



## Credit Supernova!

They say that time is money.\* What they don't say is that money may be running out of time.



*This is the way the world ends...  
Not with a bang but a whimper.*

T.S. Eliot

There may be a natural evolution to our fractionally reserved credit system which characterizes modern global finance. Much like the universe, which began with a big bang nearly 14 billion years ago, but is expanding so rapidly that scientists predict it will all end in a "big freeze" trillions of years from now, our current monetary system seems to require perpetual expansion to maintain its existence. And too, the advancing entropy in the physical universe may in fact portend a similar decline of "energy" and "heat" within the credit markets. If so, then the legitimate response of creditors, debtors and investors inextricably intertwined within it, should logically be to ask about the economic and investment implications of its ongoing transition.

But before mimicking T.S. Eliot on the way our monetary system might evolve, let me first describe the "big bang" beginning of credit markets, so that you can more closely recognize its transition. The creation of credit in our modern day fractional reserve banking system began with a deposit and the profitable expansion of that deposit via leverage. Banks and other lenders don't always keep 100% of their deposits in the "vault" at any one time – in fact they keep very little – thus the term "fractional