

# U.S. Economy: The Move Towards Deflation is Underway

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Those of you 60 years old and older will spend the next 25 years struggling to survive one of the worst depressions in history or doing whatever you can to support your children and grandchildren.

The move toward eventual deflation is underway. It won't happen tomorrow, but it is underway. The situation regarding the credit crisis has never been solved, unless you want to keep two sets of books in perpetuity and mark-to-model until the end of time. De-leveraging is in part still in process. The banks have a long way to go. In fact, one has made toxic garbage attractive to banks and bottom fishers. Banks and investment houses as owners and buyers will get taken off the hook by government via loans. This program is supposed to take underwater homeowners on to dry land, when in fact it's another banking and Wall Street giveaway you will get to pay for. This will be another bailout similar to Bear Stearns that the Fed has finally admitted too. They used tens of billions of dollars to assure JPMorgan Chase would be protected as it took over Bear's assets, including their large short silver position, which just happened to be naked. They did the same thing at AIG prior to its bailout as well. Incidentally, the taxpayer gets to pay for all this. The Fed still does what it pleases for the financial sector whether you like it or not. All the elitist cronies have to be bailed out before the world economy is taken under.

The last 9 years were losers. Trillions of dollars were forced into the economy and officially all we had to show for it was 2% growth. The price for that was an inflationary/recession/depression. In that process millions of businesses and individuals lost everything they had worked a lifetime for. Even those in the stock market and bonds lost money on a net basis. The only winners were those who sold their homes near the top of the market and those invested in gold and silver related assets.

Based on both earnings and dividends the outlook for the stock market is not very appealing at today's levels. We are still in a credit crisis and will be for the next couple of years, but it is only a matter of time before the debt crisis begins. The Fed cannot spend its way out of this one, just as they couldn't in the late 1930s. There is no chance the budget deficit can be brought back into balance and as a matter of fact it will worsen. We have GDP growth based on inventory growth and bogus statistics. What does Washington do after the stimulus ends this month? Inject in more like they just did with HIRE, some \$17 billion or add another \$500 billion, which is what the economy needs before it collapses. Then will the Fed that is withdrawing funds throw in another \$500 billion? Companies are protecting themselves, their earnings and their existence. They won't stop laying off until they believe that the depression is over. Last week's survey showed that medium-to-small business doesn't see any kind of revival for 14 to 18 months. They voted 92% that way.

If the Fed bought 80% of treasury and Agency paper last year will they do that again this year? Who else will buy this paper; our retirement plans?

The probability of someone out of work finding a job is now at the lowest level since 1948. Last month half the jobs created came from bogus birth/death ratio and almost all the rest from census jobs, which will be wiped out in a few months. In reality, no real growth. Remember the easiest way to cut expenses is to lay people off and cut all those benefits. They make up 70 to 75 percent of corporate costs. When we were young we all had what was called pet peeves. Our pet peeve is writers who know the U3, 9.7% unemployment, is a scam and they still quote it and even sometimes in the same breath mention U6. Again they want to be accepted or they are under government pressure. We have never seen such lying in 50 years. These people should be ashamed of themselves. We expect it from Wall Street, banking and government, but not from journalists. Incidentally, we need 125,000 new jobs a month that under present circumstances is a joke. That is even after two stimulus programs and trillions from the Fed. Don't you find it a little odd that after all that money and credit the economy can't stage a real rally? Back to unemployment - we see writers who deliberately misquote the actual U6 number and make excuses that it includes part timers, as a sop to the government and to be accepted. How about the bogus birth/death ratio?

If it wasn't bad enough that the big hitter Elites were getting all the bailout money now small businesses are going to get hit with big tax increases.

Even though the Fed has been withdrawing money and credit from the system they know if they do not pour money back into the system it will not only have a double dip recession/depression, we will probably have a deflationary collapse. The big question is when will the elitists pull the plug?

Next year we will see higher taxes and continued government increases in spending. A continued crowding out by government pushing interest rates higher. Ongoing increases in money and credit and more monetization by the Fed. That will give us higher inflation for the next 21 months. That is at least a real 14%. We will also find out whether Greece was a planned or unplanned event. Will the powers that be opt for a deflationary depression?

All of the above events are negative for both stocks and bonds. As interest rates edge upward, especially on the long end, bonds will fall in value. That includes government, corporate and municipals. Stocks will fall and at least test 6,500 on the Dow. Commodities and gold and silver will continue their bull markets. Unemployment will rise and consumption as a percentage will move from 69.5% toward the long-term mean of 64.5%. Overall the outlook generally is bad, and it could be disastrous. All of you who are contemplating retirement put it off and continue to work. Whether we have inflation or deflation we will have less purchasing power. You will need your job to help support your children and grandchildren. Whatever you have in savings and investments you have to preserve and the best way to do that is with gold and silver related assets. The world economy will be in great turmoil and there is the distinct possibility of another war. If you look at history you will find each time there is severe economic or financial problems another war is arranged. The years ahead are not going to be a piece of cake.

The operative word is austerity something the IMF has specialized in for control of governments and economies. That is what we will be practiced on America. You are seeing

that reflected in unemployment as business increases profits and throws away employees like used dishrags, especially the longer-term employees. We just had an unconstitutional healthcare bill rammed through Congress and now government will soon unveil its first version of guaranteed annuities, or it might also be called another tax to fund the unpayable debts of a bankrupt government. All this while banking, Wall Street and insurance prosper, as well as selective other transnational conglomerates. It is all about control and economic and financial enslavement. Banks and Wall Street will ride roughshod over America collecting more and more wealth. Fiscal responsibility is not going to be imposed on Washington, but upon the American people. How else can the system continue as it is? Someone has to pay for it and it is not going to be the rich who own your congressmen and senators. Wall Street and Madison Avenue can't allow government to be blamed for debt; its consequences have to be laid onto consumers. It has to be understood that consumers caused all this due to their profligate spending, so it is only natural that they should be the ones to pay the debt.

Part of this consumer payback will be the scaling back of Social Security payments and Medicare benefits. You are already seeing the loss of Medicare benefits and the higher costs being thrown upon the consumer. That includes the right to early death, so that the system doesn't have to keep useless eaters alive. If Congress refuses to pass these austerity measures than our President will go around Congress by one means or another, or as you recently saw with health care reform he'll simply purchase the votes with taxpayer funds. What a great system - a democratic dictatorship. Corporatist fascism at its finest.

The banks and Wall Street know the above is on the way. That is why lending to small businesses and individuals has been reduced by 20%. Many of these entities are going to fail and the lenders do not want to have to write off the bad debt. Banks, investment banks and brokerage houses are in need of more securitization of debt. That is how they make fabulous amounts of money. They simply package debt and sell it to other professionals, who supposedly know what they are doing and buying. We refer you back to CDOs, ABS and MBS, which got us into the credit crisis nightmare we are still in the midst of. Lenders are saying not us. Either we syndicate or we cut back on lending. Banks and brokerage houses still are leveraged 40 to 1 and they are still bankrupt. The BIS and the FASB, with the concurrence of government and the powers behind government, that they are to continue to be allowed to keep two sets of books and mark their balance sheets to fantasy. They value investments at whatever they wish. You cannot do that you would go to jail if you did. It is called fraud. It's despicable, disgraceful and total moral capitulation. Overvaluation of assets as we are finding out is 50 to 97 percent of underlying assets. Look at some of the recent bank failures and what is left of there books. Overstatement of assets is going to get worse and, of course, the operators of these institutions are held civilly and criminally blameless. Can you imagine taking over a bank or brokerage house and finding that 40% or less of the assets are salvageable. This is what is going on and the public knows little about it. This is why there are loss-sharing agreements between the FDIC and those who take the sick banks over.

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