

# The GLEASON REPORT

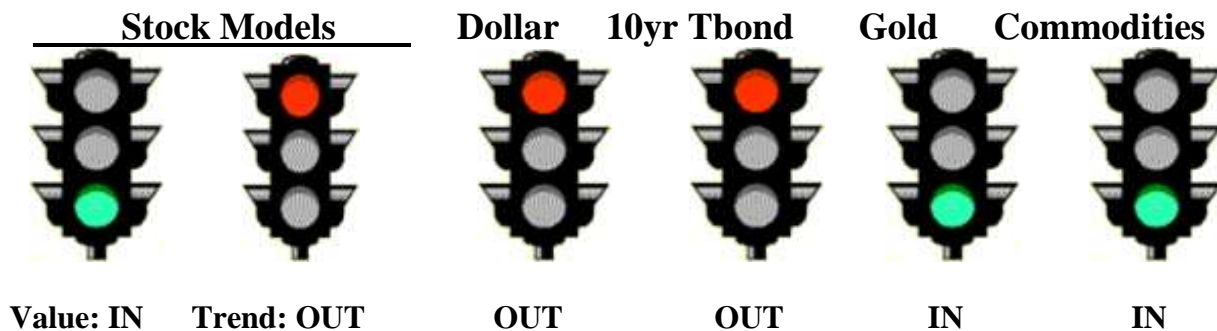
## Market Timing for Investors Identify Turning Points in Asset Classes

June 2010

[www.gleasonreport.com](http://www.gleasonreport.com)

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### Status of the TGR Timing Models



#### Inside This Issue .....

- Discussion of the asset classes
- Comments on the general economy and inflation vs. deflation
- Troubles in EuroLand. Can't tax and can't spend.
- A World in Transition. The West's plantation culture is fading.
- Why Postal Workers go Nuts. Sane people in an insane system?

This issue of the Gleason Report can be linked to at: [www.gleasonreport.com/emails/2010-06-tgr.pdf](http://www.gleasonreport.com/emails/2010-06-tgr.pdf)

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**S&P500 at 1089**

Year to Date Asset Class Returns			
Symbol	Asset Class	YTD Return	Model Status
PCRIX	Commodities	-7.4	IN
VGSIX	REIT	11.4	OUT
VFINX	S&P500	-1.5	IN
VMFXX	Money Market	0.1	IN
VBMFX	Bond Index	3.6	OUT
VGTSX	Intern'l Stocks	-11.0	OUT
VISVX	Sm Cap Value	7.6	OUT
VBISX	Short Term Bond	1.9	IN
GOLD	Gold	10.5	IN
BWZ	Currency	-8.0	OUT

being influenced but it follows the money and the government will continue to spend.

A reader sent me the chart below. It depicts the Nikkei index over Japan's deflation years and shows how stocks mounted repetitive rallies in a long down cycle. A lot of money can be made playing these minor cycles. Does America face something similar? I would guess yes with spending and debt convulsions causing whipsaw oscillations.

My Stock Trend Timing Model did not buy into the S&P500 as of May month end. Only the Value Model is IN.

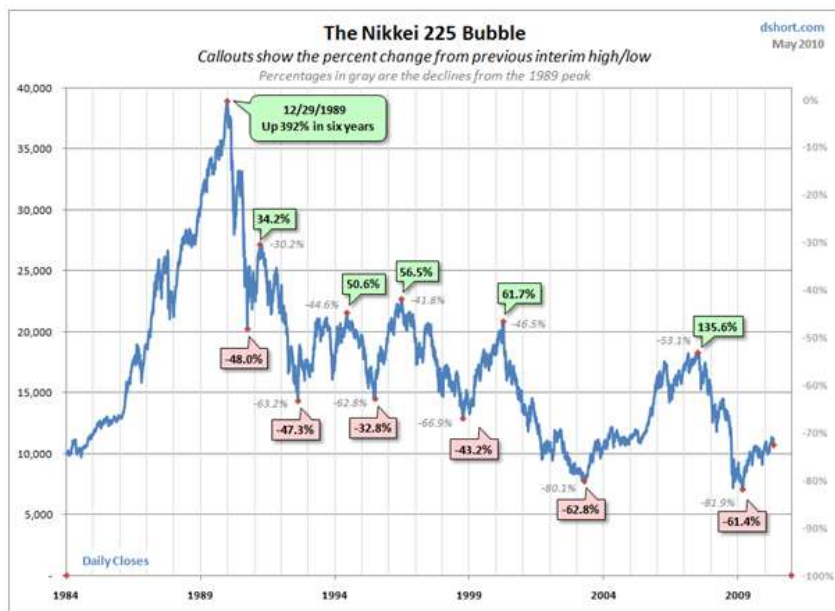
**Stocks**

My Value Stock Model issued a Buy Alert in early May at 1120. I said the market could go about 4% lower which it did. I am not enthusiastic for the stock market but passed on the alert because mine is a mechanical system. I have a 1/2 position of what I'd normally take. There are people making predictions of an imminent stock market crash. I don't see evidence to support that idea at this time. This is an artificial economic recovery and my model is

**The Dollar**

My Trend Dollar Model is out of the dollar. The US dollar continues to gain ground on the Euro. What a choice. I have no interest in either. America and Europe face many years of debt deleveraging and lifestyle contraction. That's what the average person will experience. There will be wide variations in individual experience, of course.

US will continue to spend money amid reflation efforts. This will support markets at the cost of debasing the dollar. The objective is to gradually reduce the negative shock to the housing market, debt markets, stocks, pensions and on and on. It might work but the dollar will be a shambles. What we don't know is how long this process will take.



As the US spends, China's much lower cost structure acts as a powerful disinflationary sinkhole. It sucks up our reflation money and continues to grow. Anyone with a speck of sense can see where this is headed. The pain ahead for the Western economies

is just too severe to serve up to the public in one sitting. For social reasons it must be spread out over at least a decade.

This means the dollar's decline will be gradual and pernicious and anyone seeking shelter in currency and money market accounts will experience an eroding lifestyle.

### Gold

I believe gold is at about fair value under \$1200 based on its relationship with oil and a bit high relative to long term domestic inflation. The metal, of course, is discounting the future. Gold is likely at the very early stages of a mania and may hit future prices I can't predict. The big decision for every gold owner is when to get off the rocket and switch back to currency. I have some techniques prepared for that. I truly believe that everyone needs a core position in gold.

Silver is worth about \$20 based on US domestic inflation. If remonetized it would go much higher.. That's a big if, but it may be the better trade in the very long run. No guarantees on that.

### Bonds

I don't own any bonds or any TIPS. I am not shorting treasuries yet and believe it's best to wait until inflation rises by 0.5% per month for two months. I want to see a change of trend. That's been the right strategy as treasury rates have fallen a lot since the Euro crisis. The deflation pouring out of China and their purchases of dollars serve to keep their currency and US rates down. This can go on for a long time or until China thinks they're strong enough to step away from their dollar pegged currency. I suspect a bond crisis is in our future when they stop buying our bonds. For now, there's too many variables to make a timeline prediction. America is on a suicidal debt path that China is

willing to finance. Their economy strengthens while ours gets weaker. It's like a black hole draining off the energy of a larger star.

### Commodities

The DBC commodity index is down about 6.7% since I bought. I believe reflation will win out over deflation. If the model reverses, I will acquiesce to the change of trend.

### Is Gold a Bubble or an Opportunity?

The Fed is holding interest rates at zero percent. This policy causes money to flow into other assets seeking a rate of return or a return on capital. It creates asset bubbles. There are valid reasons for asking if gold, commodities, stocks and bonds have been bid up too high.

"Everything is being manipulated by the government", says hedge fund manager Seth Klarman. Mr. Klarman is president of the Baupost Group, an investment firm in Boston that manages \$22 billion. His three private partnerships have returned an annual average of around 19% since inception in 1983 -- and nearly 17% annually over the past decade, as stocks went nowhere.

Mr. Klarman was asked what he would suggest for smaller investors who share his worries. *"All the obvious hedges" -- commodities and foreign currencies, for example -- "are already extremely expensive," he warned. Especially gold. "Near its all-time high, it's a very hard moment to recommend gold". Klarman says to buy out of favor assets if you can find any.* Source: <http://www.gata.org/node/8672>

Then you have multi billionaire Thomas Kaplan who is all in on gold – everything.

*Through his firm, Tigris Financial Group, and affiliates, Mr. Kaplan has loaded up on bullion and bought up properties in 17 countries on five*

continents, where geologists are exploring for more. Tigris subsidiaries have taken stakes in mining companies, including tiny firms that have yet to produce an ounce.

*Though he won't disclose how much physical gold he owns, Mr. Kaplan, who is 47 years old, controls up to 30% of the shares in some so-called junior miners. Together, his holdings amount to a nearly \$2 billion bet on gold, more than the Brazilian central bank's bullion is currently worth. I've reached a point where I feel the only asset I have confidence in is gold," Mr. Kaplan said in an interview at Tigris's midtown Manhattan headquarters. Source: <http://www.gata.org/node/8666>*

These two super rich guys are at extremes of opinion. I'd like to sit in on a dinner conversation between them. I guess I'm somewhere in the middle. I can pay my bills with cash but not with gold. Dollars can buy what I need. As I look further out, I see governments in trouble the world over and all wondering about their own dollar reserves and Euros and Yen.

I think the recent deflation of oil to \$70 was healthy. It's probably the short term fair market value for the commodity. At 16 x oil, gold would sell for \$1120. So, I think gold at \$1180 is a bit high but not enough to worry about. The prospects going forward for gold are ok since oil is in depletion. I am concerned about gold being a "crowded trade" but don't see it as a bubble.

### **Bond Debacle Coming?**

According to TrimTabs Investment Research, investors poured \$467.2 billion into bond mutual funds in 2009 and a further \$115.8 billion so far this year. By contrast, an average of \$43 billion flowed annually into bond funds from 2003 to 2008.

*"It's a bond fund bubble," says Marilyn Cohen, chief executive of Envision Capital Management in Los Angeles and author of the book Bonds Now!: Making Money in the New Fixed Income Landscape. Most of these new fund owners are "unsophisticated investors" who are unaware how much rising rates can hurt bonds, she says. (Because institutions and wealthy investors tend to buy securities directly, mutual fund customers tend to be retail investors.) "If we get a big spike in rates, there will be a mass panic," Cohen says.*

Ms. Cohen is correct. Small investors have no idea how much they can lose when rates rise. It's staggering. I suspect it will start with municipal bonds when cities and states admit they can't pay their debts.

### **General Economy**

The US economy continues to expand but at a slower rate. The leading economic indicators are in a topping process. This means the economy will appear ok for another nine months to a year. Bear in mind that the stock market goes up or down well before the overall economy. It will take increasing volumes of debt spending to expand our GDP.

The question facing us has two aspects.

1. how long can the government continue to print and spend money?
2. will the real economy take over before the government must cut back spending?

Once the purview of fringe economic commentators, the deepening public debt problem is now a mainstream concern. In addition the public does not trust the government, public officials, or the bankers. The financial markets are viewed as rigged and phony. For once, the public is right on the macro finance issue.

The public knows that funny money is goosing the stock market. In early May the DOW index

dropped a stunning 1000 points in less than an hour. It quickly recovered and the government and exchanges forced certain transactions to be reversed as if they didn't actually happen. Stories were trotted out about how someone at a bank with a "fat finger" hit the wrong button. Programmed trading was later blamed.

I smell a rat. The banks were the conduit for juicing up the stock market with government money. Knowing the game plan, the banks pushed the money into stocks and the markets naturally soared. The small investor sat on the sidelines. Massive spending, bond buying and low interest rates did their magic. As the coincident economic indicators improved and the long leading indicators appeared benign, legions of happy talkers on TV began saying how great things were. The government knows that small investors act on news and not on data. The good news would induce the small investor to get back in. This period of positive mood provided cover for the bankers to exit. The bankers were bailed out by the taxpayers and now they want to bail out of the stock market with their gains.

The government stated that April 2010 would be the end of Quantitative Easing. Flush with massive trading profits from months of trades without one losing day, the bankers began their exit strategy. In this rigged game they have the inside plan and carefully started to take money out of stocks while the retail investor entered. It's called "distribution" and is the same game the robber barons played over 100 years ago except now it's done with government complicity.

I believe a bank tried to get one-up on the competitors and did too many exit trades and caused a stampede out by other banks. This was not a retail investor reversal. It was an insider slide.

To answer question #1. The government has limited time to show results from spending

because the markets and the public are worried about the tactic. As for #2, the consumer sector is far too weak to take up the slack from the government. That means stimulus money will be needed for a long time. Was it necessary for the Treasury to bail out the big banks? Yes it was. If they hadn't done it the whole system would have collapsed and that's not an exaggeration. I understand the thinking of people who say let them all fail and we'll sort it out later. That will not be allowed to happen because those banks will be needed in the later economic reconstruction.

At the state level, budgets are in such bad shape that we'll likely see job cuts of 1-2 million state employees over the next year according to star analyst Meredith Whitney. She says it could even get worse. Loss of public sector secure jobs won't help the consumer sector recover and will undermine confidence.

Plus, we're all facing increasing taxes as states try to raise revenue. The California pension fund asked the governor for \$700 million dollars immediately after he announced billions in spending cuts. Bad investments are killing the pension fund. A general stock market downturn would positively demolish any hopes of resuscitating the economy. Pension funds and insurance companies would be blasted if stocks fall. High stock prices cause people to feel prosperous. The recent increases in consumer spending have come from the richest consumers who derive wealth from investment income. Take that way and watch out.

It's a rocky road ahead. We will likely have more negative shocks prior to year-end 2010.

### **Troubles in EuroLand**

The situation in Europe has not helped America. This month they were forced to adopt American style easing and spending programs in order to save Greece and the Union. The money

floodgates have opened in Europe and the Euro got slammed. Yes, the dollar has strengthened against the Euro. This, however, now creates a situation where Europe's production costs improve against America. The advantage will likely reverse in the future. We'll see competitive currency devaluations back and forth. The only winner will be gold.

As budget and benefit cuts spread through Europe, the socialized, civil society they've created will come under great pressure. Will it come unglued?



**The Asset Grab**

Another theme I've discussed at length is what governments do when they get in deep trouble. Essentially, when they finally can't borrow money in the markets, they steal it from their citizens. They reduce benefits via means testing, they

impose higher taxes, force money into government bonds and they inflate.

You think taxes are high already. Look at Europe. Maximum tax rates are confiscatory. This is why Europe is headed down the tube faster than America. They've maxed out taxation.

We have ample evidence for what's ahead. Carmen Reinhart, co-author of This Time is Different, a book I previously reviewed, has documented 800 years of financial collapses. It's nearly the same every time. When they can't pay for their promises, they first steal from those who have it and give to those who don't. Then they inflate and finally default.

In addition, Europe and America have demographic problems that stimulus can't fix. For example, Germany's population is dropping by 50,000 people per year. As taxes go up, older people tend to sell their financial holdings (stocks) to pay living expenses. That's a powerful headwind against the stock market.

Pension fund failures are directly ahead. In America, these obligations will be absorbed by the federal government which is responsible for all pension fund failures public and private.

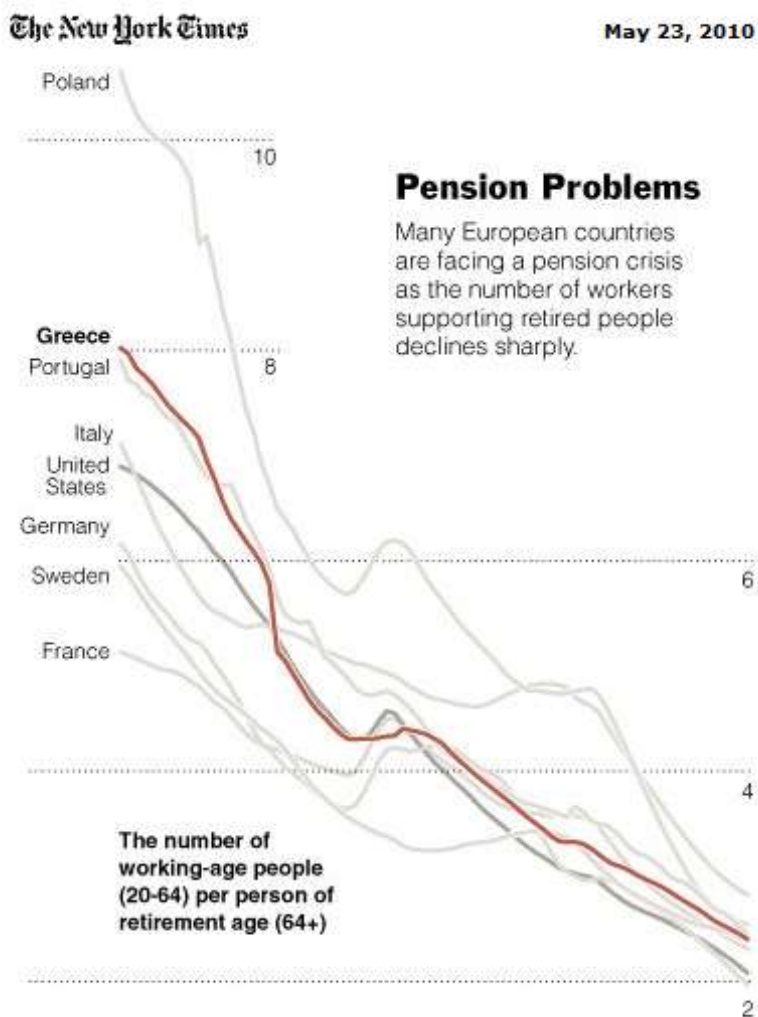
Country	Maximum Personal Income Tax	VAT	Total
Denmark	58%	25%	83%
Sweden	55%	25%	80%
Norway	54.3%	25%	79.3%
Netherlands	52%	19%	71%
United Kingdom	50%	17.5%	67.5%
Germany	45%	19%	64%
Portugal	42%	20%	62%
Greece	40%	21%	61%
Spain	45%	16%	61%
France	40%	19.6%	59.6%

**A World in Transition**

I receive frequent emails from people asking about asset classes and concerned about short term swings in prices. I receive information from traders and people who believe they can beat the market over time using moving averages or charting software that tries to use past patterns to predict the future. Charts can't predict the future. Some people use Elliott Wave chart patterns to predict the future. It doesn't work.

Over the course of a strong trend, there will be wide variations in prices. Sometimes the primary trend is weak and little is gained. Never commit too much to an asset class but let strong trends ride. As a strong trend fades another strengthens. Money has to go somewhere.

Most people can't wait patiently for the trend to play out. They want action. Others panic in and out and never hang around long enough to get the gains. The financial services industry preys upon these people and grabs percentages of each trade dollar.



Here's what you need to understand. Money seeks the highest rate of return. An asset class has a primary trend based on fundamental financial relationships with other asset classes. Align money with the dominant trend and wait.

Almost all "traders" lose because the house skims away their capital over time. My observations tell me that traders, although usually of above average intelligence, are really gamblers. I've never known a gambler who can walk away and stay away after winning big. They need the action. If you enjoy casino gambling that's fine. But, if a person is a gambler, they will lose all their money in the financial markets. Or, they'll lose so much that the wife will leave taking her income. She dumps the household expenses on her loser hubby, usually locked in the bedroom with his trading screens. Gamblers end up living an old age of peanut butter and Jack Daniels and recounting stories of their past big wins.

Our politicians are gamblers playing with our money. The politicians convinced us that everyone could win and promised a secure retirement to all. The crisis in Europe and America are signs the game is over. The federal government will end up taking over many state pension funds.

Means testing for benefit eligibility is ahead. The smart citizen will be hiding some wealth. Folks, own some physical wealth secured from government scrutiny. What they can't see, they can't steal.

### **The Failing Military-Industrial Complex**

The world financial system that was built upon the post WWII economic and military American Model is fading. The American Model was domestically called the Military-Industrial Complex. This phase of socio-economic evolution was about reconstruction after the war and establishing military and industrial alliances and avoiding armed conflict. The generals did a good job of holding congressional support by spreading military bases and contractor jobs across the fifty states. The game could have lived a longer life but our politicians in Europe and America began to trade/gamble on the public purse. In the terminal stage we got political corruption, big banks, social welfare societies and finally never-ending, stupid wars against phantom enemies.

We sold off the “Industrial” portion of our power base to Asia and then accelerated borrowing. Our accumulated debt is just a marker of how much was borrowed from “the house” to continue playing.

The “Military” portion of the Military Industrial Complex is an illusion. America has flotillas of aircraft carrier groups roaming the oceans supposedly prepared to swat down any aggressor. These behemoths have been obsolete since the invention of the second generation cruise missile two decades ago. We spend a trillion dollars a year to support this old model of power. The carrier group concept hasn't been forcibly challenged since 1944. It hasn't changed nearly as fast as other war technologies. Several dozen ocean skimming 3000 mph super-bullets could take out our Mediterranean fleet in one afternoon.

Debt will end US military dominance. Within six years, interest on the US debt will exceed military expenditures. They'll have to cut the military to fund debt payments.

The illusion of dominant power projection persists. The day it ends will turn the world on its head. The weakening financial systems of the West will probably tempt someone to give it a try.

### **The Overseer Overspent**

A new financial system is being born. It won't have its foundation in post-war alliances, debt or a dollar reserve currency system. This observation provides us the key to positioning ourselves while we wait for the newly conceived world trend to gain its legs and step past the fading American model. The new model won't be the American/English plantation society cultivated since 1945. It will be based on productivity, access to commodity resources and a hard-nosed recognition of real value.

It should be clear that our plantation prosperity and use of borrowed money to buy the work of Chinese slaves is coming to a rapid end. We're like the master of an antebellum plantation wearing a threadbare suit and putting on airs. When the master can't pay back the borrowed money or bestow additional benevolences on his extended family, the master, his land, and clansmen will go the way of all bankrupts. It means the end of the Western style social-welfare state.

Is the future model defined by China's re-emergence? How can anyone hold up a work camp culture as a model of anything worth emulating? I do think China's fascist model of state and corporate power has an emerging counterpart in America. The Patriot Act and protected bankers isn't that out of place if you compare it to the China Model.

In this changing economic system, gold isn't a stand-alone asset class. It's a transitional holding. It's the key to getting off the plantation before the old ways are swept away. The

plantation is bankrupt, the master is on Death's door and the family is looting his office drawers.

The US central bank is dominant in the world. It has pushed short term rates to zero and sent financial markets into the chaos of speculation.

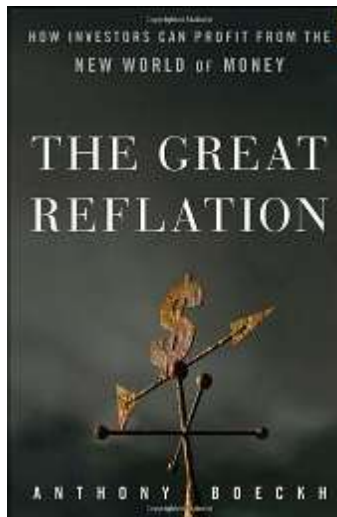
### **Inflation or Deflation**

This topic goes back and forth. Anthony Boeckh was the CEO of Bank Credit Analyst (BCA) for decades. BCA is a top-notch forecaster of economic trends. Boeckh has written a book called **The Great Reflation**, which I can highly recommend. He attempts to answer the question of what lies ahead – depression or inflation or something in the middle.

This book is excellent for two reasons. First, he provides an experienced opinion based on years of forecasting. Second, he provides some useful market timing tools for stocks, bonds, gold, and more.

The US and now Europe are attempting to resuscitate an economic system that wants to deflate. If they don't spend, the system will crash. Hyper inflation is not likely unless things severely get out of control. But, reflation will likely be the victor because central banks have a printing press.

Boeckh's book is readable for the non-economist. He explains that America has been in a decline phase for decades. It's been interrupted a few times by attempts to reflate the economy with spending and debt infusions. The liquidity injections get much bigger and more frequent each time it's done. This last one starting in 2008 is gigantic and he describes it as a "great experiment". (The stumble in Europe caused world governments to throw more logs on the fire. The US bonfire wasn't enough. –tgr)



Boeckh says the good news is that another innovation era will follow this down cycle. The bad news is that you could be broke before it achieves lift off. It might take five more years or even longer to start. The current deleveraging cycle will wipe away a lot of wealth along with the debt. The US Empire is going bye-bye. These are themes I've discussed at length in this newsletter over the years.

Will the West be able to reflate? That's the big question and Boeckh says he doesn't know for sure but has an opinion. He offers some good measuring tools to evaluate where we are in these repetitive reflation cycles. He says investors should not employ buy and hold investment strategies.

If you want to survive, you must become a bit of a market timer. He offers some market timing techniques for various asset classes. They are rough tools but may be all you need. For example, he shows how you can use a combination of a 3 and 9 month moving average on gold that will likely work during the manic phase. It won't work in a sideways market like that of the 80s and 90s.

He insists that holding cash will not keep you safe. This is a familiar theme to readers of The Gleason Report.

The termination of this cycle will sweep away the Empire and probably the dollar and Americas relative standard of living. Some will become rich by investing right but most will lose. Expect dramatic changes.

He believes gold could enter a mania phase and that's a belief I also share. I don't think gold is going to \$5000 next year. I think gold is and should be linked to its purchasing power over other assets primarily oil. Oil is essential for our world and gold may maintain a linkage with it.

As currencies get pummeled and nations are forced to make cuts to social welfare systems, it's likely people will be engulfed by despair and panic. Gold could get nutty.

It's unlikely we'll see a gold standard anytime soon, but some new system, not yet invented, is needed to replace the dollar standard.

Boeckh is not positive on commodities and believes world supplies are more than adequate. He thinks the theories about commodities as an independent asset class don't hold water. He does say oil is headed higher. He doesn't discuss Peak Oil and seems to say that alternative energy sources will compete with oil sooner than I expect.

We're in a pronounced debt destruction phase and people hold cash because it's safe and hold gold because cash pays nothing. If high inflation and social turmoil arrives, gold could go into a mania. If the great reflation fails, we may experience real deflation. Oil and gold could tumble.

Boeckh is honest and says he can't predict the final outcome. Although the future can't be foretold today, it becomes clearer as we progress in time. Timing tools provide a higher level of confidence nearer the event. I don't care for his simplistic moving average timing ideas. I do think, however, it's a good idea to read this book.

### **Seething America**

My discussions with average Americans show that people are filled with anger at their government. They hate their congressmen and want something different, but there are no alternatives to Rs and Ds. Wall Street is rigged and the politicians are paid off. Simply look at

Bill Clinton and former politicians being paid off by corporations for their criminal compliance while in office.

The US Census visited my house. The articulate gentleman was in his mid 60's. An engineer, he spoke six languages including fluent Arabic and has been in 50 countries. He's doing census work for the money, not because he's patriotic. He can't get a job anywhere. Without a trace of anger, but with an attitude of resignation, he said it's because he's over 50 and male.

His financial situation may show what has happened to people who didn't save enough or who lost their money late in life due to successive market crashes, business failures or divorces. After a certain point, you're out of luck and there's no way to recover. Time runs out.



As he travels around and speaks with other census workers, he says they note the mood in America is very angry and it's everywhere. He believes something is going to pop. Say what you want about Mexican immigrants and the black urban poor. I think that at this point in time, a far more dangerous group is the angry white man (and woman).

We have difficult choices ahead with our personal assets. It's critical to only make market bets when things are aligned for success and walk away otherwise. First-person discussions like this and the insights offered by Anthony Boeckh should cause readers to be very cautious about the years ahead. We must not chase market returns. It's essential to set aside some money in gold even if you hate the stuff. We can't predict the future. We do know from history that debtor nations like Europe and America are probably in unrecoverable decline

spirals and face a dramatic drop off in their standard of living.

Social security will be means tested and pension related benefits may well be cut. It's not to your advantage to have too much money showing.

### Who is Obama?

I've been criticized by some readers for ignoring the Barack Obama birth certificate story. I publish criticisms of my comments and omissions in my monthly Q&A. The so-called "birthers" claim that Obama was not born in America and his true birth origin is Kenya. Thus he's ineligible to be president.



I've considered this story implausible by simple logic. First, why would his opponents allow him to serve if they had any evidence he wasn't born in America. They'd out him immediately. I figured the reason he wouldn't show his birth certificate was because of some embarrassing information on the document. Maybe his father wasn't really a Kenyan diplomat. Maybe it says "father unknown". The State of Hawaii says he has a birth certificate on file but won't allow anyone to see it.

A story this month got my attention. Two private investigators independently found Obama's social security number using a selective service database and other PI tools. Remarkably, they claim his SS# was issued from Connecticut – a state in which he never resided and with which he had no affiliation. According to Social Security Administration procedures, the number should always be based on your state of residence.

Furthermore, his SS# was issued between 1977 and 1979. His first job was in Hawaii in 1975 (at age 15) at Baskin Robbins where it's assumed he

would have needed a SS# for tax purposes. So, why does he have a SS# issued around 1978 and from a state where he never lived? Most rational people will roll their eyes at this birth certificate stuff. Maybe the detectives have it all wrong or maybe there's a simple explanation. Normally, I'd agree. On the other hand, what's the harm in discussing it if you're out of work with nothing better to do?

Anyway, I've decided it's interesting and fun. I won't draw any conclusions but I agree that Obama needs to explain what's going on. I don't believe it's unfair or offensive or racist to ask him to publish his birth certificate.

Here's the story:

<http://www.wnd.com/index.php?fa=PAGE.view&pageId=152773>

Here's more detail on the detective:

<http://www.dailymail.co.uk/news/article-1231542/Barack-Obama-British-detective-Neil-Sankey-claims-lied-birth-President.html>

We have every right to demand information from our politicians. They are public officials not privileged celebrities. If we had earlier cornered Chris Dodd, Barney Frank, Dick Cheney and the other cheats and criminals, we wouldn't have wars and a collapsing economy. If someone had done their job and exposed the BP sloppy oil drilling procedures, we wouldn't have a catastrophic environmental disaster in the gulf. These politicians and corporations can't pretend their business dealings, lies, and private actions are off limits to the citizens.

Here's a blog that follows the "birther" issue relentlessly.

<http://obamareleaseyourrecords.blogspot.com/>

Why must we go to the English newspapers and alternative media sites to learn about these stories? How can the Bill Clinton's administration get away with the Iraq Genocide of 500,000 Iraqi kids and the story is totally ignored by the US press? The corporate news ignores the growing incendiary facts of 9/11 spreading all over the alternative press.

Let's state the truth: The US corporate media has a knowledge blackout on important and controversial issues. It's a waste of time to pursue truth from the FOX News team or Katie Couric. These corporate zombies work for a paycheck and not for the public interest. I say hound politicians, annoy them and insult them at every opportunity until they tell the truth. Smoke 'em out. Don't believe them on anything until they answer your questions truthfully.

There is little truth in the mainstream media. There is little trust left for our political system. Look at the government debt, the rampant lying and propped up and failing financial system. I've said America is headed into a political collapse. I think it will come from a dramatic exposure of 9/11 truth but there could be another trigger. You don't have scandal and fraud to this extent without a dramatic and cleansing resolution amid vast carnage. Get prepared! I expect the politicians will take start more wars to distract the public from their own failings.

### **Why Postal Workers Go Nuts**

The Gulf Oil Spill disaster was an accident in name only. I have no doubt that Inspector General reports had documented the deficiencies in the responsible government agencies years ago. Auditor Reports on the SEC, military contractors and other bloated or negligent agencies sit molding away on shelves all over D.C.

I worked as an auditor and learned two things. First, you aren't allowed to really do your job

when investigating waste and ineffectiveness in government. They don't want to hear about it. Second, things get covered up if the crook is high up. If you want to keep your job, you'll keep your mouth shut.

The federal government is too distant from the states and the people. It's a mammoth bureaucracy that's degenerated its business processes into a system to enrich and empower politicians, generals and the politically connected. It could easily be cut by 30% and would run more efficiently. I saw this first hand many times.

The government in large cities and at the federal level is dumbing-down run amuck. They jockey for jobs and attend meetings and waste money. Entire departments have no reason for existence because the core mission is politicized and racialized. It's most pronounced in education bureaucracies.

Professionals in the departments can't do their jobs and give up. Even competent people haven't enough to do. They play computer games, talk on the phone, run Internet businesses and view porn. If a manager tries to discipline some fat-assed do-nothing, they file a personnel action alleging racism, sexism or say it's a "hostile workplace". No one dares make a decision that might cut a budget or threaten someone's fiefdom. It's career suicide.

Postal workers go nuts and start shooting because their mental fuses burn out from dealing with the bullshit.

The solution to bad money and stupid governance is downsizing the federal government via large scale tax reduction and the return of power to the states. The world will be a safer place.

I believe in a strong military but it must be right-sized. I accept that we need a central

government and a central bank but it must be run by good minds and rather than by panty waists and cheats.

How crazy and vile is the D.C. crowd? I've long said that George W. Bush was incompetent and probably nuts. He represents the thinking of the Republicans in D.C. and Fox News. If you want proof then here it is.

*Oliver Stone's new documentary South of the Border, which interviews several left-wing leaders of Latin American countries, has unearthed a startling new allegation from Argentina's former president Néstor Kirchner. During his interview with Stone, Kirchner said he once discussed global economic problems with former President George W. Bush. The former Argentine president says that when he suggested a new Marshall Plan, referring to the WW II-era European reconstruction plan, Bush "got angry" and suggested that "the Marshall Plan is a crazy idea of the Democrats." Instead, Kirchner says, Bush suggested that "the best way to revitalize the economy is war":*

*KIRCHNER: I said that a solution for the problems right now, I told Bush, is a Marshall Plan. And he got angry. He said the Marshall Plan is a crazy idea of the Democrats. He said the best way to revitalize the economy is war. And that the United States has grown stronger with war.*

*STONE: War, he said that?*

*KIRCHNER: He said that. Those were his exact words.*

*STONE: Is he suggesting that South America go to war?*

*KIRCHNER: Well, he was talking about the United States: 'The Democrats had been wrong. All of the economic growth of the United States*

*has been encouraged by wars.' He said it very clearly.*

*Source:*

<http://thinkprogress.org/2010/05/28/argentine-prime-bush-war>

The logic of George Bush is only valid within a pathological system – an Alice's looking glass world inhabited by creatures brought into being with public money and a printing press.

The market crash of 2008 was the looking glass shattered. It's impossible to reconstruct that bizzaro universe. What's needed is a new system, a new money and a deconstruction of warped thinking. If you understand the change needed then you already know that attempts to resuscitate the old economy will fail. You also know that the idea of a deflation pushing up the value of dollars is a false memory of the looking glass world.

### Summary

The price of gold is in the fully valued range but I wouldn't sell unless it goes quite a bit higher. I'd be hesitant to buy over \$1200 at this time. I'd consider selling some at over \$1500. Those numbers will change if the oil sector heats up. If you're in gold, then get prepared for wild times.

The stock market is quite fairly valued with the S&P500 under 1120. Earnings are rising and rates are low. The US and Europe are committed to at least a couple more years of high liquidity. That means spending and printing in an effort to shift private debt to the public balance sheet. Purists can complain all they want but rising debt levels are better than a depression.

I am deeply concerned that a shock of some kind lies ahead. I'm convinced that America's "recovery" is completely phony. Government money has replaced consumer spending and is propping up every market. In my heart, I know the stock market is a disaster waiting to happen. The prudent course of action is to stay away

because the fundamentals of the economy are distorted.

Long term interest rates may stay lower longer than most people expect. There's still some slack in the corporate bond market and those rates have further to fall. The thing to keep in mind is that very low interest rates are the seed that starts a broader recovery. Short term rates could rise later this year if the Fed provides a symbolic hike to keep the markets on alert. Unfortunately, rising rates will increase our interest burden. Recovering commodity prices will stress our economies. We're in a debt trap.

I would not be a buyer of houses for speculation right now. Buying a residence is ok if you won't worry about price slippage in the months ahead. I think there's more downside. Commercial real estate has a ways to go before it hits bottom. Good deals are possible over the next couple years for the careful buyer in certain local markets.

Commodities will do ok going forward if world governments maintain high liquidity policies, which seems likely. Things could go south fast if strategic mistakes are made by politicians, thus sending economies back into a tailspin. In other words, risk is substantial.

The dollar's trajectory is down over the longer term. The government must spend and incur deficits to flush the system of debt and that won't help the dollar. I think a dollar collapse is highly unlikely near term because, as the European situation shows, there's nothing to take its place quite yet. The situation is fluid.

What will happen with the US public debt problem? To answer that we must first assess the true nature of our predicament. We are witnessing the dissolution of the post WWII socioeconomic culture of Europe and America. Our debt, military expenditures, and social benefits grew beyond the ability of our economic

system to support. Now they will rapidly contract. Asia's huge population and lower operating costs were the pin to our cultural bubble. This isn't a bear market; it's a power shift and epochal change.

In all of history, according to economic historian Niall Ferguson, only one nation ever escaped from a high debt to GDP trap. That was Britain after 1815. It took them 100 years but they did it and without inflation. But, they were still a growing empire. You can view a presentation Ferguson gave at the Peterson Institute. [http://www.piie.com/events/event\\_detail.cfm?EventID=152&Media](http://www.piie.com/events/event_detail.cfm?EventID=152&Media)

He shows what debtor nations do; what happens when they are caught in a debt trap.

- Force commercial banks to hold government debt
- Restrict overseas investments by firms and citizens
- Default on commitments to politically weak groups and foreign creditors
- Condemn bond investors to negative real interest rates
- Discretionary military spending is a first casualty
- Expect conflicts with foreign creditors
- Reserve currency status is lost to a foreign rival

So, as we watch this short term "flight to safety" with people buying the dollar and treasuries, we should heed Ferguson's warnings. The US public debt is financed with short duration bonds so it is unlikely we can inflate away the debt. The likely options for America are printing or default. Spending will continue but default is likely. Ferguson says the US empire is destined to contract quickly. China's economy will surpass America by 2027.

For most of us, these dates are within our projected lifespan and investing timeline. Therefore, the prudent investor should consider alternatives to the dollar now, while it's in a

startling temporary uptrend. Equities in emerging markets have the most potential for the long term. Owning gold is a good alternative to cash. Silver will be buffeted by commodity price trends but isn't over-priced. I would think that owning a commodity currency like Canada would be an option. Selecting an entry point to unconventional assets is not easy.

When asset classes are volatile, a double moving average system may work. In the Euro chart below using FXE, you can use a system I devised. The TGR 10/40 week (50day/200day) system sells when the Euro falls below its 200 day moving average and only buys again when the 50 day goes above the 200 day. This avoids whipsaws. I suggest using weekly data and not daily. I documented this method in [my white paper on moving average timing systems](#). At times, the market may again rise above the 40 week MA without the 10 week MA falling below the 40. Thus, you'd be out of a rising market. Like I've often said, moving average systems have flaws and only work in certain types of volatile markets.

Many commentators have come around to the belief that we're sliding into a deflation. The broadest measure of US money supply is contracting at a frightening rate despite all attempts to jump start the economy. The White

House is asking Congress to spend another \$200b in stimulus. Other advisors are warning that more fiscal spending will not work and recommend massive money printing.

<http://www.telegraph.co.uk/finance/economics/7769126/US-money-supply-plunges-at-1930s-pace-as-Obama-eyes-fresh-stimulus.html>

Yale's Robert Shiller believes housing will slump again and could bring down the economy. I believe they'll take the spending approach to prevent a depression once a resumed housing collapse forces the consensus to gel.

Printing could lead to a hyperinflation within a short time. This has long been the opinion of people like John Williams of ShadowStats.com and Peter Schiff.

We will know the path D.C. takes within a couple of months.



**Q & A.** There's no Q & A this month. I'm preparing for a business trip and am out of time. It will return next month.

Expect a delay responding to inquiries.

Best Regards,  
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