

A World Without Demand

By [The Mogambo Guru](#)

03/03/08 Who knows exactly what will happen in a crisis? The Mogambo takes a crack at the answer, and discovers that it can be summed up with one word (said repeatedly for emphasis): bankruptcy.

Bill Bonner at The Daily Reckoning writes, "One of the wild cards of the doomsday scenario is the performance of the derivatives market. No one knows exactly what is in some of these instruments...and no one knows how they will hold up in a crisis."

Instantly, The Mogambo was on his feet, finally able to show off for Bill Bonner, and then maybe he will notice me and be impressed, and maybe invite me to his office and offer me a drink, and then we'll sit around discussing this and that and gradually getting more and more sloshed, and then I'll bring the conversation around to pizza, and how he ought to send out for a pizza to be delivered, and we while away the time waiting for it by getting more drunk and talking about how he ought to give me a nice, cushy job at Agora Publishing making lots and lots of money with a benefit package that would make a CEO blush, but which surprisingly involves no work or effort of any kind. A figurehead of some kind, maybe.

So I say, "Hey! Over here! Mr. Bonner! I know! I know what will happen in a crisis, because I know what the crisis is, which is that derivative holders will not be getting the money they were supposed to be getting, because the guys who owe them the money are already bankrupt, because they didn't get the money they were supposed to get from guys who were bankrupt because the guys who owed them money were bankrupt, and they are all bankrupt because they put up a lousy \$3 of their own money, and borrowed another \$97 to buy an asset worth \$100, and now that asset is worth only \$90! Hahahaha!"

The place was suddenly silent at my rude interruption. I immediately got nervous, seeing my career going up in smoke, and I hurriedly said, "And so not only is the entire \$3 investment of the investors gone – wiped out – but they owe \$7 more on top of that! Hahahaha!"

As usual, neither Mr. Bonner nor anybody else was impressed with my stupid analysis, and he tries to keep the conversation above such petty things like dollars and cents, and says that the theoretical underpinning of the economic calamity is that, "One thing we do know here at The Daily Reckoning is that they will not hold up as expected. We know that because the assumptions behind them were, fundamentally, nonsense. The most sophisticated mathematical model in the world is not worth a campaign promise if the theory behind it is wrong. And the idea that you can model future prices on the basis of past prices with any predictive reliability is simply wrong."

I thought he was going to bring up how Black Swan events make their predictions wrong, or how the very thought of modeling the complex human behaviors of fear and greed with simplistic equations in a computer is ludicrous and laughable (but only if you disregard the sheer

magnitude of the damage these nitwits have done), but even more worrisome is the amount of money that has been lost, as, "so far this year, new derivative sales are off 93% from the year before".

Oops! Without demand, supply overwhelms supply, and prices plummet, and without new derivative sales to finance the existing clot of derivatives, things go from bad to worse!

But before I could really work into another Screeching Mogambo Tirade (SMT) about how the supply/demand thing rules the world, Dan Amoss from Strategic Short Report illustrates it perfectly by reporting that, "Many CDOs could be worth less than 5 cents on the dollar."

And that means, even to a simpleton like me, a loss of 95 cents. Ugh.

Until next week,

The Mogambo Guru
for *The Daily Reckoning*
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The Mogambo Sez: Once again, silver, gold and oil have prospered more than anything else. To those who can see what is right in front of their eyes and who buy silver, gold and oil as a result, nothing more needs to be said.

Everybody else can go to hell, as far as I am concerned, which shows that I am anticipating the coming huge rise in silver, gold and oil by buying lots of each, and am now developing the fabled haughty and snotty attitude towards lesser beings for which we fabulously-rich, beautiful people are so famous, and which is a disdain that lowlifes deserve because they could have bought silver, gold and oil at these low prices, too, when even an idiot like The Mogambo can see they were a screaming bargain, but did not.

Anyway, I assume that we rich people will be so busy having a wonderful time that we won't even notice the lower classes, which makes it only SEEM like we are haughty and snotty! Hahaha! I'm gonna love being rich!

And that's why I am buying silver, gold and oil stocks! And you should, too!