

The GLEASON REPORT

Market Timing for Investors Identify Turning Points in Asset Classes

March 2010

www.gleasonreport.com

Status of the TGR Timing Models



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This issue of the Gleason Report can be linked to at: www.gleasonreport.com/emails/2010-03-tgr.pdf

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S&P500 @ 1104 on 28 February 2010

Year to Date Asset Class Returns			
Symbol	Asset Class	YTD Return	Model Status
PCRIX	Commodities	-2.3	IN
VGSIX	REIT	-0.7	OUT
VFINX	S&P500	-0.6	OUT
VMFXX	Money Market	0.0	IN
VBMFX	Bond Index	1.7	OUT
VGTSX	Intern'l Stocks	-4.9	OUT
VISVX	Sm Cap Value	2.0	OUT
VBISX	Short Term Bond	1.2	IN
GOLD	Gold	3.3	IN
BWZ	Currency	-1.9	OUT

Stocks

The TGR Value Model sees the US stock market as not too far from fair value. The TGR Trend Model remains out of US stocks. Flat incomes, aging demographics and a terrible jobs environment does not hold a lot of promise for a bull move any time soon because consumer spending isn't likely to rebound strongly. The move up from the March 2009 low was due to government intervention but was later supported by a rebound in corporate earnings.

There will always be pockets of opportunity but buy and hold of the broad indexes for long periods will not be a winning strategy. To quote ECRI, "Buy and Hold is Dead".

On the other hand, I expect the government to remain an active participant in the markets either through direct manipulation or ongoing stimulus. A gradual inflation is quite likely and this could support earnings if it is moderate.

In prior decades, the wise investor would hold stocks during their uptrend phase and retreat to cash when equities got pricey. My personal strategy over the next decade will be different. I

think we need to hold cash plus gold in the out phase.

For the upwardly aspiring saver to win in the years ahead they'll need a smart game plan.

We need to own stocks that are likely to benefit from the macro trends in the world economy. Although it's not yet time to buy the indexes, high quality corporations with an international business and a generous dividend policy can serve as an excellent dollar hedge. They can be purchased even when out of the index.

Commodities

I issued a Buy Alert for commodities on 5 February 2010.

I used DBC as the tracking ETF. The price was \$23.45. It fell for the next few days. At the close of February the price was \$23.63 – a gain of 1%.

I also said that investors may wish to USO since the commodity index is over 50% petroleum products. USO closed at \$35.21 on February 5th and is now at \$38.82 – an increase of 10%.

I expect this IN phase to last for several months at least. What could derail commodities? An economic crisis in China would do it. I've read several reports that China has a banking bubble and a property bubble and on and on. Maybe that's true. This is offset by the fact that oil is in depletion and the price will rise relentlessly in the years ahead. English businessman Richard Branson warned this month that an oil crisis is certain within five years. <http://www.guardian.co.uk/business/2010/feb/07/branson-warns-peak-oil-close>

In a general commodity uptrend, silver prices will likely be supported being an industrial metal.

My major concern with commodity ETFs are the actions by the CFTC to limit commodity action in the gold and oil futures markets. They wouldn't do this unless they expected rapidly rising prices and speculation ahead. So, proceed with caution.

My commodity model, as with all my models, is always more focused on preserving capital than making the most money.

Bonds

My bond model is out of long term bonds. I would only own the shortest term issues – under three years. The returns are so low, why even hold any bonds? TIPS offer protection against rising inflation but not against rising interest rates. Rates could rise without inflation during a dollar panic. So, a steep dollar decline obviates any paper gain on TIPS.

Let's acknowledge that it is a mathematical impossibility for the US or Europe or Japan to service their present debt or future entitlements and that's assuming rates remain low. It can't be done. Rates are going up and that's bad for bonds.

The US has about 60 trillion in unfunded liabilities. We'll have deficits of over \$1 trillion per year for the next few years at least. How much is a trillion? You'd have to spend one million dollars a day for 2700 years to spend one trillion. Congress went into deficit by \$1.4 trillion in just 2009 and will do it for years to come. It's mind boggling.

Repeat this to yourself three times: "It can't be paid off, ever". Believe it. Here's the one thing you need to know. Gold has inverse correlation with long term bonds. Therefore, if bond debt can't be paid off by Europe or America or Japan then why would any rational person own their bonds? You should own gold because it acknowledges that you understand the

mathematical truth and are taking the statistical opposite position. Not only that, but you can buy gold at close to its fair market value right now!

Should we short US bonds with the ETF fund TBT? I don't think you'll lose much on that strategy but it could take a while to play out. I'll wait for actual CPI inflation numbers to show a two month average of .5% increases before shorting but realize that interest rates may move up before I can take a position.

Dollar

I was in MERKX for most of 2009 and made excellent profits. In my February Alert on Commodities I stated I was exiting my MERKX position and was going to gold and cash. I was in MERKX because the dollar was in a down trend. Now it's the Euro's turn. Currencies will cycle one after the other. Gold hit a new high against the Euro while falling a bit against the dollar.

It's important to understand that the dollar is not a safe haven. The fiat currencies of other nations offer poor substitution for the dollar and all are falling against gold. The dollar has risen for the last several months because everything else isn't much better. Europe has huge amounts of social welfare debt and even Canada has commitments it can't meet. At some point the West transitioned from productive societies to welfare nations. They're about to experience a collapse in their standard of living for two reasons – Asia and oil.

America and Europe are being eaten alive by Asia. Over the last two years, America's economy has shrunk by 5% and Asia has grown by 14% - almost a 20% shift!! The West is destined to continue falling against Asia's much lower production costs. There is really no way out of this tailspin except to restructure our economy. This requires terminating the military-

industrial complex and this insane idea of a Neocon Pax Americana and constant warfare. It requires cuts to health care costs. I don't see D.C. or Fox News giving up the pathological war idea or agreeing on health care reform until forced by national bankruptcy. I very much doubt that the West will go passively into the quiet night. I expect increasing conflict with China.

Gold

My model remains in gold. Conditions are actually improving for bullion. What is the fair value of gold? Based on official inflation since 1971, I estimate it's worth over \$800 per ounce. Most gold mines aren't profitable with the price much below \$700. So, at \$800 we'll have limited production and supply. On the basis of both cost of production and the inflation adjusted price, something above the \$800 dollar range is a reasonable dollar price for gold.

An asset under accumulation will usually sell at a premium like any good growth stock. Let's add a 20% premium to gold and we're approaching \$1000. I'd be a strong buyer at that price. For those without a core holding in gold, I believe a market price near \$1100 is acceptable as a buy point. Buy now and suffer the volatility and you won't lose a wink of sleep over it in three years.

I am not a gold bug. My decision to own gold is based on rates of return on cash and has nothing to do with a metallic obsession. When cash pays nothing, gold is where you want to be. When paper money pays a sufficient rate of return over inflation then I'll own interest bearing paper.

To win on inflation when in cash, I plan to hold a large reserve in gold. The percent in gold will vary among investors based on their tolerance. I think that within three years gold ownership won't sound extreme to even mainstream investors. I consider a 30% position in gold to

be reasonable. People with a large amount of savings and sufficient current income may wish to go higher. That's just a general comment and may be quite inappropriate for your situation. Only you can decide what's right for your family.

There's another reason to own gold. Physical gold in your possession isn't taxable until you sell it. You're then required to declare the gain and pay the tax. Unlike real estate, you aren't nicked by the tax man each year. There's an even better reason to own gold. Under the coming changes to Social Security and Health Care, the government will do means testing before giving you your monthly stipend or paying for your gall bladder operation. Those with visible assets will have to pay more or will get less in Social Security. Therefore, it might be useful to own physical gold and silver because it doesn't show up in a brokerage statement. They can't steal what they can't see.

I can say this now because it's not yet illegal to own undeclared precious metals or to suggest the logic of doing so. Sales and purchases aren't yet tracked. Nobody knows you own it. At some point in the future, making statements suggesting stashing gold and silver might get a guy arrested.

The pretentious politicians running this country have ruined the economy. It's not your fault. Bankrupt, even after applying confiscatory 40% tax rates on small business, they'll look to take the few bucks we managed to stash in our investment accounts. In reality, it's impossible to pay off the debt even with decades of fiscal austerity and punitive taxation. The most likely outcome is default, monetization or just plain printing money without involving the Federal Reserve. But, they have to make a seemingly good faith effort first to keep the credit markets in check for a while longer. So, they'll first go after your savings and promised benefits. Maybe they'll cut a military project with three levels of

wasteful redundancy as a head fake. When taxation doesn't work, and it won't, then they'll move on to bigger lies and fakery. Don't play their game. Just drop out.

You can sell gold for the same price anywhere in the world. Take a cruise and mix business with pleasure – who's going to know. The elderly can pass precious metals to the next generation in secret (after complying with any transfer taxes etc, of course). As more people shift to owning gold and silver to escape dollar depreciation, expect to see value added taxes, imputed taxes and increased restrictions on the transfer of precious metals. If the dollar crashes, gold may not be available for purchase at any price except through private party sales. You are in a window of opportunity right now!

The Three Tiers of Gold and Silver Safety

If you take my advice to own gold and silver, then safety of your asset is a major concern. The primary concerns are your personal safety and avoiding government confiscation. Long term gold holdings (core gold) are best held as physical metal in your possession or in specific funds with capital gains treatment or in a tax deferred IRA.

Tier One: Physical gold is the best way to own bullion. I advise storing it in a safe deposit box and not in your home. If you do choose to store it in your residence then don't use a safe and don't tell the kids where it is. Young people are careless with their speech and are too trusting of their friends. A safe is neon sign. Leave a note in a safe deposit box indicating where it is but not saying what is there. That way it won't be lost if you die suddenly and the note won't provide a tip to a lawyer opening the box. An officer of the court must make disclosure. He may suspect but he won't know. Don't let anyone know you own gold.

I'm not very concerned about the government inspecting safe deposit boxes like in 1933. There's easier ways to grab the public's gold. Besides, the recent airplane suicide into an IRS office is a heads-up of what to expect if some angry people are pushed to their limit. I don't think the government will raid boxes or risk visiting your house if social conditions are in turmoil.

If you're intent on avoiding a safe deposit box then here's some useful information. Gold melts at 1900 degrees and the average house fire rarely exceeds 1500 degrees for more than ½ hour in one spot. That should help with your inside planning. For outside hiding, a good quality metal detector can detect a gold/silver coin up to maybe 7-12" deep. Ground mineralization will severely limit detection. Hiding gold and silver close to long runs of metallic pipe or in locations with lots of in-ground metallic debris or burying it deeper than two feet will render most metal detectors useless. Merely plowing in BBs will give thousands of wrong signals. There are very expensive detectors costing over \$5,000 that can go deeper but they have the same interference and false-positive problems as cheaper ones. Some detectors have discriminator circuits that can zero in on gold and silver but this greatly limits the depth.

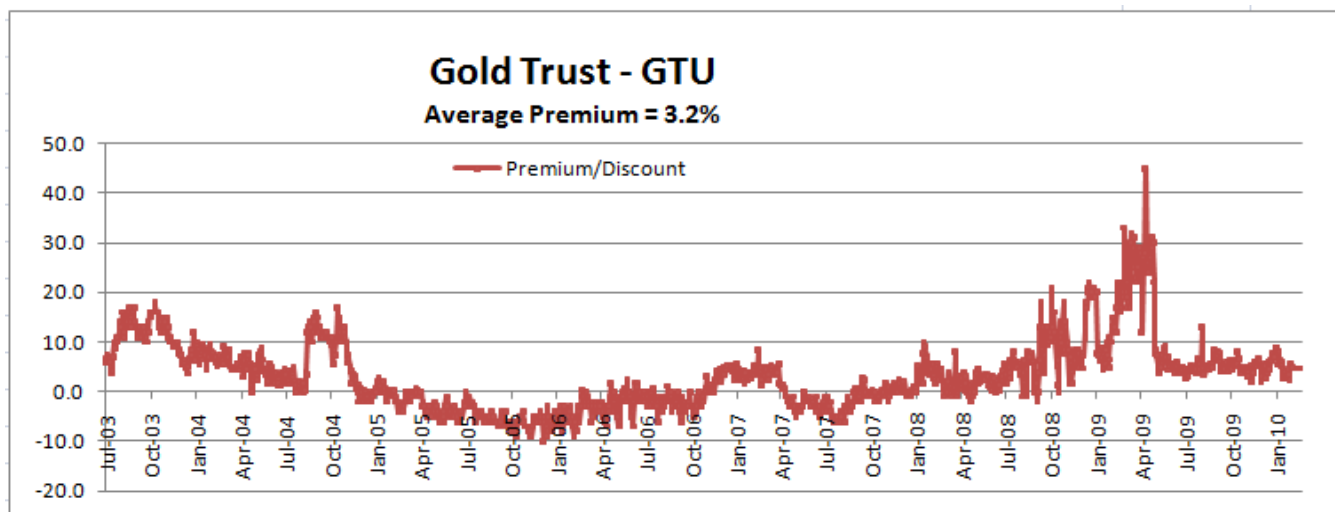
Tier Two: Paper gold and silver in allocated storage is a good way to own precious metals. There's a wide choice of ETF products for owning gold and silver. The best ones store the metal at a secure location where it's segregated and owned via allocated storage – in the firm's name and not pooled.

Let's first address IRA accounts. Firms like Gold Money, Perth Mint, Bullion Vault and even coins can theoretically be used within an IRA by having an intermediary fiduciary act as the custodian. Few firms offer this service. Euro

Pacific Capital (www.europac.net) sells Perth Mint Certificates so that's a good option.

The trouble with using Gold Money and the others in taxable accounts is taxes. If you make a gold backed purchase with Gold Money, you must pay income tax on any gain since you bought that amount of gold. So, if you deposit \$5,000 with Gold Money and buy a \$1000 item, you owe income tax on the gold expended if there's a profit. So, it's ok to use Gold Money but don't use it for long term core storage.

The key reason I like storing gold at Perth Mint and funds in Canada is because the bank custodian is not American. As such, a US government directive has no power over a different sovereignty. I called the management of Central Gold Trust in Canada and was told there is no way the US can grab the gold. It's another layer of protection. Now, Canada or Australia may buckle and force Americans to cash out but what would Uncle Sam gain?



A good choice for taxable money is allocated storage at the Perth Mint in Australia. Various firms sell Perth Mint Certificates. You pay a bit more for allocated storage but it's worth it.

For both IRA and taxable accounts, you can also buy a mix of gold/silver using the closed end fund CEF or gold using GTU or silver with SVRZF. These funds store the metal in Canada in a secure bank vault. The metals are directly owned by the trust and the custodian is a Canadian bank. The metal is allocated, audited and insured. The Central Fund of Canada (CEF) has been around since 1961 and Central Gold Trust (GTU) since 2003. The Silver Bullion Trust (SVRZF) is newer. The managements are the same people.

Be aware that CEF and GTU and SVRZF are closed end funds. The shares will sell at a premium or discount to the underlying metal value in the vault. A closed end fund does not buy or sell metal every day like the ETFs GLD or IAU. They issue shares periodically and in the meantime anyone wishing to buy must purchase shares on the exchange from other shareholders willing to sell. This process is fast and efficient but you'll usually pay a premium. The premium reflects the demand or lack of demand for the trusts' assets.

Since 2003, the average premium over net asset value on GTU has been 3.2%. During times of great demand for gold the premium will push higher. I'm not a trader but some people trade GTU and CEF based on the premium. Ideally, you want to buy a closed end fund when it sells at a discount but that will be difficult as gold gathers increased demand. The premium on physical gold from Kitco.com is between 2-8% depending on if you buy bars or coins. As of this writing the premium on GTU is 6.4% - that's high. The premium can change rapidly so check it daily and choose a buy point ideally under 5%. The premium for CEF is 8.9% and SVRZF is 6.1%.

SILVER BULLION TRUST

4:45 PM	24-Feb-10	US\$	CDN\$
Net Asset Value per Unit (See Note)		\$10.36	\$10.93
Trading Symbols on TSX		SBT.U	SBT.UN
Closing Market in Units	24-Feb-10	11.00	11.54
Premium / -Discount		6.1%	5.5%
Number of Units traded on exchange		0	2,200
Trading Symbols on TSX for Warrants		SBT.WT.U	SBT.WT
Closing Market in Warrants		1.70	0.83
Number of Warrants traded		0	1,500
Total Market Capitalization of all 3,117,612 Units outstanding		U.S. \$34,293,732	CDN \$35,977,242

<http://www.gold-trust.com/PFIC/CGT%20-%20PFIC%20Statement%202008.pdf>) I'm not an accountant so consult with your tax man. I looked at the GTU web site and the passive disbursement from the fund was \$0 so this appears to be a formality.

Current premium/discount for GTU: http://www.gold-trust.com/asset_value.htm
 Current premium/discount for CEF: <http://www.centralfund.com/Nav%20Form.htm>
 Current premium/discount for SVRZF: http://www.silverbulliontrust.com/net_asset_value.htm

Tax treatment makes these funds ideal for a taxable account – much better than GLD and SLV. Also, CEF and GTU and SVRZF cannot lease their gold and silver out to short sellers. There are no other claims on the metals. Their prospectus is short and understandable and the focus is on safety and integrity.

A good discussion of the merits of CEF/GTU: <http://www.24hgold.com/english/news-gold-silver-information-commentary-on-cef-gtu.aspx?contributor=Andy+Hoffman&article=1759011268G10020&redirect=False>

A new offering is Sprott Physical Gold Trust (PHYS). This fund stores your gold in Canada or Switzerland and offers capital gain tax treatment. This was just announced on 2/27/2010. Here's the information link. <http://investwithanedge.com/phys-now-you-can-store-your-gold-in-canada>

A major reason to own GTU and CEF and SVRZF in a taxable account is gains on precious metals in these funds are taxed at capital gain rates if held more than one year and not as regular income like the gold ETFs. Confirm this with the fund or your advisor to be sure before investing. There's also an IRS form 8621 you should fill out the first year of ownership of a passive foreign trust (More info:

Tier Three: You can own gold and silver with exchange traded funds like GLD, IAU and SLV. These funds hold their metals in unallocated storage which means your gold and silver isn't held under the name of the fund but is mixed in the vault with the gold/silver of others. GLD publishes a gold bar list and I have every reason

to believe it's accurate but is the gold they buy the same bar they get back? These ETFs can be bought within an IRA or 401k plan very easily. All you need is a brokerage account.

The major problem with these etf products is the custodian banks are American or American incorporated offspring of foreign banks. It's been said that these banks short the gold they hold in trust. These huge banking entities are closely connected with Wall Street and the US government and some say they act as a market maker for gold price suppression. That doesn't mean they don't actually own the gold – they do – but are there other claims on it? To be honest, I don't understand what's going on.

Here's a very critical discussion of GLD which I don't endorse because I have no proof for some of the statements made.
<http://www.marketoracle.co.uk/Article9030.html>

In a taxable account, gains on these bullion ETFs are taxed at the US regular income tax rate with no capital gains treatment.

GLD holds over 1,100 tons of gold. If the US government wished to grab gold, could they order the American banks to liquidate the holdings, give the owners cash and send the gold to the US treasury? I don't know. Would they do this? I wouldn't put anything past these people if the dollar came under attack. Much of the gold owned by ETFs is stored in London and England is closely joined with US policy.

I'm not saying not to own these ETFs but be aware of their shortcomings. Another reason to own GLD, IAU or SLV is to lock in a gold price while waiting for the premium on GTU or SVRZF to fall.

What Not to Do: I would never hold gold with a coin dealer due to the risk of robbery and a lack of insurance. I used to be a dealer and it's a

dangerous business. I would not buy collectible gold coins as a substitute for bullion. I have bought and sold many collectible gold and silver coins. Believe me, minor differences in opinion on coin grading make for huge price differences. Forget it unless you're a pro. As for silver, I'd own pre-1964 US silver coins or government mint coins or large bars from a government mint or well-known refiner. I would not buy crude stamped silver or fancy 1oz commemorative mint bars. These items often are bought back at scrap prices and not as good bullion products. Do not buy diamonds for investment. I was trained to grade diamonds and found it frustrating and ambiguous. In the trade, there's a huge spread between wholesale and retail. Dealers won't buy from you – it's a phony market.

My Preference for Gold or Silver

Silver is an industrial commodity metal with secondary usage as a precious metal. Thus, its price is linked to global industrial activity. Silver is usually a by-product of other mining activities. It's often used up during industrial manufacture processes and that keeps the supply in check. As a substitute for money, I prefer gold but silver is a high quality asset too. Other than the jewelry trade, gold has little demand elsewhere except as money and that's why the Arabs, Chinese and Indians are buying the stuff. There's a new world order coming and they're stocking up.

I think silver will do fine as a precious metal provided you buy quality products. Silver is not prone to as much speculation and price manipulation as gold. Just be aware that the market dynamics for gold and silver are not the same. Silver has underperformed gold over the last couple years. Notice how the price slumped much harder than gold in 2008 as the economy stalled out.

I love platinum. Platinum is a wonderful precious metal and an excellent jewelry metal.

It's major use is in industrial processes as a catalyst and as a precious metal. Like silver, it's price is moved primarily by global economic activity. A new ETF was started in January 2010 called PPLT. It holds platinum in a vault similar to GLD and with the same unfavorable tax treatment.

I prefer one ounce gold and platinum bars over gold coins because the premium is much lower. Bars sell for under a 3% premium whereas coins can be near 8%. On resale, they both bring about the same. I like Kitco.com as a place to buy gold but others may be ok too. Local coin dealers can be very competitive and offer better privacy than buying online. You can pay cash and not provide



a name. That's worth a bit higher premium. Shop around.

I believe gold should not be taxed. All "profits" on gold should be tax free because any gain really represents a loss on paper currency. America's tax authorities don't share that belief so we have to comply with the law.

Think ahead about how best to own gold and silver. Imagine you owned gold via GLD and the price tripled. An ounce of gold might go from \$1000 to \$3000. Every time you sell some GLD to buy heating oil, you get hit with a huge tax liability. You sell one ounce and have to pay taxes on the \$2,000 inflation profit. At a 28% tax rate, that's \$560 in income tax. If you had owned GTU in a taxable account, you could cut

the tax bill in half because the tax would be treated as a capital gain and not as regular income.

Finally, here's a good discussion of other gold etf products and funds. http://en.wikipedia.org/wiki/Gold_exchange-traded_fund

Positioning for Inflation

I believe gold should be substituted for a percentage of the traditional cash allocation. That's because it's very likely we'll see negative interest rates for one or two decades, if the Fed is successful at inflating. At present, we have low inflation of under 3%, but interest on money market accounts is zero. Thus your money is losing almost 3% annually to low inflation. The erosion is barely perceptible to most people and that's what the government wants.

At the same time, US government debt will certainly soar for years. The only way to pay it off is through a negotiated default (possible) and gradual inflation (very likely). You might think the dollar would suffer badly under this scenario and there is, indeed, great risk. But, where is there a safe currency alternative? There isn't one currency that you can buy and forget about.

Who loses to inflation? Older people on fixed incomes and people with lots of savings but with low forward income opportunities. (That's why I suggest people on a fixed pension own at least as much in gold as their yearly pension payout. You need a counter balance to a fixed pension that's losing purchasing power). The working poor will feel the crush of rising prices. The

high income crowd with low savings will be damaged the least. They can earn their way out.

Inflation is a tax. It will impact the middle class gradually because few have big savings to worry about. They'll see a generational decline in standard of living as consumer products rise in price and will just have to work harder and downsize. The most at risk are those with large savings from a career, an inheritance or a life of thrift. This group is a thin slice of America and they'll get creamed as tax and inflation leprosy nibbles away at their assets. If it's any consolation, drug dealers, with huge hoards of dollar bills, will be the biggest losers.



I believe the US government will attempt to engineer a two decade growth in inflation with an average rate near 5%. Yes, they'd like it to go on for twenty years. Alan Greenspan said the same thing in his 2007 autobiography. Author John Rubino wrote an excellent piece of how Bernanke is planting the idea in the press that higher inflation might be a good thing. He's preparing the media for his next move.

This is a dance with very predictable steps. A few semi-obscure economists toss out the idea that we need to inflate aggressively, not just as a reaction to a crisis but as a matter of ongoing

policy. The U.S., in the person of Ben Bernanke, demurs, citing potential problems and appearing to care about the value of the dollar. Then, as events deteriorate a growing chorus of legislators and economists (look for Paul Krugman to weigh in soon) starts making panicky noises. And finally, Bernanke and the other Fed governors allow themselves, reluctantly, to be convinced of the painful necessity of further debasing the dollar. Which is, of course, what they've wanted to do since they aced their first college economics class.
Source: <http://dollarcollapse.com/articles/mr-bernanke-has-acknowledged-the-allure-of-a-higher-inflation-goal/>

Other nations will have little choice but to go along with higher inflation while they attempt to hitch their wagon to the growth in Asia and try to restart their own economies. Forget about deflation – they'll all inflate.

Investors think in terms of months, whereas the government views a fiscal and monetary resolution of debt as a multi-decade transition. To accomplish the goal will require bigger lies and more oppression and control as people come to their senses.

The government will attempt to engineer long term inflation but I doubt it will succeed very well at first. The dollar will likely crash against gold in a massive currency crisis before they can pull it off. I expect enormous market dislocations as panic spreads. The future effects can't be predicted. This process is called "The Crack Up Boom". It occurs when money rushes to tangible assets to avoid a failing currency.

Any success at controlling a future market panic requires that the government blocks all the exits out of the dollar before the masses act. When the crisis hits, choices for capital flight will be limited and high quality assets will already have

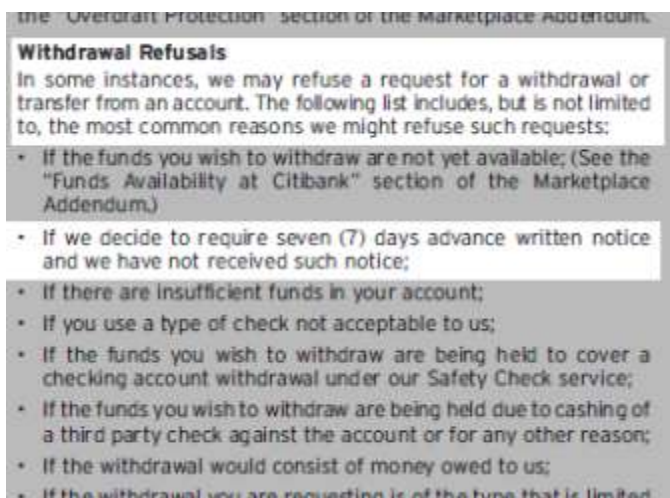
been bid up in price. If you're not positioned before the gates are locked, you're finished.

The government is closing the exit doors one by one and it goes unreported in the press. They intend to move the trusting sheeple through the narrowing pens to the financial slaughterhouse gate. There's growing rumors of the government planning to shunt your IRA money into government bonds when foreigners stop buying. I pointed out last month the new government rules designed to prevent you from accessing your money market account in a time of financial crisis. This month Citi Bank began notifying customers (in fine print) of seven day advance notice withdrawals from checking accounts.

"Effective April 1, 2010, we reserve the right to require (7) days advance notice before permitting a withdrawal from all checking accounts. While we do not currently exercise this right and have not exercised it in the past, we are required by law to notify you of this change."

-Source:

<http://www.businessinsider.com/citigroup-warns-customers-it-may-refuse-to-allow-withdrawals-2010-2>



These are plans to limit your access to money during a financial crisis or a currency transition. It will prevent you from dumping dollars, buying

land, buying gold or stockpiling supplies. They wouldn't do this unless they saw a high probability of a future crisis. You can't wait around expecting Fox News or your neighbors to come to a consensus. You're being herded up for slaughter.

A crash against gold is likely. After it happens, the Fed can inflate and manipulate to its heart's content. Gold will be too expensive and volatile to offer an attractive alternative. You either own it beforehand or suffer the consequences.

Stock and Bond Markets are at High Risk if Rates Rise

[In July 2009 I reviewed a study by Carmen Reinhart and Kenneth Rogoff.](#) They subsequently wrote a book I reviewed called [This Time It's Different: 800 Years of Financial Folly](#). Using their data and excellent analysis, TGR showed where things were headed. We're headed to a \$20 trillion national debt. By year end 2010 we'll be at \$14 trillion. By 2015, we'll be at \$20 trillion.

Rogoff used to be the chief economist at the IMF. [This week on Bloomberg he laid it all out.](#) The US debt problem will not be addressed until long rates hit 7%. At that point spending will have to be cut because interest on the debt will skyrocket. The attitude in Congress is they can't stop spending, they can't cut the military, and they can't raise taxes. It's a paralysis that will only be broken by crisis.

I believe it's likely that America will be able to transition to a high inflation economy for three reasons.

1. The dollar is the reserve currency and its competitors are weak.
2. Everyone else has the same problem.
3. The China sphere is afraid to float a regional currency because they're still export dependent on the West.

The Military Problem

The real question is where will they cut spending when forced to act? Serious cuts have to include the military but that will be a struggle because these guys are determined to continue the wars. In reality, when interest rates start rising, the US military budget will end up like a worn out Mike Tyson in a standing eight count. The spending champ will be knocked out and will hit the mat hard.

A recent editorial by columnist Pat Buchanan nailed America's problem perfectly. The conservative Buchanan represents the "rational right" and his stark commentary about our budget problems and militarism contrasts sharply with the war drumbeats from dullards like Glen Beck and Sarah Palin.

Now we prepare for a new war — on Iran.

We spend more on defense than the next 10 nations combined. Our Navy exceeds in firepower the next 13 navies combined. We have 100,000 troops in Iraq, 100,000 in Afghanistan or headed there, 28,000 in Korea, over 35,000 in Japan and 50,000 in Germany. By the Department of Defense's "Base Structure Report," there are 716 U.S. bases in 38 countries.

Chalmers Johnson, who has written books on this subject, claims DOD is minimizing the empire. He discovered some 1,000 U.S. facilities, many of them secret and sensitive. U.S. troops are now stationed in 148 countries and 11 territories.

Estimated combined budgets for the Pentagon, two wars, foreign aid to allies, 16 intelligence agencies, scores of thousands of contractors in Iraq and Afghanistan, and our new castle-embassies: \$1 trillion a year.



It is preposterous to argue that all these bases are essential to our security. Indeed, our military presence, our endless wars and our support of despotic regimes have made America, once the most admired of nations, almost everywhere resented and even hated.

Liquidation of this empire should have begun with the end of the Cold War. Now it is being forced upon us by the deficit-debt crisis.

Republicans will fight new taxes. Democrats will fight to save social programs. Which leaves the American empire as the logical lead cow for the butcher's knife.

Indeed, how do conservatives justify borrowing hundreds of billions yearly from Europe, Japan and the Gulf states — to defend Europe, Japan and the Arab Gulf states? Is it not absurd to borrow hundreds of billion annually from China — to defend Asia from China? Is it not a symptom of senility to borrow from all over the world in order to defend that world?

How could conservatives whose defining virtue is prudence and who pride themselves on following the lamp of experience have been taken into camp by the hustlers and hucksters of empire?

Source: <http://buchanan.org/blog/liquidating-the-empire-3646>

TGR has been saying this same thing for years. Obama and Congress are in a dangerous tango. Both go along with the wars, but know the military must be cut. Military spending now sucks up 44% of every tax dollar!!! Look at every failed empire of the past and you'll see the same bad ending. War, corruption and waste drains the treasury and the empire collapses.

Rogoff's book presents historical evidence that a currency crisis is the nearly inevitable consequence of a systemic banking crisis. Everyone in D.C. is waiting for the currency crisis to force spending cuts. This is why Washington is paralyzed. The question is who will commit political suicide first and demand the cuts. When D.C. cuts spending, our economy will contract rapidly because the government is now 25% of the economy. The military will roll up and America's client states around the globe will have to spend on their own defense. Our unemployment rate will rise even higher and more firms will go bankrupt. Spending cuts will be shock wave through our already shattered economy.

Congress will act and slash the military only after a currency crisis forces interest rates up. Neither Obama or Congress wants to be blamed for the world changing events about to occur.

Think about it, once the US military is scaled back, nations will form new alliances. America will lose not just its reserve currency privilege but all the bowing and scraping that goes with it. The stock market will be slammed. Bond holders will suffer big losses. One day the madness will end but will it end peacefully?

I am not anti-military. I support a strong military and the committed people who protect our nation. I object to the bloated budget and meddling in other nations.

In the twisted minds of the generals, more war extends the unsustainable a bit longer and offers

their only hope of avoiding the chopping block. It's not just a loss of power they're concerned about. Some of these generals and the neocons face personal ruin and imprisonment when responsibility for renditions, torture, deceit, and 9/11 is assigned. Discrediting the wars is the most effective way to undermine the military-industrial complex and gain public support for cutting the military budget. It's coming

Black Swan Descending on D.C.

I predicted in June 2009 that a Black Swan Event would occur in America and cause a political crisis, perhaps similar to the collapse of the old Soviet Union. My June white paper explained my position in detail. In February 2010 I published a follow-up white paper on the court testimony of former FBI translator Sibel Edmonds and her stunning disclosures of corruption. She discussed heroin dealing between the extended Bin Laden family and US politicians. The Clinton and Bush administrations are in deep.

It's one thing to have a financial crisis. That can cause a financial panic. Combine it with a weak leader and a crisis of government legitimacy and you have a recipe for political upheaval.

I think the Swan is coming in for a landing. The conspiracy of government involvement in 9/11 could enter legitimate public debate this year. [The Washington Times published an article on it this past week in their Inside the Beltway column.](#) That's the first major newspaper to go public.

How did 200,000 tons of steel disintegrate and drop in 11 seconds? A thousand architects and engineers want to know, and are calling on Congress to order a new investigation into the destruction of the Twin Towers and Building 7 at the World Trade Center.

"In order to bring down this kind of mass in such a short period of time, the material must have been artificially, exploded outwards," says Richard Gage, a San Francisco architect and founder of the nonprofit Architects & Engineers for 9/11 Truth.

Mr. Gage, who is a member of the American Institute of Architects, managed to persuade more than 1,000 of his peers to sign a new petition requesting a formal inquiry.

"The official Federal Emergency Management [Agency] and National Institute of Standards and Technology reports provide insufficient, contradictory and fraudulent accounts of the circumstances of the towers' destruction. We are therefore calling for a grand jury investigation of NIST officials," Mr. Gage adds.

Few financial commentators or politicians will discuss 9/11 and you can't blame them. It angers people and subjects the writer to ridicule. For example, Debra Medina is running for governor in Texas and supports states' rights and downsizing the federal government. She was asked by Glen Beck about 9/11 and she replied, *"some very good questions have been raised in that regard ... the American people have not seen all of the evidence there"*. Her statement mirrors John Farmer, the author of the government's official 9/11 report who has now repudiated it. Beck and the press jumped all over her and accused her of being a "Truther". She's actually a bright woman who knows what's wrong with America. If I was in politics or a public figure, I'd be careful on the 9/11 topic too.

Octogenarian Larry King on CNN spent months blabbering about the bleached, oddball Michael Jackson. Propaganda pixie Katie Couric will discuss teen phone sexting like it's something I should care about. But don't you dare bring up the scientific facts about nano-thermite or the structural impossibility of the WTC7 collapse. You're a god dammed danger to society; now

back to you Larry. Did Michael prefer Clorox for his bleaching sessions?

Fact is, pointing out the obvious on 9/11 gets you attacked by those protecting the people in power. I really don't care if readers get angry when I speak about 9/11 because I don't survive on subscription dollars or need anyone's approval. If my subscription base dropped towards zero, I'd still report the truth.

I just ask that you review my research before sending me long-winded insults. But, if you're really, really angry, don't let that hold you back. Go ahead and send it.

Here's my two reports.

[The Black Swan of Truth Circles America](#)

[The Coming US Political Collapse](#)

Dick Cheney had another heart attack in February. Bill Clinton also had heart problems taking him out of public circulation. George Bush met with Cheney this week. [Soon afterward Bush announced that he now seeks anonymity.](#) He said he doesn't want to see himself on television and wants to keep a low profile. I'll bet he does.

America's timid press reflects our inability to deal with the rational world. It's also a signpost warning about what is going to happen to most people in this country when the currency fails and the inevitable political crisis arises. You can be sure gold "speculators" will be pilloried. It's necessary to trust your own good judgment and act accordingly.

Take the Power Away from Washington

Those who trust the elected vermin to exercise good judgment or who believe that the military represents all that is good are the reason criminals have been allowed to ruin this country.

I'm astonished at these so-called conservatives who call for more punitive laws and more war. We need less government, no war, and sound money.

A return to rationality in America will first require a currency crisis to change the political mindset and force massive reform. It will not be the America you've known when the dust settles. Rationality means we'll start to address our energy problems, health care, wars, and budgets.

Subscribers know I have little respect for cowardly politicians of any stripe, hold the corporate media in contempt and am deeply suspicious of government spy agencies and the out-of-control military. They're supposed to serve the country – instead they're lying to us, over-taxing us and squandering our reputation and wealth. We wouldn't need their Social Security and other “safety nets” if they'd get their hand out of the public pocket. Let us keep the money we earned. We have too many laws, legions of worthless bureaucracies, too many layers of federal police agencies and excessive taxation.

The government is not America - we are. The bureaucrats are bloated lice on America's body. We need to step back into the figurative River Jordan and cleanse the infestation to return to health. Let's get back to our roots in individualism and apply our marvelous inventiveness. We need a change of policy. Dump the phony War On Terror, cut military spending and reduce taxes.

We have a moral obligation to help the sick and poor. We've become brainwashed into believing we need politicians and government agencies to do it for us. Let's place social welfare activities at the local and state level and take it away from Washington.

I agree with Ron Paul when he said our problems with terrorists are a direct result of our foreign

policy and support for despots. Why can't Americans see the obvious. Rather than change what isn't working, we look for foreign and domestic scapegoats and solutions from D.C.

Look what these D.C. fools have done to airline travel. We've got uniformed drones picking through our luggage and bullying people. Now they want whole body scanners staffed by voyeurs in private booths. Ridiculous.

Stop filling the prisons up with young people who like to get high. At over \$20,000 a year per person, we can't afford anymore to have the world's highest incarceration rate. A felony conviction ruins a person's job opportunities for life. Let them evolve past it – it takes time and experience to realize you can't keep a job if drunk, drugged and stupid. Spend the money on local rehab for those who want help. If somebody enjoys getting stoned at home and can hold a job – have at it.

Drug laws in America are nuts. Mexico and our border states bear the brunt of drug trafficking. Let's end it. Decriminalize recreational drugs and stop hassling people. Let Orville have his home cannabis garden or backyard still. Why should I care. If he becomes a drug abuser and ends up living in a cardboard box, well, tough luck. He did it to himself. Throw him in jail for doing actual crimes and not for getting buzzed or for having a joint in the trunk of his car.

Opportunity is Ahead

A financial crisis will pound the economy hard and leave a debris field that will take many years to clean up. Those who retain their good sense and whose assets are intact once the storm passes, will find wonderful bargains in the new economy that will emerge.

I'm actually quite optimistic about America's future once we discard our deceptions. Dividend

paying stocks can provide financial protection when they're priced right.

One consequence of energy reform will be a shift to more use of natural gas. America has a 100 year supply from shale fields in Texas, Louisiana, and Pennsylvania. Pipelines will transport it around the country. The blue lines are interstate pipelines and the red is intrastate.

I've been watching the pipeline stocks. Many are structured as master-limited partnerships and pay nice dividends over 6%. They're making new highs at this time – too expensive at this time. Higher interest rates should knock the prices down and provide a buy-in point.

I intend to track stock sectors like this and suggest dividend plays. My buying guidelines will require a dividend rate usually above the rate of inflation plus dividend growth potential. The buy-in price has to be reasonable because I won't chase a dividend. Also, yields below 4% really don't interest me, but there are exceptions.

You may wish to visit the public library and pull the Value Line reports on Kinder Morgan (KMP), El Paso Pipeline (EPB) and Buckeye Partners (BPL) and others in the distribution business. These firms make money on the volume of gas and oil shipped – the price is not the major factor.

In the months ahead, I will provide a new service only to subscribers with an analysis of dividend stocks on a regular basis.

These reports will not be published in the newsletter but will be available from the subscriber area. You'll be notified via a TGR Alert.

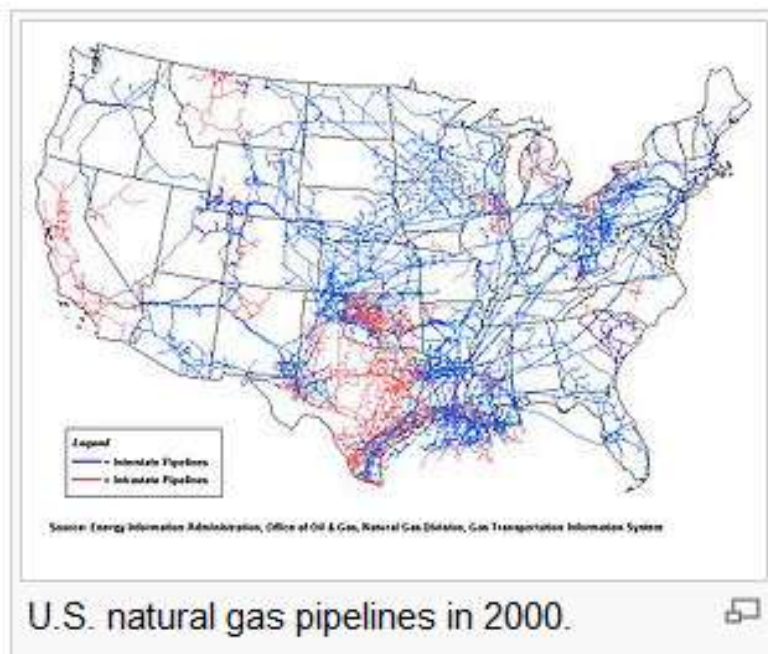
Summary: Current State of the Economy

Many analysts are negative on the economy near term. I am not. I agree that the GDP growth numbers are stilted but, regardless of how they were pumped up, the economy is expanding. Jobs in the service sector are increasing but there's little improvement in manufacturing. The unemployment rate has fallen from a high of 10.2% down to 9.7%. That figure is deceiving and may result from people giving up on trying to find work. The official numbers will get quite sticky at 8.5% and the prospects from there aren't too good.

As reported by ECRI in the New York Times:
During periods of American economic expansion in the 1950s, '60s and '70s, the number of private-sector jobs increased about 3.5 percent a year, according to an analysis of Labor Department data by

Lakshman Achuthan, managing director of the Economic Cycle Research Institute, a research firm. During expansions in the 1980s and '90s, jobs grew just 2.4 percent annually. And during the last decade, job growth fell to 0.9 percent annually. "The pace of job growth has been getting weaker in each

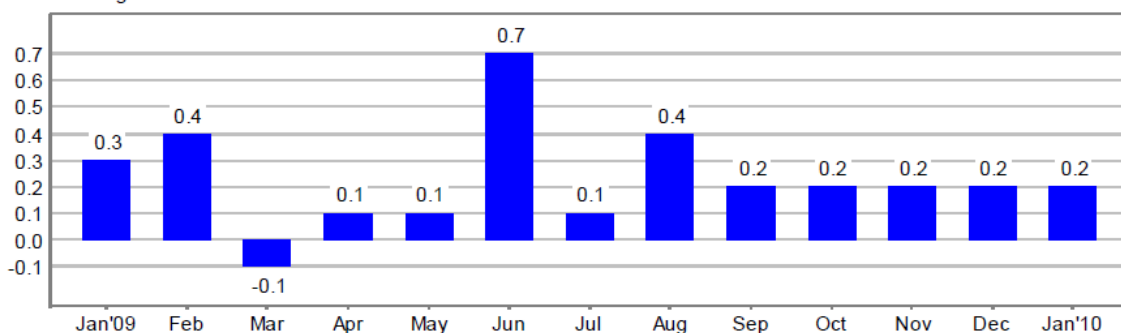
expansion," Mr. Achuthan said. "There is no indication that this pattern is about to change...."



As long as spending continues, the economy as measured by GDP will show improvement. Of course, we know that a debt induced expansion can't go on forever but another year is possible if Bernanke can keep the credit markets at bay. Our economic expansion is phony but how phony? GDP is a funny number. Our deficit spending (\$1.6 Trillion) and it's money multiplier add-ons serve to goose up economic activity. If we balanced the budget and reduced military spending by 50%, I suspect real GDP would drop by over 30%.

The consumer inflation rate remains subdued at under 3% annualized.

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Jan. 2009 - Jan. 2010
Percent change



This is important because it allows the Fed to keep the important Fed Funds rate near zero. That's bad for savers but good for the money printers. Are the CPI numbers phony? Good question. I've seen no proof but the numbers are distorted by rents which are very weak. We all know that food prices and paper products are certainly rising by more than 3% annually if you analyze it properly.

Some examples I've seen lately:

- Packages of paper plates now contain 72 items rather than 100.
- You can't buy 1/2 gallons of ice cream, they're 48oz rather than 64oz.
- Coffee is in 12oz bags rather than 16oz.

- Toilet paper rolls are 1/2" shorter and have less sheets on a roll

The Future Inflation Gauge from ECRI continues to push higher, indicating rising inflation by year end. TGR has been saying for many months that inflation and rising rates will start showing up in 2011. It will probably be enough to get people quite worried but not enough to induce panic.

Economic growth rates will decline by midyear 2010 to a more moderate pace. Thus there's no chance of an economic boom but another recession is nowhere to be seen at this time.

The problems will really start when long term

rates begin rising by 2011.

Remember, stock prices are discounted by interest rates. If rates move above 5% from the current 3.7%

the market will feel it. So, I don't expect the stock market to boom going forward. It will pace corporate earnings until rates rise.

Housing is in a decline lull. Rising rates won't help the price of homes but will help find the bottom. Farm land prices are already discounted because there's no bank financing and rates are set through private contracts at rates around 8%.

To summarize, the stock market is safe for now, but could weaken as we approach summer amid weaker economic growth. In an ominous ruling, the SEC announced on February 26th a reinstatement of limits on short selling. This isn't a vote of confidence in the stock market.

The commission voted Wednesday to strictly limit short sales of stocks that drop 10% or more in a single day.

“We also are concerned that excessive downward price pressure on individual securities, accompanied by the fear of unconstrained short selling, can destabilize our markets and undermine investor confidence in our markets,” SEC Chairman Mary Schapiro said.

Source:

<http://www.finalalternatives.com/node/11577>

Gold prices could remain in the doldrums through late summer. An absence of serious inflation and the dollar strengthening relative to other crappy currencies could mean boring times for gold. I'm hoping gold will fall closer to \$1000 to provide a last chance buy. That's not a prediction, just wishful thinking on my part.

Ben Bernanke stated in late February that the Fed will not monetize the debt and D.C. must act now to cut spending. Should we believe him? Sure. The Treasury can print money and inject it without the Fed by bypassing the banks. The Fed's fiat money digital accounts are fraudulent accounting anyway. The Congress and the Treasury can spend without the Fed. If the spending doesn't show up in the Fed's bookkeeping, the fraud is even easier to hide. So much the better.

There's little opportunity to make money in stock indexes. Dividend yields on the S&P500 are much too low at 2%. Rising interest rates are likely as inflation rises. Stocks will be discounted.

Don't put everything into gold. You need cash for opportunities and living expenses. These things always take longer to play out than you'd expect and there is no script to follow.

I firmly believe the best approach for average Americans and foreigners is to own a mix of gold/silver and cash. Stocks are acceptable if they have a dividend and, ideally, a great international business.

As I stated earlier, we've seen a 20% shift from Western to Eastern economies in only two years. Gold will save us domestically but that's not enough. We have to move into world class stocks because these businesses are a dollar hedge and a source of income. They'll survive any currency crisis. I intend to pursue this theme aggressively in the months ahead.

Q & A

Q. I see that you are IN short term bonds and have been for a while (VBISX). In your opinion is this safer than TIPS. In the past you said TIP maybe ok for small allocation, but it is not listed as an asset class. At this point in time to you think TIP is safe or switching to short term bond would be safer?

A. I think TIPS are safe but they have more interest rate risk than VBISX because of their longer duration. The best time to buy TIPS is when they offer a rate over 2%. You can check that [here:](http://research.stlouisfed.org/fred2/data/DFII10.txt)
<http://research.stlouisfed.org/fred2/data/DFII10.txt>

Then I'd wait for the 100-200 day moving average to start moving down or not rising. Here's a chart:
<http://research.stlouisfed.org/fred2/series/FII10?cid=82>

Right now they're at 1.35% so I'd wait a bit. I buy TIPS when they offer a high yield and then sell them when they go under 1.5% or so. This provides a nice capital gain plus the interest.

Last time I bought they were close to 3% - that's rare.

Q. I must say that your newsletter shocked me regarding the possibility of the government forcing retirement accounts into Treasury bonds. I am weighing the possibility of cashing out my 401k and IRA and paying the tax and penalty. I am assuming this type of government scheme would be voluntary, but only heaven knows.

A. The buzz I'm hearing is it won't be voluntary but would require a percent of your assets - not all. It's in discussion and not yet law. There's over \$10 trillion in US retirement accounts and foreign buying of our bonds is drying up. It will essentially end by December 2010. Where will they get the money to fund the debt? Bernanke says he won't monetize. I've said all along they'll steal from savers. This is exactly what happened to savers in Argentina! Does anyone in the press even ask the question? No. We're sheep about to be sheared.

The fees and lack of choice common to many company retirement plans is a big problem. I wouldn't cash out of them because of the huge tax penalties. Check with an advisor to see if there's a way out. One way is arrange a deal with your employer to quit and get hired back after you've rolled the money to an IRA.

People trapped in these toxic 401k plans with high fees and no access to precious metals might consider a stop to contributions.

Q. I find your report substantive, and your timing model seems to validate your approach. Although you indicate the performance of the asset classes shown in your summary, I think the most important question is one of asset

allocation, so one can get an exact measure of portfolio performance over time.

Given this, can you define what your current asset allocation is: (ie,% of investable assets in each of the asset classes shown) so this can be compared to other risk-managed strategies over time.

A. The reason I don't provide a recommendation of what percent to allocate for the IN asset classes is twofold. First, there is no universal allocation percent that fits everyone. Second, I'm not a financial planner and for legal reasons I must avoid giving individual advice. This is a tricky topic. If I said "place 30% in gold" that may be totally wrong for a person with a high expense to income ratio who may have to cash out in three months.

I have my book available free on the web site and you can easily calculate the performance of each portfolio by looking at year end results for each fund.

A successful investor has to think for herself. You don't have to get everything right. Just avoid big losses. It's good to get the counsel of a good financial planner to avoid huge mistakes with taxes and to get general advice. Just realize that some of these folks advise a one-size-fits-all strategy based on your age. Too many use high-fee funds and try to push annuities.

That's why I suggest using a non-commission advisor.

Q. Why is the last August 2009 SELL not reflected in your commodity model's historic track record? Is it a special case that is not triggered by the model?

A. I made a quick buy in July 2009 and a sell in August 2009 for an 11% gain. This buy/sell was

based on other factors and methods. I didn't introduce the Commodity Trend Model until the October 2009 newsletter so it wouldn't be accurate to include it in the results.

Q. You have been very bearish for way too long. The market goes up way too much to be that bearish. But I highly respect your independent thinking and I think your service is quite unique not to mention that I made good money on the tips. I think, like me, you will find many subscribers that need more trading /investing advice and less info on corrupt politics.

A. I am not a trader and doubt I ever will be. As for politics, I believe the political culture of a nation has a big impact on its financial system. For that reason, I hold my IRA gold in GTU rather than GLD. I made a decision to own gold in Canada rather than in London/NY. I know my tone isn't for everyone but it is transparent.

Q. I think we're facing a particularly challenging and terrifying investment environment because it is becoming more clear to people that we can't trust our politicians. And probably worse than that - who and what can we trust? We're essentially on our own.

A. Correct on every point.

Best Regards,
Southwest Ranch Financial, LLC
(www.gleasonreport.com)
Tom Gleason, Manager & Researcher

Author of: [How To Invest If You Can't Afford To Lose](#) (Free download on the website)

Tom Gleason has degrees in finance and information systems. He's worked as a bullion dealer, fraud investigator, real estate appraiser and financial analyst.

[Previous eletters for the past year can be viewed on the TGR website.](#)

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