



Answering Your Questions

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WILL A DOWNGRADE OF USA FROM AAA REALLY MEAN ANYTHING?

The hype about Standard & Poor going to downgrade USA credit rating is just not important. Oh the talking heads will cry the sky is falling. They downgraded Japan in 2002 and nothing took place. Not even their rates increased. The same is likely in the USA and quite frankly, if S&P really thinks they have that much power, they should stop drinking their own bath water.

Downgrades come **AFTER** the market has already shown its course of action. It is not like the rating agencies actually pontificate and then the markets wake up and say: **Oh my God!** Ratings follow the market activity and have no power otherwise. The credit rating they gave the CDOs did not convince people to buy them. Once the junk was rated AAA, they were good collateral for the REPO market. That was the key. They rated the junk AAA and that made it good collateral and that was the **ONLY** reason the stuff sold. Without that rating, the NY boys couldn't sell anything.

When it comes to sovereign debt of the USA, we are talking about the US\$ is the **RESERVE** currency. About two-thirds of central bank reserves globally is in dollars and the way those dollars are held is in government treasuries. Does anyone really think that if S&P downgrades the USA that its debt will not be sold?

When you deal in **REAL** money, there is a problem. How do you store it? You can't just put a billion on deposit at a bank. They will sell it every night and don't have to tell you. If the REPO market blows up and you go to the bank and say I want my billion, they lost it, and so you turn to FDIC to collect your \$100,000. **Right!** The **ONLY** way to park serious money is in treasuries. If you have hundreds of billions, now you have the added problem of **MARKET SIZE**. You can't just go to any country. Their debt structure cannot provide the ability to park serious money. This is the difference from taking personal economics and applying it to the whole world. It doesn't work! Don't worry. Be happy! Until we revise the world monetary system and the dollar is no longer the **RESERVE** currency, sorry boys, but you are spinning scenarios that scare people, sound good as talking points, but are just gibberish in the real world of serious money. Rates will rise because capital will shift out of bonds into assets not because of the S&P.