

# Crisis of the Global Financial System: Collapse in Consumer Spending, Unemployment, Rising Prices

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We hear stories about oil and about how it will probably move higher, perhaps to \$150.00 a barrel and perhaps higher. This is the first time in more than three years that it has moved to lofty levels. The net speculative long position is more than 200,000 contracts, or about 35% higher than in 2007. Some economies are doing well, particularly in Asia and in Latin America, but not enough to create such higher prices. \$60.00 a barrel would more nearly meet demand. As is being experienced by the entire commodity sector prices reflect the tremendous fear about money and credit unleashed over the past eight years, particularly over the past 2 years under QE1. That has produced unusual profits for commodity producers, as well as base and precious metals producers. This in turn will lead to higher wholesale prices for goods and part of that will spread to services as well. That in turn will force manufactures and others to raise prices, which will cut revenues and to some extent profits. If not passed on to consumers' profits could fall more dramatically.

There is no doubt higher oil prices are going to increase costs for all sectors of the economy and negatively affect earnings. If that is going to be the case growth for the current year has to be negatively affected. That means higher unemployment already having been experienced in excess of 22% for months. Do not forget a few years ago that sales were double what they are today and unemployment was more or less half of what it is today. Thus, we enter this new economic region about 50% worse off than we were three years ago. Official inflation is slightly lower today, but real inflation is considerably higher at 6-1/2% to 7%. Capacity utilization is 10% lower as is consumer confidence. These facts certainly do not instill confidence in the present and in the future. As this round of QE2 gets underway we are certainly starting from a much lower base.

Needless to say, any writer in print, on radio or TV, or on the Internet presenting such heretical views is immediately shut down. That happened recently when we mentioned that another false flag event was being planned by the White House to garner sympathy and prestige for a failed president. His own staff made the admission.

Most companies have laid off as many workers as they dare too and will lay off more as revenues continue to fall. Investors believe that \$600 billions in QE2 will make things lots better. The economy, again, is not being targeted. What is being targeted again is the financial sector, particularly the stock market. Those who own the Fed and those within that system must be saved. The market has to be saved because if it is not the last vestiges of personal wealth will disappear. If that happens the middle class and retirees will go ballistic and into panic.

QE1 brought 5 quarters of about 3% growth, which was half gleaned from the effects of stimulus and Fed intervention that cost \$2.5 trillion.

QE2 will need an equal amount if not more. This is not wealth creation that we saw over the past 30 years. This is a rear-guard action in an attempt to save a dying system based on Keynesian economics, which is nothing less than a plan for corporatist fascist government. Totally monetizing government debt is not the answer and that in part is what this is all about. It is feel good psychology for the public with some other goodies thrown in for good measure, such as a couple of new inexpensive government programs thrown in for \$100 billion or so, an extension of unemployment benefits and a continuation of the Bush tax cuts. They will increase the public's comfort zone and keep the unemployed at bay - at least for now. The stock market the Fed is trying to save is rife with corruption, so much so that investors are leaving in droves. As a price for keeping the market going at a high level the SEC and CFTC turn a blind eye to blatant wrong doing in the form of naked shorting and flash trading, which is front running. These criminals are being allowed to run loose in our markets, particularly hedge funds. We see complaint after complaint after complaint in the thousands totally ignored and if you challenge either agency your problem gets worse. We have seen it first hand, and there is no longer anyone there to defend and protect you. How can investors risk their funds in such an environment, run by a criminal syndicate? Don't forget we spent 28 years on Wall Street, so we know what they are up too and what we are dealing with.

There are the issues of higher taxes and fiscal spending cuts. The higher taxes are the wrong thing at the wrong time unless you intend to collapse the system. If taxes are to be raised they have to be raised slowly in order to not abruptly cut off consumption, which is the lifeblood of the system. The same is true of deficit spending cuts. Sharp cuts like sharply rising taxes would simply bring the system down. Slower changes would leave us with 10 to 20 years of stagnation in the absence of war. The plug should have been pulled three years ago to purge the system, but the elitists who created this disaster, were not ready just yet to do so.

The overhanging problems we have just discussed lead us to the antidote. Those with foresight who understand the problems are headed for safety, a flight to quality. That historical investment venue includes gold, silver and commodities. Conservative analysts and economists are thinking in terms of \$3,000 gold, and \$100 silver and a CRB of 400. Why shouldn't they? Official inflation since 1980 would reflect gold at \$2,400. Real inflation based on 1980s formula would mean gold should be selling at \$7,700 an ounce. That is quite a difference, but it is realistic and who knows how excessive the market might become. Considering the criminality in Wall Street and banking today the public sees very little integrity left. When confronted with the facts concerning the economy, financial sector, and their lack of success, except for themselves, they become downright hostile when confronted with the facts. Their whole way of life, their entire system of being, is being sucked out from underneath them. Unfortunately there is no faith and integrity left in the global financial system. Ultimately, if the late 70s and early 80s are any guidelines only 15% of investors will protect their wealth and profit from what is destined to happen. Be advised, if you are not already in gold, silver and commodities you had best get there soon.

In the coming two years the House and Senate will be frozen in gridlock. The democrats in defeat are hostile having only had a glimpse of success and are completely estranged from Republicans. This is due to their roughshod tactics of the past two years. There are few bridges, almost all have been burned. We see few chances at compromise.

The Fed, and the administration, had best do something constructive fast, because deterioration is upon us and once it gets going it will be very hard to stop. Inflation could lead to hyperinflation and then to deflationary depression. A fact that is really disconcerting is that half of investors are bullish on the economy and the market. The question is how long will QE2 last this time, and how much has already been discounted? Leading indicators are weak, so we see investors basing decisions quickly on the affects of QE2, which is not viable long term. Confidence otherwise is not evident and employment has declined in the past quarter as layoffs continue. Job openings are three times worse, which portends poorly for the future.

We still have a raging deficit, even though the past month was a little better. These facts are not a prescription for success. You had best be very careful - we live in treacherous times.

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