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Views and Analysis on the Economy and Precious Metals

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UNCOMMON COMMON SENSE

"YOU CAN FOOL ALL OF THE PEOPLE SOME OF THE TIME…"

Aubie Baltin CFA, CTA, CFP, PhD.

"Paper money will ruin commerce, oppress the honest and open the door to every species of fraud and injustice" ***George Washington***

THE LOOMING RECESSION & COMING DEPRESSION

"There is no means of avoiding the eventual collapse of a boom brought about by credit expansion." The alternative is only whether the crisis should come sooner as a result of the voluntary abandonment of continued credit expansion or later as a final and total catastrophe of the currency system involved." *Ludwig Von Mises*

There doesn't seem to be any question what the Bernanke FED and numerous others FEDs have chosen. Whether there is an intentional conspiracy or just a bunch of irrational, emotional, poorly informed people, each one acting separately I can't say; but the conflicting opinions and information that they are spewing out and on which we are all expected to rely on just doesn't make sense. The only reason that I can find to shed a bright light on all the dribble that is coming forth, without it being a collusion, is that they were all trained to think the same way by our one-sided Socialist education system. From pre-school on they keep drumming in to the heads of all students the exact same Populist Keynesian philosophy that permeates our bastions of higher learning, especially our Ivy League Schools such as Harvard, Yale and Princeton, from whence ours and most of the world's leaders and their advisors come from. So what are these theories and misconceptions?

1. THE NANNY STATE: GOVERNMENT CAN FIX AND TAKE CARE OF EVERYTHING AND EVERYBODY.

Empirical evidence speaks quite clearly in telling us that Government is most likely the Problem and is rarely, if ever, the Solution.

The Sub-prime Debacle: Who is to blame? Listening to the media, Wall Street and the politicians it is everybody from greedy unscrupulous Mortgage Brokers, lying Investment Bankers and Monolines, including all the Rating Agencies all the way to the hapless housing speculators and poorly informed home consumers looking for the American dream.

Yet NO ONE is even looking at, let alone blaming the real culprits, "GOVERNMENT" and last but far

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USA 2008: The Great Depression

By David Usborne

Food stamps are the symbol of poverty in the US. In the era of the credit crunch, a record 28 million Americans are now relying on them to survive – a sure sign the world's richest country faces economic crisis

We knew things were bad on Wall Street, but on Main Street it may be worse. Startling official statistics show that as a new economic recession stalks the United States, a record number of Americans will shortly be depending on food stamps just to feed themselves and their families.

Dismal projections by the Congressional Budget Office in Washington suggest that in the fiscal year starting in October, 28 million people in the US will be using government food stamps to buy

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essential groceries, the highest level since the food assistance programme was introduced in the 1960s.

The increase – from 26.5 million in 2007 – is due partly to recent efforts to increase public awareness of the programme and also a switch from paper coupons to electronic debit cards. But above all it is the pressures being exerted on ordinary Americans by an economy that is suddenly beset by troubles. Housing foreclosures, accelerating jobs losses and fast-rising prices all add to the squeeze.

Emblematic of the downturn until now has been the parades of houses seized in foreclosure all across the country, and myriad families separated from their homes. But now the crisis is starting to hit the country in its gut. Getting food on the table is a challenge many Americans are finding harder to meet. As a barometer of the country's economic health, food stamp usage may not be perfect, but can certainly tell a story.

Michigan has been in its own mini-recession for years as its collapsing industrial base, particularly in the car industry, has cast more and more out of work. Now, one in eight residents of the state is on food stamps, double the level in 2000. "We have seen a dramatic increase in recent years, but we have also seen it climbing more in recent months," Maureen Sorbet, a spokeswoman for Michigan's programme, said. "It's been increasing steadily. Without the programme, some families and kids would be going without."

But the trend is not restricted to the rust-belt regions. Forty states are reporting increases in applications for the stamps, actually electronic cards that are filled automatically once a

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from least, the greatest Central banker of all time, Allan Greenspan. Was it not the President and Congress who were pushing for NOTHING DOWN mortgages in order to give the "poor" a chance at the American Dream? But that was all just rhetoric, you say, why did the lending agencies listen, should they not have known better than to issue nothing down, Liar Loans? Where were their underwriting standards?

Did you ever hear of Moral Suasion? Unless the Banks and Brokers made a certain percentage of their loans to minorities in poor areas, they would be subject to the Government oversight committees. They would not be able to get approval for anything if they only looked like they might be "discriminating" with the Government using percentage of loans issued as their criteria. Was Greenspan not on TV night after night espousing the virtues of ARMs? And what about all those professional Analysts and Money Managers of the Pension Funds, Hedge Funds, Mutual Funds and Insurance Companies, from all over the World? Were they all not screaming for more CDOs, CMOs and the rest of the junk? Where was their due diligence? You have to know that whenever there is a great demand for a product, Wall Street will surely deliver. But, If there is one thing that we all agree on it is that this bubble was the direct result of the FED keeping interest rates too low for too long.

So what will they do now? Let's get the ones that screwed up the situation in the first place to fix and regulate it. And by the way, while we are at it, why not add another level or two of bureaucracy?

2. BAILING OUT THE BIG GUYS: Why should we be using Taxpayer money to Bail Out the big guys, like Bear Stearns and not the poor little guys suffering the threat of foreclosure? A HISTORY LESSON might be appropriate at this time. In 1929, there was a Bank called THE BANK OF AMERICA. It was a highly profitable mid-size New York bank that was suddenly faced with a RUN. Although it was solvent, no bank can withstand a run. The FED, instead of doing what it was set up to do; coming to its aid and nip the problem in the bud, decided not to come to their aid, the reason being that it was one of those troublesome Jewish banks. Perhaps because of its name, word spread far and wide that America had failed and it triggered the Depression and the eventual failure of over 9000 banks. Could a Bear Stearns failure have triggered the same thing? I for one am happy that we did not get to find out. Was this not almost the exact same situation as LTCM in the 1980s? Besides, do you call forcing the Shareholders of BSC to sell their shares at $2 when just 2 days earlier they were selling at $30 and less than a year ago were selling at over $170, a bailout? I'm sure that they could have received more by going into liquidation.

3. Bailing out the Homeowners from foreclosure. Since the so-called BSC bailout was for $30 billion, we have had a number of politicians of all stripes naturally propose a $30 billion homeowner bailout. After all, this is an election year. That's all well and good, especially with all the money the Government is throwing around these days. But how do you refinance a $400,000 loan on a home that is now only worth $300,000 and falling rapidly? Today's interest rates are not exactly high, so lowering interest rates is obviously not the answer. As is usual, the Government will end up creating more problems than they are trying to solve. The laws of Supply and Demand eventually will always win out, but the more they are interfered with, the greater and longer the pain will be. If you want to increase demand for houses, "LOWER PRICES," allow prices to fall and perhaps speed up the fallback down to affordable levels, there is NO other solution! Remember, lower prices also mean lower insurance costs as well as lower taxes, making home carrying costs affordable once more. If you want to help the people who are losing their homes, help them to buy affordable homes after the prices have come down to pre 2001 levels.

4. Insurance Regulation, which has worked well under State Regulation for over 114 years, is now going to be subject to an added new layer of Federal Regulation. That's terrific - let's fix something that is not broken by adding another layer of Government bureaucracy. The Government is not big

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Sub-prime crisis sours US dream

Justin Webb

This is a strange place. It's the American dream turning sour before your eyes.

We are miles outside the city of Baltimore, in a suburb built in the middle of nowhere.

At first glance, the road I'm in looks typical of any American suburb. There are well-proportioned detached houses, large gardens, even a boat or two in the driveways.

But there are also signs of decay - rusting paint, broken cars, fallen leaves left unswept on dusty lawns.

On Wall Street they talk about the sub-prime mortgage crisis. On this street, they are living it.

'Complete shock'

Myra Riggs, 61, is the owner of a detached house with a large garden full of trees.

She is in danger of losing it. If that happens, she says, "I guess I'll try to get a room somewhere."

She describes the neighborhood where she used to live before moving to this house.

This stands to likely be the largest loss of African-American wealth that we have ever seen, wiping out a generation of home wealth building
Mike Calhoon
Center for Responsible Lending

"You had crackheads, dope addicts, you had women who were getting raped, people who were leaving garbage in the hall, and my mother got robbed," she says.

In order to get away from that environment, Myra was tempted into the world of the sub-prime mortgage, where interest rates are kept low at first and then rise to compensate lenders for the low credit ratings of the borrowers.

For Mrs Riggs, the rising payments were a complete shock. "It's gone up because, stupid me, I didn't know anything about ARMs [adjustable rate mortgages]. It's a rip-off, that's what it is. If anybody has a set rate mortgage, don't change it. ARM is for people with money."

'Challenge poverty'

Speaking after Hurricane Katrina in 2005, President George W Bush told the nation that poverty among black people needed to be addressed and that home ownership was the answer.

"We have a duty to challenge this poverty with bold action," he said. "So let us restore all that we have cherished from yesterday and let us rise above the legacy of inequality.

"When the streets are rebuilt, when the houses are rebuilt, more families should own, not rent, those houses."

But black Americans often have bad credit ratings or are the victims of discrimination, so they tend to be given sub-prime loans.

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Borrowed Consumption: Opium Of The Masses

Kurt Kasun

My last commentary touched off a mini-debate between myself and Michael Pento, a proponent of Austrian Economics who gallantly defends his principles against the Keynesian economists and supply-side monetarists when he makes his appearances on CNBC's Kudlow & Company. I too attempt to follow the Austrian economic precepts laid out by Ludwig von Mises and I think that the bone of contention between us, in the "posted comment section" after my initial commentary, boils down to the following von Mises' quote:

"There is no means of avoiding the final collapse of a boom brought about by credit (debt) expansion. The alternative is only whether the crisis should come sooner as the result of a voluntary abandonment of further credit (debt) expansion, or later as a final and total catastrophe of the currency system involved."

I think that Michael would prefer the former--to initiate a dance with the deflationary devil (and take our medicine now before things get any worse)--while I would prefer to tango with the latter, hoping to somehow cheat inflationary death, hoping that the growth of the emerging world might enable us to avoid a "total catastrophe," albeit only after a significant reduction in our standard of living. I concede that he might be correct in that his scenario would ultimately be less harmful and preferable to mine, (though both will lead to enormous financial pain and suffering).

I admire Michael for his ability and

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month by the government and are swiped by shoppers at the till, in the 12 months from December 2006. At least six states, including Florida, Arizona and Maryland, have had a 10 percent increase in the past year.

In Rhode Island, the segment of the population on food stamps has risen by 18 per cent in two years. The food programme started 40 years ago when hunger was still a daily fact of life for many Americans. The recent switch from paper coupons to the plastic card system has helped remove some of the stigma associated with the food stamp programme. The card can be swiped as easily as a bank debit card. To qualify for the cards, Americans do not have to be exactly on the breadline. The programme is available to people whose earnings are just above the official poverty line. For Hubert Liepnieks, the card is a lifeline he could never afford to lose. Just out of prison, he sleeps in overnight shelters in Manhattan and uses the card at a Morgan Williams supermarket on East 23rd Street. Yesterday, he and his fiancée, Christine Schultz, who is in a wheelchair, shared one banana and a cup of coffee bought with the 82 cents left on it.

"They should be refilling it in the next three or four days," Liepnieks says. At times, he admits, he and friends bargain with owners of the smaller grocery shops to trade the value of their cards for cash, although it is illegal. "It can be done. I get $7 back on $10."

Richard Enright, the manager at this Morgan Williams, says the numbers of customers on food stamps has been steady but he expects that to rise soon. "In this location, it's still mostly old people and people who have retired from city jobs on stamps," he

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Borrowed Consumption: Opium Of The Masses

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willingness to take the Austrian message to the mainstream and to do battle with the prevalent, though failing, forms of economic thought. He is battle-tested and scarred, but remains undaunted. The mainstream remains either in denial or unaware of the magnitude of our plight and that we are fast approaching some form of reckoning, which policies will no longer be able to prevent.

The focus of this commentary is intended to be more "normative" than "prescriptive" in analyzing our current economic predicament. I contend, for the reasons I outline under "Point Number 2" in my commentary "Market Changes are Coming Resistance is Futile! (Part 1)" that we are going to choose inflation over deflation, and we have the tools to do it. A common refrain among what I will call the "normative deflationists" is "They can print all the money they want, but they can't make us borrow and/or spend it" to whit I say "sure they can." Money drop 1.0 is scheduled for delivery starting next month. Money Drops, 2.0, 2.1, and 2.2, currently being drummed up, could be in the form of coupons with expiration dates.

Who knows what kind of clever conditions Congress and the Fed will dream up for Money Drops 3.0 and beyond. The Fed and Congress will increasingly be turning to solutions that are more panic-induced than decisive in action. The Congress will likely continue to turn a blind eye to the lengths at which the Fed uses taxpayer money to prop up the system to postpone the inevitable reckoning. Is there any doubt which policy is going to prevail after the Bear Stearns bailout? What is now viewed to be the Fed's crowning achievement might only be the warm-up for what is to come. They will have to pry away the printing press from Ben Bernanke's cold dead hands before the lunacy ends.

Furthermore, because the 1930's Depression is viewed, though falsely, to have been successfully solved through the creation of an alphabet soup of government programs, including the non-discretionary albatross of social security, and because half of the voting population were not around to have a meaningful recollection of the 1970's, the tougher things get, the more we are going to turn to the US government for interventionist and highly inflationary solutions. 68% of the "millennial generation," the group largely unaware of the 1970's experience and who I write about extensively in "Debt Demographics Debasement are Destiny" not only have a positive view of government intervention, but are coming more to rely on it.

To those who might think a McCain Presidency holds hope for towing a frugal fiscal policy, I remind you that it took John McCain less than 24 hours to cave on his initial "tough love" policy for errant homeowners and to offer enough government assistance to at least keep him "competitive" with the Democrats. And it is almost impossible to overstate the government largesse we would see from whomever the Democratic nominee is.

You can debate whether or not it is the elected officials or the citizenry who are responsible for our dire economic circumstances, but it really doesn't matter. We have come so far since the founding of this country...we have already crossed the government dependence Rubicon. Borrowed consumption is the American opium of the masses and there will be no cold-turkey release from our sense of entitlement and government bailouts.

We are not going to willingly choose policies to stop spending, pay down our debt and end the monetary madness. Some of us need to get over "fighting the good fight" and placing our efforts in battling for honest, responsible government policy. This is no longer possible. It is only after our failure that we will be forced into a system-wide cleansing and purging of all of the excesses. Again, this is normative and not a prescriptive call. Your time would be much better spent preparing for and accepting this certain outcome. Just let it go. Those who understand this inevitability and properly arrange their portfolios will be best positioned to provide the capital to a country, which will be indesperate need of it when it refreshes and starts anew.

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enough, so let's make it bigger by adding more layers of regulation. The whole world, except us of course, has learned that reduced regulation and smaller government is the only way to raise a country's standard of living. The best example is Ireland: In 10 years, government spending was cut from 61% of GDP to 44% and its standard of living went from being the lowest in the ECU to the highest during that same 10 year period.

5. The Securities Act of 1933–34 VS. The Securities Act of 2008-?

It took Wall Street over 60 years to overturn the work done by the 1933–34 Securities Act as well as the Glass Steagle Act that kept brokers from buying and merging Banks, Brokers, Insurance Companies and Mortgage Brokers into one entity. So here we are, less than 10 years after, scrapping everything we learned from the '29 Crash plus some modern lessons as well, such as eliminating the collars as well as the up-tick and position limits rules. Now let's call on Secretary Paulson, a Wall Street insider and leading figure in overturning all the previous regulation, to start a new commission to re-instate something along the lines of the old Act. Wall Street will probably succeed in getting rid of the new act in another 50 years or so, just in time for the next debacle so the blame game can start all over again. Perhaps Paulson can incorporate enough loopholes so it won't have to scrap the new regulations in the future. BUT regardless who is at fault, we all know who ends up paying the Bill - the hapless Taxpayers of course!

WHERE TO NOW DOW?

The cyclical bear market in equities, which is now around 6 months old, is still far from being over. Problems caused by the Real Estate Bubble, which are now permeating throughout the entire US economy as well as the rest of the world, cannot be solved quickly. The fact that the real estate contagion has caused a severe infection of both the US and world financial systems is now finally being widely admitted to. This realization is reflected by how the labeling of the crisis by the media evolved over the past year: From a "Sub-prime Crisis" in early 2007 to a "Liquidity/Credit Crisis" in summer 2007 to the more recent "Solvency Crisis" and now finally to a "Systemic Crisis." However, what is being overlooked is the spreading of the sub-prime Virus to the A-1a and Prime mortgage areas as the resets of the ARMs approach their apex as the declining prices of homes continues on in its downward spiral. History teaches that the average downturn in housing lasts 8 to 10 years and yet we expect the biggest Housing Bubble in US history to be resolved in less than two years? On top of that is the almost complete avoidance of discussing the looming problems in Credit Card and Car loan CDOs. A Worldwide Systemic Financial Crisis cannot take just a few months before it is finally resolved, it will take years and that is assuming that no serious mistakes are made. The Federal Reserve and the Federal Government are thus far only addressing two main issues:

- How to prevent a collapse of the ailing financial system and,
- How to convince the entire world that the US financial system will be rebuilt based upon a new, strong and healthy foundation.

The first problem is highly relevant and to solve it, two methods are being implemented:

1. **Inflationary legislation and easing Fed policy.** Congress pushed through a fiscal stimulus bill for $160 billion and more legislation is unquestionably on its way. The Fed is providing monetary stimulus by slashing interest rates and attempting to increase money supply by re-liquefying the major lending institutions.
2. **A masked bailout of the financial institutions** is being accomplished by swapping Asset Backed Securities with dubious market values and ratings for Treasuries which do NOT require the banks to hold reserves. The model for a swap of non-liquid bank assets in exchange for Government Treasuries was first implemented in the Fed's deal with JP Morgan (JPM) in March and has since been used again in the $200 billion Term Securities Lending Facility. (TSLF)

Ultimately, these ways of addressing system problems will only be viewed as the first steps toward a massive nationalization of mortgages, which are under the threat of foreclosure. The first hint of doing this is through expanding the size and power of Fannie Mae and Freddie Mac. Since they were in trouble and were forced to restate their earnings, I'M SURE that by REDUCING THEIR RESERVE REQUIREMENTS FROM 30% down TO 20%, that WILL STRENGTHEN THEM ENOUGH SO THAT THEY CAN BUY UP ALL THE JUNK THE FED HAS PLACED ON ITS own BOOKS. Then maybe they can buy up everybody else's junk.

NOTE: A prolonged period of credit and monetary expansion will create distortions that permeate throughout the entire economy. Once it is realized that these distortions are unsustainable and begin to unravel, they cannot be halted through further monetary expansion. Attempting to do so can only destroy the currency.

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Sub-prime crisis sours US dream

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And now, with a nationwide housing slump, they are facing disaster.

Mike Calhoon, of the Center for Responsible Lending, says: "Almost half of all African-American family mortgages are sub-prime mortgages.

"Anywhere from one in five to one in three will lose their homes. This stands to likely be the largest loss of African-American wealth that we have ever seen, wiping out a generation of home wealth building."

Terrible price

It is leading some to think the unthinkable - that perhaps homeownership just is not the way to go.

Phillip Robinson, a Baltimore consumer lawyer, says: "Unfortunately not everyone can be a homeowner.

"And so if we are dealt a hand where we are not able to work because of a disability, we shouldn't be put into a loan that we cannot afford.

"Perhaps we should sell the home, get the equity out."

Meanwhile, Mrs Riggs is doing what she can to stay afloat - making pies in her kitchen and selling them to local businesses for a few dollars each.

Late in the day, warning videos have been produced and an effort at financial education has begun.

But for many poor Americans, black and white, the facts are coming too late and a terrible price is being paid.

Article by:
By Justin Webb
BBC News, Maryland

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COOLER HEADS WILL ALWAYS PREVAIL

I have been bombarded by a slew of articles sent in by my loyal subscribers asking for my opinion on a resumption of the Bull market to becoming Bearish on Gold to the Shrinking M1 money supply to the increasing M3 money supply, etc. etc. AND yet, despite the contribution of the additional dollar weaknesses to the already super bullish fundamentals for gold, there are a number of so called experts out there who, misusing M1 money supply figures, insist that the FED is trying to shrink the money supply and are advising the sale of Gold. I never comment on other people's work. Although there are a great many opinion makers out there, there are really only a very few that I respect and are worth while reading. Please do not ask me who they are.

AN EXCEPTION LEADS TO A LESSON

Do any of you really believe that I did not see the correction in Gold coming? In my last letter, I emphasized not only not chasing Gold above $930, but using any $100 to $150 point pullback as a buying opportunity. I also called for a temporary market bottom as the stage set for a 500 to 900 point rally. Over the last two weeks, the market seems to have followed my script to the letter.
I try to look forward since any fool can look backwards. Looking only at the Money Supply is looking backwards, and what's worse, using questionable numbers at best, both as to Money Supply and Government inflation figures and then back tracking these numbers to see which Money supply, M1, M2 or M3 correlates best is not something I would hang my hat on. More importantly, a prime factor in determining the effect of Money Supply on prices is Velocity (the number of times a $ turns over during the year), which can only be measured in hindsight. That is why in every letter I am trying to teach you to anticipate instead of reacting, which will always end up costing you money.
As I have mentioned many times, there are no one on one infallible relationships! And if one develops, it stops working soon after everybody notices it. Oil and Gold are separate markets unto themselves, even though at times they seem to be moving in tandem, they are not Siamese twins.

GOLD

Although Gold had its $150 correction that I was expecting, it only took 3 days and that is not enough time, just like it was not enough time in 2006. So don't chase Gold or the Majors BUT BUY INTO WEAKNESS. I don't care what is happening next week or even next month to Gold. **We are in a 16 to 20-year Bull Market for Gold** which started in either 1999 or 2001, which leaves us with at least 7 more years of Bull Markets. Historically, the biggest moves will come in the last 6 to 12 months. There will always be corrections and reactions to news such as last week's desire by the IMF to sell 400 tons of Gold; this announcement caused barely a two-day blip in the price of Gold. The last time they did that was in 1979 and Gold exploded from $400 to $850 right into the face of all that selling from both the IMF and US Treasury.

The single most important thing you have to beware of is:

"Don't let that Golden Bull Buck You Off."

DONT LOOK A GIFT HORSE IN THE MOUTH: A continuing crisis in the financial system has brought about a dramatic risk aversion and re-pricing on behalf of investors..

GOOD LUCK AND GOD BLESS April 15, 2008

Article by:
Aubie Baltin CFA, CTA, CFP, PhD.
April 15, 2008

HOW FALLING HOME PRICES IMPERIL THE U.S. ECONOMY

Some argue government should do more to stop a negative feedback loop in the housing market.

America's economy confronts a vicious cycle of falling home prices and rising foreclosures, and the challenge for policymakers is how – and how much – to intervene.

Top economic officials are already taking some steps that are aimed, at least in part, at slowing the erosion of home prices. The Treasury has been prodding banks to rewrite the terms of loans rather than foreclose on mortgage holders who are in default.

One goal is to help ordinary Americans keep their homes and to keep neighborhoods from deteriorating. Another rationale is to bolster an industry at the heart of the economy: the banking system on which consumers and businesses depend. When homes go into foreclosure, banks face a pileup of bad assets on their books. Already, that has caused banks to start tightening the spigot on new lending. But even as US officials look for ways to help avert a deeper credit crunch, they face political and financial limits on how much the government can do to prop up the real estate market after a historic price run-up.

"We're entering an unprecedented period," says Richard Bitner, a former lender in subprime mortgages and author of a book on the industry. "I'm a believer that markets have a tendency to work their way through these things…. My great concern is that Congress is going to go too far."

FALLING PRICES ARE A DRAG ON BORROWING

But "do nothing" doesn't look like an appealing option right now, either. The problems in housing are part of a broader collapse of confidence among lenders and borrowers – a problem that makes it hard for markets to find an easy path back toward health and balance. An economy teetering on the edge of a recession makes the challenges more acute.

From student loans to corporate buyouts, investor dealings in various forms of debt have been freezing up, as the players reassess the value and risks involved. Housing remains a central piece of this credit puzzle; because so many Americans buy homes and so many financial firms underwrite mortgages. With home prices falling, many borrowers and lenders are sitting on the sidelines.

"In this environment, buyers will be reluctant to commit to new purchases," Treasury Secretary Henry Paulson warned last month. "Until investors have confidence that [home] prices have stabilized," he added, "they will remain cautious about funding new mortgages."

Secretary Paulson has led Bush administration efforts to prod banks to modify the terms of at-risk home mortgages, rather than watch more borrowers fall into delinquency and then foreclosure. Banks have been taking steps along that line. The economic stimulus package enacted recently by Congress will also permit government-sponsored enterprises, including Fannie Mae, to begin guaranteeing higher-value home loans. That's a bid to revive buying and lending in high-priced markets such as California.

SOME WANT MORE GOVERNMENT INTERVENTION

Some policymakers argue that government should do more. One idea, backed by Democratic presidential candidate Hillary Rodham Clinton, is to impose a temporary moratorium on foreclosures. Others have floated an idea modeled on the mortgage rescue undertaken during the Great Depression. The government could become a buyer of mortgage securities – large pools of now-sagging mortgages – and then move forward with loan modifications that ease the terms for borrowers.

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Now, I don't propose to know how many digits of inflation we are going to experience. Let us hope it we don't turn into Zimbabwe. If you believe that we will, then you would be better off piling up survival rations than concerning yourself with building a solid investment portfolio. In past columns I have recommended energy, commodity and other related investments as a way to actually benefit from an environment of increasing inflation and a further decline in the dollar.

One commodity I would currently caution against chasing, however, is oil. The breakaway of its price relative to other commodities is not sustainable. There are other sectors, on the other hand, within the energy complex, which still have room to run. In fact, three names I continue to recommend represent an energy source, coal, whose supply has dwindled to less than 12-days in China! So, while I caution against crude in the short run, those proclaiming some sort of bubble in commodities today are way off the mark.

In fact, despite the big run we've seen in most commodities it is still hard to make a stronger case for any other asset class. Blooming investor demand and ever-growing physical demand for anything that grows, can be drilled for, or mined, combined with an inability for supply to keep up and worldwide inflation will suck the oxygen out of other investment sectors and blow it into commodities.

Ignore the bubble talk. The credit pushers will continue to supply our habit, and the opium of borrowed consumption will continue to underpin the commodity bull market into the future.

Article by:
Kurt Kasun

USA 2008: The Great Depression

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says. Food stamp money was designed to supplement what people could buy rather than covering all the costs of a family's groceries. But the problem now, Mr Enright says, is that soaring prices are squeezing the value of the benefits.

"Last St Patrick's Day, we were selling Irish soda bread for $1.99. This year it was $2.99. Prices are just spiralling up, because of the cost of gas trucking the food into the city and because of commodity prices. People complain, but I tell them it's not my fault everything is more expensive."

The US Department of Agriculture says the cost of feeding a low-income family of four has risen 6 per cent in 12 months. "The amount of food stamps per household hasn't gone up with the food costs," says Dayna Ballantyne, who runs a food bank in Des Moines, Iowa. "Our clients are finding they aren't able to purchase food like they used to."

And the next monthly job numbers, to be released this Friday, are likely to show 50,000 more jobs were lost nationwide in March, and the unemployment rate is up to perhaps 5 percent.

The Outstanding Public Debt

National Debt:
9,372,509,017,124.41
The estimated population of the United States is **303,989,964**
US citizen's share of this debt is
$30,831.64
The National Debt has continued to increase an average of
$1.59 billion per day
Business, Government and Financial Debt exceeds
$59 Trillion

HOW FALLING HOME PRICES IMPERIL THE U.S. ECONOMY

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Behind all these plans, whether modest or ambitious, is the notion that the vicious cycle must be broken. A negative feedback loop in housing is one of the greatest risks to the economy now, say economists. During the boom years, a positive loop was at work: Home prices rose, buoying the availability of credit and making it unlikely that home buyers would default on their loans.

Now the loop is operating in reverse. The more home prices fall, the more owners find that their best financial option is to simply walk away. Because many recent buyers put little money down, they lose little – except their credit score – by handing in the keys on a purchase that is losing its value.

"While many have fretted over the ... resets of adjustable-rate mortgages, falling home prices are a much more important concern," Scott Brown, an economist at the investment firm Raymond James, writes in a note to clients.

"Home price declines threaten to turn many recent homebuyers upside down – that is, owing more than the home is worth," he adds. "Falling home prices and tighter mortgage credit in turn lead to even weaker housing conditions, further home price declines and even tighter mortgage credit, and so on." But economists see limits to what government can do to help marketplace participants regain confidence.

Efforts to intervene could have unintended consequences, some experts note.

A bailout of mortgages would probably be "a transfer [of tax dollars] from renter to owner ... and from poor to rich," says Morris Davis, a University of Wisconsin economist.

Housing's negative feedback loop, for now, is daunting. The positive element is that markets tend to rebalance eventually. Buyers will bid when prices become attractive enough. And most banks will face losses but not outright failure, analysts say.

"I don't think we're going to see a depression," says Dean Baker, an economist at the liberal Center for Economic and Policy Research in Washington. But he says that at the current rate, $3.2 trillion a year in housing wealth is being destroyed by falling prices – a hard blow to the economy.

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