

The GLEASON REPORT

Market Timing for Investors Identify Turning Points in Asset Classes

January 2009

www.thomasnogales.com

Stocks: OUT



Bonds: OUT



Gold: IN



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This issue of the Gleason Report can be linked to at: www.thomasnogales.com/emails/2009-01-tgr.pdf

Status of the TGR Timing Models

2008 Performance

The TGR stock model exited the stock indexes in January 2008 with the S&P500 at 1366 thus saving subscribers a 34% loss. The model later indicated a Buy on 12/2/08 at 816 and Sold on 12/07/08 at 876 for a quick 7.3% profit.

The TGR bond model was out of long bonds in 2008. Fixed income was treacherous. Long Treasuries: +24%; Corporates +3.2; Junk: -22%; California Munis: -7%. TGR bought TIPS on 11/1/08 and at year end was up 6% over two months.

The TGR Gold Model remains in gold since buying in 2003 at \$328. Gold was up 6.9% in 2008.

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The New Look

I've changed the layout of the monthly newsletter to a formatted pdf file. This allows graphics to be placed effectively on the page. Subscribers can print a nice looking document.

In the future, I'll be moving the web site to a new domain called www.gleasonreport.com and will say goodbye to my nom de plume of Thomas Nogales.

I'm trying to get access to more industry databases and research to expand my market timing work to more asset classes and foreign markets. A professional appearance will help.

Returns by Asset Class for 2008

Symbol	Asset Class	YTD Return
PCRIX	Commodity Futures	-43.33
VGSIX	REIT	-37.05
VFINX	S&P500	-37.02
VMFXX	Money Market	2.50
VBMFX	Bond Index	5.13
VGTSX	International Stocks	-44.10
VISVX	Small Cap Value	-32.05
VBISX	Short Term Bond	5.13
GOLD	Gold	6.90

Our Winning Year

2008 was a disastrous year for most investors with all stock index classes getting crushed. The only bond class to do well was US Treasuries. Municipal bonds, corporates and high yield bonds did poorly. Commodities were also slammed except for gold which did fairly well.

The TGR models began to warn on stocks in October of 2007 and actually exited stocks in January 2008.

I've been cautious on bonds for years.

I warned on commodities in late 2007 and in early 2008 stated that investors should take profits and reduce allocations back to a neutral position. I didn't expect commodities as a class to be crushed like they were. I never wavered on gold and said investors should maintain an allocation.

Investors following the TGR timing models were protected from the stock market decline and largely spared from the devastation endured by most investors. Still, the collapse in commodity prices and some bonds surpassed by most dismal expectations.

As we begin 2009, I have no certainty of what the year holds and will continue to use the timing models to enter and exit the assets classes when opportunities arrive.

The market conditions and the track of our nation's fiscal condition lead me to believe that traditional asset allocation methods will not serve the long term goals of investors for the next year. It's likely that market timing is necessary to succeed in the years ahead. We are at a transition point for the US and world economy where currencies and markets are staged to morph and evolve into a new framework. Investors must be agile.

Stocks

Stocks are overpriced based on my model and I don't believe now is the time to yet enter the stock market. The swings in the market will periodically offer excellent opportunities for swing trade profits for the adventurous investor. The primary trend of stocks though is down and most investors should simply stay out until my model gives the all-clear. This bear will eat you alive.

Bonds

Bonds are a bifurcated market with Treasuries offering nothing to investors except the possibility of huge losses on long maturities

should rates rise. Rates in the corporate bond sectors are dropping for firms with AAA credit. Anyone else has to really pay up. I expect an increasing number of business bankruptcies in the years ahead so this is a bond picker's market.

have the money to buy our bonds. If I had to make a decision today for the whole of 2009, I would not hold TIPS for twelve months.



Investors may be safe in a broad, Treasury bond index fund like vbmfx but the yields are abysmally low. With the dangers inherent in bonds, I'd stick with CD's and money funds.

High Yield

High yield bonds will offer excellent opportunities at a future date and I am waiting for an entry point. It may a long way off. Junk bonds have attractive yields (VWEHX = 13%) but the asset class is risky until the whole

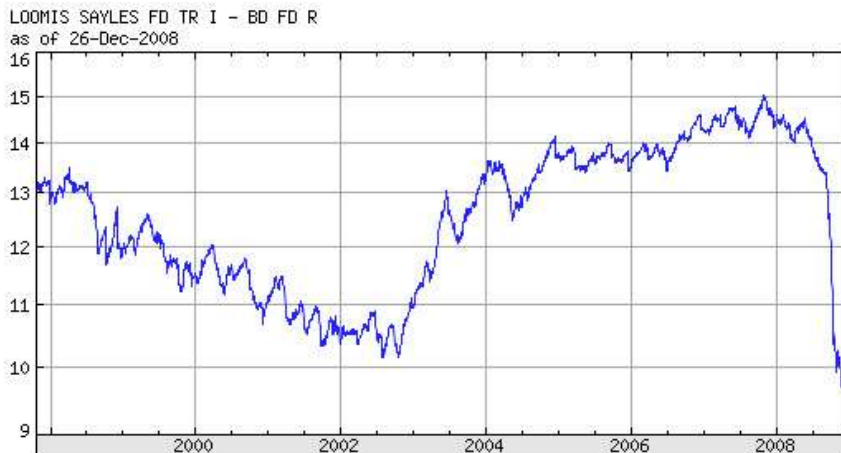
The yield on the 10 year Treasury bond is now about 2%. I heard that is the lowest rate in US history. Now I ask you, who would loan money to a government \$11 trillion in debt and with a weakening economy and at a rate of 2%. You'd have to be the world's worst investor to take that bet because inflation is historically 3.5%. It's wild. So, who is buying those bonds? China is buying and I'll discuss why a bit later.

economy starts to rise. Junk bonds move closer with stock prices rather than interest rates so wait for my stock model to go all in.

I like LSBRX as a high yield vehicle but it's not showing signs of resuscitation yet.

TIPS

I've discussed TIPS as an alternative to treasury bonds. They've had a good run since I recommended them two months ago and they are now up 6%. I wouldn't add to TIPS as the fixed rate at recent auctions is around 2%.



TIPS protect against rising inflation but would incur large losses if interest rates went up because of US credit quality fears. This could happen if Japan and China stopped buying treasuries. Both of the economies are in a deep slump so they might at some point no longer

The US is attempting to drive down long term rates for two major reasons.

1. There are massive waves of loan resets coming in 2009 and 2010. They want rates lower so at-risk people can

refinance their homes at rates close to the teaser rates that induced them to buy houses. They want to stabilize the housing market. I doubt this will work. The foreclosure rate on refinanced troubled loans is close to 50%.

2. They want to eliminate any interest bearing security alternative to stocks. They need to prop up the stock market to prevent a collapse of pension funds and to push up values in investor 401k plans.

Unless houses stabilize and stocks rise consumer confidence won't improve. People need to be more confident to spend and thereby boost the economy. The combination of falling house prices and shrinking household financial assets combined with rising unemployment is not good. Weak spending will place downward pressure on stocks.

Maybe I'm wrong but I don't think houses will go up in price unless incomes go up. People can't afford these houses and rising unemployment isn't helping.

I don't believe these machinations will work to put growth back into the economy but they may slow the slide. Sadly, lowering interest rates and spending deficit money is the exact same foolishness they tried in 2001. They doubled the national debt from five to ten trillion. I discussed the reasons for all that spending in detail in last month's report. It's a sad chapter in our history. The last thing we need is more debt.

This financial boosterism requires an exponential increase in federal borrowing every time it's done. They'd have to juice the national debt to near \$20 trillion to hyper stimulate our dead economy. I believe the bond market will croak before they can resuscitate Uncle Sam Frankenstein. Even if they could get Sam breathing again with debt, what's the point. He'll just drop dead again with another debt induced malady even more dire. Rather than

bankrupting just America this craziness will take down the whole world if it continues. I don't think it will continue. Something will break.

At some point the world will have to just walk away from debt and start dealing with the real problems of bloated social services and military spending. They aren't moving that way yet but will be forced to by the markets.

Deflation?

Inflation is the antidote for debt both public and private. I've said over and over again that deflation is not a long term likelihood. The only way they can get people to buy bonds paying 2% is if folks believe the deflation story. With rates falling all across the world, many are starting to believe it. Ok, let's do a short analysis.

If 2% is a fair yield then what do you win by buying a bond well, you get 2% on your money. No big win there for being right. If we don't get deflation you could lose 60% of your bond investment if rates rise due to inflation or if the dollar plummets. Now, in a situation where the reward for being right is next to nothing but if wrong you lose huge, would you buy the bond? Of course not. Furthermore, you'd be nuts to even play the game because the choice is between a bad investment and bankruptcy. That's the state of the US bond market. You're best dollar bet is cash in a CD. Stay away from the long end of the yield curve.

Gold Isn't the Only Metal

Three years ago my nephew was unemployed and spent his time playing video games until 2AM and sleeping until noon. He's in the Marine Corp now and was driving through to his new assignment when he showed up at the ranch at the crack of dawn. He's now a much more sensible guy. He wanted to go target shooting so I stopped at Wal-Mart to buy some ammo. They were sold out. The clerk said that virtually all their handgun ammunition was gone and the

warehouse was empty too. People are stockpiling shells because they're fearful Obama will pull a fast one on gun laws. The clerk just shook his head and laughed. I laughed too.

I drove up the street to a gun shop. Same story. I started talking to the shop owner. We discussed the economy and how I thought owning some gold was a better idea than stockpiling guns. He looked at me and shook his head and said, *"There's only one metal I'm interested in and that's lead. Gold is a worthless hunk of metal that people only believe has value. You can use lead to defend what you've got"*. That's an interesting perspective on investing.

When I got home I spoke with my NRA Life Member buddy who has a gun safe full of shooting irons. He explained the world of guns to me. He paid \$1200 in the early 80's for a bullet spitting Heckler & Koch machine gun (BATF licensed) and it's now worth \$14,000. Same goes for S&W and Colt handguns – big gains over the years and often due to inflation. The things really hold value relative to the dollar. Maybe the gun shop guy was right. I researched the subject and it turns out he was right at least on valuation.

Are collectibles a good asset class? You can put your money into narrow asset classes like guns but it requires specialized knowledge. Same goes for rare coins or old tools. You have to know the market.

The thing about owning stuff is it must be purchased for the right price and at the right time. You want to own things that are in short supply via constraints due to age or for some other reason. If you don't know the laws of that market then stay away.

The same principal holds for financial assets. You have to know the rules that determine value and very few people do including many

investment advisors and most of the skills on Wall Street.

Timing Asset Classes

There are two ways to time an asset class. You can use a mathematical model or a logical model. The first uses math to identify correlations and relationships. The second uses logic and a cascading series of if-this-then-that scenarios to predict cause and effect. Logical models are easily flawed by bad perceptions and inadequate information. The decision to start a business or launch a new product is often based on a logical model. Most new businesses fail within five years due to poor planning and under capitalization; i.e. the logical model got it wrong and usually because there's too many variables for the human mind to grasp or anticipate.

I've been using a logical model to contemplate energy issues so be forewarned.

Watching Oil

My views on oil are speculative and are not based on a mathematical model. I believe the present falling oil price is the opposite of a bubble – a crater. Prices are plunging as world economies slow. It's like everyone jumped on a diving board and it's still going down. It's setting up a big rebound. An investor might be able to allocate a small percentage to oil and reap large gains. Why? Because the geology and depletion realities mean oil will bounce higher in price in the future. You can research Peak Oil for yourself – I've discussed it before. The quick fact is existing world oil wells are depleting at 6-9% per year according to a new study by the IEA. They researched every producing oil area in the world. This is a scientific fact that is being temporarily overwhelmed by economic fears.

At some point we'll be able to allocate some money to oil and make a wager that will pay far better than the paltry 2% in bonds. I'm not talking about buying oil stocks or investment

trusts. Just buy the etf USO when it starts to turn. It's too early now but watch it. All the evidence points to an unsustainable crater in oil. First, there's the Bush energy wars in Iraq, Afghanistan and Iran. Nations don't start wars to spread human rights or democracy. The fight wars to obtain a strategic objective. We wouldn't be at war unless it was about oil. [This is confirmed by the IEA facts about depletion.](#)

The major clinker in the whole economic recovery equation has to do with oil production. [Crude oil production appears to have peaked at 73 million BPD – that's the peak hit in 2006.](#) We're now on the production plateau.

[Last month I discussed the real reasons for the Iraq war.](#) OIL. Consider the oil wars and what's planned for the future. In 2009 Obama plans massive infrastructure spending and the focus will be on alternative energy as well as conventional sources. Add to that the scientific data from IEA and other sources and it seems fairly clear that world leaders understand the problem. They know world economic growth is in serious trouble. Attempting to ramp up the world economy again will cause much more debt and another oil price blowup.

So, why did oil prices fall from \$140 to \$40 in less than a year if oil production is peaking? Oil isn't like a water faucet that you can turn off and on. Shutting down an oil well and especially a mature one has serious implications. A shutdown may cause the oil well to fail or at the very least to produce less daily production in the future. For example, when offshore wells in the gulf were shutdown for hurricane Katrina, after the restart they were unable to produce at their old levels. This is much more of a problem in large, old oil fields like in Saudi Arabia. Oil prices dropped because when demand dropped they can't just shut down the wells for a while. They have to keep pumping and the excess supply forces prices down.

The Oil Catch-22

The oil price dropped because production is mostly inelastic in the short term due to the mechanics of oil well management. A long world recession could extend the oil production plateau by a couple years and maybe that will happen. However, even in a severe economic slowdown the world uses a lot of oil. For example, US oil consumption was about 21 mbpd in 2007 and even now in this recession it has only dropped to 20mpbd – a decline of 5%. In a very long recession oil may drop lower but low prices will cause people to drive more and keep houses warmer. The whole world will do the same so I don't expect a dramatic plunge in world oil usage unless prices go much higher.

The Bush Energy Wars and the economic mismanagement employed to expand the economy after the 2001 recession helped cause the present economic recession which is making the oil situation worse rather than better. It's now uneconomic to explore for oil or drill for oil. If production from existing wells drops too low it endangers not just the wells but future production programs across the globe.

The world faces a crude supply shock if oil prices remain below \$70 per barrel, Qatar's Energy Minister Abdullah Bin Hamad Al Attiyah said on Wednesday arguing that lower prices would discourage investment in new capacity.

A price of \$70 per barrel is needed "to avoid any (supply) shock in the future," he said, explaining that this price level should be sufficient to encourage companies and oil producers to continue investing in capacity expansion projects. "Below \$70, it will be non-economical to invest in the hydrocarbon sector," Al Attiyah told the Gulf Petrochemical and Chemical Association (GPCA) forum. "Today there is no cheap oil" he added.

A Catch-22 is a double bind, a no-win situation or a circular logic loop.

Catch #1: An economic recovery will cause higher oil usage. High oil usage means higher oil prices. High usage means we'll fall off the Peak Plateau quickly.

Catch #2: A recession with low oil prices will delay new discovery work and cause oil rigs to shut down. Low oil prices will reduce future oil production but increase oil usage. We'll fall off the Peak Plateau more quickly than if oil was expensive.

Catch-22. Economic recovery leads to higher oil prices which chokes off growth and leads to Catch #2. Economic recession leads to low oil prices and economic recovery and into Catch #1.

Spending money to boost the world economy and expand growth will cause more oil to be used and exacerbate Peak Oil. It will also cause another oil spike and another and a deeper recession. Letting the economy slide will lower the oil price and cause more oil to be used and lessen exploration and exacerbate Peak Oil.

The only way out of a Catch-22 is doing the illegal/unacceptable. We need a controlled recession with artificial high oil prices via oil taxation. This would mean a very long recession with a commitment to massive infrastructure debt spending on alternative energy. It would mean very poor returns on financial investments. Obama may announce higher energy taxes after he's in office.

We also face increasing government control of the entire economy and expanded government police state controls to prevent social upheaval – already in place via The Patriot Act.

I know government leaders understand the situation. The gun enthusiast are probably right

in buying up boxes of ammo and the gold enthusiasts are right in shifting some assets into bullion.

Dollar Collapse?

A common theme one reads on many web sites can be called by the label “the coming dollar collapse”. This idea starts with the idea that America has too much debt and will inflate it away via hyperinflation and the dollar will collapse as world power eventually moves to China and America drops into the crapper and is forced to rebuild over many decades. Therefore, you need to get all your money out of the dollar and buy gold and foreign assets. This idea is growing. It assumes that anything other than dollars is a better bet.

That doesn't seem logical to me. We may yet see a very low dollar but it probably won't happen like we expect. I suspect the world financial system will gradually move away from the dollar and morph into something else

Here's my take on the likely path. The dollar could collapse but not because China stops buying US bonds. China is presently so dependent on exporting that it can't afford not to support a plan to re-inflate western economies. An economic slowdown and rising unemployment in China has severe social stability implications. There's no way China can convert to a self sustaining consumer economy any time soon. They'll continue to buy American bonds if they're provided diplomatic guarantees of no future tariffs or trade barriers so they can continue to export.

Once the US economy is stabilized, the mountains of debt held by China and other countries will be used to buy American exports or oil thus recycling the dollars back into the world economy. One hand washes the other, as the saying goes.

People who predict China won't buy more bonds tend to equate government finance with business finance but the two are totally different. Trade agreements take place at the diplomatic level and are iron clad with periodic renegotiations. The US just has to make sure it doesn't sign anything stupid that would encumber the country with onerous requirements.

My concern isn't about China buying bonds. I just seriously doubt that the world economy can be revived sufficiently to continue the rate of global growth that the Chinese and the financial markets would like. At some point this could become alarmingly clear and nations will cut their currency pegs to the dollar in a perhaps unsuccessful attempt to save their own skin. Or, they may no longer generate enough foreign exchange to buy more bonds.

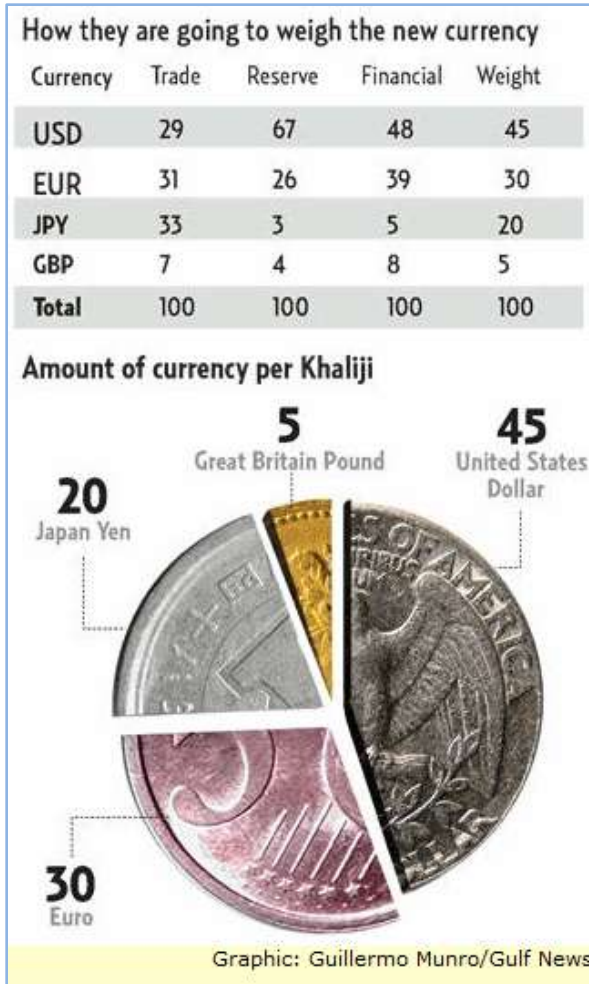
The Dollar/Oil Breakup

I've discussed several times that the biggest threat to the dollar is gradually breaking the link between the dollar and oil. Oil is priced in dollars. A break would reduce the demand for dollars.

The drift away from the dollar has already begun. Per a news story in the Gulf Times, Gulf nations intend to move their currency reserves into a currency basket. This is a first step in non-dollar oil pricing.

[The new currency is poised to take effect in one year but hasn't yet been formally approved.](#)

"A strong link to the currency of the US, a country with an unstable current account position and expanding fiscal liabilities is likely to exacerbate instability in small open economies of the Gulf," said Dr Al Saidi.



Without doubt, the world will move away from the dollar in the future. Oil will be priced in a basket of currencies as I've predicted for a long time. This process will be gradual and is negative for holders of dollars in the US. The price of imported oil would rise for exchange rate reasons if the US deficits aren't brought under control. And they won't be controlled because massive deficit spending is on the horizon.

The Politics of Incompetence

America's budget deficits are a big problem and are shared by several other Western nations. This should have been nipped eight years ago. Instead, we stoked the fire with more debt and lax controls. The red ink will grow even larger in the future. We've experienced a tragic failure of

leadership with the Bush administration and a congress that's been comprehensively corrupted by the campaign contribution system. We wasted years fighting oil wars and will have nothing to show for it. Meanwhile, we didn't pursue a Plan B for energy.

The nation's founders provided the tools need to remove criminals and incompetents from office but what happens when greedy and corrupt people or ideological zealots provide cash legally to politicians in exchange for acting against the public interest. This structural corruption has always been around and I'd like to see the influence of money in politics reduced.

The press in America won't talk like I do because their access would be cut off for speaking the truth. The press enabled these cretins and continues to do so.

Our leadership problems can be fixed if we have the will and courage to challenge our public officials and criticize their mistakes and demand better performance. That's what citizenship is all about. If the public becomes afraid of its leadership then we're lost.



For example, I sent George Bush a Christmas present – an old shoe. It's a worn out Timberland boat shoe similar to the one that almost beamed him in Iraq. I took it to the post

office and they shipped it exactly as is, without a box. The postmaster suggested sending it priority mail for \$5.25 so the president would be sure to get it before the 25th.

In America I can make my opinion known and not worry about the police knocking on my door – at least for now.

America has many advantages that other nations can't match. A country is much more than a deficit balance. It's the culture, the educational level, respect for the law and the moral principles that combine to form a cohesive and dynamic society. My interactions with public officials, the Post Office, the military and law enforcement in America have been largely positive and I suspect most people share that experience. I think the nation's debits still outweigh the credits. I must say though that I'm deeply concerned about our budget deficits and the Patriot Act. This is dangerous stuff.

Truth is, we don't know how things will shake out even if we agree that the present system has major problems. This is a financial newsletter so I'll focus on the money side but it's important to know what caused our problems and to discuss ways to protect our democracy. Your financial welfare depends on it.

I do know that America can restructure its systems but I'm afraid it's too late for our currency. That doesn't get other nations off the hook. Export oriented economies are severely hurt by falling consumption. It's impossible to predict winners and losers because policy decisions are fluid and I can't know what anyone will do. Decisions have to be made real-time as events unfold.

Strange Story #1: Fed Issuance of Bonds

[A strange story hit the wire earlier in December about the Fed asking congress for the authority to issue its own bonds.](#) The Treasury sells bonds

not the Fed so this one caught people by surprise. What's going on? I think the Fed floating this idea indicates that there's a lot more pain coming. Here's my guess on what they're up to.

The Fed probably sees how things are sliding and intends to take corporate warrants, shares and debt onto its balance sheet in exchange for giving companies bailout cash. For example, they give GM \$10 billion and take back warrants; i.e. an ownership interest. The Fed would rather not be in the investing business so they'd like to sell debt backed by these assets. It brings cash in thus balancing the books. The Fed will pay interest on the debt and it will be sold to sovereign wealth funds and investors holding huge dollar hoards. At a later date when the economy recovers the foreigners can opt to get shares (assets) to redeem the bonds. This is a round-a- bout way of selling off America's industries to foreigners as I predicted would happen. Some Dow 30 stocks are selling at little over book value - often under 2x - thus the assets can be had on the cheap. As inflation creeps back as the Fed inflates, the foreigner's who've been lending the Treasury cash will have their assets protected because they'll have the option of getting paid in shares or interest.

They can't just let the SWF's buy the stock directly as American's would realize they're being sold out so they'd like to use this accounting subterfuge. The SWF's may get screwed too if the firms fail but they can hedge their bets owing shares rather than owning all bonds. That's my opinion and maybe I'm wrong.

At the very least, this is a red flag indicating that the Fed believes many corporations will soon be in big trouble.

Strange Story #2: Japan to Forgive US Debt?
[This alarming story out of Japan shows how concerns about the dollar are growing.](#) Can you imagine this being discussed even six months ago?

Dec. 24 (Bloomberg) -- Japan should write-off its holdings of Treasuries because the U.S. government will struggle to finance increasing debt levels needed to dig the economy out of recession, said Akio Mikuni, president of credit ratings agency Mikuni & Co. The dollar may lose as much as 40 percent of its value to 50 yen or 60 yen from the current spot rate of 90.40 today in Tokyo unless Japan takes "drastic measures" to help bail out the U.S. economy, Mikuni said. Treasury yields, which are near record lows, may fall further without debt relief, making it difficult for the U.S. to borrow elsewhere, Mikuni said.

Japan should also invest in U.S. roads and bridges to support personal spending and secure demand for its goods as a global recession crimps trade, Mikuni said.

Japan's exports fell 26.7 percent in November from a year earlier, the Finance Ministry said on Dec. 22. That was the biggest decline on record as shipments of cars and electronics collapsed. Combining debt waivers with infrastructure spending would be similar to the Marshall Plan that helped Europe rebuild after the destruction of World War II, Mikuni said.

"U.S. households simply won't have the same access to credit that they've enjoyed in the past," he said. "Their demand for all products, including imports, will suffer unless something is done."

This is bizarre. He's advising Japan to spend money in America to support the US consumer so they can buy more of the stuff Japan produces. This shows just how addicted the world is to the US consumer. Mr. Mikuni had it right when he said that US overseas borrowing binge is over but he's saying to give the US money to continue buying stuff.

Why do China and Japan keep buying US debt? Because if you're in for a dime you're in for a dollar and they're all in. They have to decide to fish or cut bait on buying US debt and they aren't ready to give up yet. They hope buying more will turn things around. If they don't keep buying, their bond portfolios could plummet as the US economy takes a header. What else can they do?

Asset Choices

Rather than make bets on which country or currency will win, I think it's better to focus on investing strategies where we can identify asset classes that are under and overvalued and reposition investment dollars to avoid trouble and take advantage of opportunity. The world will go wherever it's going but people will always need stuff from guns to gold but you must buy them at the right price.

You'll just get an ulcer worrying about when to buy unless you apply good financial processes to identify attractive asset classes. This is a much more constructive approach than living in a bunker with a bunch of guns and a pocket of gold. That's why market timing is the focus of my research. I have no problem with people having a defensive reserve of food and medicine. I do and don't consider myself paranoid and I do plan for an uncertain future.

Will gold rise to \$4000? I don't know. I personally believe gold is fairly valued around \$800 at this time. I accept that things could change rapidly but I can't predict how or when. I do know that gold has been money for thousands of years and will be used as such until mankind takes its last breath. Yes, you should buy gold but the bulk of your money is best invested in a mix of asset classes when the potential gains are greater.

A real issue is how we will deal with our fears about money. In my book, I discuss Fear and

describe it as the inner warrior who's always on guard and trying to protect you. Fear will only stand down and let your body relax if it's convinced you're safe. Since being in a state of constant fear is self destructive, that means you need an intelligent strategy that's likely to succeed over long periods of time. I don't think converting everything to gold or running into foreign stocks and currencies is wise unless you understand exactly what you're doing. I'm not saying not to do it but you must have a high certainty of success. Panic is symptomatic of fear controlling your emotions and not reason. Reason must control the reins of the mind.

Unfortunately we're in a situation where every asset class looks like a minefield and the traditional methods of asset allocation aren't performing well. It's true that every aspect of our economy was inflated by debt and now the air has gone out. But, this isn't a normal recession. This is more than a financial panic caused by subprime loans. The major issue isn't debt. It's about slowing world growth due to Peak Oil. I believe assets must be positioned for very low growth and changing patterns of trade flows. I expect the markets will remain volatile as money thrashes to and fro losing percentages each time it switches along the way.

The purpose of The Gleason Report is market timing and discussing ideas and themes likely to succeed. After a thoughtful and logical analysis, I believe investors are better off to invest in the things people must have rather than the currencies used to make the purchase. Considering the trajectory of the dollar, the eventual certainty of oil depletion, low real interest rates, and the burgeoning fiscal deficits ahead my first choice in the "stuff" category would be oil.

The recession is poised to take our economy much lower in the weeks ahead. I've warned on stocks and urge you to stay away. Firms in the

commodity business can lose money even as commodity prices rise. Profits come later in the cycle. I'd stay away from the integrated oil companies because they make their money processing volume and that has peaked.

Everyone should own some gold as a core holding and expect volatility. Don't worry about buying a bit high. Other asset classes like stocks and bonds shouldn't be ignored but are bad investments at this time. It's critical to commit the bulk of your assets when the major strength of the deflationary downdraft is exhausted. It's still too early in my opinion to buy the broad market indexes. Of course, be open to the ideas of others.

Put it All Together

The US consumer debt binge is over but the government debt binge is accelerating. The Gulf States are changing their reserve system away from dollar dominance. They recognize US deficits won't be controlled and will instead expand. As oil exporters, they can sell to anyone unlike China and Japan.

Easy global export growth is over for many nations. At some point they'll all have to stop looking to America to support their export economies. If they can't export as much, they'll have to lower import costs and manufacturing costs to continue their standard of living or get their own people to start spending. These nations are facing difficult times.

As the dog eat dog era begins, nations with strong currencies and low debts will buy oil cheaper than others and will have a better chance of staying on top. Self interest and survival

techniques will soon kick in. It's gonna get ugly but slowly. So slowly in fact that nations and investors will doubt their descent step by step and will do nothing to protect themselves.

If I'm right about the slowing global growth story then stocks aren't a good buy until they severely crater. If I'm right about more bankruptcies and low growth then junk bonds are not timely and bonds in general must be carefully picked. This looks to be a tough market for stock and bond index funds.

In these circumstances, rather than trying to pick

the winners and losers in currencies, I'd own what everyone must have and which is in declining supply – oil and gold. But, when to buy? Oil is in a freefall and now under \$40 per barrel. I use USO to track



oil. It was at \$119 in July and is now \$33. This is setting up a very nice opportunity for a place to park some money for growth.

If we do have a recovery, oil will rise with increased economic activity. If I'm right on Peak Oil then oil will rise regardless of what happens. The only way oil can stay down is if the geologists and scientists and the IEA are all wrong. I don't think they are.

Could the US economy recover? Yes it can but it will take another mountain of debt and the result could be another collapse. It's possible the major economies are attempting to restart world consumption and then transition to new currency systems for trade. This means less dollar

dominance. Obviously things will have to change.

And remember, events never happen the same way twice so I don't expect a repeat of 2003-2007 where stocks did very well. I'm not about to bet everything on some currency or country in expectation it will outperform. I need objective evidence of a directional change in an asset classes before I act.

I don't think Obama's economic team is foolish enough to try and duplicate the Bush's financial tactics again but they may do something even dumber. As long as people trust fiat money systems, anything is possible and that's why Japan and China continue to buy US debt.

Longer term Americans are unlikely to see much wage growth. We're in the soup with billions of other workers around the globe. In a low wage growth world, people will have a hard time saving money. In a world of low economic growth and with flat wages people will need to aggressively time the markets to grow wealth.

For those people who lost half their money in the financial markets this year, a recovery is your only hope. I hope you get it but I don't expect a happy ending to the story unless you're psychologically prepared to time the stock market and exit faster next time.

Our discredited financial policies have lost the world's confidence. The dollar hangs by a thin thread connected to oil. If that breaks then you better have your money invested in stuff rather than dollar bills. Mistakes at this stage will be very costly.

The good news is the markets are in unaccustomed territory and that means volatility and hence opportunity for people with a knowledge edge. In spite of the volatility and fear in financial markets, I'm enthused about the

prospects for profitable market timing in the years ahead.

As we start 2009 many people feel the need to invest in something. Articles on web sites recommend sure winners for the year ahead. I believe the world recession is getting worse.

There is no encouraging data and this will be the most severe US and global downturn since the 1930s. A US recovery is possible later in 2009 but, until there's evidence to support this possibility, the average investor should avoid all world stock markets and most longer duration bonds.

Best Regards,
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