THE FOLLY OF CENTRAL BANKERS

The virtually unlimited level of credit creation by the major central banks over the past seven years has created conditions never seen before in the history of mankind. Yields on government bonds in many countries are now below zero, which we have never seen to this extent in history. In Europe, over $11 TRILLION of government bonds now have a yield below zero. That means the bond owner, in effect the lender, pays interest to the borrower.

This is the ultimate absurdity. How can anyone believe that this won't eventually result in an unstoppable crisis? This is highly "deflationary," as the lender, i.e. bond holder, gets less money back than he originally lent. Thus, it is the opposite of the stated goal of central banks. It's hard to imagine that they don't realize this. Therefore, why is it being done?

At Dohmen Capital, we believe the signs of these deflationary consequences have already become visible in the big, international cities, like London, Singapore, Hong Kong, and New York where significant declines in luxury sales and real estate prices have been escalating over the past year. In Hong Kong, sales are down 40% from the prior year. London's sales are down 26%.

This is all pre-BREXIT, although "establishment" economists are now trying to present the impression that it is all due to the vote of Britain to exit the EU.
Here are some related news headlines revealing the dismal real estate market in London:

> *Tens of Thousands of Properties to Be "Dumped" on London Real Estate Market by 2017*
>
> Luxury London Real Estate Prices Plunge 11.5% Year-Over-Year
>
> Luxury London Home Sales Plunge 26% – Has this Mega Real Estate Bubble Finally Burst?

These headlines confirm that we are seeing the start of a global debt implosion.

In Britain, since the BREXIT vote, seven real estate funds have stopped redemptions of shares by investors because the requests exceeded their cash on hand. It's convenient to blame this on BREXIT, but there is much more to it. If the market was healthy, it would seem that these funds could simply get interim loans from banks to pay redemption requests.

The "canaries in the coal mine" are everywhere. It's not "because" of lower oil prices, or commodity prices, or the China crises. These are symptoms, not causes. The source these problems is a collapsing global debt pyramid. The huge 'quantitative easing' programs by central banks only slowed the collapse and actually made it much larger. The almost limitless credit creation by major central banks was largely used for highly leveraged speculation, with very cheap money.

The central banks will of course act to prevent such a collapse by creating even more trillions ofartificial credit. So far, that amounts to a staggering $13 TRILLION globally. This artificial credit wouldhave been called insanity 10 years ago.

But now we know that there are no objections from government leaders. In fact, the central banks are now financing almost all the deficits of some nations, showing that there is no limit to deficit spending. Thus, with all this creation of “cyber-money,” there is no reason that the central banks couldn’t increase that number up to $20 TRILLION, or $30 TRILLION. And that is why the price of gold and silver is now soaring.

One of the founders of the Austrian School of Free Market Economics, Ludwig von Mises, wrote many years ago that (I am paraphrasing) when a bubble created by a government’s cheap money policy collapses, if central banks try to inflate it again, it only results in an even bigger collapse later on.

Evidence suggests that the world is now in the secondary phase of that debt collapse. It promises to be a doozy.

One example of the collapse is overpriced commercial and luxury real estate. In the US, more people are now deciding to rent as opposed to buying. It’s a smart decision. Usually no one talks about the big cost factor with owning real estate: property taxes. For many people, property taxes are now starting to approach the same amount spent on the actual mortgage, which is often unaffordable for people who rely on a paycheck.

Municipalities and their out-of-touch politicians often hike property taxes to pay for their wasteful projects without considering the burden on the homeowner. The next recession will see a flood of mortgage defaults.

The middle-class in the US is being decimated. Soon we will only have the poor, who are on some type of welfare, and the very rich. Hard working employees will decide ever more that they can make more money being on welfare than getting up early in the morning and going to work.

The desperation of the central banks is shown by their frantic attempts to create inflation. For many decades their main goal was to fight inflation, and now they are unsuccessfully trying to create it.

They should go to Venezuela and see how they have created inflation of 700% and then look at the terrible consequences. Venezuela has one of the largest oil reserves in the world. It should be flourishing. But unfettered money creation has created chaos.

BOTTOM LINE: Market forces have been overwhelmed by the decisions of a small group of unelected people at the head of the large central banks. Their analysis and forecasts of the economies are often totally wrong, while their analysis and forecasts of the economies are super-imposed on the actions of hundreds of millions of people in the marketplace. That is economic dictatorship.

When every move in the investment markets are traced back to statements or assumptions of what the central banks may do, not what they should do, then you have the evidence that market forces no longer matter. History shows that such attempts to nullify market forces will sooner or later cause a severe crisis when market forces reassert themselves.

The longer the central banks try to prevent a recession, the worse the eventual economic contraction will be.

For more on our current market outlook, get your complimentary July issue of our new Market Contrarian newsletter.

Wishing you successful investing,

Bert Dohmen,
Founder Dohmen Capital Research, Inc.