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CDO's : C'mon Down Obligations

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If the price is right!

We have begun to see new contestants appear on the new financial show *The Price is Right*. The crowd of unwilling participants will only get bigger from here on. We had proposed earlier in the year our concerns regarding the incoming implosion of cheap liquidity. A rare theme at first, it is now receiving full recognition.

The size and its potential impact is however still misunderstood. The process appears to be in full progress and can only accelerate from here on. Bailing out troubled hedge funds will not reverse vanishing liquidity trends. Simply stated it is a non zero sum game.

The top of the "liquidity mountain" was my projection in our essay *Big Speculators ... are they about to hurt you*. The banking index topped and never looked back. I believe this is a confirmation of a slowdown in debt growth. In most instances the banking index is a great leading indicator. It will weaken before the market drops and equally strengthen before the market rally. It has continued to show weakness in the face of a rallying market.

There can only be two possible outcomes but ultimately they will revert to synchronicity. I suggested a small short position to protect some of our holdings and I am still comfortable with it. It is a small price to pay for insurance. Equally now is a good time to start selling calls against one's holdings.

It is amazing to have so many indicators point south while the market stubbornly goes up. Rarely do you get such a confluence of signals of strength and duration.

After careful study, panic buying is the most logical conclusion of this recent phenomenon. Any manager underperforming fully invested ETF's will have no choice but to utilise all remaining cash available. Being prudent does not pay, it seems.

I have come up with my own assessment of the real effective mutual fund cash level. It is an approximation including the assets invested in ETF and mutual fund cash levels. The bear market of 1973 started with a cash level of 3.9%. My approximation today for cash level stands at 3.11%.

As a student of markets this is a most exciting time. The outcome is simply up for grabs. A tail event will have most participants dancing on their heads.

It will be so obvious but only after the fact.

In terms of longer trends, vanishing liquidity is here to stay.

What about a second possible driving force. Call it "Home Alone": Full fledged repatriation of monies to respective countries. The grass next door has looked so green for so long that people are about to rediscover home.

— Yves Lamoureux, Investment Advisor, Blackmont Capital Inc.

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