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**Are we heading into
inflation or deflation?**

**On December 28, 2008
one of the shining lights
of the gold industry, Jim
Sinclair, wrote the follow**

**Lessons to be learned
from the Weimar Republic
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**Death of the Dollar by
Howard Katz**

**Hyperinflation is already
here. It's destroying
Zimbabwe**

Sinclair uses the French

Welcome to Miles Franklin

WEEKLY GOLD AND SILVER UPDATE

Greetings!

Now, The global economy is balanced on a razor's edge and could quickly topple over into deflation or hyper-inflation. Things are far, far worse than the media is reporting. Here is our weekly update featuring a discussion on precious metals and the economy. We will not pull any punches in analyzing what is occurring or where the blame lies.

David Schectman
CEO, Editor in Chief
Miles Franklin

Are we heading into inflation or deflation? - Wrong question! You should be asking yourself are we heading into manageable inflation or hyper-inflation?

To be a successful investor, the most important thing you should do is gather the "right" information and then act on it. It's the acting on it that is the hard part. I send my newsletter to more than 10,000 readers and I estimate that a majority of my readers are still thinking about owning gold

Curve to predict the future gold price

Richard Russell on gold

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Gold Nuggets

Gold has been up 8 years in a row and finished at all-time highs in many currencies at the end of 2008. There are many bullion owner happy campers out there. No apologies there. While the fate of the US general market is unclear, the upside potential for the gold/silver

and silver. That is a luxury you no longer have. Wake up people! Can't you see what's happening? Are you still in shock after your traditional investments turned on you in 2008? Not one in a hundred of you escaped last year without significant losses. I have spent the better part of the past 25 years trying to figure things out and 2008 was costly to me too. I never expected the collapse in the mining share sector. Frankly, I know of no one who did. Silver acted like an industrial commodity (copper, zinc, lead, tin, etc) and dropped like a stone. Only gold showed a gain, but then again, gold has risen every year for the past eight years.

Now, more than ever, you must have a plan and you must focus on the big picture. You can't count on the CNBC gang. They are confused and clueless. They are like a group of cheer leaders jumping up and down and waving their pom poms trying to excite the crowd at a football game - but their team is losing by four touchdowns in the fourth quarter and no one is listening.

A majority of Americans are counting on President Elect, Barak Obama to get things back to normal. His task is to end the wars in Iraq and Afghanistan, protect us from terrorists, stop the worst plunge in real estate prices and job losses since the Great Depression and get the economy going again. Why would anyone want to be President in 2009? I like Obama. I believe that he is sincere and well meaning. I also believe that the task he faces is an impossible one. And when he fails to deliver, the public shock and disappointment will be something to behold.

The markets are driven by what Richard Russell calls "primary" trends. President Elect Obama, the Treasury and the Federal Reserve will have their hands full trying to re-direct the primary trends. The Fed's mantra is "inflate or die." Bernanke has made it clear that the Fed will create as much money as necessary to keep the economy from plunging into depression. Lots of luck, Ben, you'll need it. The trick will be to stop the collapse without igniting hyperinflation.

The bond market, the currency market and the stock market are too big for central banks and governments to control. Oh, they can be manipulated in the short term, but eventually the primary trend will take over. In the case of the dollar, the primary trend is down. In the case of the stock market it is down. In the case of precious metals it is up. We are in the early stages of the unwinding of bubbles

potential for the gold/silver share market in 2009 is staggering.

Gold Nuggets

WASHINGTON, Jan 13
(Reuters) -

The United States racked up a record \$485 billion deficit for the first three months of fiscal 2009, exceeding the record \$455 billion gap for all of the previous year, the U.S. Treasury said on Tuesday.

Gold Nuggets

The Fed is bailing out Ohio unemployment fund. The State of Ohio has been approved by the Federal Government to borrow half a billion dollars to fund its depleted unemployment benefits fund:

I doubt that this number is in Obama's borrowing budget and I fully expect California to be the next State to borrow from the taxpayers for unemployment benefits, followed by many others. The entire economic/financial/Government benefit system is slipping into collapse.

Gold Nuggets

in the stock market and the real estate market. Two decades of unrealistically low interest rates and massive money creation under the leadership of Fed Heads Alan Greenspan and Ben Bernanke accompanied by foolish and costly deregulation of the markets, courtesy of former President Bill Clinton, and former Goldman Sachs CEO and current Treasury Secretary Hank Paulson have put us on the doorstep of hyperinflation. The Fed is pouring hundreds of billions of dollars of our money into the banks and they refuse to divulge who is getting the money and what they are using it for. Where is the outrage? What happened to the protests of the 60s? Why is Congress allowing this?

Apathy is everywhere. People are beaten down and are giving up without a fight. Most Americans hope things will get better and block out the reality of what is happening. More often than not, when I speak to friends and acquaintances I am accused of being too negative. If you want to accuse me of anything then accuse me of being too early or too realistic. If you followed the advice of the "optimists," especially the gang at CNBC and Bloomberg, then you are already in or on the way to the poor house. What good did all of their feel-good chatter do you?

I will not mince words in this newsletter. I am going to give you a glimpse of the future and tell you once again why you NEED as much gold and silver NOW as you can possibly afford. We are teetering on the brink of another Great Depression and hyperinflation. Paper investments can fall by the wayside. Only tangible things in your possession are immune to default. The next bubble to fall, and it will be the biggest of all, is the bond market. Expect rising interest rates and a falling dollar to decimate bond holders. Don't get caught up in the myth that you are "safe" in Treasuries. You most certainly are not.

Last year was very unusual for the gold and silver industry. Prices rose and prices fell but through it all, DEMAND INCREASED. Usually, when prices fall then buying slows down. Not in 2008! The interest in gold and silver PHYSICALS (not paper investments like the ETFs and Comex) was the greatest in 28 years. It was global. And it resulted in never before seen shortages in coins and bars. The wholesale premiums on gold and silver coins and bars exploded and delivery delays of weeks or months were common. The supply of scrap from the "secondary" markets dried up. No one was willing to sell their gold and silver at these low prices. The mints (in the US, Canada, Austria,

Fred Hickey on gold:

Gold could go to \$2,000 an ounce this year, or next. The Fed is going to pump all kinds of money into the economy and it won't help. It won't get to corporations or the consumer.

But it might get to gold and cause yet another bubble. Gold is one of the few assets that has performed well. And, there is a tremendous shortage of physical gold. In times of turmoil it is a classic hedge against inflation.

Gold Nuggets

Who owns the Federal Reserve?

Rothschild Banks of London
and Berlin

Lazard Brothers Bank of Paris

Israel Moses Sieff Banks of Italy

Warburg Bank of Hamburg and
Amsterdam

Lehman Brothers Bank of New
York

Kuhn Loeb Bank of New York

Chase Manhattan Bank of New
York

Goldman Sachs Bank of New
York

South Africa and Australia) working full time could not come close to keeping up with the demand. If you think that this will change in 2009 you are mistaken. The current low price of silver and gold is 100% paper-driven on the Comex futures market. It has nothing to do with the demand for the real in-your-hands coins and bars. It is now only a matter of time before the tail stops wagging the dog and the physical market demand takes over the leadership of the price mechanism.

For now, we can ship gold and silver coins and bars in a timely fashion. Later this year that may not be the case. If you put off your buying decision, you will pay more there is no guaranty that product will be available as massive amounts of new money pours into our industry. Call us at 1 800-822-8080 and see what we can do for you. Wealthy investors are starting to move a portion of their dollars into the safety of gold and silver. Million dollar plus orders are becoming common place in the post-Madoff landscape. Once inflation re-emerges and the dollar starts its inevitable decline in earnest, gold and silver will be acknowledged as the go-to investments!

On December 28, 2008 one of the shinning lights of the gold industry, Jim Sinclair, wrote the following

Dear friends.

Here is my New Years gift to you, my extended family.

There is no way that the CONSEQUENCES of the largest creation of paper money since it was invented can be avoided or even modified. Odds now favor Alf Field's price objective. (An Elliott Wave derived prediction that gold will rise to \$3,000 - \$6,000 an ounce. Sinclair's previous target was a minimum of \$1,650.)

January 14 2011 to June 21, 2012: The best part of this gift is not the one you already know, January 14, 2011, but rather the date that a new currency form will replace the US dollar as you know it today which is the third week of June, 2012.

Don't laugh! Write this down and do not forget about it!

Gold Nuggets

The trend of gold as store of wealth may start to snowball. In its December Metals Matters report, ScotiaMocatta suggests that global financial problems "seem so deep rooted that demand for gold as a safe haven is expected to escalate." Gold demand has in fact exploded, and not just here and there. Everywhere. Around the world, customers have been queuing up to strip coin shops' shelves bare. Mints have been running 24/7 and still have been forced to ration coin shipments to their dealers. ETF vaults are bulging.

Gold Nuggets

Swiss gold refineries are pushed to the limit by demand. Gold refineries in Switzerland are working at their limit to cope with demand for the precious metal from investors seeking ways to shield their wealth.

"I've never experienced anything like this in my whole career," Erhard Oberle, chief executive of the firm for the past 20 years, told SwissInfo. He said the demand was so heavy that it could hardly be satisfied. The reason for the gold -- and silver -- rush is that at a time of financial crisis many investors want real assets.

The general rule of the market is that gold is always attractive when everything else is unattractive.

Gold Nuggets

Happy (sort of) New Year, Jim.

Is this nonsense? I think not, in fact I have a copy of Sinclair's prediction in my office and look at it every day. I absolutely believe that Sinclair is right and the US dollar is headed to 62 or lower on the USD_X (the US Dollar Index comprised of six major currencies plus the dollar which currently stands at 84.32). If we are lucky, we will avoid hyperinflation. History says otherwise. So do a few of the leading edge economists. Virtually every major newsletter writer that I follow uses the data supplied by John Williams in his indispensable newsletter, *Shadow Government Statistics*. In his latest newsletter, published on January 3, 2009 he wrote the following -

The US government effectively is bankrupt. Yet, extreme fiscal stimulus appears to be likely early in the upcoming Obama Administration, along with a further sharp and immediate increase in US Treasury funding needs. As US and global investors increasingly shun investment in US Treasuries, the Federal Reserve will be forced to monetize that debt, as the lender of last resort to the US government. Accordingly, what likely will become in 2009 the worst US consumer inflation in living memory, increasingly will have the potential to evolve into hyperinflation before the end of the New Year. The estimated timing for the onset of the hyperinflationary great depression discussed in the Hyperinflation Special Report of April 8, 2008 has been narrowed to a range of 2009 to 2014.

Jim Sinclair also warns of hyperinflation. On January 14th he wrote the following.

The following chart shows the face of unavoidable hyperinflation - which is always a "currency" event.

It is horrifying what the Fed and Treasury injected in percentage terms. A true measure of comparison can be seen in the 3 months of 2008 when the Fed accomplished more than in the 7 years from 1929 to 1937.

This is beyond all reason, having its own new and terrible consequences well in excess of the consequences of the 1929 and 1932 breaks.

In the 1990s, American historians William Strauss and Neil Howe made the following prediction in *The Fourth Turning* published in 1997:

The next Fourth Turning is due to begin shortly after the new millennium. Around the year 2005, a sudden spark will catalyze a crisis mood.

Remnants of the old social order will disintegrate. Political and economic trust will implode.

Real hardship will beset the land, with severe distress that could involve questions of class, race, nation, and empire.

Yet this time of trouble will bring seeds of social rebirth. Americans will share a regret about recent mistakes -- and a resolute new consensus about what to do.

The very survival of the nation will feel at stake. Sometime before the year 2025, America will pass through a great gate in history, commensurate with the American Revolution, Civil War, and twin emergencies of the Great Depression and World War II.

The risk of catastrophe will be very high. The nation could erupt into insurrection or civil violence, crack up geographically, or succumb to authoritarian rule. If there is a war, it is likely to be one of maximum risk and efforts -- in other words, *a total war*.

David Hackett Fisher in *The Great Wave* (published 1996) and Buckminster Fuller in *The Critical Path* (published 1981)

Markets have been run now for years by algorithms, manipulators and seeded interests that are like summer thunderstorms. They are loud and scary, but quite short term and in the end quite meaningless and non-productive.

The dollar cannot and will not remain strong, nor can a planetary Weimar experience now be avoided.

BoE secret money printing: *Weimar style policy is now global. With nothing backing paper currencies except other currencies disaster awaits. As Marc Faber says "citizens, who are not dumb, realize that the central banks are engaged in a contest to print the most money, to keep the cost labor low, the employment high and to erase the National debts. This will destroy the currencies, confidence and create instability. I expect there maybe a panic into Gold and a scramble into physical gold" (See the following article from the UK Telegraph.)*

"The Bank of England will be able to print extra money without having legally to declare it under new plans which will heighten fears that the Government will secretly pump extra cash into the economy.

The Government is set to throw out the 165-year-old law that obliges the Bank to publish a weekly account of its balance sheet - a move that will allow it theoretically to embark covertly on so-called quantitative easing. The Banking Bill, which is currently passing through Parliament, abolishes a key section of the law laid down by Robert Peel's Government in 1844 that originally granted the Bank

also predicted this current crisis and collapse. In the early 1900s, Ludwig von Mises predicted the collapse of today's credit-based economies; and, more recently, John Exter in the 1950s and 1960s warned of the same as did Antal Fekete and others.

Those surprised by current events are now in charge. Expect accordingly.

Gold Nuggets

BEIJING

(Dow Jones)--

China's central bank is considering raising its gold reserve by 4,000 metric tons from 600 tons to diversify risks brought by the country's huge foreign exchange reserves, the Guangzhou Daily reported, citing unnamed industry people in Hong Kong.

Gold Nuggets

A warning from Jim Sinclair:

Dear Friends,
For the past many years I have been telling you that if you don't have private assets do not try and obtain them. Certainly do not use any internet means of finagling because you risk two problems - getting caught and

the sole right to print UK money.

The ostensible reason for the reform, which means the Bank will not have to print details of its own accounts and the amount of notes and coins flowing through the UK economy, is to allow the Bank more power to overhaul troubled financial institutions in the future, under its Special Resolution Authority."

For the past two years Sinclair has warned us that a "WEIMAR-LIKE HYPER-INFLATION" is bearing down on us. The Weimar hyper-inflation in 1922/23 Germany was caused by massive Reparations Payments which started in 1919. He equates Germany's money creation to the trillions of dollars now being created by the Fed and the Treasury to slow down the collapse of derivatives. Many of you may not be aware of what the "Weimar" experience was all about. The following story from Max Shapiro's *The Penniless Billionaires* will open your eyes.

In the autumn of 1923, Lotte Hendlich, a German widow in her fifties, returned to her native Frankfurt after an absence of more than four years in Switzerland. In 1919 she had gone to spend a few pleasant weeks in a Swiss village where her relatives lived. But almost immediately, Frau Hendlich broke her hip in a fall. During her long convalescence her chronic cough became worse, and the doctor attending her advised her that she was suffering from advanced tuberculosis. The months and years of her illness dragged on interminably even though her relatives were genuinely solicitous (they insisted on defraying all her expenses, including the fees of the doctor). At last, in September 1923, she was "cured" and considered well enough to return home. Her much longed-for homecoming soon became a nightmare.

In the stack of accumulated mail she found three letters from her bank; they delineated her ruin. The first - written in mid 1920 by a minor bank officer who had befriended her - advised her "to invest most of the funds in your rather substantial bank account (amounting to over 600,000 marks, or the equivalent of more than \$70,000 at the exchange rate prevailing in 1919 - nearly \$1,000,000 by today's standards). "It is my judgment," the writer continued, "that the purchasing power of the mark will decline, and I suggest you try to guard against this through some suitable investment which we can discuss when you come into the bank.

having your money stolen simultaneously. The "deposit your money with an internet vehicle and have gold appear in another country" vehicle is inviting only to the terminally gullible.

"Citing pressure from U.S. federal authorities, Swiss mega-bank UBS said yesterday it will close 19,000 accounts that the IRS believes to be tax havens for American investors. The bank will write checks for the balances in house, or transfer them to other accounts... either way creating a paper trail for IRS hounds to follow.

"You can either take that check," an anonymous UBS client told The N.Y. Times, "and throw it in the woods, or deposit it somewhere and get busted. There's nowhere to hide."

According to the IRS, UBS is helping American investors evade around \$300 million in taxes each year. You can bet your last dollar, if you've got any left, UBS won't be the last target of IRS probes.

Gold Nuggets

The problem with socialism is that you eventually run out of other people's money.

-Margaret Thatcher

The next letter, dated in September 1922, and signed by another officer said, "It is no longer profitable for us to service such a small account as yours. Will you kindly withdraw your funds at the earliest opportunity?"

The third letter, dated several weeks before her return from Switzerland, announced, "Not having heard from you since our last communication, we have closed out your account. Since we no longer have on hand any small-denomination bank notes, we herein enclose a note for one million marks."

With gathering panic, Frau Hendlich looked at the envelope that had contained the letter and the million-mark note. She noticed that affixed to it there was a canceled postage stamp of one million marks. Her bank account - which four years before seemed large enough to provide here with serene existence to the end of her days - had been utterly consumed by inflation and could no longer pay for an ordinary postage stamp.

In the last two months of 1922, around the time that Frau Hendlich returned home to Berlin, the wholesale price index exploded by 1,475 times the pre-war level. Shapiro wrote, The sullen women and men who lined up before the food and department stores were now obliged to carry their money in knapsacks, cartons, and valises; their wallets and purses were too small to contain the hundreds of thousands of marks required as payment for everyday items.

The gaunt Germans queuing up for the astronomically priced merchandise would ask one another, "When will it all end?" Little did they know that it was only the beginning.

By March 1923 the wholesale price index had raced up to 4,827 and by June to 24,618 times its 1913 base. But by July 1 - in keeping with the lunatic quantum leaps in the money supply - prices exploded into the ionosphere. By the end of July the wholesale index streaked to 183,510; by August to 1,695,109 and by September 30 to 36,223,777. At that time the mark was quoted at over 154 million to the dollar. A half-dozen eggs - if they were available in an economy increasingly overtaken by shortages - cost almost 3 million marks; before the war they were priced at less than half a mark.

In October, 1923 the money supply stood at 2,476,711,294,000,000,000, (almost 2.5 quintillion) marks.

Gold Nuggets

Back Issues of The Weekly Gold and Silver Update

If you are interested in looking at back issues dating back to March 30, 2007, please visit our website or you can find the issues here:

[Weekly Gold and Silver Report](#)

If you are having a difficult time reading this report, please do not hesitate to let Zhanna know, and she can email you a separate pdf. Zhanna@milesfranklin.com

Gold Nuggets

David Morgan is the founder of

www.silverinvestor.com.

We have followed his work for many years and are impressed with what he has to say. He is considered to be one of the two best silver analysts in the world.

David is a client of ours and a good friend.

We would like all of our readers to know that David actually provides two newsletters, one is his paid service for "serious precious metals investors," but the one we wish to bring to your attention is his free letter. David will provide *The Ten Rules of Silver Investing*, which he wrote for an esteemed financial book several years ago. David used to provide this information to paid subscribers only, but now provides it for free.

If you sign up at [The Silver Investor](#), you will receive each of the Ten Rules in an expanded version with David's latest insights. We encourage new investors as well as seasoned professionals to get this information. David is rather low key and you can opt out at any time no questions asked - in other words, you have full

In November the money supply stood at more than 400 quintillion marks. By end of November, the mark was virtually worthless. The wholesale price index as of November 30 had skyrocketed to one trillion four hundred and twenty three billion times its 1913 level. By that time most farmers and trades people refused to sell anything for marks.

The Penniless Billionaires chronicles hyperinflation starting with the Roman Empire and repeated in France in the 1790s (leading to French Revolution and Napoleon), America in the 1860s and the Weimar Republic in 1920s Germany (leading to the Nazi Party, Adolph Hitler and World War II). A common theme can be found in each example - currency debasement, leading to hyperinflation. Once "money" morphs from gold or silver into less valuable alternatives such as copper in the Roman Empire, or worse yet, paper currency unbacked by gold or silver in 1790 France, 1860 Civil War America and Germany in 1922, the result is ALWAYS THE SAME.

Common to all of the above examples is the reluctance of governments to reign in spending or sufficiently raise taxes to balance revenues with expenditures. War expenditures was a common thread in all of the examples. If Shapiro's book were written in 2020 instead of 1980 there might just be another chapter - the hyper-inflation in America that started during Barak Obama's first term in office.

Money, not backed by gold, will eventually lose its monetary function. The unlimited possibility to create money (the power to issue money not convertible to gold) soon becomes far too seductive for governments to resist.

Lessons to be learned from the Weimar Republic experience

Just as hyper-inflation in the 1790s in France led to the collapse of the French government and the emergence of Napoleon, the collapse of the Weimar Republic in Germany led to the emergence of the Nazi Party and Adolph Hitler. We are entering very dangerous times. No one can be certain of how this will all end, but the lessons we can take from history are unsettling.

We are already embarking on early stages of hyper-

asked - in other words, you have full control. In addition to *The Ten Rules of Silver Investing*, you will receive updates on conferences, video presentations, webinars, special offers, and tracking recent news and interviews. You will also receive information on companies we think have merit from time to time. So, in this day of information overload, we are aware that much of what you get can be a waste of your time, but in this case don't let this free offer pass you by.

David's insights into mining stocks, and rare coins alone can save you a great deal of money.

inflationary money creation. Why then, are prices falling? Why does the Media warn of DEFLATION? Perhaps a simple analogy will help you understand why prices are falling in the midst of massive money creation: Imagine yourself walking along a beach in Mexico and you notice that the shore line has receded hundreds of yards back into the ocean. The sea looks so calm. Then, without warning, a giant wave, 100 feet high appears in the distance. There is no where to run - you are facing a tsunami, a series of huge waves that happen after an undersea disturbance, such as an earthquake or volcano eruption. The waves may travel in the open sea as fast as 450 miles per hour. As the big waves approach shallow waters along the coast they grow to a great height and smash into the shore. They can be as high as 100 feet. They cause massive destruction on the shore. The "deflation" that we are now experiencing is similar to the calm and receding shoreline just prior to the appearance of the tsunami, the onslaught of hyper-inflation.

The reason that prices have not yet begun to rise is because "money velocity" is low. The money that is being created now is not (yet) being spent, or circulated in the economy. The banks are holding onto their newly re-flated (courtesy of the Fed) balance sheets. Businesses have cut back on their spending. A perfect example was brought to my attention to me last night by my wife, Susan. She took several clients out to dinner last night at Mortons (a Chicago based very prominent national high end restaurant chain). For the past 20 years she would take clients there for lunch on a weekly basis. Yesterday, she was informed that Mortons will no longer be open for lunches. She was stunned! What more proof does one need that businesses have dramatically cut back spending than this? Expense accounts have dried up! People with money have fled from the stock market and are sitting tight in near-zero interest money market accounts and Treasuries. Car showrooms are empty. A glut of housing anxiously awaits non-existent buyers. People anticipate that prices will fall, so they are not buying now because they may be able to buy at a lower price tomorrow. Soon, the reality of an exploding money supply will send the dollar tumbling and prices will rise. Businesses and people will then start to spend because it will cost MORE tomorrow than it does today to purchase a car, house or anything. Once the velocity starts to INCREASE we are on the way to hyper-inflation. When will velocity start to increase? Probably by mid to late 2009.

You are fast running out of time to exchange your (still valuable) dollars for gold and silver. You will never again have this opportunity. Don't waste your time trying to determine the bottom. It's now simply a matter of accumulating as many ounces of gold and silver as you possibly can, price be damned. Believe me, with gold under \$825 and silver under \$11 it's a no-brainer.

Death of the Dollar by Howard Katz (www.thegoldbug.net)

Katz's views are somewhat unique but he is one of the few who really understands what is happening. He sees where we are headed and he discusses WHY the media is so wrong in pushing the deflation arguments. According to Katz, *This is the moment of truth for the establishment. They are about to be destroyed, and they do not have a clue.*

For almost 4 months, they have been arguing that the U.S. economy is in a financial crisis of a "deflationary" nature. They cited the very minor and normal commodity declines of this past summer as evidence. They wildly exaggerated the real estate decline by shifting from one indicator to another, always picking the indicator which happened to be down that month. Here is the actual median home price (U.S.) as reported by the Census Bureau.

As you can see, housing prices did decline in 2007. But they hit bottom in Jan. 2008, and have been flat to slightly higher since that time. You can check these figures at www.census.gov/newhomesales. You know what the media's monthly reports on housing look like: DOWN 14%...DOWN 18%. DOWN, DOWN, DOWN.

How do they turn the rise from \$216,000 in Jan. '08 to \$220,000 in Nov. '08 into such a "decline?" Well one month they may use the actual number above. But the next month the number is bullish (not what they want); so they report the 12 month change. In April '08, both the one-month and the 12-month changes were positive. So they forgot about April and reported the 3-month average (Jan., Feb. and March) for '08 against the same 3 months for '07. This was reported immediately after the April figures were released. Everyone expected the report to be about the April figure. But the April figure was up and hence was not reported.

When they are really under fire, they switch to the Case-Shiller index. It has a 10 city and a 20 city. That gives 2 more figures, one of which (the 1 month or the 12 month) is likely to be down.

And yet the real news about housing prices in 2008 was that the decline of 2007 was stabilized suggesting that housing might be ready for a turn to the upside. To avoid drawing this optimistic conclusion, your newspaper did not technically lie. But it slanted the reports so that you would draw the wrong conclusion. It did not lie technically, but it lied in substance.

Write to the editor of your local paper, and tell him that he has been lying to you about housing prices. What use is a newspaper that lies? No use at all. Throw it in the trash and spend your time seeking the real truth.

The truth shall make ye rich. The establishment shall make ye poor.

*If the establishment is correct, then no one in his right mind should buy commodities at this time. According to these people a wave of deflation has come out of nowhere, and all prices will be going down. According to the **One-handed Economist** a wave of "deflation" can only come from a decline in the money supply, and all declines (or advances) in the money supply in history have been caused by the government. Further, the **One-handed Economist** points out that the U.S. Government, over the past 4 months, has started its greatest money **expansion** in history. Since Sept. '08, Federal Reserve credit is up by 150%, and the monetary base is up by 100%. The money supply proper will take some time because it is largely created by the private banking system, and this moves more slowly.*

Furthermore, although exact timing is less certain, I am fairly confident that bottoms are in for many commodities. Gold bottomed Oct. 24. Cocoa bottomed Oct. 24. Platinum bottomed Oct. 27. Silver bottomed Oct. 28. The CRB index bottomed Dec. 5. Corn, wheat and soybeans bottomed Dec. 5. Coffee bottomed Dec. 5. Unleaded gasoline bottomed Dec. 24. And crude oil bottomed Dec. 26. The establishment seems not to have noticed, but many commodities have been in uptrend since the turn of the millennium. For them to have 5-7 month declines is completely normal and does not indicate a reversal of trend.

Just the opposite, what indicates a long term top in a commodity is a spike top, such as occurred in gold on Jan. 21, 1980.

I have pointed out that all of the establishment's evidence for a general "deflation" is of the self-fulfilling variety. The newspapers report that there is going to be a decline in such and such an area of the economy. An executive in the advertising department of a retail outlet reads this and decides to cut back on his newspaper advertising. Therefore his store pulls in fewer customers and records lower sales for the Christmas season. Another executive lays off workers in anticipation of a slower period. Over and over the media makes their gloomy forecasts come true, at least for the short term. So, you see, they can make up any lie at all, and the self-fulfilling aspect will make it appear to be true.

However, we know what happens to these self-fulfilling prophecies. They come true for a short period of time. Then the basic demand of the people for goods breaks through. All the indicators rebound. It turns out that the economy is not caught in a wave of "deflation." It is caught in a wave of "inflation."

Since Ben Bernanke is so obsessed with what is conventionally called the Great Depression, let us give some attention to this event. Bernanke, and all other establishment figures believe that this was a wave of "deflation" which simply came out of nowhere. They believe that such waves are inherent in a free economy. But the "deflation" of 1930-33 did not come out of nowhere. It was engineered by the Republicans. In 1920, the Republicans, observing that prices had doubled during WWI, decided that it would be good policy to bring them back down again. Since cigars had gone from 5¢ to 10¢ during the war, this policy of restoring the pre-WWI price level was expressed as, "What this country needs is a good 5¢ cigar."

First, this policy had been implemented after the price increases of the Civil War, and it had been very successful. It made the United States the richest country in the history of the world. Second, this policy had been very popular. The Republicans became the dominant party at this time, and the only Democrat who could get elected (Grover Cleveland) had a Republican economic policy (gold standard).

The Republicans' logic was very compelling. All the savers in the country had been cheated by the WWI depreciation of the currency. The currency had to be restored to its true value in order to make the savers whole. The Republicans were the party of the savers, and the savers were the large majority of the country.

The Democrats of that day cried, "What about the unemployed?" But the Republicans knew about the unemployed. They were basing their policy on what had happened after the Civil War. And after the Civil War there had been a "depression" (1873-79) almost as bad as that of 1930-33. Unemployment had soared during this period. The Republicans made two points. First, there were a lot more savers than unemployed; so their policy was for the benefit of the majority of the people. Second, the fact that the savers and the unemployed had different interests was temporary. It resulted from the fact that the Democrats had done wrong by depreciating the currency during the war. The unemployment of the 1930s was caused by the Democrats when they printed money to finance WWI. Further, the unemployment of the 1870s had been temporary, and that of the 1930s proved temporary as well. But the harm to the nation's savers which started after 1933 was permanent and had devastating effects on the U.S. economy.

So here is a policy which not only was consciously and deliberately adopted by the Government, but the policy was right and was for the greater good of the country. For Bernanke to argue that this was something that just came out of the sky and was bad shows that he does not have the slightest concept of what is going on in economics. If one actually studies economics, one finds that all price declines in American history were caused by declines in the money supply, which in turn were caused by the government. There has never been a liquidity trap where people had money but just decided not to spend it.

If there is intelligent life on Mars and a Martian were to visit America, he might point out, "Gee, you people have had rising prices for 53 years consecutively. The last year in which prices went down was 1955. I think you should be worried about prices going up, not down." And he might also point out, "Further, 1955 is celebrated in your popular culture as Happy Days. Maybe declining prices are a good thing, not a bad thing." Certainly the decline in gasoline over the last half of 2008 (temporary as it is) was a good thing.

Maybe the President needs to appoint this Martian as his economic advisor.

Since that time, the Democrats have posed as the defender of the unemployed, and anyone who argues against their policies is slandered as lacking sympathy. First, they had "sympathy" for the minority of the people but completely lacked sympathy for the large majority. Second, the leader of the Democrats at that time, F.D.R., was a Wall Streeter (manager of a vulture fund), and he just happened to adopt a policy which caused a large rise in the stock market. (The DJI doubled from early '33 to early '34 and multiplied by almost 4 times by early '37.) He couldn't admit that this was his intention. He was pretending to be a traitor to his class. The unemployed were a convenient post on which he could hang his hat. He was trying to lower real wages. This would reduce unemployment. But he was trying to do it to increase the profits of the big corporations. It was hardly in the best interest of the working man.

Given that the supporters of Wall Street and the big corporations are now in control of the country and given that they have started a policy of a massive infusion of money, the question must be raised, how do you protect yourself? After all, this is the same policy which has reduced Zimbabwe (the former Rhodesia) to famine and disease. The first thing you have to do is to make a decision. Are prices going up, or are they going down? They can't do both, and what you need to do in the one case is exactly the opposite of what you need to do in the other. The media are lying to you because they represent the interests of Wall Street and the big corporations, and these people are trying to steal your wealth. You have to see through this lie if you are going to protect yourself.

I call myself the one-handed economist because this phrase comes from Harry Truman, who was fed up with the BS he was getting from F.D.R.'s economic advisors. When Truman would ask a straight question, they would give him double talk. "On the one hand..., but on the other hand." Truman got angry and said, "What this country needs is a good one-handed economist." Truman stopped the growth in the money supply and balanced the budget. Eisenhower continued his policy. Together they gave the country Happy Days. Today, both parties are in the pocket of Wall Street, and they are trying to rob you blind. Ben Bernanke is counterfeiter in chief.

Of all the self-fulfilling prophecy-type moves of the past few months, the moves in the financial markets will be first to reverse and will bounce back the hardest. I will bet my money that this bounce has started in most commodities. Gold has already recovered half of its March to October loss, and I expect that within a few months it will be back at its \$1040 high.

And I will be back with it.

Hyperinflation is already here. It's destroying Zimbabwe

Zimbabwe's central bank has today launched a \$50billion note into circulation, despite the currency being virtually worthless.

According to today's estimates the \$50billion note will trade at \$1.25 US dollars on the black market and have enough purchase power to buy just two loaves of bread or three newspapers.

Three weeks previous, when the government introduced a \$10billion note, the equivalent £50billion would have been worth \$3.30 US dollars, illustrating the currency's severe decline in value.

A \$20billion note has also been released as part of Acting Finance Minister, Patrick Chinamasa's bid to tackle the cash shortages currently gripping the country.

This actually represents the second issue of such high value notes after the government were forced to revalue the currency and remove 10 zeros (effectively turning Z\$10billion to just Z\$1) in August last year.

Poverty stricken Zimbabwe is currently struggling with an unprecedented economic crisis. Almost 80% of its population is unemployed, its currency is dropping in value by almost 100% a day and inflation is running at a staggering 231million%. As a point of comparison, the official rate of inflation in the UK, the Consumer Prices Index, currently sits at 4.1%.

Hyperinflation has become such an issue that few are trading in the nation's official currency. US dollars and South African rand have instead been adopted as a more viable

alternative.

Sinclair uses the French Curve to predict the future gold price

If the scale continued to the top of the Curve, is it possible by 2012 Gold would be in the 3,000 range? If this is the right fit, something interesting happens at the end of 2012.

Having secured your finances by insuring them with gold and distancing your assets from your financial agents to the greatest degree possible, there comes one more task that you should put some thought into: securing yourself.

There is no question at all that as the jobless rate rises, civil disorder will begin to manifest itself in society.

No matter if you live in NYC or in Flat, Alaska it would behoove everyone to review and improve their home security. You have nothing to lose by being objective. Here are a few ways to achieve a high level of home security:

(1) Install an external intercom so you can talk with people coming to your home without unlocking or opening the door. Itinerant door knockers don't need to see you or have personal contact with you nor do they need to see inside your home. Door-to-door solicitors, like telemarketers, need to be politely but abruptly, dismissed. Provide them with no

information!

(2) Electronic security: Don't buy a cheap system. It costs several thousand dollars for a competent, monitored system. Once installed, use it! It needs to be activated every night and every time you leave the house. Make it personal policy!

(3) Dogs serve many purposes, the first of which is companionship without conditions. Even a total wimp like Mr. Freddie (my wife's legacy to me) can raise the alarm when required. Mia not only raised the alarm but also the roof and walls. She chased Victoria's kids out of my office. She bit my African daughter which made me remind her, like it or not, that Mia is the family dog and her action might be a comment on how often Marlene is home.

Of course, I am kidding. Mia was very sternly reprimanded for that one. Mia was a tough situation as I loved her dearly, but she felt her duty was to protect me from everything and everybody. This is why Barbara changed her name from "Mia" to "My Damn Dog." In sum, Mia fulfilled her self appointed duty by being one mean b-h, (referred to as a female of her species).

(4) If you live like I do in a rustic and somewhat isolated area, then metal detectors at all entrances are a good option. They make excellent wireless systems that now transmit 1,250 feet to the receiver. You can obtain tunes for different entrances.

(5) Automatic perimeter lighting that is triggered either by laser interruption or infrared is also an option to consider. Also, very cheap devices are available now.

Spend no less than 2 1/2 percent of your liquid net assets on home protection, electronics, communication and power generation. Even a small Honda portable generator on the porch of a metropolitan apartment - legal or not -will come in handy when you need it.

Then pray all this is totally unnecessary.

Richard Russell on gold

www.dowtheoryletters.com

Richard Russell recently wrote the following about gold:

The strong dollar is weighing on gold and all commodities. The primary trend of gold continues to be bullish. The US is now "printing dollars" at a never-seen-before rate. At some point, the dollar must come under suspicion. The rest of the world will cut back on their willingness to accept dollars. When that happens, world attention will focus on gold, "the last monetary survivor." One advantage of holding gold coins rather than any derivative is that holder of gold coins seldom trade their coins. They hold them through all corrections while GLD holders find it too easy to trade out of GLD. It will be the old story -- "Where is gold when you need it?" Right now, gold coins have been cleaned out of the market.

Gold and its meaning --What's the meaning of the gold weakness? One of two phenomena -- either funds or individuals are selling gold to raise cash, or declining gold is telling us that the Fed is failing to halt deflation, and that deflation is probably gaining strength.

Since World War II, Americans have been building debt and leveraging. I see the bear market signal of November 2007 as a great margin call on the greatest debt build-up in US history. What we're going through now is a massive deleveraging process. Trillions of dollars of debt that has been built into the US and world economy is in the process of being squeezed out. The Fed and the Treasury have, so far, failed to halt the deflationary trends. The reaction of investors and the public is to protect themselves by liquidating everything tradable and trying to build cash.

I see the bottoming formation as the market's "resting area," a way for the market to stall for time. If the Fed and the Treasury are successful, the bottom formation will hold. If the Fed and the Treasury fail, the bottom will fall apart. Nobody knows the answer to the outcome of the great anti-deflation battle, the market will tell us whether the Fed/Treasury will be successful or not. If the Fed wins, great, Bernanke will be a modern hero. If they fail, I'm afraid we'll be dealing with Great Depression II.

I've tried to see and present the "bright side" or constructive part of the picture-- the "dark side" is too gruesome to imagine. If the picture turns sour, my subscribers will be the first to know about it.

In case you missed it, Merrill Lynch says the rich are turning to gold bars for safety

Gold -- Here's a long-term chart of gold. It's been holding above a rising trendline for year. Now gold appears to be "trapped in an extended correction. The chart is telling me that gold is still in a long-term bull market.

As you can see, the two of us are of one mind. Gold is in a bull market, the dollar will fall and there are shortages of gold. Considering that Russell has a 50 year track record that few can match, I am indeed in good company.

Bill Murphy's comments from the LeMetropole Café

The dollar was very firm this morning with the euro continuing its move lower. Gold was down early, but clearly wanted to get back up on the day as buyers showed up looking to accumulate cheap gold.

It was to be a no hoper day for any serious move back up,, as the liquidation process has to run its course, due to moving average selling, etc., by the funds who recently took up long positions. Once again The Gold Cartel has picked their pockets for \$20 to \$50 per contract.

This is how JP Morgan has made a great deal of money over the years by being short during an eight year bull move. They borrow gold from a central bank at 1% interest rates and use the money to fund their operations. Think of all the talk these days how the banks need "capital," which is what the bailouts are all about. Outside of donated government money, there is nothing cheaper than gold loan money. The key for the loan is that the price of gold must stay the same or go down, as, theoretically, the gold must be paid back at the market price.

Every few months The Gold Cartel mauls the price of gold, forcing the funds to sell, and then they cover. On certain bashings, with the aid of sizeable amounts of physical gold hitting the marketplace, they have taken more than \$100 out of one of their raid trades. The cabal has made a great deal of money trading this way over the years.

If they have managed 3 trades a year at \$40 a pop average, they have taken \$1200 out of the short side on trades over

the past decade. If they have been short from say, \$300 to \$800, they have lost \$500, but their net contract profit is \$700 ... not bad when you get virtually free money to boot to use as you wish.

If it were just a trading program, good for them. The problem is they are doing so in coordinated fashion with other bullion banks and with the US Government aiding and abetting the trade in anti-trust fashion. It is supposed to be illegal and is why we have laws against such activity.

We've got news of a trade deficit that shrunk 28% from Oct. to Nov. This drop of roughly \$16 Billion spurred a sharp rally of the Dollar on the currency markets and has me scratching my head and saying, huh? Exports dropped by 5.9% and imports dropped by 12%. I look at this as evidence that the US consumer is retrenching faster than the rest of the world is, I also see this as foreigners now having 12% less Dollars to recycle into Treasuries. I could understand if the deficit fell because US exports were GROWING faster than imports, but this is clear evidence that the entire system is shrinking, and very rapidly indeed. Remember, these are November's numbers and December was clearly in a steeper nosedive. Once we get past this initial manipulative spin on the Dollar, I believe sanity and mathematics will assert themselves.

This news is part of Jim Sinclair's formula, lower revenues that will spread across the board up to and including tax revenues to the Treasury. This Dollar rally looks beyond long in the tooth technically, fundamentally the bullet is aimed directly at the Dollar's heart. I view the current news as extremely Dollar negative and even more so for the stock markets, time will tell.

For all those calling gold in a bear market consider your history books a little closer. On every occasion of substantial financial turbulence in the last century (1930's/1970's) gold reached a ratio of between 1 and 3 with the Dow. We're currently at about 10. Yet what differentiates this chaotic period with it's counterparts of the last century is that this present depth of financial mayhem is many multiples of the last two. In the space of a year we have seen the wholesale dissolution of the entire investment banking industry, we have witnessed the collapse of financial giants of 150 year pedigree (Lehman Bro's/Bears Stearns/Merryl Lynch) and we have seen the fall of perhaps the oldest bank of them all, 400 year old HBOS (Bank of

Scotland. The system is quite obviously broken, with the Western Authorities at the helm still in denial believing they can keep their boat afloat and repair it. But they've already used just about every tool in the box and nothing's working. Maybe we've a while longer before they and their masses realize it's totally irreparable, who knows, who cares, and the timing is almost impossible to compute. The point is, this is quite literally the mother of all financial crises, almost certainly a pivotal point in a multi-century history. And as such there is only one true asset of choice.

If the historic norm is for gold to reach a ratio of 1-3 with the Dow at times of economic uncertainty, then it isn't too much to expect a ratio of between 0-1 this time around.

Bear market? I would argue gold hasn't even really started it's Bull Run yet. . And as for silver, it will do even better!

Appendix

I strongly suggest that you take the time to read the following information by John Williams. His newsletter, *Shadow Government Statistics* (www.shadowstats.com) is one of the most important sources of information that you can find. Unlike our phony government statistics, Williams presents "honest" data on inflation, GDP, unemployment and the money supply. Read it through and see how things really are and why the future is so tenuous.

Here are some excerpts from John Williams's latest newsletter where he discusses the unavoidable depression and hyperinflation that we are now starting to experience:

Obama Administration to Push Practical Limits of Effective U.S. Fiscal Bankruptcy

By April, the rapidly deteriorating recession will be viewed commonly as the worst downturn since the Great Depression. Fearing same, the incoming Obama Administration is promising stimulus in the form of massive federal spending. Concerns about the government's fiscal condition can wait until the economy recovers, we are being told. A similar pacifying assurance presumably extends to inflation concerns as well.

Unfortunately, with the economy in a structural downturn (as discussed in the last newsletter) and with the US

government effectively bankrupt (as discussed in the Reporting/Market Focus section), there can be no rapid or normal recovery. As inflationary pressures mount anew and the financial markets increasingly shun US Treasuries, an inflationary depression can evolve quickly into a hyperinflationary great depression. Although hyperinflation became inevitable in the last decade, the onset of the process just recently was triggered by Fed and the Treasury actions in addressing the systemic solvency crisis. The process would be accelerated by unfettered and unfunded government spending that appears to loom in early 2009.

The recession is official now, but, as usual, its depth and length have been underestimated. Ahead lies continued economic downturn that likely will evolve as a multiple-dip depression and ultimately a great depression, as hyperinflation eventually kicks in and collapses normal commercial activity. The historical context of the current structural downturn in economic activity was discussed in some detail in the SGS Newsletter No. 47 of November 14, 2008, and is included here by reference.

On the plus side, the tumultuous financial markets appear to have calmed a little, and the Federal Reserve's panicked liquefaction of the US financial system appears to have triggered some positive early response in bank lending. Yet, along with any relative market tranquility, growth in the broad money supply is spiking anew, and the US dollar has come under renewed selling pressure. The monetary and currency developments bode poorly for the inflation outlook - despite the recent collapse in oil prices and a possible negative reading for December annual CPI - and intensified dollar selling even could start to boost dollar-based oil prices, again. In the year ahead, dollar weakness, an inflation threat (not broadly perceived, yet) and rapidly expanding global political tensions, all will be fodder for the gold market.

Over the long-term, the broad outlook is little changed. As to the equity and credit markets, difficult times lie ahead, with impaired corporate revenues and profits in the deteriorating economic circumstance, and with long-term interest rates likely to move much higher. Rates should rise as financial-panic pressures subside and funds flow out of US Treasuries in response to ongoing dollar debasement (inflation). Again, over the long-term, the US dollar should suffer significant selling, with both gold and silver rallying sharply, partially in response to the greenback's problems.

Formal Deflation in December CPI? Watch Out for 2009!

With collapsing oil prices having pushed the reported annual CPI-U down to 1.0% in November, continued pressures may push the annual CPI-U inflation rate negative in December (see the CPI comments in the Reporting section). While such likely would be extremely shallow and short-lived, it would be formal deflation, nonetheless, the first since the 1950s. Of course, CPI reporting methodologies have changed meaningfully in the last 60 years, and as indicated by the SGS-Alternate CPI measures, today's zero inflation would be around three-percent or eight-percent, using the respective CPI methodologies in place as of 1990 or 1980.

Most significantly, however, annual M3 growth resumed its upswing in December, beginning to absorb the extreme liquidity pumped into the system by the Federal Reserve. With annual M3 growth rising to an estimated 10.4% in December, from 8.9% in November, growth topping the 17.4% historic high seen in March 2008 likely will be seen before March 2009. Such levels exceed the 16.4% previous historic high of June 1971, which was two months before President Nixon closed the gold window and instituted wage and price controls. Shy of hyperinflation, consumer inflation should hit double digits in 2009.

The US government effectively is bankrupt. Yet, extreme fiscal stimulus appears to be likely early in the upcoming Obama Administration, along with a further sharp and immediate increase in US Treasury funding needs. As US and global investors increasingly shun investment in US Treasuries, the Federal Reserve will be forced to monetize that debt, as the lender of last resort to the US government. Accordingly, what likely will become in 2009 the worst US consumer inflation in living memory, increasingly will have the potential to evolve into hyperinflation before the end of the New Year. The estimated timing for the onset of the hyperinflationary great depression discussed in the Hyperinflation Special Report of April 8, 2008 has been narrowed to a range of 2009 to 2014.

Monetary Excesses Continue. As shown in the following graphs, total reserves of depository institutions have continued to surge.

Where most of the growth has continued to be in excess reserves, such suggests that the banks generally have not resumed fully-normal lending. Annual growth in required

reserves has spiked to 32.0% (as reflected in the graph) and is growing at the fastest pace of the post-World War II era. This indicates that the excess reserves have started entering the system, albeit slowly, but at a pace fast enough to spike broad money growth in December.

The seasonally-adjusted St. Louis Fed Monetary Base - the Fed's traditional tool for adjusting money supply growth - has continued to spike thanks to the growth in reserves. The monetary base basically includes the currency component of M1 and total bank reserves. Year-to-year growth for the two weeks ended December 17th was a record 97.5%, as shown in the graph. Late reporting for the December 31st period shows annual growth of 99.4%.

Fed apologists offer assurances that the U.S. central bank will dry up excess liquidity when the solvency crisis passes, with no net impact on money supply growth or inflation prospects. Assurances also are being put forth that the surge in government borrowing will be absorbed happily by the usual forced lenders, and that the Fed will not have to monetize Treasury debt further.

Such is nonsense! Money growth has started to accelerate, and there is little that can be done to build global confidence in US Treasuries and the US dollar, given the recent and promised new debasement of the US currency. The Fed is not going to try to collapse money growth with declining economic activity already entering depression. The Fed faces a liquidity trap. It can get the money supply to grow and inflation to spike, but it will not be able to get the economy to rally.

M3 Annual Growth Rebounds. M3 appears to have bottomed at 8.9% in November. With roughly three weeks of December data in hand, the year-to-year change in the seasonally-adjusted M3 average is estimated to have rebounded to roughly 10.4%.

As bank lending went into a deep freeze and individuals moved to cash or Treasury bills in the unfolding financial panic, not only did annual growth in the broad money supply

slow, but also the velocity of money - the speed with which cash turned over in the economy - likely dropped off sharply.

Now, the financial crisis would appear to have calmed to the point that investors are starting to take cash out of their mattresses, and that banks are beginning to lend somewhat more normally. Given the recent excesses of Fed activity, as reflected in soaring annual growth in bank reserves - particularly required reserves - and the monetary base, flow-through to the annual growth in the broad money supply - as reflected in the SGS-Ongoing M3 Measure - likely will surge to the highest levels seen since before the creation of the Federal Reserve in 1913. As bank lending increasingly returns towards normal functioning, and as cash comes out of the mattresses, the velocity of money also should increase. In conjunction with the rising broad money growth, increasing velocity will offer intensified upside pressure on consumer inflation (see the August 3rd Money Supply Special Report for background).

Implications are for a significant pickup in consumer inflation by mid-2009 - despite a severe economic contraction - with likely negative impact on the exchange rate for the US dollar, and likely positive impact on precious metals prices and prices for dollar-denominated commodities such as oil.

Worst Economy Since the Great Depression.

Whatever comes forth in the Obama Administration's economic stimulus package likely will have more of a positive impact on the general economy than did mailing taxpayers direct cash payments in 2008. The checks to taxpayers hardly created a blip in retail sales and did nothing to address the structural issues in the economy. If the promised stimulus indeed is aimed at creating new employment, the impact would be slower in surfacing, but it could have some dampening effect on the contraction, if the funding of the package can be sold to the global markets.

Putting aside philosophical issues as to the relative merits or demerits of the US government increasingly attempting to direct US corporate and/or economic activity (I would argue strongly against such a trend), the new Administration's biggest problems could be with the credit markets, as discussed in the Reporting/Market Focus.

Getting to the current state of the economy, the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER) - official arbiter of whether or

not the U.S. economy is in recession - has determined that the U.S. economy peaked in December 2007 and has been in recession since. I argued in the previous newsletter and still contend that the current downturn began in fourth-quarter 2006, a year earlier than the official start. The current downturn is the second down leg of what will become a multiple-dip depression/great depression. Economies do not contract in perpetual plunges - they bounce or bottom-bounce - and the pending stimulus package conceivably could help trigger such a bottom-bounce, setting the stage for the next down leg in the structural downturn.

The financial press and Wall Street, of course, will stick with the official version of economic activity, but even that should shift to comparisons with the Great Depression by mid-year. Against its official starting point, the current recession has been ongoing for 13 months and shows no signs of imminent bottoming, where such would be used to mark the recession's end. By April 2009, the recession will be timed as the longest since the Great Depression (its current 13 months ties the length of the second-dip of the Great Depression in that late 1930s), where, at present, its length was exceeded by the 1973 to 1975 recession and by the second leg of the double-dip recession of the early 1980s.

As shown in the accompanying charts of annual growth in key economic indicators, current economic activity already is at the lowest levels seen since the mid-1970's and early-1980's downturns (except for payrolls, which likely will be there in the next monthly reporting).

By April, all the indicators graphed should be showing new lows in economic activity. Using various measures, both of the major earlier-period contractions have been touted as the weakest economies since the Great Depression. With extreme duration and extreme contraction in place by April, the current "recession" should take on the title as the "weakest economy" since the Great Depression.

Yesterday's purchasing managers manufacturing survey for the month of December suggests that the mantle already may have been passed. The key index components of production and new orders fell to their lowest levels ever,

since January 1948, suggesting the weakest economy since the Great Depression and the production shutdown following World War II. Also, for the fourth quarter, new orders for durable goods are plunging at an annualized rate of 37%.

Using my SGS-Alternate GDP and my definition of depression - a peak-to-trough contraction in inflation-adjusted economic activity that exceeds 10% - the current downturn should qualify as a depression in the year ahead. Inflation will pick-up in the same time frame. At such time as hyperinflation kicks in (possibly in 2009), normal commerce would tend to cease, and economic activity would tumble into a great depression, with a peak-to-trough downturn exceeding 25%.

Alternate Realities. *This section updates the Shadow Government Statistics (SGS) alternate measures of official GDP, unemployment and CPI reporting. When a government economic measure does not match common public experience, it has little use outside of academia or the spin-doctoring rooms of the Federal Reserve, White House and Wall Street. In these alternate measures, the effects of gimmicked methodological changes have been removed from the official series so as to reflect more accurately the common public experience, as embodied by the pre-Reagan-Era CPI and GDP and the pre-Clinton Era unemployment rate. Methodologies for the GDP and CPI series are discussed in the August 2006 SGS.*

Unemployment Rate. *Shown are two official seasonally-adjusted unemployment measures, U.3 and U.6, and the SGS-Alternate Unemployment Measure. The various measures moved sharply higher again in November, reflecting rapidly deteriorating labor-market conditions. The November rates stood respectively at 6.7%, 12.5% and 16.5%, up from 6.5%, 11.8% and 15.8% in October.*

General background note: U.3 is the popularly followed unemployment rate published by the Bureau of Labor Statistics (BLS), while U.6 is the broadest unemployment measure published by the BLS. U.6 is defined as total unemployed, plus all marginally attached workers, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all marginally attached workers. Marginally attached workers include the discouraged workers who survived redefinition during the Clinton

Administration. The SGS-Alternate Unemployment Measure simply is U.6 adjusted for an estimate of the millions of discouraged workers defined away during the Clinton Administration - those who had been "discouraged" for more than one year.

CPI. Shy of the upcoming, further energy-related battering in December, annual inflation generally should be bottoming out, with much higher inflation seen by mid-2009. Renewed dollar weakness, renewed acceleration in broad money growth and a likely bottoming in energy prices, all should combine with existing inflationary pressures from the ongoing flow-through impact of energy-cost damages still working through the general economy, and from the upside inflation pressures from monetary growth in place before the systemic solvency crisis.

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