

The Mortgage Balloon

Deflation or Inflation

A balloon is an inflatable flexible bag filled with a gas, such as helium, hydrogen, nitrous oxide, oxygen, or air.

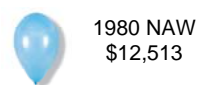
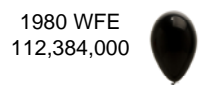
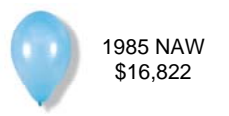
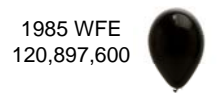
Collateralized debt obligations (CDOs) are a type of structured asset-backed security (ABS) with multiple tranches that are issued by special purpose entities and collateralized by debt obligations including bonds and loans. Each tranche offers a varying degree of risk and return so as to meet investor demand.

A credit default swap (CDS) is often referred to as a form of insurance that protects a lender if a borrower of capital defaults on a loan. When a lender purchases a CDS from an insurance company, the liability of the loan becomes a credit that may be swapped for cash upon the loan defaulting. The difference between a traditional insurance policy and a CDS is that anyone can purchase one, even those who have no direct interest in the loan being repaid. This type of investor is commonly referred to as a speculator. If the borrower defaults on the loan, not only does the lender receive payment by the insurance company, the speculator receives money as well. Although the lender can be protected by a CDS, it is always in the lender's best interest that the loan be repaid by the borrower. In contrast, the only way for a speculator to profit is if the borrower defaults. Only then will the speculator receive credit that, in turn, can be swapped for a cash payment from the insurance company. A CDS purchased by a speculator is often referred to as a "bet to fail" because of its dependence on a borrower to default on a loan.

(<http://en.wikipedia.org>)

**Balloons will deflate over time,
If they don't burst from over inflating.**

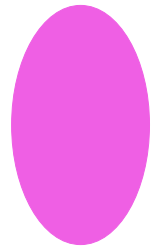
The Inflated Balloon



GDP=US Gross Domestic Product WFE=US Work Force Employed NAW=US National Average Wage DJIA=Dow Jones Index (Close)

The CDS Balloon

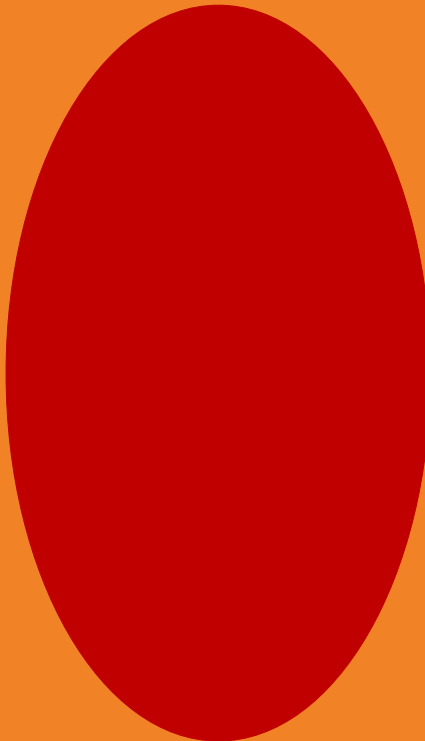
2010 CDS ~600Trillion



2005 GDP \$13.2T



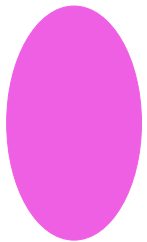
2005 WFE 155,462,400



2005 CDS ~51Trillion



2005 NAW \$36,952



2000 GDP \$10.0T



2000 WFE 147,886,400



2000 CDS ~2.3Trillion



2000 NAW \$32,152



1995 GDP \$7.7T



1995 WFE 137,585,500



1995 CDS ~109Billion



1995 NAW \$24,705



1990 GDP \$5.7T



1990 WFE 129,304,300



1990 CDS ~0Billion



1990 NAW \$21,027



1985 GDP \$4.1T



1985 WFE 120,897,600



1985 NAW \$16,822



1980 GDP \$2.7T



1980 WFE 112,384,000



1980 NAW \$12,513

GDP=US Gross Domestic Product WFE=US Work Force Employed NAW=US National Average Wage CDS=Credit Default Swap (Hedge)