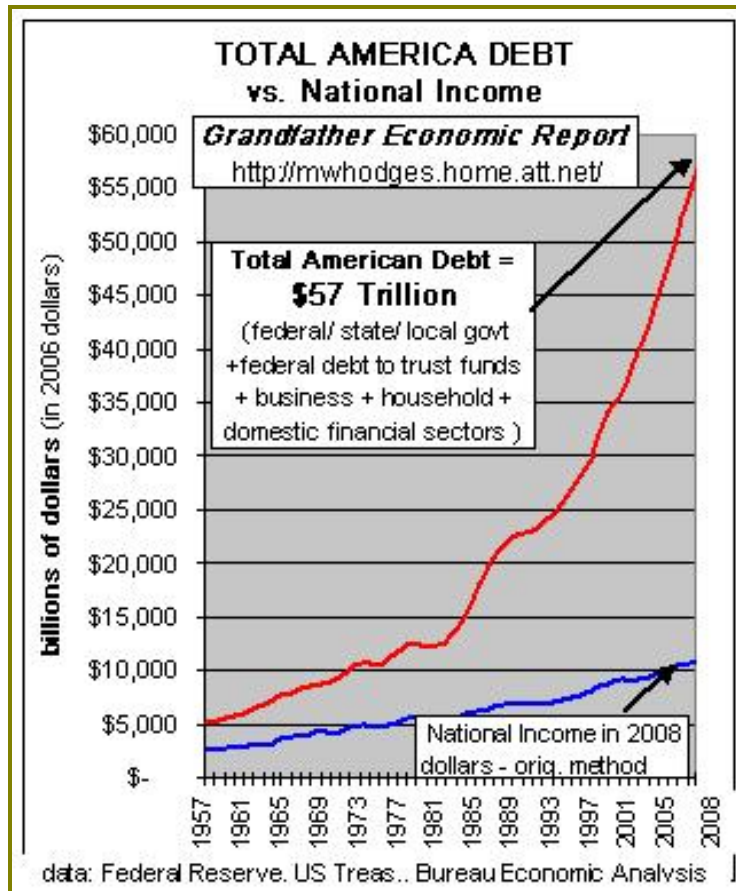
I pressed the vice president, who is also leading the administration's middle-class task force, on whether he'd rule out a second stimulus package.

"So, no second stimulus?" I asked.

"No, I didn't say that," Biden said, "I think it's premature to make that judgment."

The greater the amount of money that is forced into the system as a prop for market values now the greater the debt burden will be on future generations. As it now stands the debt burden of all western governments is reaching the point of no return, the point when based on national income from taxation, the debt will no longer be mathematically payable. The chart on the following page of 'total US debt' shows a debt in excess of 57 Trillion dollars and a national taxation income of just over 10 Trillion; the chart however was based on numbers from 2008. Since 2008 the total US debt has reached over 60 Trillion and tax receipts have dropped 15% in 2009 to roughly 8.7 Trillion. Therefore the blue line on the chart on the following page is actually taking a significant nose dive due to the massive levels of newly unemployed who pay little or no income tax and spend less, correlating to lower sales tax income for state governments across the board.





Understanding the situation regarding the US economy and its fiscal policy is important because the US dollar is the world reserve currency; it is the traditional safe haven investment and thus is held in large quantities by governments and institutions worldwide. The problem is that the US dollar has become a ticking time bomb, and it's revaluation in terms of a loss of buying power will affect not only the US but the world, bringing into question all government backed fiat currencies. The crisis we face in the coming months and years is unprecedented and will change the face of the world forever.

A Massive Ponzi

What lay behind the ponzi scheme that is the US financial system is brought very much into the light in a recent explosive Rolling Stones expose of Goldman Sachs by columnist Matt Taibbi. Taibbi's fiery rebuke of systemic corruption has set the world of finance ablaze; many could hardly believe that a regularly read mainstream publication would venture so deeply into such a taboo. But alas, times they are a changin....Here is a snip from the 'The Great American Bubble Machine':

"The first thing you need to know about Goldman Sachs is that it's everywhere. The world's most powerful investment bank is a great vampire squid wrapped around the face of humanity, relentlessly jamming its blood funnel into anything that smells like money.

Any attempt to construct a narrative around all the former Goldmanites in influential positions quickly becomes an absurd and pointless exercise, like trying to make a list of everything. What you need to know is the big picture: If America is circling the drain, Goldman Sachs has found a way to be that drain — an extremely unfortunate loophole in the system of Western democratic capitalism, which never foresaw that in a society governed passively by free markets and free elections, organized greed always defeats disorganized democracy.

They achieve this using the same playbook over and over again. The formula is relatively simple: Goldman positions itself in the middle of a speculative bubble, selling investments they know are crap. Then they Hoover up vast sums from the middle and lower floors of society with the aid of a crippled and corrupt state that allows it to rewrite the rules in exchange for the relative pennies the bank throws at political patronage. Finally, when it all goes bust, leaving millions of ordinary citizens broke and starving, they begin the entire process over again, riding in to rescue us all by lending us back our own money at interest, selling themselves as men above greed, just a bunch of really smart guys keeping the wheels greased. They've been pulling this same stunt over and over since the 1920s — and now they're preparing to do it again, creating what may be the biggest and most audacious bubble yet."

Now that's telling it like it is! But there's more...

"Goldman's role in the sweeping global disaster that was the housing bubble is not hard to trace. Here again, the basic trick was a decline in underwriting standards, although in this case the standards weren't in IPOs but in mortgages. By now almost everyone knows that for decades mortgage dealers insisted that home buyers be able to produce a down payment of 10 percent or more, show a steady income and good credit rating, and possess a real first and last name. Then, at the dawn of the new millennium, they suddenly threw all that shit out the window and started writing mortgages on the backs of napkins to cocktail waitresses and ex-cons carrying five bucks and a Snickers bar.

And what caused the huge spike in oil prices? Take a wild guess. Obviously Goldman had help — there were other players in the physical-commodities market — but the root cause had almost everything to do with the behavior of a few powerful actors determined to turn the once-solid market into a speculative casino. Goldman did it by persuading pension funds and other large institutional investors to invest in oil futures — agreeing to buy oil at a certain price on a fixed date. The push transformed oil from a physical commodity, rigidly subject to supply and demand, into something to bet on, like a stock. Between 2003 and 2008, the amount of speculative money in commodities grew from \$13 billion to \$317 billion, an increase of 2,300 percent. By 2008, a barrel of oil was traded 27 times, on average, before it was actually delivered and consumed."

Goldman Sachs pumped and dumped oil and other commodities at the expense of pension funds to reap massive profits. The investments Goldman Sachs was selling to its clients were the very investments they were selling short. This is purely criminal. Is the rule of law that politicians speak so fondly of no longer applicable? For the rest of the story visit [Rolling Stones](#), (10) it's a read that's well worth the time.

In the opening pages of this newsletter I mentioned the black swan event, an event that cannot be predicted and which arises out of the chaotic conditions of growing system complexity. These events are the very catalysts of change that I predict will unseat the behemoths of finance whose models of risk evaluation are no longer relevant. In fact while writing this newsletter it hit the wire that Goldman Sachs security had been breached in a major event. The first line of a Reuters article read:

Did someone try to steal Goldman Sachs' secret sauce?

Indeed, it appears that a former employee of Goldman Sachs ripped some proprietary code and sent it out into the information seaways. Here is the story from Zero Hedge (11):

"Matt Goldstein over at Reuters may have just broken a story that could spell doom for if not the entire Goldman Sachs program trading group, then at least those who deal with "low latency (microseconds) event-driven market data processing, strategy, and order submissions." Visions of swirling, gray storm clouds over Goldman's SLP and hi-fi traders begin to form.

In the 5 days immediately preceding his departure from "Financial Institution" (potentially GS), Sergey allegedly downloaded 32 megs of ultra top-secret quant trading proprietary code, that, according to Special Agent McSwain's affidavit, he then proceeded to encrypt and upload to a website in Germany, with a UK owner. One can only imagine the value of this "code" not only to Goldman but to the highest bidder. After all, from the affidavit: "certain features of the [code], such as speed and efficiency by which it obtains and processes market data, gives the Financial Institution a competitive advantage among other firms that also engage in high-volume automated trading. The Financial Institution further believes that, if competing firms were to obtain the [code] and use its features, the Financial Institution's ability to profit from the [code]'s speed and efficiency would be significantly diminished." Needless to say, many others are now also likely hot on the trail of the code."

Unintended consequences, or universal justice, you decide. Whatever the case the reality of black swans grows more formidable as global systems become more complex, and thereby infinitely more fragile. This built in fragility is a function of size, since any apparatus in nature that becomes too large becomes inefficient, slow, and loses the skill of adaptability leading to its eventual collapse. This is the very same process that is now occurring across the planet and is a manifestation of what I referred to at the Economic Ark Forum as the return of 'Natural Law'.



Natural Law

Considering the limits to growth is a profound study since much of what we have come to depend upon for our way of life is now reaching a stage of systemic vulnerability. Nowhere can this be witnessed more clearly than in global agriculture. Since the Green Revolution following the second world war, which increased yields by 200% to 300% in a very short time frame, there has been little to no increase in overall yield. It can actually be argued that yields are now dropping as soil fertility including mineral deficiencies are endemic, caused largely by the over use of fossil fuel derived fertilizers, pesticides and herbicides. Top soil loss due to deforestation and acid rain has become a major threat to the global food supply, as has aquifer depletion and drought. For these reasons investors such as Jim Rogers and Dr. Marc Faber are insistent that arable land and efficient crop production will be one of the main economic drivers of the 21st century.

As natural law imposes its limits, food production along the lines of the current high input energy intensive monoculture regime will give way to biologically diverse farms that produce food for local markets, which are in turn less dependent on global shipping and its attendant increases in cost. This transition is what I call the emergence of system resiliency. Simply put, this emerging local network of food production and distribution will be the back bone of a new form of economic opportunity, where the infrastructure that supports low cost subsidized imported produce will fracture under the strain of price fluctuations and price spikes that are even now impacting both the agricultural and energy sectors.

To further my point lets consider an article from the Guardian UK (12) entitled:

Fears for the world's poor countries as the rich grab land to grow food:

"The acquisition of farmland from the world's poor by rich countries and international corporations is accelerating at an alarming rate, with an area half the size of Europe's farmland targeted in the last six months, reports from UN officials and agriculture experts say.

New reports from the UN and analysts in India, Washington and London estimate that at least 30m hectares is being acquired to grow food for countries such as China and the Gulf states who cannot produce enough for their populations. According to the UN, the trend is accelerating and could severely impair the ability of poor countries to feed themselves.

...

*The UN's food and agricultural organisation and other analysts estimate that nearly 20m hectares (50m acres) of farmland – **an area roughly half the size of all arable land in Europe – has been sold or has been negotiated for sale or lease in the last six months.** Around 10m hectares was bought last year. The land grab is being blamed on wealthy countries with concerns about food security.*

"This is speculation, betting on future prices. What we see now is that countries have lost trust in the international market. We know volatility will increase in the next few years. Arable land prices will continue to rise. Many deals are even now being negotiated. Not all are complete yet."

He said that about one-fifth of the land deals were expected to grow biofuel crops. "But it is impossible to know with certainty because declarations are not made as to what crops will be grown," he said.

Some of the world's largest food, financial and car companies have invested in land.

Alpcot Agro of Sweden bought 120,000ha in Russia, South Korea's Hyundai has paid \$6.5m (£4m) for a majority stake in Khorol Zerno, which owns 10,000ha in Eastern Siberia, while Morgan Stanley has bought 40,000ha in Ukraine. Last year South Korea's Daewoo signed a 99-year lease for 1.3m hectares of agricultural land in Madagascar.

Devinder Sharma, analyst with the Forum for Biotechnology and Food Security in India, predicted civil unrest.

"Outsourcing food production will ensure food security for investing countries but would leave behind a trail of hunger, starvation and food scarcities for local populations," he said. "The environmental tab of highly intensive farming – devastated soils, dry aquifer, and ruined ecology from chemical infestation – will be left for the host country to pick up."

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Concern is mounting because much of the land has been targeted for its good water supplies and proximity to ports. According to a report last month by the London-based International Institute for Environment and Development, the land deals "create risks and opportunities".

If I were to rate a story on a scale of importance from 0 to 10, this would get a 12. Let me elaborate a few points that I think capture best the overall trend we are seeing.

- Market uncertainty is causing consternation for those nations who are dependent upon imports to feed their populations. This loss of faith in the pricing mechanisms for agricultural goods is an indicator of widespread acknowledgement that the markets are not reflective of simple supply and demand but have fallen to the whims of large cap speculators.
- Large corporations, some of which have greater incomes than entire nations, have become social entities in their own right, with massive holdings of arable land, real estate, production capacity and even private security armies (for profit mercenaries). The rise of the corporate state is not just a philosophical theory but a verifiable fact. What will become clearer in the coming decades is that corporate powers will themselves house, feed and clothe their own productive workforce, building ever larger worker housing complexes that are protected by for hire mercenary firms such as Blackwater. (13)
- Countries that have little or no access to capital will see themselves increasingly bought out as desperate governments under the weight of IMF restrictions will be forced to sell off vast tracts of high value land to private investors. This development

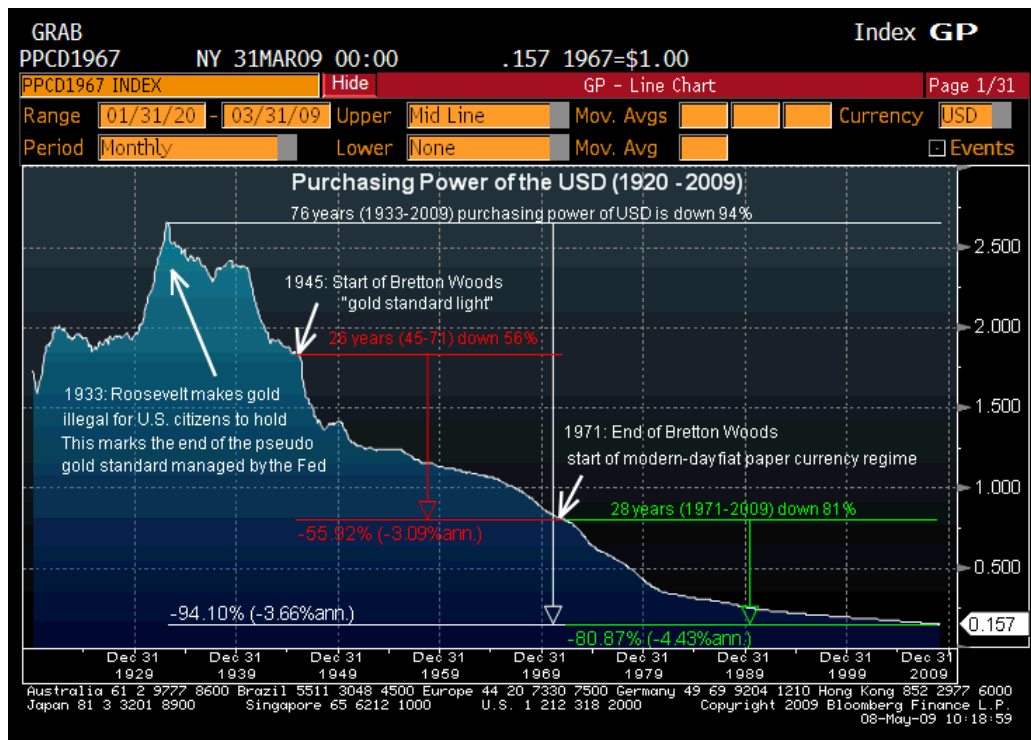
will lead to widespread hunger and social collapse in many resource rich but politically unstable regions.

- This land grab is the precursor to much higher food costs. Food costs have risen significantly over the past few years, this trend will continue and only accelerate leading to food riots in countries whose consumers will be bid out of the market.
- More corporations who are currently not food companies will move into food production. I can envision companies such as Honda developing mechanized food production facilities (14) complete with robots. (15)



So how do we cope with the array of challenges that now confront us? Certainly not by pretending things are ok, this will only exacerbate the scale of shock that hits when reality does finally set in. We cope by staying focused on the facts, listening to our hearts and acting on those opportunities that maybe in a more conservative environment we would pass up on. The changes that are now occurring are very broad in their implications; they touch every person on the planet in some way or another, whether rich, poor or somewhere in-between. It's only an act of delusion to think that things are the same as 'they have always been', that the stability of our lives will be assured; this perspective is not in concert with reality. The past 60+ years have been of relative comfort for western nations, but this comfort has facilitated a forgetfulness of what life was like before the age of material abundance, and it has acted as an insulator to the continued diminishment of the lives of millions of poor who have fallen under the tank tracks of globalization. Over the past 60+ years western nations have run roughshod over developing nations, exploiting their resources for domestic material consumption; economies were pumped and dumped, peoples were placed under the tyranny of oppressive rulers as a tool of political leverage.

Now we have come full circle, for it is the western nations that now face a massive economic pump and dump, it is us that are being exploited for our pensions and savings, and who struggle under a political system that is increasingly for the few. The predatory nature of unfettered consumption has come home to roost, the cannibalism now taking place in the global economy is shunting millions from the workforce, leaving many without the safety nets that were once social entitlements. The purchasing power of our money is being eroded at an unprecedented rate. Forget the fantasy statistics of the government, inflation is destroying our ability to enjoy life without the need to work all day and night just to get ahead. Take a look at the graph below to see just how emaciated our purchasing power has become (distinction between USD and CDN is virtually indistinguishable).



The hidden tax of inflation is real, and is set to send currencies that are not backed by hard assets off the cliff in the coming years as the 'print your way to prosperity' campaign builds momentum. So what can we do to build and protect our wealth?

Wealth Protection/Wealth Growth

First it's important to recognize any movements that may impact potential investments. According to Doug Casey's monthly report (16) the US government has been hard at work changing a whole host of market rules. One such rule change if enacted will impact the commodities market over the short term in a fairly dramatic way. The report reads:

"Yet another initiative is now moving quickly, one that has the potential to severely disrupt commodities markets and send the prices of many, especially oil and agricultural commodities, sharply lower – albeit only for a limited period of time, as

producers react by quickly cutting supplies, setting the stage for a powerful rebound. As we write, a Senate subcommittee is pressing forward with the latest in a series of reports that claim big speculators have been responsible for overinflating wheat prices in recent years. The subcommittee has asked the CFTC to investigate signs of index traders spurring "excessive speculation in commodity markets," likely targeting oil prices with memories of last summer's surge in oil to \$147 per barrel freshly in the regulators' minds.

The committee has strongly criticized the CFTC for being too lax on position limits and recommended phasing out the existing waivers for index traders that allow them to exceed the standard limits in the wheat markets. The regulators have been under political pressure from large commercial food manufacturers to force limits on index traders for years. Quoting from a recent Reuters article on the topic..."

Carl Levin, chairman of the Senate Permanent Subcommittee on Investigations, said the CFTC should take a closer look at other commodities, such as oil, to determine whether index traders have played a role in excessive speculation.

"Yes, we're going to be looking at other commodities in the future and we're considering that right now, actually," Bart Chilton (a CFTC Commissioner) said in an interview with Reuters Television, noting "the energy complex, with specific emphasis on oil, is something we're very keen on." According to David Hightower there is a potential for a serious near-term deflation in almost every commodity price if tighter position limits are forced on index traders. The index traders represent, among others, the many index ETFs that investors have grown so fond of. Currently those traders are operating under waivers that allow them, if the demand is there, to control tens of thousands of positions. If the CFTC were to cancel those waivers, in effect limiting the indexers to just 6,500 positions each, the disruption to commodities markets, and to prices, could be extreme.

As I write this commodity markets are already down across the board, silver is trading much lower and gold is moving sideways on a downward slope. This trend may yet continue, especially if regulatory changes come into play. To my mind however this is a short term concern and I will continue to look at mining stocks that are undervalued and continue to buy silver as it moves somewhat lower.

I myself am looking at alternative energy companies as a very positive opportunity considering the growing need for improved efficiency and cleaner forms of energy. I've recently come across what is a highly speculative buy, here is a summary:

"Mr. Meetesh V. Patel, President and CEO of New Energy Technologies, Inc. stated, "In recent weeks, our engineers have achieved a major development milestone by completing New Energy's first-generation MotionPower prototype - a modular system for capturing the kinetic energy of cars in motion and converting that energy into useful, valuable electricity."

Patel added, "Importantly, our numerous patent filings help ensure that the intellectual property related to New Energy's novel MotionPower technology is afforded the protections we need in order to confidently advance our next-generation prototypes, and move aggressively towards commercial implementation of this truly

transformational energy-capture technology for generating electricity in a brand new way."

New Energy's first-generation MotionPower device has been configured as a modular, low-profile assembly, which can be mounted directly atop existing roadways with little or no modification to the roadway itself. MotionPower modules have a quick installation, and any components in need of replacement or repair can be changed easily without major construction work or traffic delays. Above all, the unit's modular design can be customized to on site conditions while simultaneously maximizing power output.

Engineers are actively optimizing the efficiency of New Energy's MotionPower device in preparation for installations at high traffic locations such as toll booths, traffic intersections, rest areas, travel plazas, border crossings, and neighborhoods with traffic calming zones. Once installed, engineers anticipate that MotionPower devices may be used to augment or replace conventional electrical supplies for powering roadway signs, street and building lights, storage systems for back-up and emergency power, and other electronics."

This company has been an incubation company for various renewable energy applications and is now entering the near term phase of commercialization for their MotionPower technology. Another interesting tech this company has in the incubators is a window that converts sunlight into energy, now that's exciting!

There are numerous alternative energy companies all working feverishly now to reach commercialization, and many more that do have finished product and are working on market penetration. The question is, which companies have the right technologies? And of those who do have the right stuff which ones will successfully employ those technologies in a way that captures market share? There is absolutely no doubt that renewable energy will be a growth industry, but finding the jewels among the now crowded energy sector takes time and effort.

This being said, I want to share with you a very exciting development in regards to the energy sector, something that I feel will be a massive opportunity in the coming months and years for those who have an understanding of the long term effects that peak oil will have on industrialized society; namely widespread fuel shortages and exorbitant energy costs. For those who take seriously the threat of energy scarcity the potential of a technology that has been called a bio-fuel gasifier is without a doubt a game changer.

What I am researching is called wood gasification which is a technology that converts wood or other biomass into liquid fuel which can be used to run a vehicle, or generator to power a home. I've been following a small start-up company called Victory Gas Works for several months now, recently they've unveiled a wood gasification unit that is customizable to fuel type and large enough to power an entire home. Now this technology is not suitable for everyone, it may not deploy well in an urban area for example, but for those who have acreage and woodland this type of unit could provide the energy sovereignty that will be so sought after in the years to come. For the longest time I haven't been satisfied with the energy output of wind and solar since what I want is energy sovereignty, to be free from energy bills forever without having to replace expensive battery banks every 5 years, and without the unreliability of overcast skies and low winds (variability). Wood

gasification provides this and is open ended enough that the fuel can be used for various purposes.



**POWER
YOUR
LIFE**

THE OFF-GRIDDER

Turn Wood Into Energy

- Power Electric Generators
- Heat Water
- Run Car Engines
- Power Forges & Kilns

This company, which is right on the ground floor and ready for flight has the potential to provide distributorships given enough demand. I see a potential here that I have rarely seen anywhere. To learn more watch the video below:

[Video Link - The Off-Gridder / Victory Gas Works](#)

A Question

I was recently asked – *“I have a modest amount of money and equity in my home and want to invest it conservatively, do you have any suggestions?”*

Personally, since I can only speak for myself, and since everyone’s position is different, I would invest my money in land that is remote. Land in northern Ontario is very reasonably priced, the soil is not suitable for large scale farming but can be very suitable for hydroponic greenhouse production for local markets. With mineral rights a large tract of land could potentially also hold long term value in base and precious metals, it would also provide a safe haven location. I would also look at farm land in Manitoba as a long term investment, which would work for those interested in leasing the land for cropping or those interested in trying their hand at farming themselves. I believe premium arable land will become very valuable in the coming decade.

I would also buy physical silver, maple leaf coins to be exact, as well as vaulted gold and silver such as is offered by GoldMoney. (17)

If I had a mortgage with a large outstanding balance I would seek to immediately sell and convert whatever equity remained into precious metals, remote and arable land and speculative buys – energy, mining stocks, etc. The speculation need not be high risk.

If I had a house that was beyond my need or had little value potential (subdivision houses/no acreage) I would sell and downsize using any equity to pay down outstanding debts, starting with those debts with the highest interest.

I would keep as little cash in the bank as possible, and instead use this money for investments in the market, or as a float for purchasing resale goods. Someone I know buys used cars, fixes them and sells at a profit, this is a much better use of cash than letting the banks speculate with it while gifting you with fees and/or little interest.

I might also take a lump sum and start a small business in something I am good at and that I know will be in demand regardless of the economy. This is a much better investment than leaving money in the bank because a business, if successful, will provide an income. There is the risk of failure but in my mind this is more a psychological barrier than anything else. Money sitting in the bank is being eaten by inflation just as fast as it accumulates interest and provides no impetus for activity or change.

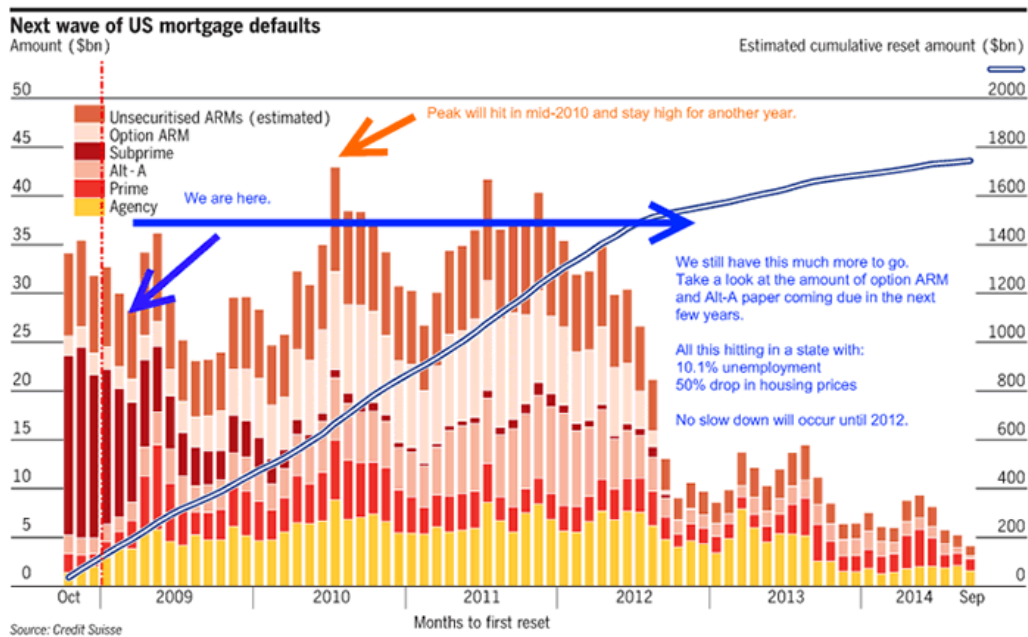
I would also invest in books and training courses that I feel would prepare me for the future. I would focus on learning new skills so as to diversify my ability to provide service and produce income regardless of the economic circumstances. Diversification doesn't just mean having a balance of financial investments, but also includes having a diverse skill set and level of preparedness.

These are the things **I** would do.

Before I sign off I want to stress again what I mentioned in the first few paragraphs of this newsletter, that reality is malleable and not just a happening but actually an extension of ourselves. We can create a better outcome for the future, so long as we are prepared for an honest assessment of our lives and of the world around us. The complexity of global systems is now being tried and tested, many of these systems will fail in the months and years ahead, opening up areas of opportunity for change and expansion. I plan to be one of those few who capitalizes on the opportunities that such an environment provides, I hope you do to.

May you prosper,

Angelo Zachos



A US recovery? Think again...

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