

The US dollar is vulnerable because of a staggering public debt

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Almost every day in almost any currency your purchasing power in terms of gold is less and less. Thus, these currencies in which you save the fruits of your labor are cheating you out of your savings.

The US dollar is particularly vulnerable because of its staggering debt even though it is the world reserve currency. In fact the debt is so onerous that we believe the quality rating of the dollar could be lowered by the end of the year. Many other currencies face the same dilemma and in the final analysis only gold will be worth what it is today or in the future.

Unless the US government expropriates Americans' retirement plans they won't be able to fund their sovereign debt. This situation is exacerbated by continued fiscal deficits of some \$1.8 trillion. The administration and the Democratic Party are bound and determined to destroy America financially. Between government, Wall Street and banking America is being destroyed. This did not just happen that way; it was planned that way. When people discover what has been done to them there will probably be a revolution.

Government spends excessively, as free trade and globalization keeps America under a staggering load of unemployment in what has become a corporatist fascist nation controlled by Wall Street and banking and run by Marxists, who for years have operated in the shadows as bureaucrats.

Many American states are on the edge of bankruptcy. Their only hope is massive layoffs and reduced services adding to the already massive unemployment that plagues our nation. The situation is close presently to resembling the 1930s and that is after trillions of dollars created out of thin air permeated the economy. Worse yet, nothing has been done deliberately to solve the problems. One might think the antics of government; banking and Wall Street were deliberate-unfortunately they are. It won't be long before everything will be nationalized and corporatist fascism will be in full flower.

We now have medical health care reform that will cost hundreds of billions of dollars annually adding to a wildly growing deficit, which becomes more un-fundable every day. As you all know this legislation was passed illegally. As you all know this legislation was passed illegally and will be challenged in the Supreme Court. Can you imagine 2,700 pages that no one in Congress read, that was passed, so we could see what was in it. Every Democrat deserves to be thrown out of office for this piece of criminality. Corruption in government, Wall Street and banking knows no end. This in addition to the looting of funds for Social Security and Medicare, that the Treasury now must fund, when they cannot even fund current debt without having the Fed buy it with money created out of thin air. Talk about

inflation – it is surely on the way. If we use GAAP accounting, not the US government's cash figures, the deficit is really in the vicinity of \$4.5 to \$5 trillion, not \$1.8 trillion. This, of course, is nothing new and the same lying and secrecy is in force worldwide. All that people have saved worldwide has been stolen from them – they just do not know it yet.

The phenomenon of government workers making far more than workers in industry has to end. Unionized workers make double private industry. Is it no wonder there is deficit spending to hold up this terrible financial burden. There is no end to the demands of these parasites that are sucking the public dry.

The situation in Europe is so bad that all of Europe is attacking Germany because they save and do not spend enough and their balance of payments surplus is obscene to other spenders not only in the euro zone, but in the entire EU as well. Their thought is Germany should be losers like we are. Then there are the PIIGS who care about little or nothing. We know we lived for years in all of these countries and fully understand where they are coming from. They all wanted socialism and it has doomed them, as has the euro zone and the European Union. They are about to discover socialism and debt are about to destroy them. You have made yourselves into economic and financial zombies. There is no one left to bail you out. Subsidizing everything doesn't work as they are soon to find out. When Europe and America fail unfortunately they are going to in part take the entire world down with them – no one is going to be spared.

What a world we now live in. Under the "healthcare" legislation everyone can now be "chipped," so that government can soon catalog everything about you, so on demand they can control you. Hitler and Stalin didn't have the technology, but had they had it they would have used it, just as our Illuminist masters are about to do. Government wants to totally control your lives.

We have an economy in a state of collapse and part of the reason for that is free trade, globalization, offshoring and outsourcing, which since 2000 has cost America some 8 million good quality jobs. Where are you Smoot-Hawley now that we need you? There are many reasons why the American economy is collapsing and free trade, British mercantilism, is one of them.

As we have said for months there is a multilateral change coming in currencies. A massive devaluation of all currencies and a debt settlement between countries. When that happens consumers worldwide will lose 2/3's of their purchasing power on the final leg down into deflationary depression, which is probably 1-1/2 to 2 years away. Your only protection against such events is holding gold and silver related assets.

Those who have opted for general stock investments since 1998 have come out even if they were lucky and that includes massive market manipulation by our government. Not just failed policies. The creation in August 1988 of the President's Working Group on Financial Markets" has been a disaster for free markets and a gift to dictators and would be tyrants. The markets are a giant scam and their underpinnings are about to collapse. There has been little or no growth over those years. Real estate bubbles in residential and commercial markets have collapsed and the stock market will soon follow. Hitting you right in the forehead is almost a 4% yield on 10-year T-notes that could well become 5% by yearend, which we predicted late last year. That will put the 30-year fixed rate mortgage at 6-1/4% to 6-1/2%. What do you think that will do to real estate, markets and profits? This is mainly

because of sovereign debt that grows exponentially every minute of every day. These pyromaniacs in the White House and Congress add to the conflagration all day every day. The result has been a 25% loss in the S&P since March of 2000, and a loss versus gold of 75%. Gold has risen from \$252 to \$1,224 and silver from \$3.50 to \$20.00 with massive government and Fed suppression. Where do you think your money should have been and where your money should be? In gold and silver bullion, coins and shares. Yes, as usual we were crazy and we were right and we are going to continue to be right, because we understand what the Illuminists are up too.

You live in a bankrupt country, along with 18 other major bankrupts, and you will soon learn how you are going to lose everything you have worked a lifetime for. A rise in interest rates of 5% adds \$620 billion annually to the US debt in interest alone and that is rising exponentially. The US, nor any government, can survive such debt service.

We are calling inflation, real inflation, not the official variety of 3%, but at 8%. John Williams says on the things you buy every day it is 10%. We should easily see 14-5/8% inflation by the end of the year just as we did 2-1/2 years ago.

The Fed has ended its \$1.25 trillion program of buying toxic debt from lenders. We do not know if that is the correct figure, we do not know from whom they were purchased and we do not know what was paid for the MBS, because it is a secret. This purchase has put downward pressure on interest rates for the past 15 months. This is an abnormal procedure and it can be expected that interest rates would move higher. It also means that the fed will now be a seller in the market as the FDIC is attempting to be. If sold these securities will put downward pressure on these bonds and force higher rates in a market that is already subject to crowding out by the treasury. In addition, quantitative easing is being phased out, putting further upward pressure on rates. The Fed if it continues these policies may stem hyperinflation but they run the distinct risk of having deflation run out of control, which could easily drive the economy into deflationary depression. This is a super human feat we do not see being accomplished without major damage, at the least.

Rate volatility is going to increase dramatically, as the Fed works to hold the 10-year T-bill rate below 4%. This is what they did previously at great cost to savers and taxpayers.

As rates climb the dollar carry trade becomes much less attractive and as it is unwound borrowed money is pulled from other investments, such as bonds putting more upward pressure on rates and at the same time downward pressure on stocks, which have been purchased with borrowed money. If the Fed tightens, as they might on Wednesday, yields will move even higher. If that happens those in the carry trade and bonds and shares will see gains evaporate and sales of both bonds and stock will ensue, as the carry trade is unwound. This is what markets are now facing.

This takes us to municipal bonds and particularly California, which has \$85 billion in debt, that has to be paid by its citizens, of which about 40% do not pay any taxes. In addition it officially has 12.4% unemployment, which is really about 25% and getting worse daily. This is a state with \$1 trillion to \$3.5 trillion in unfunded pensions and the world's 8th largest economy. This is a state that, via federal subsidy, sold "Build America Bonds", bonds yielding 6.3%, or 2.4%, higher rates than Treasuries. California is on the edge of bankruptcy and their municipal bonds should be sold, as many from other states should be sold as well. States won't work out of their problems for years.

Last week the Dow rose 0.7%; S&P 1%, the Russell 2000 0.7% and the Nasdaq was unchanged. Banks rose 0.3%; broker/dealers 0.8%; cyclicals 0.8%; transports 1.2%; consumers 1.2%, as utilities fell 1.8%. High tech fell 0.3% as semis gained 1.1% and Internets fell 0.2%. Biotechs fell 0.2%; gold gained \$12.00; the HUI rose 6.2% and the USDX fell 0.6% to 81.17.

Two-year Treasury bills rose 6 bps to 1.02%; the 10-year T-notes rose 10 bps to 3.95% and the 10-year German bund fell 7 bps to 3.08%.

The Freddie Mac 30-year fixed rate mortgage rose 9 bps to 5.08%; the 15's rose 5 bps to 4.39%; one-year ARMs fell 15 bps to 4.05% and jumbos rose 1 bps to 5.83%.

Fed credit declined \$7.4 billion. Fed foreign holdings of Treasury, Agency debt rose \$7.2 billion to a record of \$3.020 trillion. Custody holdings for foreign central banks increased \$64.5 billion just year-to-date, and year-on-year 15.7%.

M2 narrow money supply fell \$10 billion.

Total money market fund assets fell \$30 billion to \$2.983 trillion, the first time below \$3 trillion since 10/07. Year-to-date it is off \$311 billion and year-on-year it is off 22.2%.

Commercial paper fell \$5.2 billion, or 20.8% ytd and 24.9% yoy.

America's debt is now \$31 trillion, or 2-1/2 times US GDP. Americans on average only own 11% of their home the remainder is debt. Home prices are headed lower until 2013, so 20% lower prices are a certainty. In some areas homes have already fallen 60% to 75%. This situation will feed on itself for years and bankruptcies and inventory for sale will flourish for years. About 45% of homes have mortgages. We wrote five years ago that the government wants to own and nationalize those homes, so they can control the public.

As we wrote earlier we expect another large stimulus plan soon and the Fed to reverse gears and flood the world with money sometime soon. This should be the last rescue and the result will be hyperinflation followed by collapse and a deflationary depression. This is the last chance to buy gold and silver inexpensively.

If you do not think there was inflation in 2007 and 2008 homeowners insurance rose 24%, in 2008 it rose 31% and again in 2009-10 it rose 31%.

Treasury debt is on the ropes and is about to cause the Illuminists real trouble, along with higher interest rates. Later this year or early next year debt as a percentage will reach 95%. From there on its collapse. How can anyone conceive deficits of more than \$10 trillion over the next ten years?

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