A WEEKLY COMMENTARY

ON TARGET

• NEWS HIGHLIGHTS
• BACKGROUND INFORMATION
• COMMONWEALTH AFFAIRS

The price of Freedom is eternal vigilance –

Print Post Publication Number 381667 00258

Vol.44, No.11 March 28th, 2008

THOUGHT FOR THE WEEK: If humans want to stop climate change, then we have a huge task ahead of us. We need to stop continents moving, stop the shape of the sea floor changing, stop pulling apart the ocean floors, stop building mountains, stop volcanoes belching out greenhouse gases and dust, stop hot flushes of gas rising from Earth's core, stop earthquakes, stop comets breaking up in the upper atmosphere, stop the changes in the Earth's orbit, stop the cycles of solar changes and stop radiation hitting Earth from deep space. Our generation did not discover climate change: Earth's climate has always changed. (Sounds like a job for King Canute... Don't you think so?...*ed*) – Professor Ian Plimer quoted in *The Independent Weekly*, 10-16/11/07

IS 'THE HOUSE OF FINANCIAL CARDS' NOW TEETERING? Jeremy Lee writes: "It is finally becoming clear enough for all to see. No longer can media commentators and economic spin merchants pretend this is merely a 'blip'. The American dollar is sliding into worthlessness. The world's oil producers are increasingly rejecting it as payment for oil. Time to think about personal survival in a world which is about to move from complacency to panic!"

Dollar's Clout Sinks Worldwide: Hit by a free fall with no end in sight, the once mighty U.S. dollar is no longer just crashing on currency markets and making life more expensive for American tourists and business people abroad; its clout is evaporating worldwide as foreign businesses and individuals turn to other currencies. Experts say the bleak U.S. economic forecast means it will take years for the greenback to recover its value and prestige. Negative dollar sentiment is growing in nations where the dollar was historically accepted as equal or better than local currency – and dollar aversion is even extending to some quarters in the United States.

Source: http://news.yahoo.com/s/ap/20080313/ap_on_bi_ge/diving_dollar

Further reading: "The Money Bomb" by James Gibbs Stewart.

Gibbs Stewart writes: Recessions and depressions are an inevitable consequence of the debt structure, making nonsense of the accepted economic wisdom. $20.00 posted.

DERIVATIVES, CALCULUS & OTHER SIMPLE CONCEPTS by Mr. Mental: We just couldn't resist reproducing one of Edgar J. Steele's recent website articles. With a very large 'tongue-in-cheek' he permitted a 'Mr. Mental' to explain to his bewildered fellow Americans, the perplexing mysteries entwined in the financial system of this thing called 'derivatives'.

Mr. Mental begins: I am Mr. Mental! Today, I wrest control of the ConspiracyPenPal web site from Edgar J. Steele. Steele, is a well-meaning but merely mortal and puny earthling. Show proper respect when you are in the presence of your betters, particularly those of us from other planets (blare of trumpets) "Mr. Mental knows all. Mr. Mental sees all."

There is much to-do and consternation afoot in the land today concerning financial derivatives. Many of you do not understand derivatives, foremost among you being the Federal Reserve Chairman, the U.S. Treasury Secretary and virtually all of those of you who buy, sell and manage that which you miserable, insignificant human beings like to call sophisticated financial instruments.

This is too easy. It would be far better if you mere mortals called upon Mr. Mental to explain complicated and important affairs, such as the mystery of the teenage female mind or the ultimate origin of the Universe, the latter of which is surprisingly close to Cleveland. Derivatives! I laugh at the concept: Ha.

Calculus Made Easy: First, though, allow me to remove the cloud from your brain concerning another ill-understood, yet dreadfully simple field of study: Calculus. Integral calculus is nothing more than the memorization of a few simple formulas to calculate the area beneath a graphed curve. Say that you have a curve showing the population of America spiralling out of control during the period that Ted Kennedy possessed a seat in the U.S. Senate, which is no mere coincidence, incidentally, you brain-dead morons who keep electing him.

The area beneath that curve represents the total number of people living in America while the Hero of Chappaquiddick did his best to destroy America. (If only he had shown as much concern for pulling a pregnant Mary Jo Kopechne from the murky waters of that channel now known as Poucha Pond as he shows for pulling millions of pregnant mestizos from the waters of the Rio Grande.)

One employs formulas (functions) to calculate the area beneath a curve. This is analogous to using a tool (which is all a function really is) called a yardstick to measure the size of a room. That's it. Now you understand calculus.

If only you could have attended the Grand Galactic University of Antares, as did I, you would have learned calculus in one day and spent the rest of the semester chasing girls and drinking beer, which is the proper activity of healthy, college-age males throughout the Universe.

And Now for Something Completely Derivative: Now for Differential Calculus. In mathematics, a derivative also concerns a curve, but restricts itself to describing the shape of that curve. This is necessary in order to use integral calculus to learn the area beneath that curve. In short, a derivative tells you about a curve's rate of change. For example, in a graph of America's impending suicide by population growth, the graph of Americans plus mestizoes rises to infinity at a constant rate. In other words, its rate of change is zero.

On the other hand, if Ted Kennedy, who favours abortion for as many White babies as possible, had been aborted in his 139th trimester, as was his brother, a man who, unlike Ted, got plenty of oxygen while in the womb, the American population growth curve might actually show an ever-decreasing rate of change, the natural result of honouring the price paid by those who died for nothing at the Alamo (not to mention divers wars such as Revolution I, WWI, WWII, the War of Northern Aggression and WWIII, which now is underway on the other side of the world).

Pay attention, you slovenly, misbegotten humans, because these are pearls being cast at your feet.

Thus, a derivative calculation of population in a Ted-Kennedyless America might well be an ever-increasing negative. Extending the yardstick analogy, a derivative is a tool that describes a tool. Put a yardstick in the hands of a newly-immigrated Somali in downtown Cincinnati and he likely will try to eat it. The all-powerful Mr. Mental has blessed you, however, with the understanding (a tool) to employ another tool (like a yardstick).

Science is rife with this business of using one tool to manipulate and understand other tools. In maths, they are called derivatives, of course, because they depend upon something else (calculus) in order to have meaning – their significance is derived from another thing. Then there are Second Derivatives (simply the rate of change of a rate of change), which allow one to understand First Derivatives, which in their turn allow one to understand the integral calculus of a graphical representation (a curve) of reality. And Third Derivatives ... and so on.

See? This stuff isn't so hard. Now you understand mathematical derivatives, the concept from which financial derivatives get their name. This leaves lots of time to play hide the shuttlecraft in the free-floating asteroids of the Antarean cluster. GGUA is not known as the ultimate party school for nothing.

Derivatives and Other Worthless Concepts: The very term "financial derivative" is itself a derivative from the mathematical analogue. A dollar bill is a derivative, you know. It has no inherent value beyond something that might well become useful in an outhouse (an idea coming soon to a surprisingly large number of Americans). A dollar derives its value from something else. Used to be, dollars derived their value from gold and silver.** Then, after Nixon severed that Constitutionally-mandated connection, the dollar derived its value from oil, because everybody in the world bought and sold oil using dollars as the medium of exchange. Today, the dollar derives its value from American military force, as in "Use our dollar to conduct business or we will come to your country, rape your daughters and kill you." Thus, the dollar, itself, is a derivative – something that derives its value from something else.

Stocks and bonds are derivatives, strictly speaking, because they derive their values from something else. Mutual funds are derivatives of derivatives, kind of like mathematical second derivatives. Options and futures are even more distantly-removed derivatives. Puts, calls, strips, straps and straddles are even more arcane forms of even more distantly-removed stock market derivatives.

During the height of the mutual fund boom there were far more mutual funds trading in equity stocks than equity stocks being traded, oddly enough, in a very junior-league illustration of the relationship of financial derivatives to their underlying assets of inherent value.

Derivatives of Derivatives of Derivatives: The really clever thing about derivatives is how they mushroom as the levels grow, with truly huge amounts of derivative value dependent upon the value of a single dollar of genuine asset value. Investors sell each other these claims on claims on claims, back and forth, to and fro, making the mutual fund/stock disparity as but a single drop of water in the ocean. The entire world's derivative structure is a massive construct, the total size of which is both incalculable and unfathomable, but clearly thousands, if not millions, of times the size of the ultimate assets with any inherent value (inventories and fork lifts and grain, for example), upon which they rest and from which they derive their value.

Your home mortgage is a derivative, too, because its value in your lender's hands derives from the ever-decreasing inherent value of your home, which is why bankers' hands these days are so sweaty. Really clever bankers bundled hundreds of mortgages just like yours into large packages, then sold claims upon those packages (another derivative known as a "collateralized debt obligation", or CDO) to other investors (like your pension fund), kind of like raffle tickets. The real similarity will come after the raffle ends, when a great many of the buyers of CDOs find that, rather than playing musical chairs, they really have been playing musical chair.

Unwinding Derivatives: Look Out Below: For the first time since Depression I, home values are declining, both in real terms and as adjusted for price inflation. Many foreclosed homes now are languishing on the market, with their values declining faster, even, than can be justified by the rate at which mestizo illegal aliens are sneaking into them at night to rip open their walls and strip out the copper pipes and wires to sell the following day at the junkyard. Just another job that you and I refuse to do, of course.

Now, whole swaths of neighbourhoods lie vacant in cities like Detroit and Cleveland, which today look like something straight out of Zimbabwe, speaking of dollars with value only in the outhouse. Picture the most massive iceberg ever, with just its bare tip glistening above the waves. Now, flip that iceberg upside down, so that just the tip is in the water. That's what derivatives would look like if piled atop the real assets to which they ultimately relate.

Like the iceberg, as the tiny nucleus of real value begins to melt, huge sheets of icy debt come crashing down, having lost their bases of support. That is what is happening in the world today. And it only has just begun, you poor, dumb earth creatures.

Bwa-ha-ha-ha-haa! We had this problem on Antares in our distant past, but we solved it by stringing up all the politicians, bankers and plutocrats responsible for stealing from us that which we had earned by the sweat of our brow. You will wish you had done the same, you poor, misguided and unenlightened bipeds. But, at least, now you understand how they did it to you, because you understand derivatives. And, with that, I return control of this space to your merely human host. New America. An idea whose time has come. My name is Edgar J. Steele. Thanks for listening. So there you have it folks. You are now one of the 'initiated' who have been shown the light and entered the inner sanctum.

** Many Americans believe their problems will be solved if their governments return to a 'gold-backed' money system. We suggest they would do better to become informed about the mysteries of Mammon. A nation's true wealth depends on its productive capacity not on how many inert gold bars sit in Fort Knox!

UNRAVELLING THE MYSTERIES OF MAMMON (MONEY): A financial system should be simply a nation's accounting system; an honest record, an honest reflection of the real wealth of the nation and its just and honest distribution – and the private banking system should be able to charge for nothing more than its SERVICES!

"ON TARGET" is printed and published by The Australian League of Rights, 145 Russell St., Melbourne.
Postal Address: GPO Box 1052, Melbourne, 3001. Telephone: (03) 9650 9749, Fax: (03) 9650 9368.
Subscription $40.00 p.a.