US Treasury Bonds, The Godfather Of All Bubbles

Synopsis:
The 30-plus-year-old bull market in US bonds, notes and bills may well be the most destructive man-made "Bubble" in all of recorded history. It will sooner or later implode because it is unsound to the core. A puncturing of the bubble may start when any of several huge holders sells. Its implosion will trigger the sale of other overpriced corporate, municipal and foreign bonds, and the dollar itself may well be replaced as the world reserve currency. The US bond bubble is the Godfather because it is so large that no other investment market can absorb the mass exodus which will come from it. It is logical that those who have worked so deliberately to create this debt bubble will fight even harder to prevent its collapse. When it implodes, it will probably bring down lesser bubbles and excesses, including the function of the dollar as a world exchange currency.

A true "Bubble" must result from a successful, planned deception
The handling of US Treasury bonds, notes and bills, ("US debt" hereafter) has all the elements that make it a once-in-a-lifetime bubble. It is much more than an overvalued investment or an idea that has become an exaggerated fad, like the "Dot Com Bubble". We have seen many of these come and go and we have survived each one. A bubble must have the element of planned deception in order to reach proportions monstrous enough to draw in the money of a large body of public to it. US debt floats on the unreasonable assumption of inflated value. It deliberately and falsely promotes itself in the face of reality. Charles Mackey, a Scottish journalist, first published Extraordinary Popular Delusions and the Madness of Crowds (1) in 1841, a study of ancient bubbles. His most famous quote is, "Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly, and one by one." The slow regaining of senses is why the bubble takes so long to burst, far beyond what seems reasonable.

The eventual loss suffered by Bernie Madoff's investors was at least $18 billion. "Bubbles" are always recognized by some (one by one) before they finally pop. This was the case with the scheme of Bernard Madoff, now in prison for life. Madoff started his famous Ponzi scheme, once called Ascot Partners, which, like the US debt bubble, lasted over 30 years. Several discovered it much earlier and tried to expose Madoff, but no one would listen because of the deep deception Madoff had surrounded himself with. Madoff even held volunteer positions in regulatory agencies that should have policed him but did not. He was also designing computer programs to backdate imaginary trades in order to achieve desired results for his customers' accounts. He made imaginary investments in real securities, but only on paper, and instead deposited the clients' funds in his own discretionary account at Chase Bank. [Mechanics of the Madoff Bubble - (2)]

Madoff's reported results exceeded all investment expectations, but investors were too satisfied to worry about it being too good to
be true. Hedge funds, pension plans and mutual funds all invested with Madoff. His deception was simple: his fund always moved higher and never had a bad year! This was a sure sign something was wrong, and one by one a few tried to expose him. The eventual loss suffered by Madoff's investors was at least $18 billion, although those who got out early reaped gains at the expense of those who stayed in to the end! Madoff admitted during his March 2009 guilty plea that the essence of his scheme was to deposit client money into a Chase account, rather than invest it. When clients wanted their money, "I used the money in the Chase Manhattan bank account that belonged to them or other clients to pay the requested funds," he told the court.

**A True Bubble requires mass public participation**

On April 19, 2015, Bloomberg News reported that public investors, seeking safety, "may sink $350 billion into debt funds globally this year, adding to the $3 trillion they've already poured into bonds since 2008."

A bubble-creating deception may be an illegal one, like Madoff's, or it may be a legitimized deception, such as the Federal Reserve System (FED), enacted by Congress 102 years ago. The measure of a bubble is not legality, but successful deception. The modern mutual fund business has learned how to prosper on US debt investments, considered in a previous era to be a dull and prosaic investment. Mutual funds have added excitement to it by an implied promise of perpetual capital gains on top of meager income. No word of capital loss potential is ever mentioned. We will detail one such example by fund manager, J P Morgan Chase Bank in this paper.

Bloomberg News further points out (3-A), "There are plenty of reasons to be bearish on U.S. government bonds. They pay almost nothing, the Federal Reserve wants to raise interest rates and money managers are largely convinced they're [bonds] too expensive ...[A] record 84 percent of professional investors in a Bank of America Corp. survey released this month said bonds were overvalued." (3-B)

This writer agrees. Treasury bonds are near the end of a 30 plus year bull market, a "Bubble" based on an unrealistic and manipulated assumption that US Treasury bonds do or can be made to always sell higher and higher in the market place, translating into ever lower interest payments. The Treasury keeps its hands clean by looking to the FED to manage the deception that keeps a line of willing lenders ready to loan money to the Treasury at higher and higher prices, (lower interest rates).

**Three Deceptions that fire the US Debt Bubble**

The Federal Reserve Bank of NY has its own style of deception, which varies slightly from Madoff's and is about 1000 times larger. It is the super-bank franchise dealer for US debt and claims to be the largest single holder of US debt. But, unlike other buyers, the FED is allowed to purchase without investing capital, which explains why it is the biggest lender. The US debt bubble has been produced by three contrived deceptions.

**First**, dollars are electronically printed on the books of the FED whenever the Treasury sells US debt directly to the Federal Reserve Bank for its own account. The Treasury then spends these dollars by writing checks on its bank account at the FED. The deception is that the FED does not put up anything of value to acquire this new US debt, rather it uses electronically created dollars that recently have been conceded to be, and are referred to as "printed" dollars. Thus the illusion is created whenever needed, that demand is outstripping supply, and that there is a constant shortage of US bonds and notes. Chase Manhattan Bank and Morgan Guarantee Bank were original major stockholders of the privately owned Federal Reserve Bank (4) before they merged into the present J P Morgan Chase Bank. Its money management division helps keep the US debt market creeping upward, as will be discussed later.

**Second**, after issuance, the market price for the newly issued US debt is manipulated, always upwardly, by the Open Market Committee of the FED. It accomplishes this by making additional purchases in the open market, again with electronically printed dollars. The impact of all this new money on the US debt market produces smooth, little-controlled rises in the US debt's market value year after year. Because the interest rate paid on US debt and each instrument's market price are inversely related, Treasury bond interest is currently at a record low, meaning the market price of the debt is at a near all-time record high. This happens in spite of the clear fact that new debt is constantly being sold into the market, which should make the market go down, not up. As with Bernie Madoff's hedge fund, the illusion is created that the market for US debt can go only one way: UP. Gradually this bubble becomes accepted as reality! The madness of Charles Mackey's crowd is achieved. During the course of this manipulation, according to its own report, the FED has accumulated $2.4 trillion in US debt, for which it paid nothing at all.

**Third**, value in US debt comes from "professional" managers of other people’s money (OPMM), who sell the specious notion that
the open market value of US debt always rises enough to make up for the minuscule interest rate bonds and notes pay to the investor.  OPMM keep on buying and trading US debt and are the largest holders by far!  We must examine how this is accomplished in a real world of declining purchasing power for these bonds.  We will use as our example, the J P Morgan Chase Bank, whose two predecessor banks were original owners of the FED (4), and probably still are.  [Because the FED is unaudited, its present ownership is unknown to this author.]

As in the Madoff Ponzi bubble, manipulating parties, including the self-serving Congress, have contrived an UP, UP, and ever higher market for US debt that is hanging the least suspecting citizens out to dry.  Consider that the Social Security Trust Fund is invested almost entirely in US debt and that, with similar US agency funds, such as the military pension plan, they hold about 1/3 of all federal debt issued.  What would happen to Social Security checks and health care payments if, say, 25% of their assets evaporated in just a few months?

The military-banking complex continues to provide the need for vast sales of US debt with its serial wars in the Middle East, which started in 1991.  US debt expansion also destroys the underpinnings of the US Dollar as the world reserve currency because there is no limit as to how much dollar currency there will be in circulation.  This practice of making war, then printing or borrowing the money to pay for it, is surprisingly similar to the British course of action that broke the back of its economy by 1914 and which forced it off the gold standard for good, and in 1931, the world turned away from the Pound Sterling as a world reserve currency and opted instead for the Dollar.

The British Empire destroyed itself by borrowing for foreign wars it never lost

England set the standard for brutality in war in the 1895-1910 era when it invaded and destroyed two far away and very different lands.  They moved into Sudan in 1898, followed closely by their invasion of South Africa in 1902.  Both campaigns were covered by youthful reporter/adventurer Winston Churchill.

The war to conquer Sudan was unpopular in England, but the British War Department overcame public objections by fashioning a publicity campaign for revenge on Mahdi Muhammad Ahman because a year earlier he had led an independence movement that captured the garrison at Khartoum and killed a popular British war hero, Charles Gordon.  The war faction in Britain managed to sub-humanize the black Muslim Sudanese.  English gentlemen have long been conditioned to accept the necessity for killing "wogs" going back to Rudyard Kipling's India.  In the slaughter at Khartoum, it was British modern military supremacy against a primitively armed Sudanese independence movement. Propaganda-wise, the Sudanese had two ethnic strikes against them: they were both black and Muslim. The British Empire's bloody success at Omdurman was recorded in a classic book by British author Alan Moorhead, The Blue Nile (1962).

England's next war adventure was the invasion of South Africa in 1902, which in England turned out to be a very unpopular and expensive war. The Boer War was fought for control of South African gold mines.  It became the straw that broke the Empire.  The Boers were white Europeans, and their casualties included some 40,000 Dutch wives and children of the Boer farmer-soldiers.

Under command of Herbert Kitchener first Earl, the wives and kids were gathered into British concentration camps and starved to death, to force the Boer farmers to yield to a treaty.  It worked.  Back home the British heard about this and could not stomach the facts.  The detailed and painful account of this last British war for assets is told by Englishman Thomas Pakengham, in his classic, The Boer War (1979).

The wars were won, just as all US wars have been won, but England ceased being a world power when it ran out of money to pay its debts.  Then WWI broke its back.  Borrowing for these expensive, remote wars forced England to abandon its gold-backed currency because its debts exceeded its gold, and brought on the collapse of the Pound Sterling as a world reserve currency in 1931.  The Empire's debasement of currency would, of course, destroy the value of bonds issued to finance wars.

The Sudan War and the Boer War have similarities to the US engagements in the Middle East.  However the US has gone much further into debt than England did because US spending was not throttled down by the gold standard.  US debt is now believed to exceed that of all Europe plus Japan, with borrowing being mostly for wars. When the US debt market collapses for lack of value, the Dollar will go with it.  Massive printing of dollars makes anything English lords dreamed of seem petty.

US Debt Sales Finance Wars

War financing is why US debt has increased by some $14.6 trillion since when in January, 1991, the US military first bombed Iraq's army in Kuwait.  It is no secret that US debt was at an inconceivable total of $17.8 trillion at year-end of 2014.  Municipal, corporate and individual debts have also mushroomed.  It is quite understandable why US banks, who are primary recipients of the new money being created, would ignore the outlandish issuance of new money and new debt, but why do we, the public, ignore it?  Are we victims of the Godfather of Bubbles?

What will happen to US Debt holders when interest rates rise?
It will be helpful to take time for a primer on the consequences of higher interest rates upon the US debt market. A "Bond" is a unit of Indebtedness and a contract; it is not a national badge of honor. Its price in the marketplace is a function of total return, called Yield, calculable using a little formula, or a yield / price calculator. Yield is a figure that shows the return on a bond. The simplest version of yield is calculated using the following formula: yield = coupon amount / price.

When one buys a 10-year bond at face value ($1000 for most US bonds), the yield is equal to the stated interest rate printed on the bond, say 1.75% of the face value per year. When the prevailing interest rate changes, so does the market price, and so does the total return to the new buyer because yield calculates in the capital appreciation (or loss) the holder collects when the bond pays off the face value ($1000) upon maturity. The most important fact to remember is that the price of a bond in the marketplace and the yield to maturity move in opposite directions, proportionately, like a see-saw. It is also good to understand that bonds fluctuate up or down and the amount of fluctuation is relative to how long it is until maturity. The further away the maturity, the bigger the potential fluctuation. Thus a 30-year bond fluctuates much more than a 5-year one. A price/yield computer program is used to arrive at the numbers.

A Bubble requires the overvaluation of a thing

We have said, a "Bubble" requires both a massive deception to keep a market expanding unreasonably and massive public participation. The result is an overvaluation beyond anything reasonable. Money is a commodity and the law of supply and demand should apply, but the FED has tipped the scales upside down. It is not under the jurisdiction of the SEC or any other US Government agency, nor is it audited publicly. However, it is fair to say the FED controls the issuance of all new US debt. An Economic bubble results when the market price of something becomes unsustainable, having escalated to where it is intrinsically so overvalued as to produce a mass exodus from it?often with virtually no value or even negative value, as in Madoff's case. The "crowd" must have lost its reason, as Charles Mackay put it. US Treasury bonds and notes are grossly overvalued by any reasonable measure. The "crowd" only imagines a value because the deception has succeeded for so long. As a debt instrument, US bonds (20-30 year maturity) and notes (2-10 year maturity) have for some years paid less interest to the investor than the holder loses in purchasing power each year. In addition there is risk in ownership of long-term bonds because they are capable of wide fluctuation.

In 2013, during a modest and normal decline in prices, US debt lost value equal to three or more years of interest income. Organized deception arrested the decline--for the time being.

US debt is now a yawning sinkhole for American retirees, who own it indirectly but who do not know it exists. Most pension plans and IRAs are managed "professionally" and are loaded with appreciated US debt or, worse yet, its corporate cousins. Each pensioner has one innocent foot in this sinkhole. This writer thinks it is already caving, but it is so large it is difficult at first to see the land move under one's feet. Its last warning was the one year drop in the value of US debt in 2013, which is now all but forgotten.

Because of gross overvaluation in the market place, the US Treasury bond markets must implode. This assumption is based on two factors: first, inflation rates by honest measurement are much higher than the current returns on any US bond, note or bill--at least double. It is also based on risk, for US debt is now subject to wide speculative swings in the market place. It can and does go up and down in a daily market. It has gone up a great deal in 30 years of bull markets, but it can go down!

As an example, a 10-year Treasury bond, bought on April Fools' Day, 2015, can be held in a retirement account until 2025, when it will pay back the $1000 of principle, plus $16.60 per year (1.66%) interest, a not so grand total of $166.00 in over 10 years. But based on common sense observation of past price rises, its owner will never be able to buy as much meat, soda or tires for his car as the original $1000 plus the interest would have bought. To come out with a positive buying power our investor would need at least 5-7% interest, which would about double his thousand dollars in 10 years. And 30-year bonds, paying just under 3% per year, are an even worse case. Go back to 1985 prices, that are from one-half to one-third of today's prices in every category.

The largest holders of US debt are money managers in banks and brokerage houses who are investing other people's pensions and 401K accounts. This part of US debt is around $4 trillion. The banks and funds, not so different from Bernie Madoff, have adopted unsound reporting and trading practices to create the illusion that Treasury bonds will be winners at present-day rates and prices, based on past records.

Unlike the Madoff bubbles, the market price of US debt does not have to drop to zero, or even lose 50% of its value in the marketplace to qualify as The Godfather of Bubbles. A drop in value of as little as 10% on short-term debt (2-5 years) and 25% to 40% on 20-30 year maturity US T-Bonds would be a disaster for pensions funds, running losses into trillions! IRAs and government and state employee retirement funds, and especially the Social Security Trust fund, hold enormous positions in US debt--some five plus trillion dollars--and many are underfunded to begin with. A very ordinary decline in US debt value will have many times the impact of several memorable declines in the stock market. Worse yet, when the Godfather of Bubbles bursts, it will likely trigger...
the collapse of other more familiar bubbles, and with it will likely go the Dollar as the world reserve currency.

Other People's Money Managers inflate the US Debt Bubble

Financial marketers are trained in Wall Street ethics: what profits them, they will learn to do, whether logical or not—even if it defies gravity—and they will keep doing it until it utterly fails. Simply stated, this is why the bond market has risen (i.e. interest rates have gone down) more or less continually since about 1986. Both institutions which buy US debt and the Treasury which sells it have come to believe the impossible, that there is no down to the upward trajectory of US debt. It is a strange notion indeed that the more debt sold, the higher the price will rise. Wall Street money managers seem to be the "crowd" that has "gone insane in a herd," because it pays them.

Who is most likely to prick the US Debt bubble?

Let us examine those big holders of US debt who have good reason to sell. We are relying upon US Treasury MONTHLY STATEMENT OF THE PUBLIC DEBT (7), February 28, 2015; the GAO Financial Audit of the US Treasury (8), November 2014, which issued low-key, undertone warnings; and the FEDERAL RESERVE statistical release, dated April 2, 2015 (9), which acknowledges owning $2.4 trillion of US debt that they alone do not pay for.

The GAO Audit of the Treasury issued a subtle warning about the dangerous growth of US debt owed to foreign governments and investors: “Treasury securities held by foreign and international investors has increased from $983 billion as of June 30, 2001, to $6,013 billion as of June 30, 2014?an increase of $5,030 billion. Treasury securities held by foreign and international investors represented an estimated 48 percent of debt held by the public.”

The Treasury admits to $18.1 trillion of total debt, of which $5.1 trillion is called “Intergovernmental holdings”, which means it is stashed away in the Social Security Trust fund, the Veteran's Retirement fund, and the like. This leaves $13.0 trillion that is in the "Held by Public". The FED report claims it owns $2.4 trillion of mostly US bonds (7) and notes. The FED is anything but "a public holder” and its trillions are not likely to be sold. It will probably buy more bonds in an attempt to support the market. So this leaves a gigantic $10.6 trillion that could hit the bond market. Foreign governments have accumulated an amazing $6.0 trillion. China accounts for $1.2 trillion, Japan is close behind, and there are other big holders. Mutual fund type investors own the majority of the remaining $5 trillion.

Russia has abandoned the idea that US debt is to be held and has already sold over half of its $360 billion since the US placed sanctions on Russia! China has lot of reasons to sell. It has announced it will be selling its own debt to keep its economy growing at 6-7% a year. We Americans have been fed a propaganda diet that China will never sell US debt because we are told it wants its own currency to remain cheap in the world market. But China is forming it own version of a world central banking system called Asian Infrastructure Investment Bank (10) (AIIB) [China bond data (11)]. It openly says it will compete with Wall Street and move away from the Dollar standard. China and Russia are now forced allies, both are among the BRICS agreement nations that last year agreed to set up a common bank. The US has jawboned against all these efforts, but to little avail, and over 57 countries, including Great Britain, have agreed to join the new AIIB bank. Of the majors, only the US and Japan have refused to join. China and the members of the new AIIB hold well over $4 trillion of US debt--what if one or all start to sell in order to fund the new AIIB? This author thinks China alone holds enough dollar bonds ($1.2 trillion) to burst the Godfather of Bubbles.

When the debt bubble is punctured, it will probably be when Americas's mutual fund managers are forced to sell!

Although there is the possibility that US institutional holders, usually for the benefit of investors and pensioners, will wake up on their own and start the selling US debt. OPMMs keep their jobs based on performance. This means that the $3-4 trillions held by these funds are all potential sellers of US debt! Many of the OPMMs buy US debt for appreciation under the unsound and foolish theory that US debt always appreciates. OPMMs function as a crowd, a culture of their own, easily herded.

The public buys US debt because they fear everything else!

Any reasonable investor should ask, “Why would any professional, or even a common sense amateur like me, buy debt from an issuer that pays only about half as much interest as one loses every year in buying power?” Does anyone doubt this?

In order to understand how OPMMs think, and why they beguile millionaires and widows into overpriced US debt, we must look at the everyday deception in how funds are marketed to the investing public. For our example we will look at just one of some 125 or more funds managed by just one giant OPMM, J P Morgan Chase Bank, whose two predecessors, as I have mentioned, are both among the original stockholders of the Federal Reserve System. (4)
At least 25 of the Morgan/Chase funds feature US debt. To see how US debt losers are made to appear winners, we will look at the J.P. Morgan Government Bond Fund (12) which has in it upwards of $1.5 billion in assets. Its holdings are mostly AAA rated US bonds, with an average of about 6.21 years to maturity, according to the promotional piece dated March 31, 2015. It states that the "SEC Yield" on the portfolio is 1.20%, this being the amount the US debt in this portfolio actually pays to the fund on the bonds in annual interest payments, as of this date. But in spite of its low interest earnings, the JP Morgan Government Bond Fund has advertised an average annual total return to the investor at 4.73% per year over the last 10 years. Where did the additional return come from? Here is the arithmetic: 4.73% stated total return - 1.40% true SEC interest = 3.33%, which can only be the annual average unrealized and realized appreciation on the bond portfolio for the last 10 years, ignoring expenses. This sounds great but does it mean anything for the future?

Of course not, and a line legally required but usually ignored in the sales literature warns: "There is no direct correlation between a hypothetical investment and the anticipated performance of the Fund." Correct, Morgan Chase, but I add, there is also no indirect correlation either, so why does JP Morgan Chase show customers the irrelevant charts?

The sales literature also shows a 20 year chart of rising returns on investment. The only thing the chart reveals is that interest rates are at near all time record lows, therefore the price of Treasury notes, bonds, and bills are at a near all time high, not a bad reason to find some other investment. The sales and performance literature does not disclose what would happen to the Net Asset value of J P Morgan Chase US Bond Fund if interest rates were to rise by say 1% or 2% on comparable bonds. Nor does it disclose what the value of the shares will be if the fund is forced to hold its present portfolio six years until maturity and accept the face value of each security in it, as it might have to do in a rising interest rate market. The "performance" of this and every other known fund reflect the results only in the near constant falling interest rate market environment they have enjoyed for the last 30 years, except for 2013. The recent rush to US debt is in response to the promoted notion that what has been a good investment in the past, will also be good in the future. But the condition that made US debt work was generally declining interest rates for most of 30 years. The FED Open Market Committee buyers have helped JP Morgan placate its customers by manipulating the price of bonds upward by about 3% annually, year after year, making JP Morgan OPMMs look very bright. But the charts provided also reveal that 65% of the total return claimed is not from income, but from a speculative rise in the value of portfolio assets. Now, I ask, is there any room left for interest rates to go down more? And if not, who will buy all these $ trillions of US debt when a large seller shows up?

**The Value of US debt plunges if interest rates rise materially**

In recent years the US bonds markets has taken on aspects of violent fluctuation more typical of high rolling tech or start-up stocks than of US bonds. If interest rates rise, as is generally anticipated, rather than decline in the next two years, losses can be calculated using a handy little price/yield program (13) from OPMM Fidelity Funds. Here is an example of the impact of a substantial rise in interest rates upon currently owned issues of 30-year maturity US T-Bonds and 10 year US Notes, assumed to be purchased on April Fools' Day, 2015, at that day's low yield of 2.47%, and 1.87% respectively. Assuming interest rates on a similar bond rise to 4% in April 1, 2017, the $1000 T-bond will then only be worth about $753 in the open market, a drop of over 24%. With a rise to a 6% interest rate, which is historically realistic, and many of us can remember those days, the $1000 T-Bond bond would fetch only $525; and at a relatively high interest rate of 8%, the the bond bought in 2015 would fetch only $380, a plunge of about 62%. Who said one can't lose money on government bonds? Think again! A thirty year chart of interest paid (14) on 30 year US debt reveals that prevailing interest rates were about 10.7% on April Fools day, 1985, 30 years ago!
Prevailing interest rates on US Treasury Bonds were about 10.7% on April Fools day, 1985, 30 years ago! The most important fact to remember is that the price of a bond in the marketplace and the yield to maturity move in opposite directions, proportionately, like a see-saw.

Ten-year Treasury notes fare better, but would also be a disaster. On April 1, these promise only a 1.87% return. If two years in the future we have a 3%, 6%, or 8% interest rate on comparable US notes, the value would fall to $920, $795, or $642 respectively. And if these prevailing rates reflect inflation rates at the time, one would probably be no better off to hold the notes to maturity, for the loss of purchasing power might be even worse than the sale price.

**Will the world be a better place after the Godfather Bubble bursts?**

I doubt if there will ever be a time when the war-making factions and those who profit from war give up the policy of inciting conflicts for endless profit. When will they stop printing bonds to finance wars and other abuses? Perhaps only when they can no longer finance wars, and that will only be after the bubble breaks!

Might this author be wrong about the Godfather of Bubbles? Several very bright people wrote about it and predicted its bursting five years ago, and it did not happen. I am the first to admit that my expectation of the impending end to the bubble has something to do with my own notion that there is a God who does not smile upon mass killing for the power and political gain of a very few; and that most people feel that borrowing money to pay for war has to be wrong even if they do not understand how it is done in Washington and London. Perhaps that is the God within us trying to be heard. Hopefully the immutable laws of nature and physics even apply to money, and when violated long enough and violently enough, there will be a sudden transforming reversal. Is God in these natural laws that affect even money?

It is doubtful that those who live off of war and the US debt bubble have much concern for what God thinks. If they are right, then I am wrong. Then the Godfather of Bubbles will be absorbed into some new and bigger scheme invented by the banker/warmakers who control the Federal Reserve. Let us hope it is not so. The Godfather of Bubbles needs to be burst.

**Author Charles E Carlson** is a pro-peace activist who with a few friends started [whtt.org](http://whtt.org) toward that goal 15 years ago. Mr. Carlson has previously been involved in several creative business efforts. Most recently he assembled, engineered, developed, and promoted the first new producing copper mine in the USA in 40 years, that began production in 2005, The Lisbon Valley Mine, in Utah. Previously Carlson started and operated a stock brokerage firm, beginning in the 1970s with $5,000 capital borrowed against his house. He trained on Wall Street in 1966. Since withdrawing from business to manage Hold These Truths, Carlson has written hundreds of articles and reports, and produced an award-winning documentary film, [Christian Zionism, The Tragedy And The Turning](http://www.christianzionism.com), that features war film he shot in Gaza. For the last eight years he has successfully supported his volunteer activities by investing in commodity futures for himself, including short sale of Government bonds.

Links and notes:

1. "Extraordinary Popular Delusions and the Madness of Crowds:

2. **Mechanics of the Madoff Bubble** In 1999 (nine years before Madoff was arrested) financial analyst Harry Markopolos informed the SEC that he believed it was legally and mathematically impossible to achieve the gains Madoff claimed to deliver. According to Markopolos, he knew within five minutes that Madoff's numbers did not add up, and it took four hours of failed attempts to replicate them to conclude that Madoff was a fraud. He was ignored by the Boston SEC in 2000 and 2001, as well as by Meaghan Cheung at the New York SEC in 2005 and 2007 when he presented further evidence. He has since published a book, *No One Would Listen*, about the frustrating efforts he and his team made over a ten-year period to alert the government, the industry, and the press about the Madoff fraud. According to the SEC indictment against Annette Bongiorno and Joan Crupi, two back-office Madoff workers, they created false trading reports based on the returns that Madoff ordered for each customer. For example, once Madoff determined a customer's return, one of the back-office workers would enter a fake trade from a previous date and then enter a false closing trade in the amount of the required profit, according to the indictment. Prosecutors allege that Bongiorno used a computer program specially designed to backdate trades and manipulate account statements. They quote her as writing to a manager in the early 1990s, "I need the ability to give any settlement date I want." In some cases returns were allegedly determined before the account was even opened.

3-A) "Bond Market's Dumb Money Looks Clever in $350 Million Shift," bloomberg.com, 4/19/2015:  

3-B) "More Investors Than Ever Say Bonds Overvalued, B of A Survey Shows," bloomberg.com, 4/14/2015:  

https://archive.org/stream/TheSecretsOfTheFederalReserve/MullinsEustace-TheSecretsOfTheFederalReserve227P.#page/n201/mode/2up


(7) "MONTHLY STATEMENT OF THE PUBLIC DEBT OF THE UNITED STATES: SUMMARY OF TREASURY SECURITIES OUTSTANDING, FEBRUARY 28, 2015, Treasury Monthly:
http://www.treasurydirect.gov/govt/reports/pd/mspd/2015/opds022015.prn

(8) "Financial Audit: Bureau of the Fiscal Service's Fiscal Years 2014 and 2013 Schedules of Federal Debt," GAO:

(9) Federal Reserve Statistical Release: Factors Affecting Reserve Balances, " 4/23/2015:
http://www.federalreserve.gov/releases/h41/current/

(10) "New Asian Development Bank Seen As Sign of China's Growing Influence," NPR, 4/16/2015:
http://www.npr.org/2015/04/16/400178364/finance-officials-to-discuss-asian-development-bank-at-spring-meetings

(11) China Bond Data: http://www.cbonds.com


(14) Chart of yield on 30 year US bonds
http://finance.yahoo.com/echarts?s=%5Ettyx+interactive#%7B%22range%22%3A%22max%22%2C%22scale%22%3A%22linear%22%7D