

Plummeting Dollar: A New Wave of Treasuries and Toxic Waste

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We believe there will be something similar to a QE3 by another name and the Fed will probably have to create some \$2.5 trillion to buy Treasuries, Agencies, and toxic waste and perhaps inject funds into the economy. Japan certainly won't be a buyer and probably will be a seller. China has indicated that they won't be purchasers in the future either. The question also arises concerning the continued purchase of these securities by countries in the oil producing Gulf States, which are in turmoil. The three countries make up 45% of Treasury purchases. As we pointed out in previous issues the second half of 2011 should be monstrous. Even if the fed buys all the Treasury and Agency bonds they'll still have to deal with a lower dollar and high inflation. Then there is high unemployment and raging gold and silver prices. There is also the question of US debt, federal, state and municipal debt, along with wars in the Middle East and North Africa.

How many US Treasuries will Japan have to sell and how deeply will its slowdown effect American industry? As you can see America has much to contemplate.

The creation of monetary inflation will last at least two more years. Its end will only come when the Fed takes its foot off of the pedal. Like almost zero interest rates this policy cannot be allowed to stop. The system cannot function without it. The whole concept of throwing money at a problem simply doesn't work and the elitists know this only too well.

Monetary and fiscal creations are not the only mistakes being made by the Fed and our Congress. US and world markets are being subjected to non-stop manipulation. This corruption has destroyed all free markets. Stock and bond markets are supported and gold, silver and commodities attacked. Fortunately markets now recognize what the elitists are up to and each time they interfere they lose a little more power. It points up that a criminal syndicate is running our country. These tactics are used to extend the looting period allowing further harvesting of illicit profits. The US and many other nations have been allowed to live beyond their means for many years and that condition is being brought to a conclusion. This, of course, is very true of the US due to the dollar being the world's reserve currency. That is changing, as nations want this unfair advantage ended, especially in view of the fact that the American government and financial community have so abused their privilege.

The profits of the military industrial complex continue to flourish as we have war after war. We notice that both parties are willing to cut spending on Social Security and Medicare, but they refuse to cut military spending, the most expensive item on the budget at 26%. Our government has billions for Fannie Mae, Freddie Mac, Ginnie Mae, the FHA, the FICA and the

worthless SEC and CFTC, but no cuts for the average American.

As zero interest rates rule one form or another of money and credit creation continues as it has for the past 11 years. The game is the same, it is just the name has changed. The process of wealth destruction is still in progress and only the select few get to keep their ill-begotten riches. The Fed's balance sheet over the next 1-1/2 years should reach over \$5 trillion.

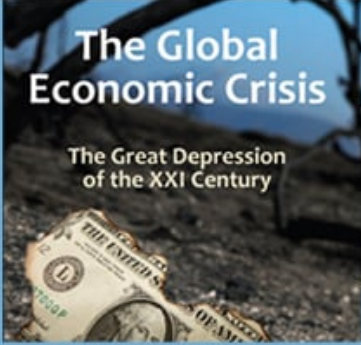
On this process real interest rates will creep higher, toxic securitized mortgage bonds will fall lower, as the housing market sinks to new lows not able to break out of its death spiral.

We find it of great interest but not surprising that the \$5 trillion mortgage bond fraud, after three years, has no prosecutions, or even a civil suit. This smacks of evidence that the Fed made some kind of sub-rosa deal with bond buyers, particularly in Europe, to cover their losses. In addition, we believe the Treasury and the SEC were in on the criminal fraud.

We see Warren Buffett doing the same thing that the Chinese are doing and that is dumping US dollars. He has been going to Asia and India to buy companies. This is how they both bet against the dollar. Buffett even says, "I would recommend against buying long-term fixed-dollar investments." He says over the next 20 years the dollar will lose its value. This is also what we have been preaching over the past 11 years, and that the preferred investment should be gold and silver coins, bullion and shares. Professionals are concerned about the trade deficit and the balance of payment's deficit, along with the continual creation of money and credit by the Fed. Then there is the horrible budget deficit and the rampant inflation the government continues to lie about.

Even PIMCO, as we all now know, has sold US Treasuries and even shorted them in anticipation of higher real interest rates. Bill Gross, CEO, calls the US a serial abuser of finance deficits with a ridiculous budget. He, like many others, has lost faith in the Fed and the government to run a proper government fiscal and monetary policy. Bill called it the new normal. We call it the road to fiscal and monetary perdition. Confidence is gone and well it should be. We lost confidence in 1960; it obviously takes others longer.

In our minds there is no question the dollar is going lower, perhaps 40% or 50% lower versus other currencies in general. In just the last 15 years it is 50% lower. In the last 40 years it is 98% lower. At this juncture it is our opinion that the Treasury and the Fed want the dollar lower in order to become more competitive. If they are going to do that they had best end their 60% plus reliance on foreign oil and start pumping America's vast oil and gas reserves. They will also have to end free trade, globalization, offshoring and outsourcing in order to bring those 430,000 firms that have moved to foreign countries.



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The Great Depression of the XXI Century

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As the dollar falls against other currencies, all currencies continue to fall versus gold and silver. Over the past 11 years, annually, nine major currencies have fallen more than 20% on average versus gold and silver. If the dollar over the next several years were to lose its status a world reserve currency costs for foreign goods would rise exponentially. The only reason the dollar isn't lower is that many other currencies have the same problems the dollar has in varying degrees. The dollar is very weak versus the euro at \$1.46. Yet, the eurozone countries are exploding in debt and six of their members are candidates for insolvency. Japan, the UK, and parts of Europe have the same problems the US has - a hangover from using the Keynesian economic model. As a result of this misguided policy in ten years federal debt will be close to \$20 trillion, up 75% from today. Is that anyway to fiscally run a country? The answer is obviously not. This is why the Fed has to buy 80% of Treasury and Agencies and it is why there is no end in sight to America's fiscal and monetary problems. Just about everything is being done incorrectly, which tells us again this has been done deliberately in order to bring the US, UK and Europe to their knees economically in order to force the people in these countries to accept World Government. The experiment again is not going to work and chaos and war will again envelop the world. You had best be prepared.

How can investors be positive about dollar denominated investments, when S&P warns government that they had best get their financial house in order or they will lose their AAA rating. They placed the US outlook as negative. The US has to address medium and long-term budgetary problems over the next two years and if they don't the rating will fall and the US will no longer be the world's reserve currency. Monetary policy cannot continue to augment, aid and abet such a profligate fiscal policy, which can easily be changed by cutting military spending by 50% to 13% of the budget. That is not easy to do with the military-industrial complex, Wall Street and banking running the country. Their greed knows no end.

We just saw over the past three years a credit crisis and a crisis of confidence for both the government and private debt sectors, which still hasn't been permanently addressed. Many major financial firms are still insolvent and carrying two sets of books. If you did that you would end up in jail.

The Fed has become a liability in its quest to protect its owners, the banks, and not the overall economy. It is instrumental in destroying debt quality and continues to destabilize the monetary base. There is no effort to cut military spending only Social Security and Medicare, which retirees and future retirees paid for, but those funds were stolen over the

years.

How does any Fed call allowing mortgage debt to expand by \$8 trillion or by 115% over six years? They the banks and brokerage houses knew exactly what they were doing and what the consequences would be. Banks employed leverage of 70 to 1 when 9 to 1 was normal and it is still 40 to 1. Obviously the bankers have learned nothing from their failures. In addition, besides us, how could rating agencies and professionals not recognize a Ponzi scheme? That is because S&P, Moody's and Fitch were part of the criminal enterprise. How could a credit system double debt, most of it was of very poor quality and expect that there would be no fall out? They knew the consequences and did it anyway. In the aftermath there has been no civil litigation and no criminal prosecutions. Why is this? It is because these criminals have bought most of Congress and the court system.

In this environment how can any analyst or economist expect better than 2-1/4% growth this year with QE2 and stimulus. Worse yet, how can any sane professional project 6% growth over the next two years? That is utterly impossible.

The economy remains lopsided. Corporate profits are lower, as is unemployment. The inflation factor is cutting profits and the improvement in unemployment is minuscule. At least \$1.8 trillion has been spent on QE2 and stimulus 2 and the experts are talking about 1.5% first quarter growth. The rest of the year should be worse even with zero interest rates. At the same time Congress wants to cut paid in benefits of Social Security and Medicare and pay for expanded wars. Their priorities reflect the interests of those who pay them off.

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