

# The Charleston Market Report



## *"An Analysis of Real Estate and Economic Trends"*

[www.charlestonmarketreport.com](http://www.charlestonmarketreport.com)

### **The Bernanke Dollar Put and Interest Rate Call**

Obviously, everyone knows the The Fed cut rates by 50 bps this week AND the discount rate another 50 bps. Until yesterday I thought "Helicopter Ben" was doing a good job to try and clean up the mess Greenputz left him. The aggressive rate cuts yesterday have changed my opinion of The Fed Chairman because of the impact this reckless policy is creating for our economy. I know many of you are feeling good because of the stock market reaction after the cut. This euphoria in the market will not last forever with some of the existing problems related to leverage and easy credit.

Ben Bernanke is called "Helicopter Ben" for the following reason:

*In 2002, when the word "[deflation](#)" began appearing in the business news, Bernanke gave a speech about deflation. In that speech, he mentioned that the government in a [fiat money](#) system owns the physical means of creating money. Control of the [means of production](#) for money implies that the government can always avoid deflation by simply issuing more money. (He referred to a statement made by [Milton Friedman](#) about using a "[helicopter drop](#)" of money into the economy to fight deflation.) Bernanke's critics have since referred to him as "Helicopter Ben" or to his "helicopter printing press". In a footnote to his speech, Bernanke noted that "[inflation](#) erodes the real value of the government's debt and, therefore, that it is in the interest of the government to create some inflation."*

If you want to see "Helicopter Ben" actually fly his helicopter [click here](#): He is VERY talented!

Here are some quick definitions so you understand the title of this article. A put option is used for an investor who feels bearish and wants to short or hedge a stock or portofio. So if you think Countrywide, for example, will drop over the next few months you can buy a put instead of shorting the stock. If you think Countrywide will rise over the next few months you can buy a call instead of going long on the stock. Buying puts and calls during certain periods based on where the stock market is positioned is often an excellent risk management strategy for qualified investors and it is cheaper to use options versus buying or shorting the stock outright.

#### Put option

An option contract that gives the owner the right to sell the underlying stock at a specified price (its strike price) for a certain, fixed period of time (until

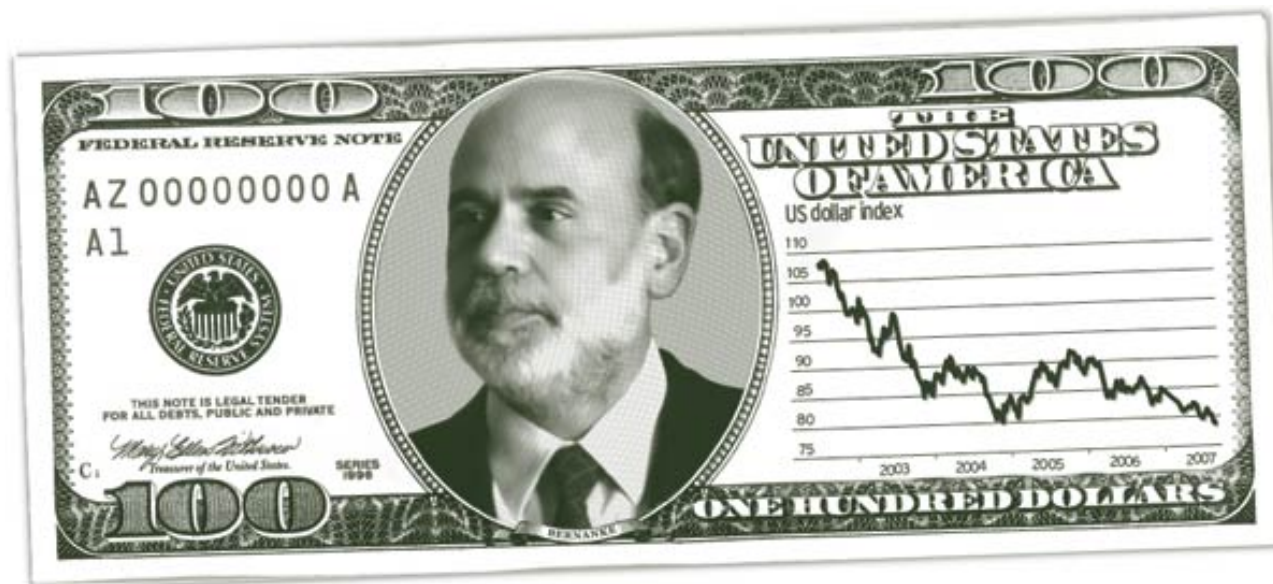
its expiration). For the writer of a put option, the contract represents an obligation to buy the underlying stock from the option owner if the option is assigned.

### Call option

An option contract that gives the owner the right to buy the underlying security at a specified price (its strike price) for a certain, fixed period of time (until its expiration). For the writer of a call option, the contract represents an obligation to sell the underlying stock if the option is assigned.

So now you have the basics of Puts and Calls so let me explain what the title of this article means and how it impacts you, Mr. and Mrs. America.

The 50 bp rate cut will now put even more pressure on the US Dollar to the downside. The dollar, which used to be strong a couple of years ago, has been pummelled over the past few years to the downside. The Fed who has been so concerned about inflation in recent meetings SUDDENLY applies an inflationary rate cut that probably will devalue the US Dollar even further. Below is a Point & Figure chart that shows the US Dollar has depreciated from \$120 in 2002 to around \$80 at the present time. This is a 33% drop in just 5 years! What this means is that if you travel to Europe and buy a house or Big Mac it will cost us Americans much more than it did 5 years ago. It also means that international consumers, in Europe for example, with stronger currencies can get more bang for their Euro if they purchase a house, condo or Big Mac in the United States. The United States should see an improvement with our current trade deficit with countries like China but this has not happened yet even with the dollar falling. So what happens as the dollar falls but real estate does NOT appreciate the way it did back in 2001.



### US Dollar Index (End of Day) (\$USD) INDX

19-Sep, 16:00 ET, daily, O: 79.178, H: 79.447, L: 79.091, C: 79.316, Chg: +0.097

**P&F Pattern** Descending Triple Bottom Breakdown on 30-Nov-2006

Traditional, 3 box reversal chart

Bearish Price Obj. (Rev.): 76.0



### Interest Rate Call?

Just recently, Saudi Arabia has refused to cut interest rates in lockstep with the US Federal Reserve for the first time, signalling that the oil-rich Gulf kingdom is preparing to break the dollar currency peg in a move that risks setting off a stampede out of the dollar across the Middle East.

The Saudi central bank said today that it would take "appropriate measures" to halt huge capital inflows into the country, but analysts say this policy is unsustainable and will inevitably lead to the collapse of the dollar peg.

There is now a growing danger that global investors will start to shun the US bond markets. The latest US government data on foreign holdings released this week show a collapse in purchases of US bonds from \$97bn to just \$19bn in July, with outright net sales of US Treasuries.

The danger is that this could now accelerate as the yield gap between the United States and the rest of the world narrows rapidly, leaving America starved of foreign capital flows needed to cover its current account deficit - expected to reach \$850bn this year, or 6.5pc of GDP.

The risk is that flight from US bonds could push up the long-term yields that form the base price of credit for most mortgages, driving the property market into even deeper crisis. So if the dollar and bond market collapse "Helicopter Ben" has opened up another can of worms for the entire economy.

Back in August 2007 the Chinese government began a concerted campaign of economic threats against the United States, hinting that it may liquidate its vast holding of US treasuries if Washington imposes trade sanctions to force a yuan revaluation. This was described as a "nuclear option" which could also slam the real estate market and overall economy further by sending longer term rates higher. It is estimated China holds over \$900 billion (WITH A B!) in various US Bonds.

Source:Telegraph.co.uk

When we take a look at the 10 year yield (TNX) we see a very interesting picture. Clearly a base has been formed and interest rates have stayed relatively stable after a significant decline after the dot com bust. The recent action on the TNX also shows a recent break in the rising trend. In my opinion this downward action on rates presents a very unique opportunity for long term home buyers in Interest Only ARMs that are going to reset in the next couple of years a window to refinance into a less risky mortgage. If there is a selloff in the near future among various Central Banks in China and Saudi Arabia you will see this chart spike back up and really throw the real estate market into a worst case scenario. The effect of this scenario would place more downward pressure on home prices around the country as financing becomes more expensive IF YOU GET A LOAN IN THE FIRST PLACE.

### 10 Year Treasury Note Yield (\$TNX) INDX

21-Sep-2007, 8:26 ET, daily, O: 46.80, H: 46.88, L: 46.80, C: 46.86, Chg: +0.14 (0.30%)

**P&F Pattern** Triple Bottom Breakdown on 25-Jul-2007

Traditional, 3 box reversal chart

Prelim. Bearish Price Obj. (Rev.): 34.0

© StockCharts.com



In order for The Fed to ditch the inflation argument/fight and drop rates they must be analyzing some worrisome data on the economy and a potential recession. So now inflation is contained? BS!!!

Gold is taking off. What a beautiful chart IF you are long!

### Gold - Continuous Contract (EOD) (\$GOLD) INDEX

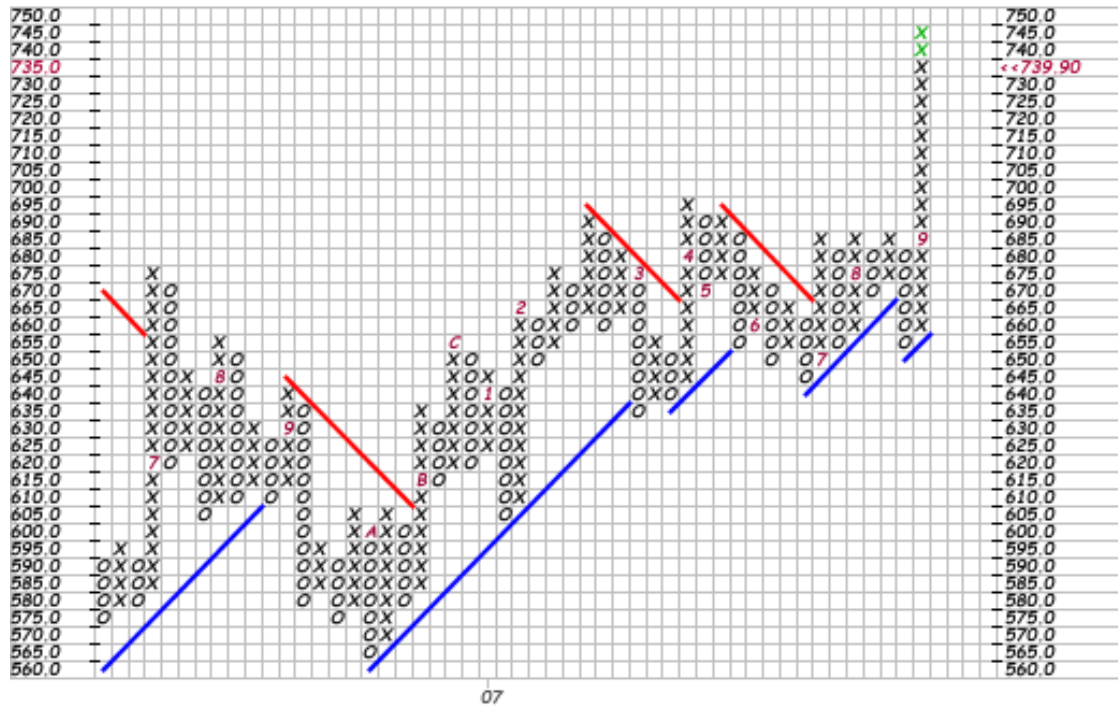
20-Sep-2007, 14:30 ET, daily, O: 729.60, H: 746.50, L: 728.90, C: 739.90, Chg: +10.40 (1.43%)

**P&F Pattern** Quadruple Top Breakout on 04-Sep-2007

Traditional, 3 box reversal chart

Prelim. Bullish Price Obj. (Rev.): 930.0

© StockCharts.com



The commodities index (CRB) is moving up and just broke the trend line.

### Reuters/Jefferies CRB Index (\$CRB) INDX

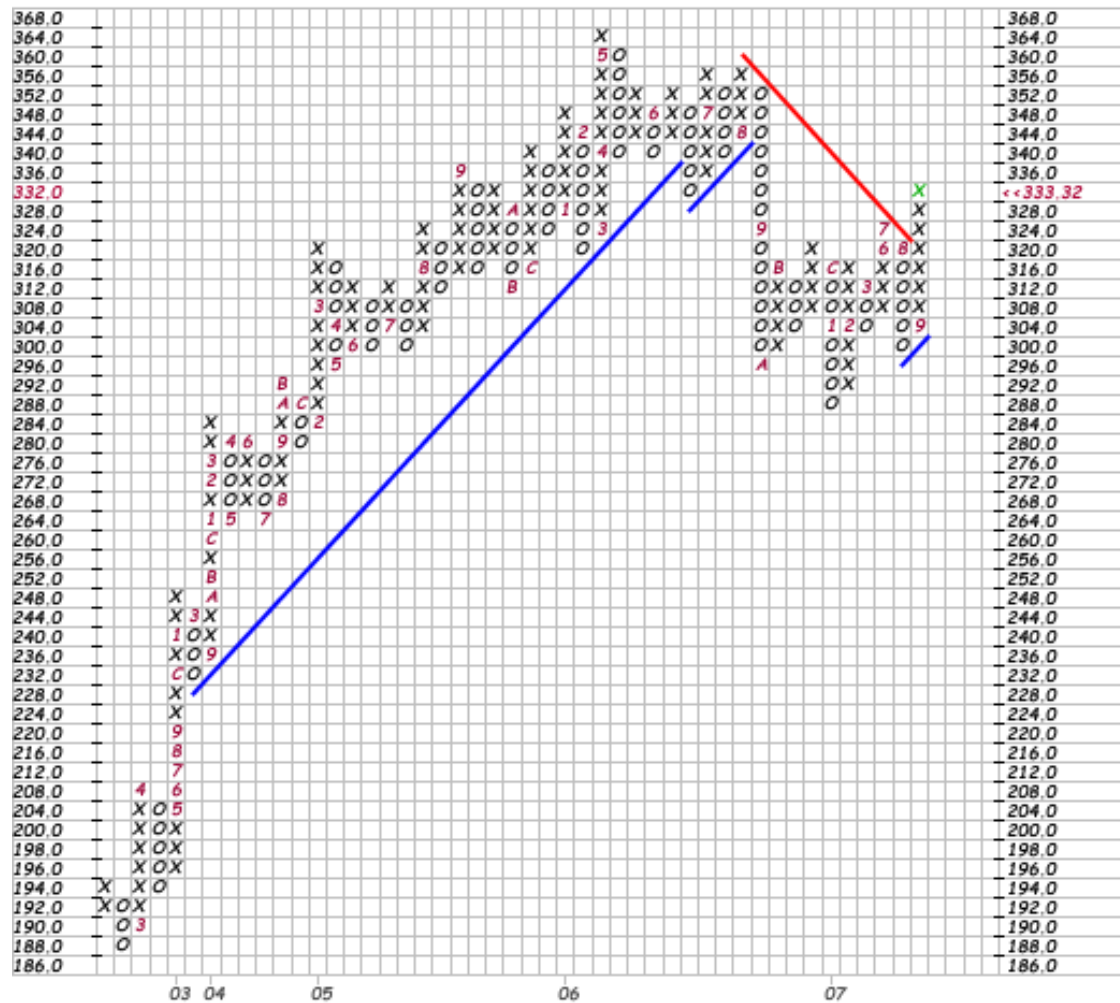
20-Sep-2007, 16:00 ET, daily, O: 329.57, H: 333.37, L: 329.57, C: 333.32, Chg: +3.75 (1.14%)

**P&F Pattern** Double Top Breakout on 19-Sep-2007

Traditional, 3 box reversal chart

Prelim. Bullish Price Obj. (Rev.): 400.0

© StockCharts.com



Here are just some recent examples of price rises since the first of the year ...

- The price of oil is up
- The average price of a gallon of unleaded gas is up
- Soybean prices are up
- Wheat prices are up

- Corn is up
- Copper prices are up
- And lumber prices are up

According to the latest CPI Report the "core" inflation rate only rose 0.2% in August. The kicker is this "core" inflation rate excludes inflationary items such as food and energy. What a worthless economic indicator! The last time I checked when my gas and grocery bill goes up that is inflationary and hurts my wallet. How about you?

So there you go. Our dollar will soon be used as toilet paper around the world and increasing rates via a potential Worldwide Central Bank selloff could be the final straw that breaks the real estate/economy back and accelerate downward pressure on home/condo prices in heavy real estate inventory areas around the country.

I hope I am wrong but this scenario is a possibility.

I will end with this quote from Paul Volcker:

*"What I'm really talking about boils down to the oldest lesson of financial policy in Central Banking: A strong sense of monetary and fiscal discipline."*

*I SAY: "HOW DO WE IMPLEMENT DISCIPLINE IN A NATION ADDICTED TO CREDIT AND BAILOUTS. THIS ADDICTION IS VERY PROBLEMATIC AND OUR FEARLESS GOVERNMENT LEADERS DEMONSTRATE POOR LEADERSHIP ON THIS ISSUE."*

*THE CURRENT US DEFICIT IS:*

### **U.S. NATIONAL DEBT CLOCK**

The Outstanding Public Debt as of 20 Sep 2007 at 05:58:13 PM GMT is:

**\$9,118,710,985,264.09**

The estimated population of the United States is **303,037,971**

so each citizen's share of this debt is **\$29,740.81**.

The National Debt has continued to increase an average of

**\$1.42 billion per day** since September 29, 2006!

Concerned? Then [tell Congress and the White House!](#)

Good Luck!

Brad Rundbaken

Principal

Diversified Resource Group, LLC

(843) 297-2701 (Direct)

1-866-904-9650 (Direct Fax)

[brundbaken@comcast.net](mailto:brundbaken@comcast.net)

[www.charlestonmarketreport.com](http://www.charlestonmarketreport.com)

## Legal Disclaimer

### Disclaimers and Acknowledgements

The research done to gather the data in the Charleston Real Estate Market Report involves examining thousands of listings. With this much data inaccuracies will occur. Care is taken in gathering and processing the data and information within this report is deemed reliable. **IT IS NOT GUARANTEED.** The real estate market is cyclical and will have its ups and downs. Past performance cannot determine future performance. The purpose of the Charleston Real Estate Market Report is to educate you on current and consistent market conditions by reporting leading market indicators with the support of traditional real estate data.

This information is offered with the understanding that the author is not engaged in rendering legal, tax or other professional services. If legal, tax or other expert assistance is required, the services of a competent professional are recommended. This is a personal newsletter reflecting the opinions of its author. It is not a production of my employer. Statements on this site do not represent the views or policies of anyone other than myself.

Investing in real estate is not a get-rich-quick scheme nor is there any guarantee you will make a profit. Every effort has been made to make this report as complete and accurate as possible. However, there may be mistakes. Therefore, this report should be used only as a general guide and not as the ultimate source for making money in real estate.

Charleston Market Report, LLC

843-297-2701

[www.charlestonmarketreport.com](http://www.charlestonmarketreport.com)

Copyright 2007 The Charleston Market Report

POWERED BY

GRAPHIC MAIL 

[FORWARD TO FRIEND](#)

[UNSUBSCRIBE](#)

[UPDATE PROFILE](#)

This mailing system may only be used for sending permission based email.

If you did not give permission to receive emails from this sender, [please notify us](#).

This email was sent to [team@sandlappergroup.com](mailto:team@sandlappergroup.com) by [brundbaken@comcast.net](mailto:brundbaken@comcast.net) | Read our [Privacy Policy](#).

The Charleston Market Report - 700 Daniel Ellis Dr. #5205, Charleston, SC, 29412, United States