

Inflation or Deflation? That is the question.

November 2010

Hard Assets



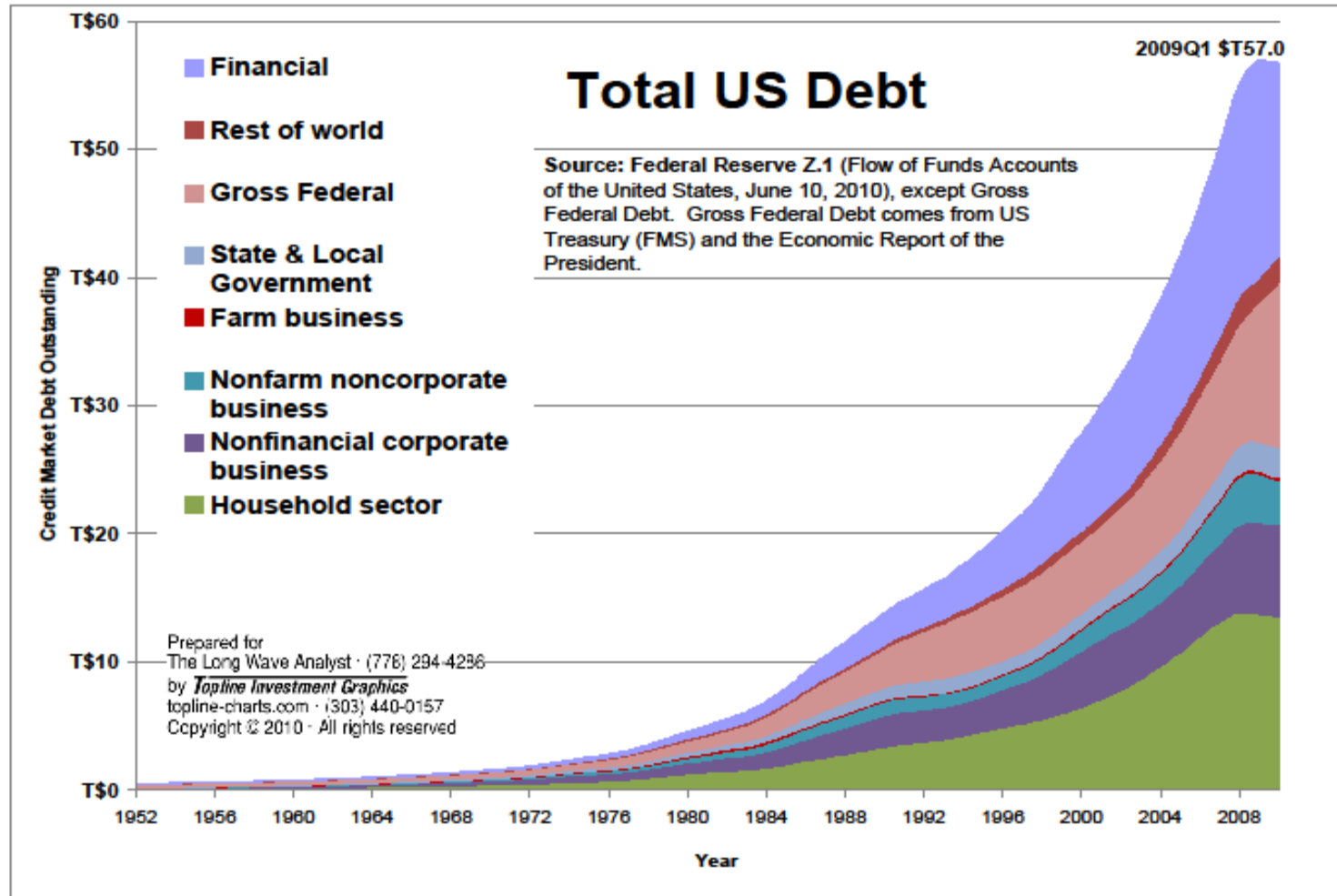
You must get the answer right.
We are Deflationists.

WHY?

In advanced capitalist countries as much as 95% of the money in existence is debt money.

- Government treasury bills and bonds
- State and municipal debt
- Bank CDs and GICs
- Corporate debt
- Mortgages, Credit card debt, auto loans, student loans
- Money market and Bond funds.

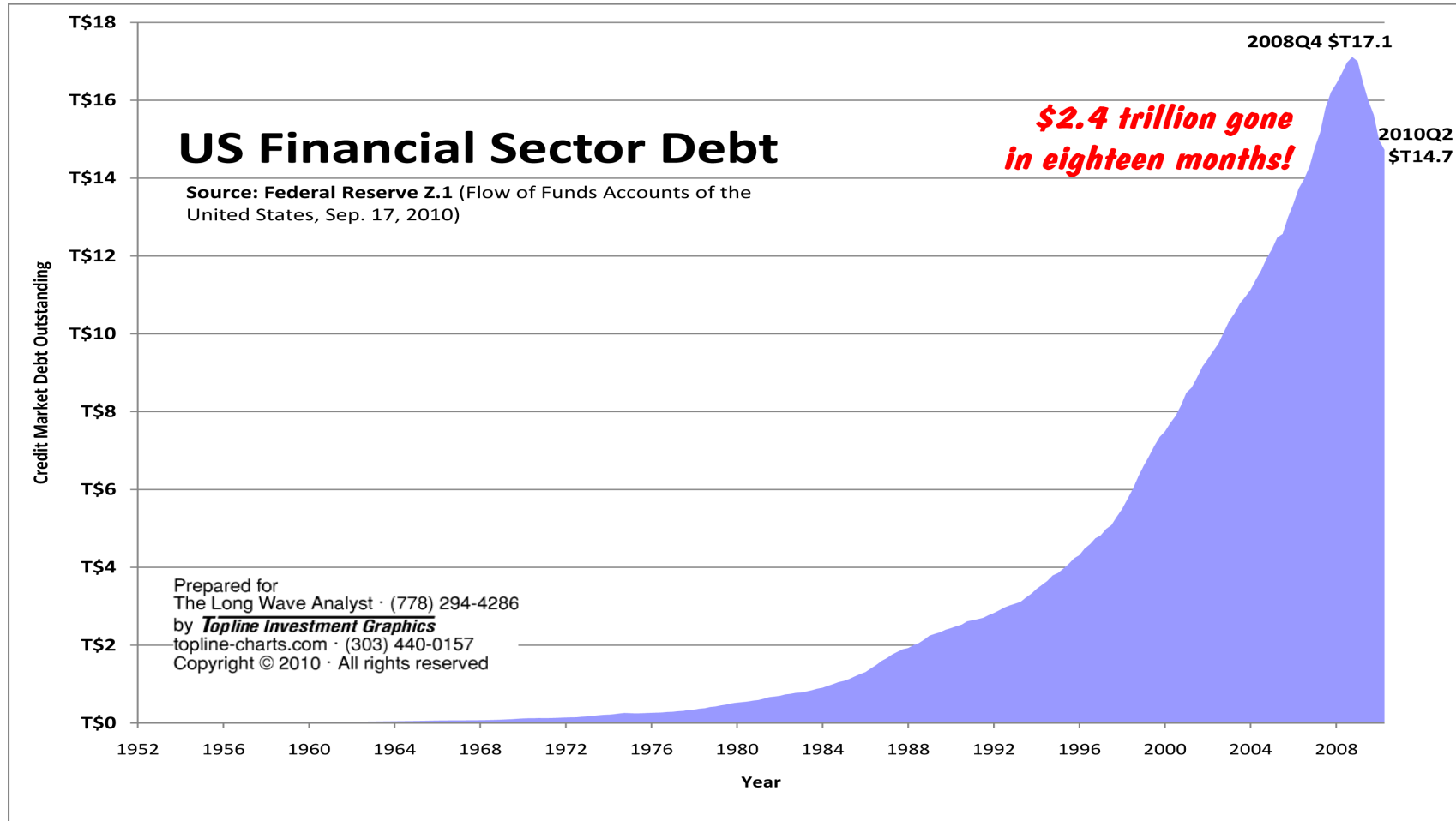
Total US Debt is \$56 trillion



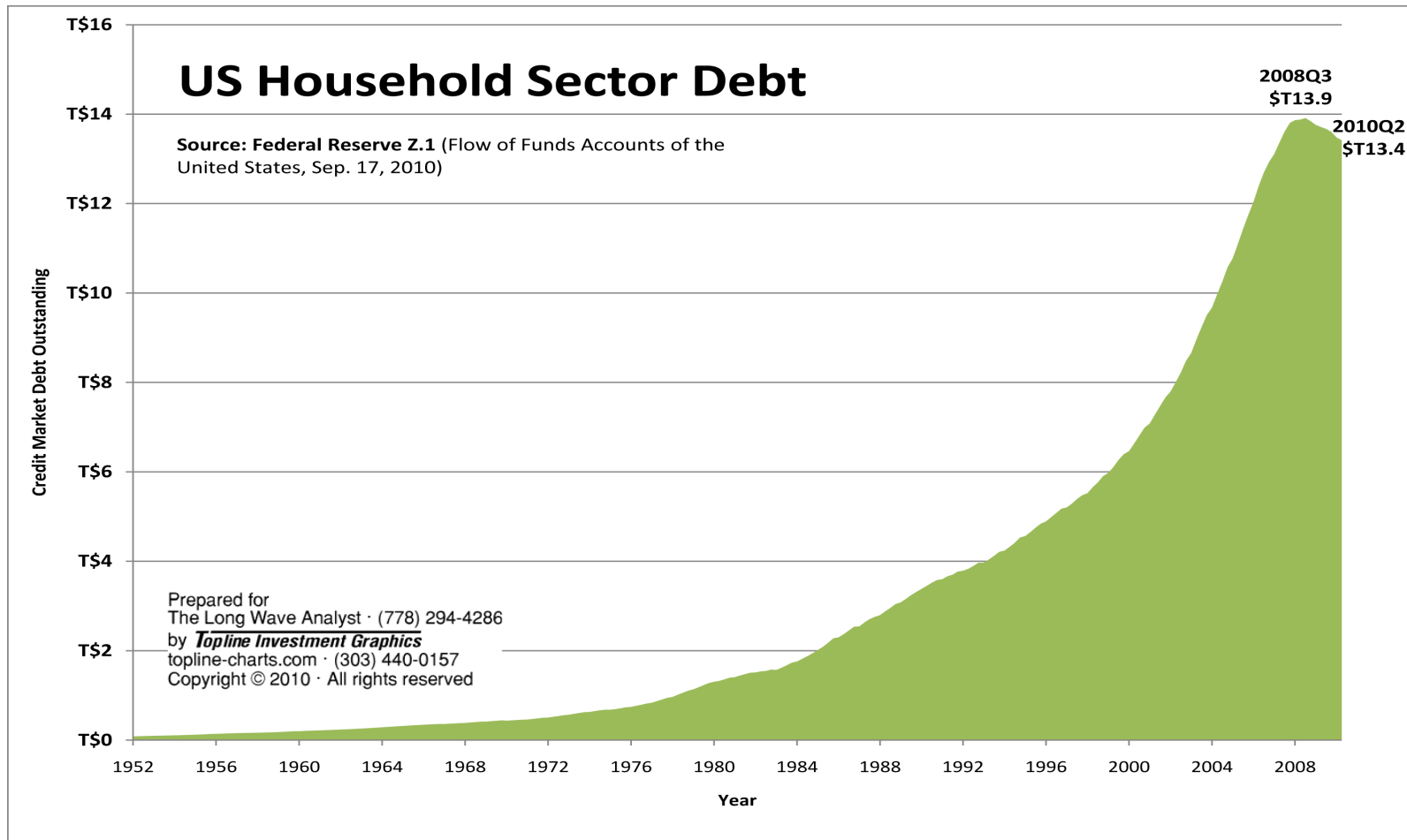
Non Government debt is \$42 trillion

Corporate debt=\$11.1 trillion

Financial sector debt = \$17.1 trillion

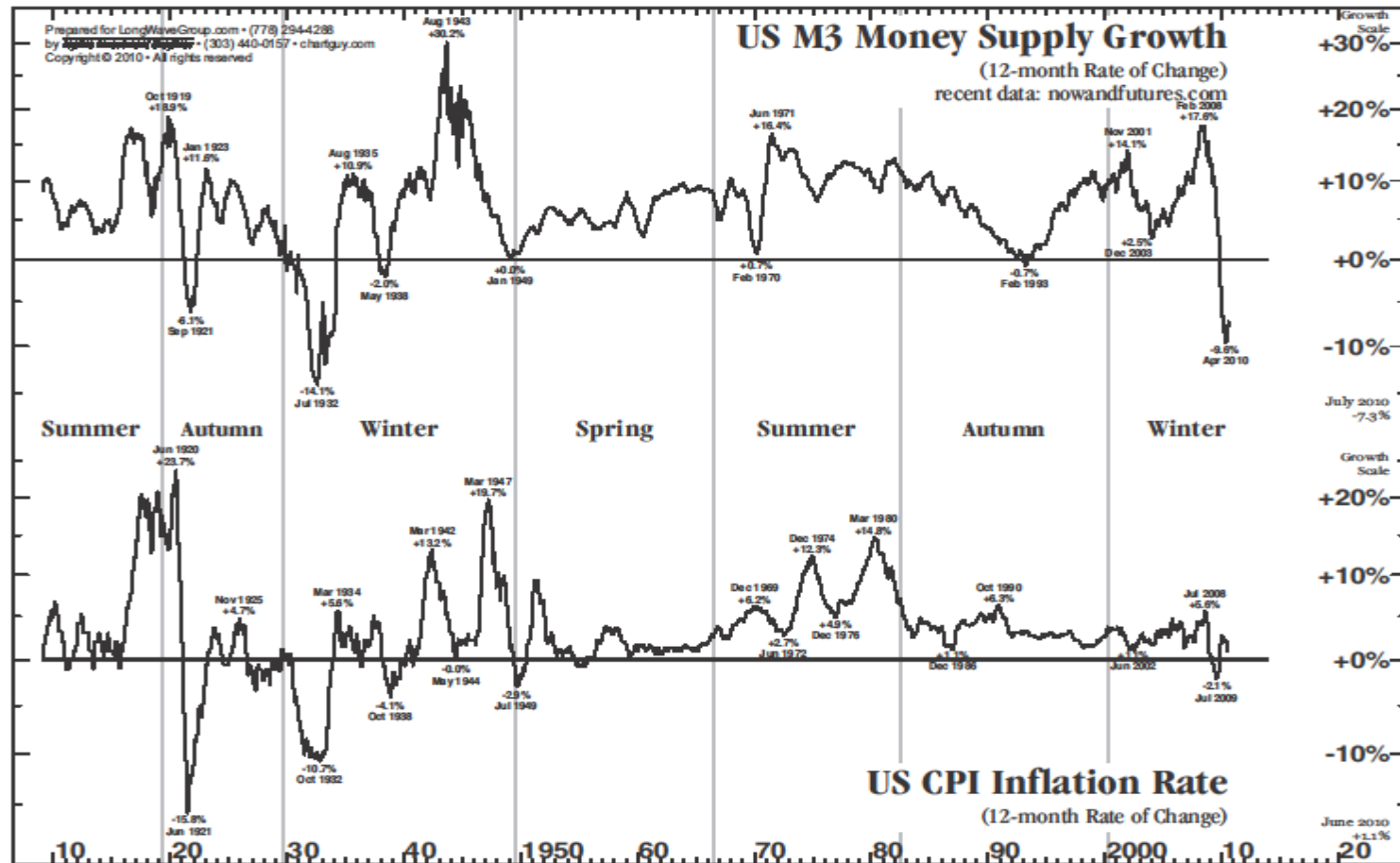


Household sector debt = \$13.8 trillion



Debt bubble is collapsing

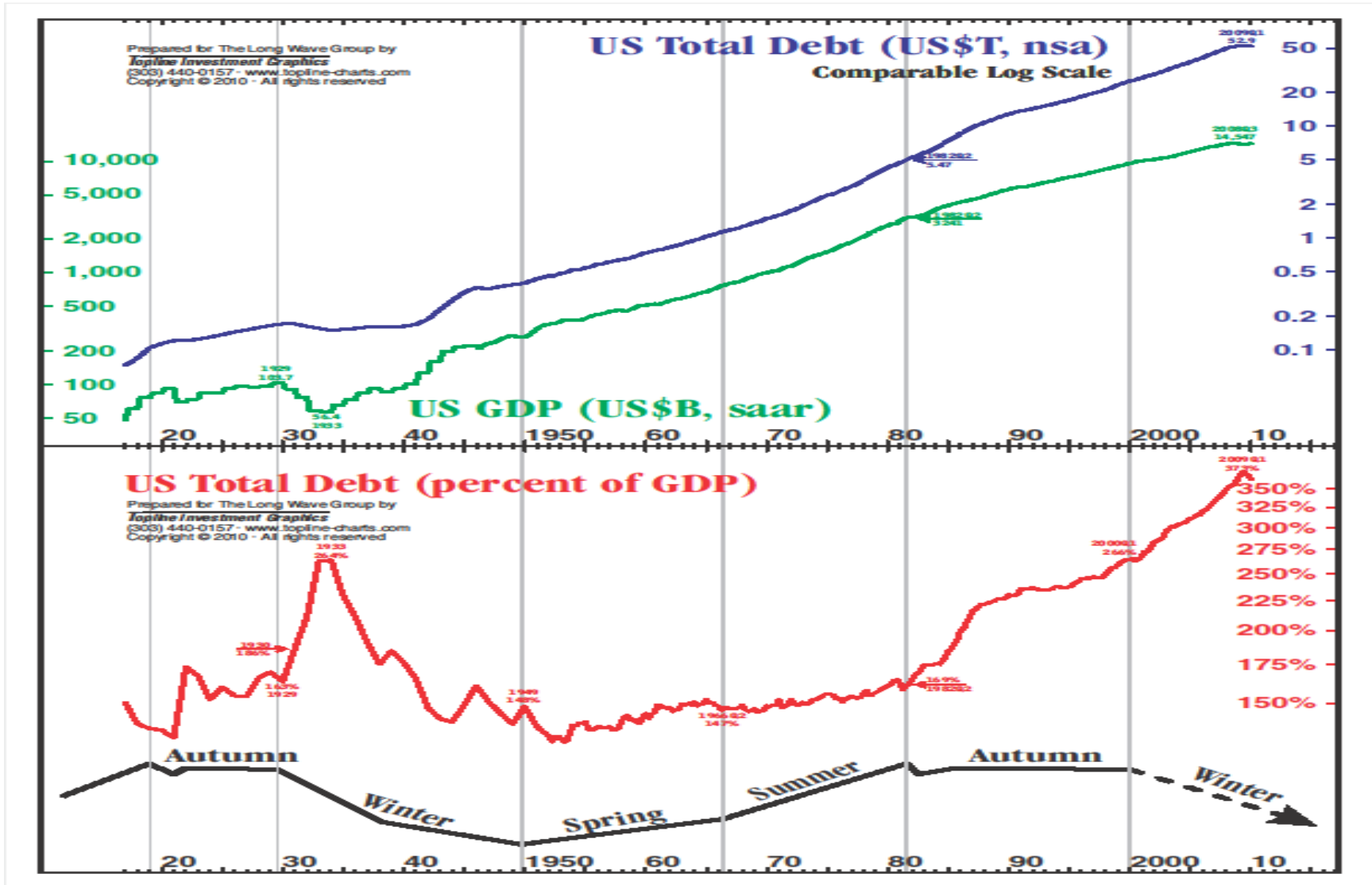
Money is coming out of the economy.



Federal Reserve is trying to re-inflate the bubble it won't work.

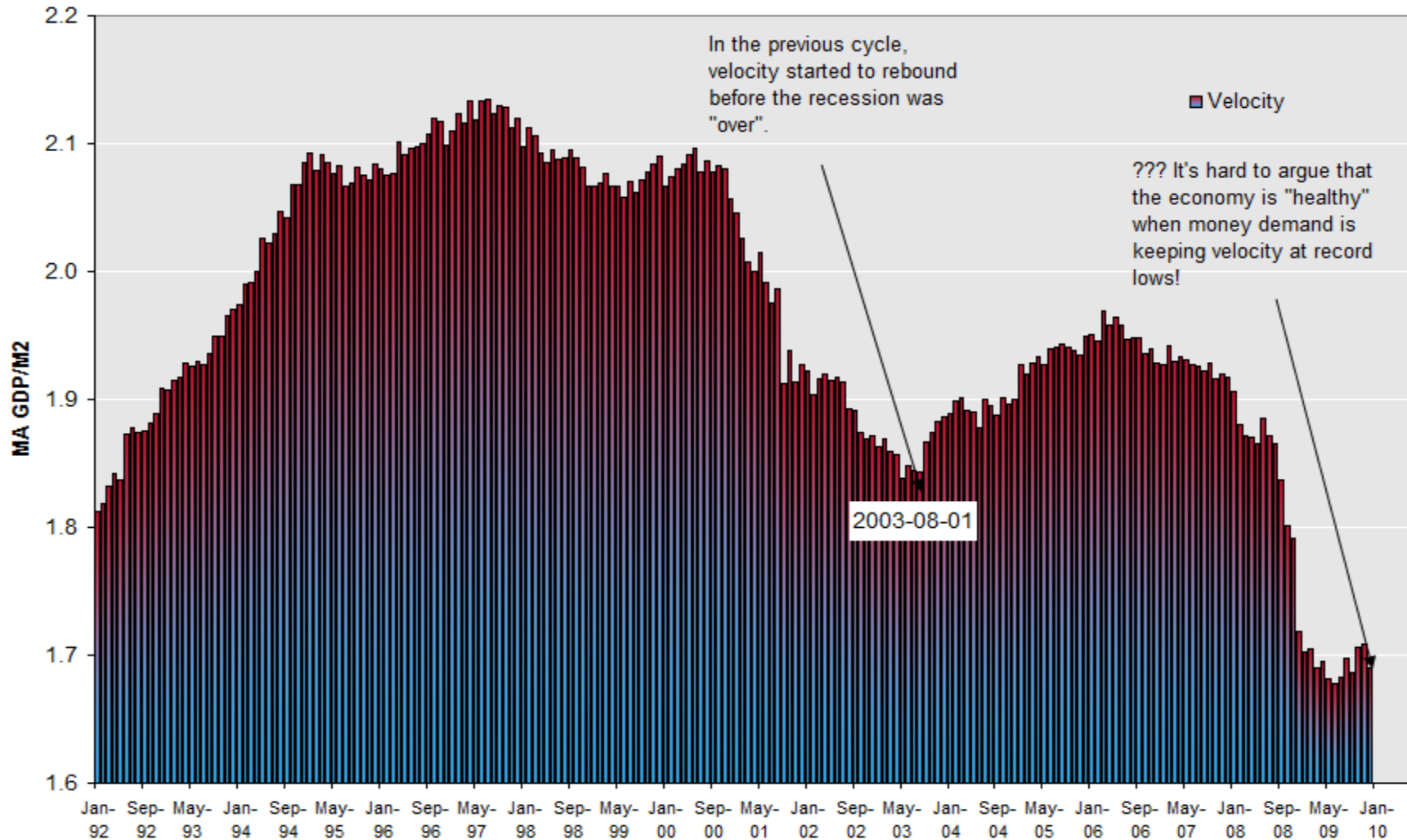
How much of this private debt has to be wiped out, either voluntarily or involuntarily?

Answer - Most of it.



Velocity of money is collapsing

Velocity of money in the US: still not healthy



During credit expansion all asset prices rise exponentially alongside the expansion:

- Stocks
- Bonds
- Real Estate

When the credit bubble collapses so do the asset prices.

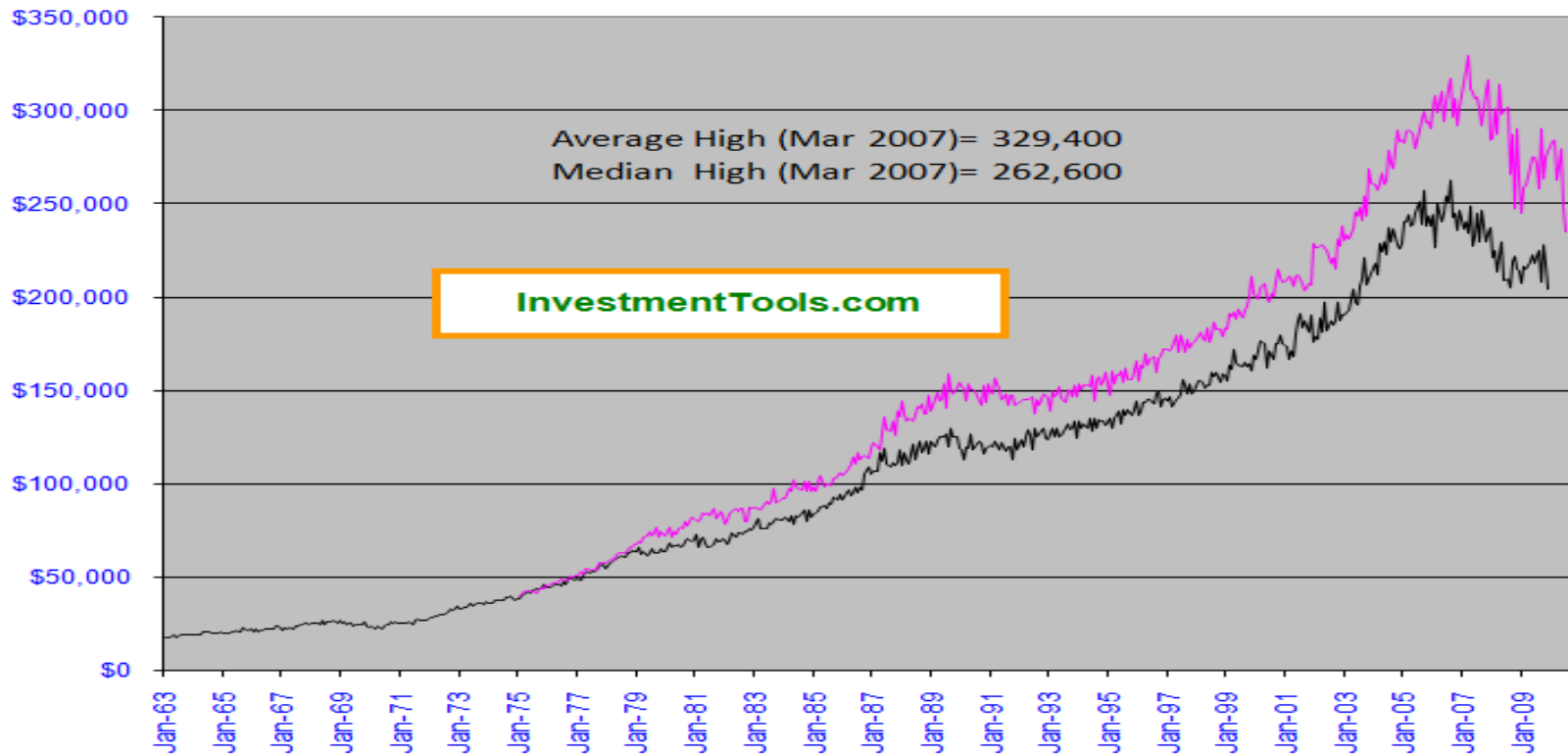
Real Estate

- 34% of Americans own their homes free and clear
- In 2009 Americans owned 40% of the equity values of their homes as compared to 85% in 1950.
- Without the 34% above this would mean that the remaining 74% of American homeowners on average as of 2009 had an approximate 25% equity ownership in their homes.
- That doesn't leave them much room.

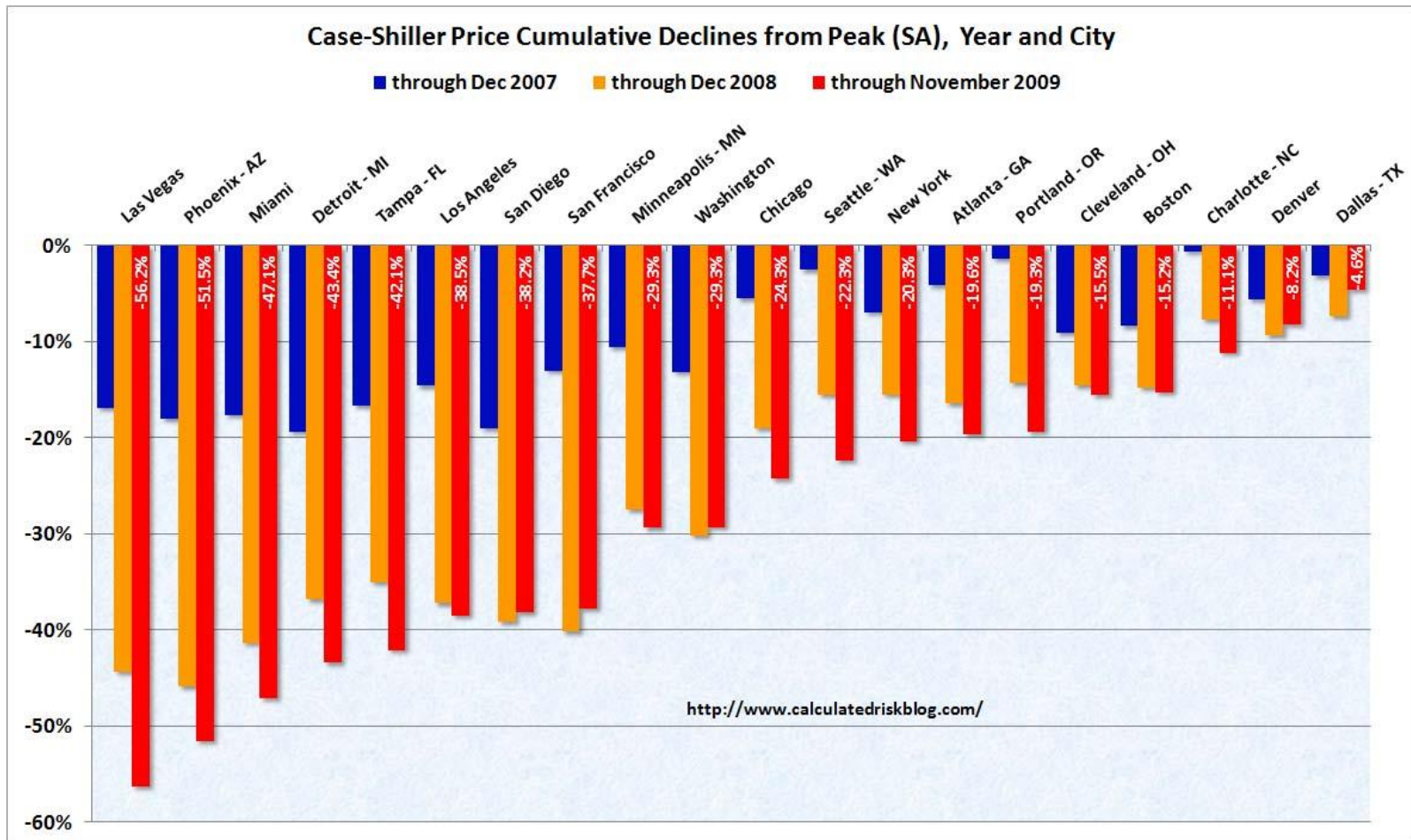
Median and Average Home Prices

Median and Average Sales Prices of New Houses Sold in U.S.

U.S. Census Bureau
(Average Red / Median Black)
InvestmentTools.com



Us house prices have fallen by an average of 34%

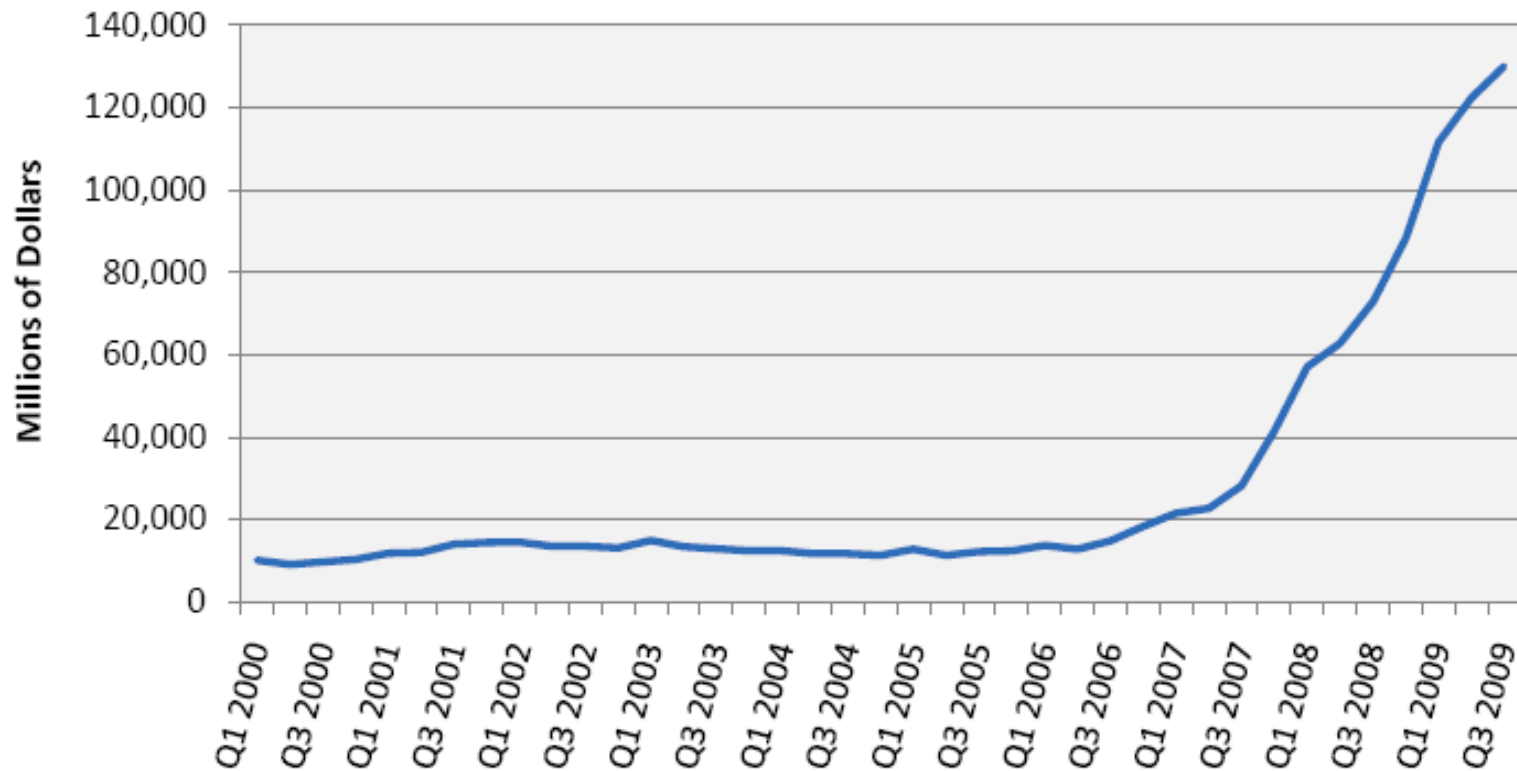


Commercial Real Estate

- Commercial mortgage debt totals about \$3.5 trillion.
- Approximately \$1.4 trillion of this comes due in the next 5 years of which about a half is owned by the banks.
- The value of these assets at the peak was \$2trillion, but this value has declined by 40%, which leaves a current shortfall of \$200 billion.
- More asset declines equals a bigger shortfall.
- A number of these projects have never been completed.

Commercial Real Estate Delinquencies

Figure 26: Commercial Real Estate Delinquencies for All Domestic Commercial Banks²¹⁹



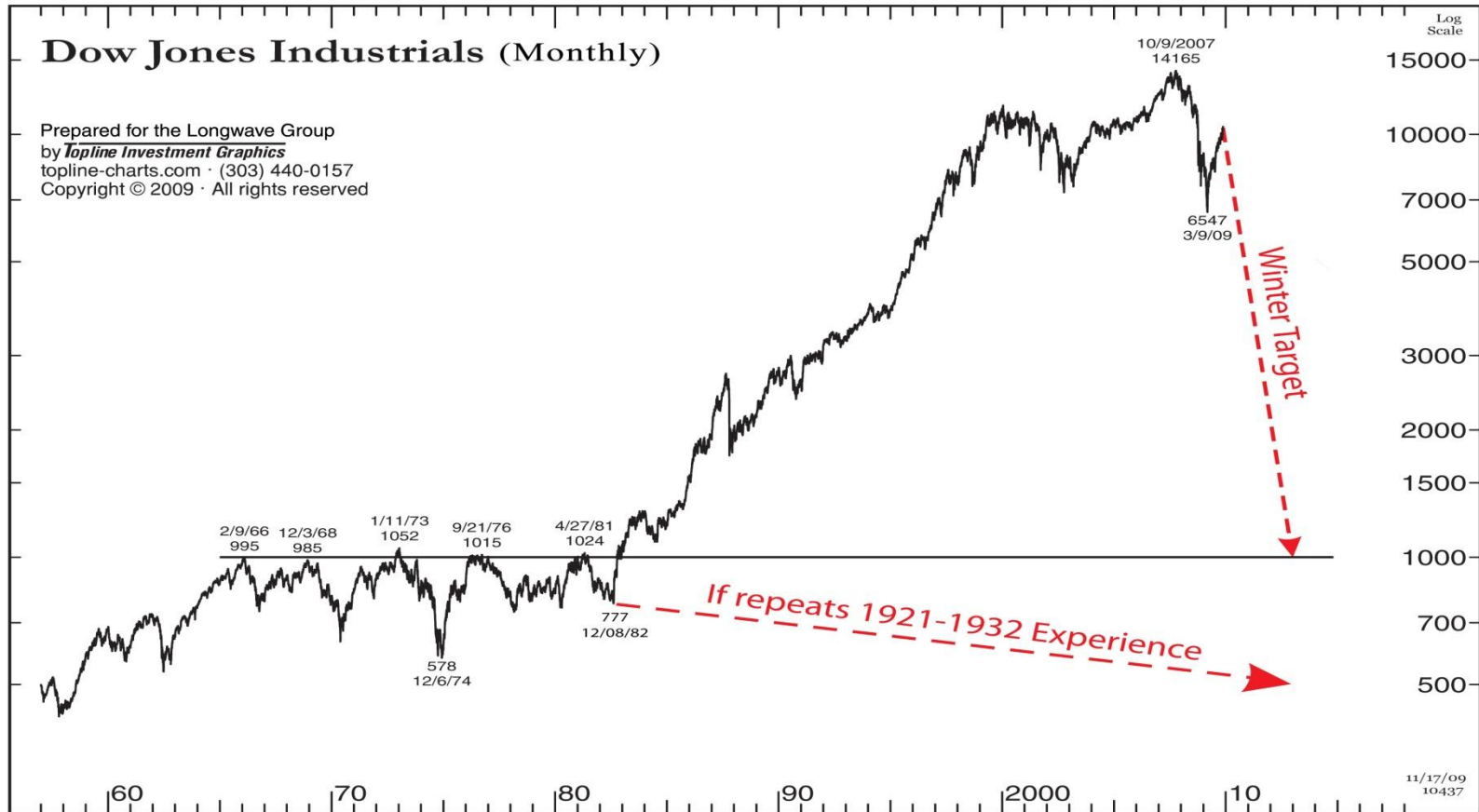
Share Prices

- “The extreme of any position will ultimately become its opposite.”
Epictetus
- The winter stock bear market is as bad as the autumn stock bull market was good.

The 3rd Kondratieff Autumn Bull Market 1921-1929 and the Winter Bear Market 1929-1932



Dow 1,000 Target



Dow 1,000 is the winter bear market bottom target. Why?

- Bottom price extreme always follows an investment mania.
- Size: The bigger they are the harder they fall.
- Support/Resistance
- Debt elimination will plunge the economy into a frightening deflationary depression. Stock prices will reflect this reality.
- Stock prices are governed by natural law- man cannot affect prices, good or bad.
- Debt deflation \$42 trillion and assets prices crash== Massive deflation

Why Gold in Deflation?

- Collapse of banking system, the creditors.
- Collapse of the world monetary system based on the dollar
- Collapse of the economy
- Gold becomes money of last resort. The 1930s experience.
- Chart Homestake mining vs the Dow

Deflation or Inflation? That is the Question.

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