The track record of *EIR*'s Alert Service

by David Goldman

Executive Intelligence Review has, since February 1983, conducted a program entitled *Confidential Alert Service,* which has two facets. First, we send flash bulletins by an agreed-upon means of transmission whenever breaking news warrants a bulletin. Secondly, *Alert* participants have unlimited access to our specialists and bureaus for inquiries.

The *Alert* service has an unparalleled record of accuracy in such areas as currencies, interest rates, and precious metals, as well as developing-sector debt issues, banking developments, and military and strategic questions. We do not orient to short-term trading considerations but to important strategic changes which change the ground rules underlying such markets.

For example, we wrote on Oct. 27, 1983, after two months of continuous U.S. dollar weakness on the foreign exchange markets: "Big trouble in Brazil, Argentina, and now the Philippines implies *another round of dollar liquidity crisis.* Fed officials say their big fear is deposit outflows from heavily-exposed money center banks. This will hit the Western European banking system directly, *since Western European banks owe about $100 billion net to American banks.* Any problems for big U.S. banks will immediately force liquidation of European currencies to meet dollar-denominated obligations.

"*Conclusion:* the time for the long-term investor to begin hedging dollar positions was *last summer,* as we warned in an Alert Bulletin June 27: 'Potential for a major dollar crisis is emerging. This is not, repeat, *not a recommendation to sell.* We are still talking of *potential.*' The dollar weakness of the past weeks shows the potential, but a vicious snapback is still possible. Weakness in the gold price during the past three weeks, likely to continue, shows the *deflationary* nature of the present liquidity crisis.

"Long-term investors will look for opportunities to hedge dollar portfolios, but a dollar snapback is more than likely between now and Christmas, depending on the evolution of the Ibero-American debt crisis."

Of course, the dollar snapback occurred with a vengeance, despite an otherwise dominant forecast of continuing dollar weakness.

We alerted subscribers Dec. 17, 1983, to the following:

"The dollar's continued rise during the past 11 days was aided by an estimated $13 billion in Soviet purchases, mostly through sales of West German marks. The Soviet Union's deployable assets for international foreign exchange and interbank market operations are estimated by private financial sources to amount to $100 billion, a huge sum. These foreign exchange assets take two basic forms: actual cash, and unsecured lines of credit provided by others banks on the interbank market, against the assumed assets of Soviet banks in the West. The West German mark has been a special target of such Soviet deployments.

"The same Soviet resources may turn against the dollar early next year, with March as the most likely point of reference for timing." The dollar proceeded to reach all-time highs during the succeeding two weeks.

On March 3, 1983, when most reports foresaw lower interest rates, we warned subscribers:

"The bunching of short-term payment dates affecting developing-country borrowers in the second half of March will be traversed only with great difficulty . . . Coincident with very heavy Treasury funding requirements, the rollover pressure will contribute to liquidity pressures in money markets, e.g., an upward move in short-term interest rates."

The federal funds rate proceeded to rise 150 basis points during March. We alerted subscribers on April 5, 1983: "Interest rates continued rising pursuant to our expectations through the end of the first quarter, including an impressive jump to an 11 percent Federal funds rate at the end of the week.

"The Fed can no longer lean strongly against rising interest rates, as we saw during March. It is very difficult to predict the near-term behavior of money markets. However, the decided likelihood is that interest rates at the end of the third quarter will be higher across the board than at the end of the second quarter."

This view, of course, was borne out. Since June, *Alert* bulletins have pointed out that heavy capital inflows into the United States have suppressed what would otherwise be a rising interest-rate trend, warning that interest rates will rise once these capital outflows turn around. In this context, *Alert* bulletins warned accurately of precious-metals price weakness.

Regarding the recent plunge of the Dow-Jones average, we warned on Feb. 1: "Top-level Washington sources are worried that the long-awaited turnaround in capital inflows to the U.S. may have already begun. Today's drop in the stock market (as of 11:00 a.m.), the $382 London early gold fixing, and the weakness of the dollar suggest the possibility. . . . Normal logic would have dictated that higher budget deficits = higher interest rates = a strong dollar. . . . On the contrary, since the U.S. has been *dependent on capital inflows,* high interest rates have been the risk premium the U.S. has had to pay for such inflows. A turnaround now will, as we have emphasized, will mean both a collapsing dollar and rising interest rates, especially on the long side."

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