

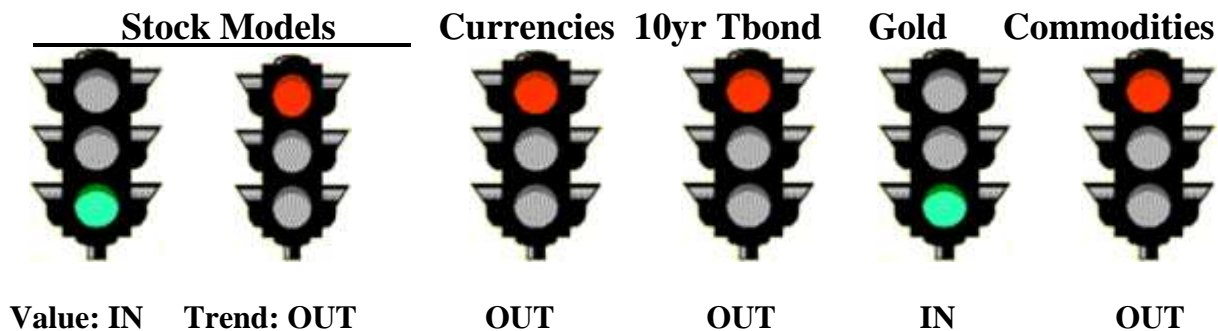
The GLEASON REPORT

Market Timing for Investors Identify Turning Points in Asset Classes

July 2010

www.gleasonreport.com

Status of the TGR Timing Models



Inside This Issue

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This issue of the Gleason Report can be linked to at: www.gleasonreport.com/emails/2010-07-tgr.pdf

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S&P500 at 1030 @ 30 June 2010

Year to Date Asset Class Returns		
Symbol	Asset Class	YTD Return
PCRIX	Commodities	-6.2
VGSIX	REIT	5.6
VFINX	S&P500	-6.7
VMFXX	Money Market	0.1
VBMFX	Bond Index	5.3
VGTSX	Intern'l Stocks	-12.0
VISVX	Sm Cap Value	-1.0
VBISX	Short Term Bond	2.8
GOLD	Gold	13.4
BWZ	Currency	-9.2

Stocks

My Value Model remains in the stock market. It bought the S&P500 at 1120 last month. I warned subscribers to be careful because the market could fall 5% and it is down 8.7%. Meanwhile, the value conditions for stocks continue to improve.

A mood of deep negativity permeates market participants and some well regarded commentators. I recently heard Robert Prechter of Elliott Wave fame predicting a steep decline in late 2010 and new lows for stocks.

My Value Model is going against the grain and saying the market is close to a low. Yes, I know that the residential real estate market is going to drop again. The Fed is out of ammo, Europe is sliding into a debt and taxation hole, Russia and China are moving away from the dollar, banks want to get money out of stocks and demographics are bad. Some suggest letting the economy go, suffer a short depression and clean out all the debt. Others say the government should pull out all the stops to goose the economy. All this is known.

The stock market may have a rough time with slower growth toward year end. For now, risk is low. The real question is will slower growth show up in declining earnings this year. Or, have corporations adjusted already by cutting enough costs? Perhaps they've pulled earnings into the 2010 quarters to avoid higher tax rates in 2011.

My Trend Model remains out of stocks. This means that, although the valuation is attractive, the market has not turned to the upside yet.

There's plenty of good reasons to be scared to death about stocks but if history is any guide, that's usually an indication of a good buy point. With all the uncertainty, most investors should just wait on the sidelines until the trend changes.

S&P 500 INDEX,RTH



Bonds

My Bond Trend Timing Model remains out of the bond market. I've stated that I won't short bonds until I see a sustained move up in US official inflation. The deflationist outlook is on top now and backed by low CPI inflation numbers. Our debt numbers are frightening and

getting worse. The economy looks like it's falling into a deflationary sink hole.

In a Wall Street Journal op-ed article, [Alan Greenspan acknowledged the dire US debt situation](#). He warned that bond yields could suddenly soar in a debt/dollar panic. He is correct but I don't think many people want to hear the opinion of Sir Alan anymore. He's been rightfully criticized for being a lackey of the politicians and providing cheap money for their endless spending and foolishness. What do you expect from a banker who serves Congress? You don't get the job of Fed Chairman by being a free thinker money man.

CBOE Interest Rate 10-Year T-No



“The U.S. government can create dollars at will to meet any obligation, and it will doubtless continue to do so. U.S. Treasuries are thus free of credit risk. But they are not free of interest rate risk. If Treasury net debt issuance were to double overnight, for example, newly issued Treasury securities would continue free of credit risk, but the Treasury would have to pay much higher interest rates to market its newly issued securities.”

The federal government is currently saddled with commitments for the next three decades that it will be unable to meet in real terms. We cannot grow out of these fiscal pressures. Only politically toxic cuts or rationing of medical care, a marked rise in the eligible age for health and retirement benefits, or significant

inflation, can close the deficit. I rule out large tax increases that would sap economic growth (and the tax base) and accordingly achieve little added revenues.

If it was just Greenspan saying this, I could understand dismissing his opinion. At the same time we hear fund manager [Dan Fuss of Loomis Sayles warning to stay from long treasuries](#). Loomis Sayles Bond is a fantastic fund and Fuss is the best bond guy in the fund business in my opinion.

Dan Fuss, whose Loomis Sayles Bond Fund beat 95 percent of competitors the past year, said he sold all of his Treasury holdings because of prospects interest rates will rise as the U.S. borrows unprecedented amounts.

“The fundamentals are awful,” Fuss said in a telephone interview yesterday from Boston. “The incremental borrower of funds in the U.S. capital markets is rapidly becoming the U.S. Treasury. Do you really want to buy the debt of the biggest issuer?”

Fuss said he doesn't own Treasuries in any of the investments he is directly involved with after selling the last of them this week. Loomis Sayles cut the securities to the lowest possible amount in funds with liquidity requirements or a minimum mandated level of U.S. government debt, he said.

Both men warn that things could get very ugly for bonds by year end. At present, few accept Fuss' warnings of a bond rate explosion. The 10 year Treasury yield rests under 3.1%. [The former bond bears have thrown in the towel.](#)

After months of deriding U.S. Treasury bonds, Bill Gross and his fund managers at Pacific

Investment Management Co. have switched sides. Pimco had been the biggest and most vocal of a group of Treasury bears, predicting that Treasury prices would fall, and yields rise, as the U.S. economy strengthens and the government borrowing binge continued.

Pimco Total Return Fund in April increased its holdings of U.S. government-related debt, which would include Treasuries, to the highest level in five months, according to the most recent data from the firm. And Mr. Gross has toned down his negative comments about Treasuries. But on Wednesday Mr. Rodosky confirmed the firm had taken a new view.

The TGR Bond Model says stay far away from long treasury bonds. My model is a mechanical system so I'm using mathematics rather than a logical-economic model. Dan Fuss has his own methods and is a patient man and is usually right.

What could be a game changer? What could induce inflation?

The Fed has the Fed Funds rate at zero implying that they are out of banker ammo for fighting deflation. Not so fast says [Michael Pento in a recent discussion on Yahoo's Tech Ticker](#). The Fed has one big gun left. They could stop paying interest to banks on their reserves. If the bankers can't make money parking cash at the Fed, they'll have an incentive to be loose again with their cash – very loose. Who knows where that may take us.

Obviously, they can't lower rates. The alternative, Pento says, is for the Fed to stop paying interest on excess reserves, a move that will drive banks to lend instead of sit on their cash.

Contrary to popular belief, that's exactly what the economy doesn't need, according to Pento. Increased lending "will bring money supply

growth rates through the roof and we'll have an inflationary recession/depression," Pento forecasts. Instead of what Pento believes is a necessary evil – a short-term deflationary depression. "That's the real prescription, that's the only cure," for our debt problem, he says, even if it's a painful one.

Since Pento is sure Bernanke won't heed his advice, he recommends investors hedge their portfolios' "towards the inflationary scenario" by buying gold and short-term Treasuries. If he's right about Bernanke's policies, he says the appreciation in gold prices will accelerate.

Buying bonds at 3% makes no sense unless you are committed to the deflationary scenario. Greenspan says our debt situation is so dire that a normal recovery isn't possible. Therefore, I reject the permanent low rate scenario because deflation will lead to depression and currency failure. Ergo, your bonds are worthless via debt default rather than inflation.

The housing market must recover for the consumer to recover. We face in the months ahead perhaps 2 million public sector job cuts. We face a continued fall in residential home prices. I think the government will do what it must to help employment and housing and won't worry about bond yields. There seems to be no way to rescue employment except by sacrificing the bond market.

Greenspan says inflation is one way out and predicted it in his book *Age of Turbulence*. He said rates would be 6-8% for 20 years! Many investors have capitulated on inflation ever making a strong comeback except for Greenspan, Fuss, Pento and, of course, The Gleason Report. I maintain that in a paper money system, with no gold backing, never believe they won't be able to inflate.

Meanwhile, investors are flocking to municipal bonds as they scour the market looking for yield. US treasuries have no default risk but do have interest rate risk. Municipals have both. The feds will have to rescue state finances eventually so maybe it won't be as bad as predicted.

Commodities

The biggest slump in commodities since Lehman Brothers Holdings Inc. collapsed is undermining Wall Street forecasts for accelerating economic growth and higher prices for everything from copper to crude oil.

Now, "the collapse in the commodity index is telling us that the peak in global industrial growth is imminent, it's here right now," said Achuthan. "Markets are going to have to deal with the reality of a slowdown."

Raw materials may drop another 10 percent because the economy is on the "cusp" of deflation, said Philip Gotthelf, the president of Equidex Brokerage Group Inc. in Closter, New Jersey. That would drive the Reuters/Jefferies CRB Index of 19 commodity futures down 22 percent from a Jan. 6 peak and into what investors consider a bear market. The gauge plunged 8.2 percent in May, the most in 18 months.

Gotthelf correctly predicted in October 2008 that oil would fall below \$40 a barrel and said he is now shorting most commodities and buying gold.
-Source: [ECRI Article on Bloomberg](#)

PowerShares DB Commodity Index



The TGR Commodity Model sold the index in September 2008. It bought DBC in February at \$23.45. It sold again at 30 June 2010 at 21.57. This trade lost 8.7%. This appeared to be part of a bottoming process but the trend declined even further. This trade is a big disappointment.

Oil prices have flat lined over the last two months. Other components of the index have dropped. This is not a good sign for world economic growth.

China's export growth is turning down. This is undoubtedly impacting prices of raw materials.

Oil makes up half the index and I don't see much chance for petroleum staying low. You only have to observe oil drilling activity to see the problem. The oil disaster in the Gulf makes it clear that deep water offshore drilling is needed to supply America's oil demand. It's risky but necessary in an oil dependent economy to drill 50-75 miles offshore and three miles deep.

We can't afford to stop. Deepwater oil has accounted for 1/2 of our new supply since 2000. No wonder a federal judge ended Obama's wink-wink ban on drilling imposed after the BP fiasco.

According to oil expert Jeff Rubin, Mexican oil production is in collapse and Venezuela is close behind. Canada supplies 20% of our oil and that will rise to 30% and supposes they can increase tar sand extraction from 1.2mbpd to 4. That's

unlikely to happen unless oil rises above \$100 to make it economically feasible. This isn't a scenario for falling oil prices.

Weakening global growth likely hold down oil prices obfuscating the broader geological issue. We need oil and it will only be delivered in the future at much higher prices. This will cause slow growth and more frequent recessions until we totally reshape our economy.

According to Rubin, past recessions were caused by business cycle excesses. The future recessions will be caused by energy spasms. Our politicians are too partisan to plan anything. All they know is oil and planning a new energy game plan would require a mega-crisis that enrages the public. I believe we're in the midst of one as I'll explain below.

Oil usage in the US has peaked. To get an idea of how things are slipping in America, consider that automobile registrations declined by 4 million cars in 2009 from 2008 – the first decline since WWII. By 2020, 40-50 million more cars will be off the road in America. Those American drivers will be replaced by cars in China and India. Our oil consumption was at 20mbpd in 2007 and is now 18mbpd. It will be 13mbpd within five years! Imagine the impact this will have on the economy. That oil will be consumed by emerging nations in the East. Meanwhile, China is investing in Canadian tar sands and commodities around the globe.

Commodity index pricing will be driven increasingly by Asia and especially by oil prices. Look beyond the US situation to see the full picture. The trouble with buying commodities is the ETF products use the futures market.

Therefore, we get non-linear prices and contango problems. I don't know of any broad commodity fund linked to the spot market. That would be creative but probably not possible.

Gold

The legions of people negative on gold have largely disappeared from the public discourse. I think gold is a bit high but don't see any danger signs yet. I will not be hesitant to sell gold if my two gold models go negative. Again, these models have been quite accurate over the years.

Also driving the gold price will be the increasing base price of oil. Gold is highly correlated with oil and tight supplies will provide strong support for bullion. In fact, when you look at the world's faltering currencies and the risk of debt defaults and then throw in Peak Oil, it's hard to be negative on gold. Markets, however, can run counter to logic and my models don't use commodity prices or geopolitical factors.

Gold has been an immensely profitable trade for TGR. It's certainly surpassed my expectations.



There is a warning sign we must watch for. A dramatic upward shift in bond yields would indicate a resolution phase for debt pricing. This would likely force an pronounced economic slowdown and put a brake on rising gold prices. This would later lead into another bull market in

bonds. There's no sign of this is happening near term.

Will the Stock Market Rise?

I believe the markets have discounted the bad news. They've discounted fear of an economic decline arising from another drop in housing and a subsequent decline in GDP. I personally have no opinion on what economic growth will be and am not, by any means, an expert on housing. I do read reports from knowledgeable people. Manufacturing has strengthened over the last few months.

The leading economic indicators have been dropping for a couple months indicating a slowdown in growth. Slower growth does not mean a double dip recession but simply a slog through a bog of constant trouble. What's lacking is any confidence that the economic picture will ever brighten. The mood is dark. Meanwhile, earnings continue to slowly advance but stocks are not extremely cheap. This is the sort of market action that gets stocks looking cheaper but it can go on for a long time. My Value Stock Model has turned up. The growth in corporate profits is coming from the global economy's slow improvement.

When my models turn it doesn't mean the market will boom. It means stocks are unlikely to go much lower and risk is low.

Let's take a look at some other issues also evolving. China seems ready to loosen its currency peg to the dollar. Yes, they are a nation of currency manipulators but do seem to know the game is over for trying to keep the Yuan down. A stronger Chinese currency means their people can buy more from America. It also means Americans will pay more for Chinese products. This could be a source of future inflation pressure regardless of the deflationary fears that have engulfed us. But, if China also slumps then I wouldn't expect to see much currency flexibility.

There are big economies in this world that can act in a coordinated survival effort to change the game. They don't appear willing to work together at this time. Some areas of the globe will do better than others. Investors are open to that possibility but need to see some proof of improvement.

I've long maintained that world central banks can engineer an inflationary world economy and push back on the powerful forces of deflation. The Europeans are talking about taking the path of austerity. Bernanke warns that's the wrong path.

I think Bernanke is correct and better understands the downside to a nose dive deflation. Nothing good will come from it. I don't believe he is a tool of a secret bankers' cabal intent on getting all the world's wealth. I suspect he's an imperfect man with a tough job and wants the best for America.

The way out is through easing not wearing a pre-Reformation hair shirt. We'll see it in asset prices first so watch stocks and commodities. I'm hardly optimistic but observantly realistic on what's unfolding.

Housing

The residential housing market is already in another leg down and it will continue into the third quarter of this year. Will that be the bottom? A month ago, only 40% of experts expected houses to be lower this year. Now it's at 56%.

The chart below from www.newobservations.net shows the scary trend divergence between house values and residential mortgage debt. The housing crisis looks like it is going to get worse by August.

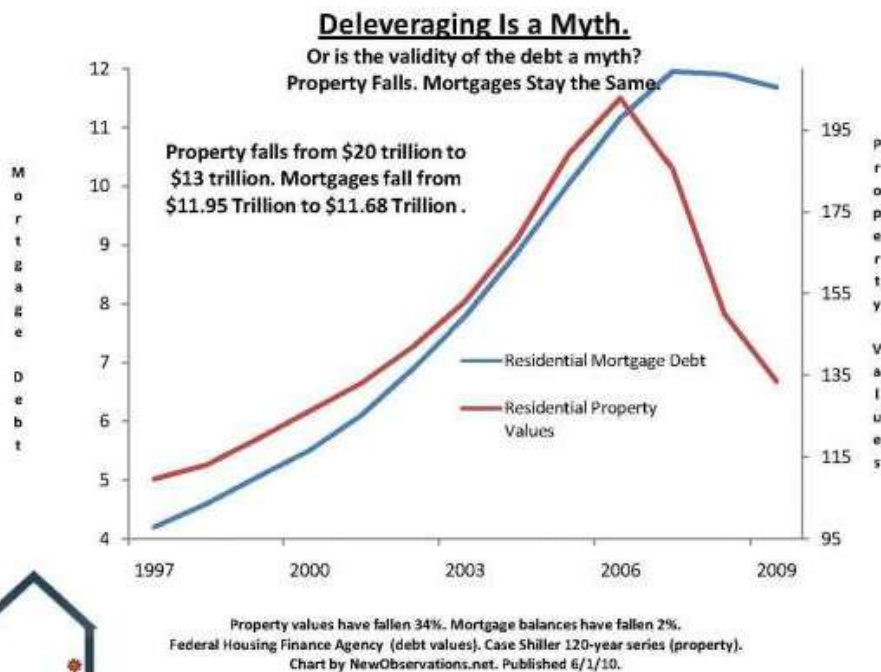
The government's housing loan fix program can't possibly contain the foreclosure problems ahead. Most of the debt adjustments end up in foreclosure again. These people simply shouldn't be home owners.

Baby boomers will be downsizing and trying to move out of urban areas in the years ahead. What hope is there for growth in housing construction – not good.

he's talking about prices hitting a low at a future date and then going forward.

Zillow believe house prices will show improvement but will be flat for a long time. Even flat sounds good to many in the market place. A recovery in housing, or an end to the decline, is critical if the we're to ever see some light on the road ahead.

Later in this report, I explain a scenario that could stabilize prices and possibly provide a steady demand for apartment buildings and empty houses. I think this scenario has a reasonable chance.



Dumb Idea of the Month

The Postal Service has the approval of Netflix, which has more than 14 million subscribers, to shut down Saturday mail delivery. This follows Time Warner Inc. The publisher of more than 20 U.S. magazines including Sports Illustrated and People said it's ok with the idea. The Postal Service, which says

eliminating Saturday delivery would save \$3 billion a year, wants to reduce the service to five days a week. The proposal is among a suite of possible changes to plug its deficit.

The banks continue to carry the mortgages on their books at full value so they don't have to show losses. What is going to happen with this huge spread between mortgage values and real property values? This is money lost and gone forever.

Case-Shiller housing index founder Robert Shiller's firm MacroMarkets says house prices may slowly recover over the next five years. They might rise 12% over that period. Shiller previously said he was deeply concerned about housing prices in 2010 and said a continued decline would sink the economy. So, maybe

We spend mega-billions on the wars each month. Billions go to housing bailouts. Why can't they keep the post office open on Saturday? Shift the priorities to spending on the home front and stop feeding the press this baloney about the non-existent Al Qaeda and terrorist bogeymen under our beds. The wars will be ending by necessity when our money runs out or the Gulf pollution forces a troop return. Keep people employed.

Bad Policy Begets More of It

As the oil disaster expands in the Gulf, it's worth exploring what caused it. It's no secret that we import 75% of our oil thus we're highly dependent on Canada, Mexico and the Middle East.

Our state of constant warfare in Iraq and Afghanistan resulted from the failed and imbecilic policies of the Bush/Cheney regime. Regardless of whether these wars were started to grab oil, pipeline routes, for nation building or to boost the US economy with spending on defense – it was failure. It's the type of stupidity only seen during periods of perceived imperial invincibility.

Rather than start the expensive, required and inevitable transition to a renewable energy economy, our short-sighted leaders decided to continue to extract, buy or steal oil from any nation that has it. Our economic policy is heavily influenced by bankers, the oil and defense industries and general corporatism. These folks own our congressmen and our policy decisions are dictated by their lobbyists.

I've railed for years on why elections must be publicly funded to remove private money from the process amid a switch to a greater focus on ideas and good public policy. No one is interested.

I see more frequent articles claiming America's Middle East policy is run by the Israeli lobby (AIPAC) in D.C. No doubt, huge sums of pro-Israel money and intimidation buy votes in Washington and distort public policy against the general welfare. Many of the early neocons who pushed for the Iraq invasion and misuse of America's military were Zionists. This includes fools like Paul Wolfowitz and Richard Perle. Several of the key players were Republicans with extreme right-wing and religious ideologies. It's fully detailed in the annals of the Project for a New American Century (PNAC). Here's the link:

http://en.wikipedia.org/wiki/Project_for_the_New_American_Century I find it too painful to go over the subject again.

Commentators have a solid case that Israeli money has too much influence in Washington. They are dead-wrong though blaming the Jewish people for our troubles. AIPAC is an egregious example of corruption but American Jews cannot be lumped into a single pot or categorized as blindly having a one issue perspective. They have contributed greatly to the advancement of American arts and sciences and general culture. Attacking a social group is bad reasoning and has a dangerous effect on the poorly educated within a society. I'd like to see AIPAC go away too. But, you know, Congress voted near unanimously for the Iraq war and the evil Patriot Act. They weren't bribed to act stupid – they are stupid.

Besides AIPAC, major corrupters are the oil industry, bankers and the military-industrial complex. You can't bribe an honest man. The corporatists simply cast their nets where the fishing is good. The laws need to be changed so public policy and the general welfare of the people are set far above financial interests. Yes, on a pedestal like the founding fathers intended.

Let's examine the Gulf oil disaster for some linkages of bad policy and the effects. This example will show clearly how corruption and incompetence controls US policy and how your government is directly responsible for a calamity that may sink our nation.

The Gulf Oil Disaster Was Made in Washington

Have you wondered how BP, a world class oil company, could screw up so badly and be so negligent. First person accounts from the Deep Water Horizon rig say it was sloppy and hurried management decisions that led to rig failure, loss

of life and the greatest environmental disaster in human history. The news media continues to use the phrase “oil spill” when anyone can see it’s actually a gushing volcano of heavy oil and methane. Why was BP in such a hurry? What is the truth? Let’s step back a bit to why this oil well was drilled in the first place. It’s about Iran.

Concerns with Iran getting nuclear weapons are legitimate. This problem should have been taken care of ten years ago. The Iranians hated the Taliban and hated Saddam and we decided to attack their enemies. Uh – Ok. I’m sure Rumsfeld thought that one through. The US left Iran for later. What’s the rush Bush figured. The military-industrial complex saw war and profit without end – what’s a few more wars. This was formal policy with George Bush and the neocon PNAC crowd. They had a publicly stated goal of constant warfare and knocking off anyone who could pose a future threat to American dominance. Sigh, so many countries and only eight years to enjoy it. I’ve covered this ground before – it’s all documented.

Some say that Palestine is the single issue that coalesces radicals against America and Israel. I’d say that’s part of the picture and, no doubt, important. A larger issue is all the Muslim nations we’ve attacked and the broad humiliation these people feel. I’m not going to suggest that I have a solution to the problems except it might be wise to use force wisely and stop making enemies. But, let’s not digress too much. I do know that our government lied to get into these wars and is wasting vast sums of money in losing endeavors.

So, why doesn’t Iran run for cover when faced with American military might? Iran mocks America because they know how vulnerable we are to oil supply routes that they can shut down anytime they want. Our genius military planners figured they could intimidate Iran into submission but it hasn’t worked. I saw neocon Paul Wolfowitz on CNN last week explaining

how the Iraq failure wasn’t his fault. He explained that he never imagined the Iraqi people would resist or actually fight back. Hmmm. A military plan that assumes the attackee will never fight back. Sounds like Dick (“They’ll greet us with open arms”) Cheney. Wolfowitz, Cheney, Rumsfeld, and Pearle figured we’d kick ass and Iraq’s oil would pay for the short war. Then, it was on to Iran. This is the neocon brain trust that designed US Middle East policy. Let’s continue.

America’s military planners in the Middle East also figured the Iranians would overthrow the Mullahs rather than get into a shooting war with America. Well, that didn’t happen either. Iran didn’t buckle and now we’re threatening a real war. If a war starts, Iran will immediately block the Straits of Hormuz and stop the flow of oil tanker transports into the Gulf of Oman. But, George Bush had a plan. Here’s where things really started to go wrong.

The Bush administration pushed for an expansion of oil reserves from the Gulf of Mexico in anticipation of war with Iran. If Iran cut off oil, we’d need a backup oil source. Bush and then Obama were willing to cut corners to get it.

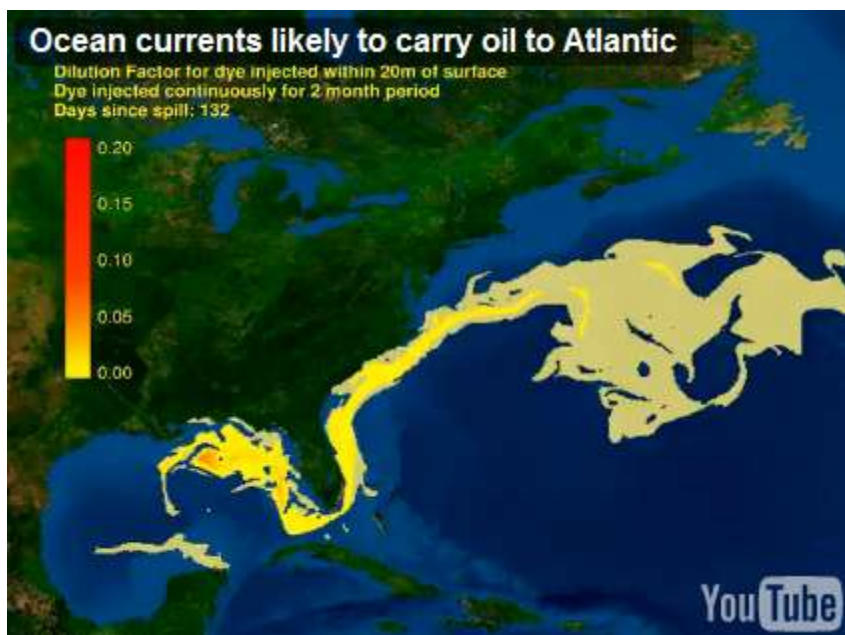
The oil industry has an excellent safety record with ocean oil exploration. In this case, the US government told BP to drill fast for oil in the Gulf of Mexico and waived proper inspections and safety checks. A year before, geologists warned that drilling in this specific area was fraught with danger! But, war with Iran was now on the front burner. In short, our Middle East war policy set our oil exploration policy. In turn, it caused the unprecedented environmental and national security disaster in the Gulf.

... sources within the U.S. Army Corps of Engineers and the Federal Emergency Management Agency (FEMA), the Pentagon and Interior and Energy Departments told the

Obama Administration that the newly-discovered estimated 3-4 billion barrels of oil in the Gulf of Mexico would cover America's oil needs for up to eight months if there was a military attack on Iran that resulted in the bottling up of the Strait of Hormuz to oil tanker traffic, resulting in a cut-off of oil to the United States from the Persian Gulf.

WMR learned that BP was able to have several safety checks waived because of the high-level interest by the White House and Pentagon in tapping the Gulf of Mexico bonanza find in order to plan a military attack on Iran without having to be concerned about an oil and natural gas shortage from the Persian Gulf after an outbreak of hostilities with Iran.

BP still has an ongoing operation to drill down to 40,000 feet below sea level at the Liberty field off the north coast of Alaska [and probably without any safety checks- tgr].



It looks like the pollution will ruin the Everglades and fishing grounds in the Atlantic.

The invasion of crude oil into estuaries like the oyster-rich Apalachicola Bay in Florida spell

disaster for the seafood industry. However, the biggest threat is to Florida's Everglades, which federal and state experts fear will be turned into a "dead zone" if the oil continues to gush forth from the Gulf chasm. There are also expectations that the oil slick will be caught up in the Gulf stream off the eastern seaboard of the United States, fouling beaches and estuaries like the Chesapeake Bay, and ultimately target the rich fishing grounds of the Grand Banks off Newfoundland.

It gets far worse.

According to oil banker Matt Simmons, an unimaginable disaster lies ahead. The underwater oil pool is already over 100 miles long and 400 feet thick. This is not the thickness of motor oil – it's much more dispersed. However, there is no chance whatsoever that relief wells will be able to stop the flow. ZERO! Simmons has been far ahead of the media in warning what was going to happen in the Gulf.

Simmons says the relief wells will fail because there is no reliable well casing. The only hope is to seal the seabed with a nuclear device - to melt the sea floor. The implications of the well casing itself being eroded are ominous.

"This means that this is now an uncontainable gusher that is literally spewing oil up from dozens of sites across the gulf floor. The massive oil pocket tapped under immense pressure is now spewing out into the seabed. Capping the well does nothing. The oil pocket is tapped, the pipe is eroded and the oil is now spewing up to the ocean floor with intense pressure. Plumes are being generated everywhere. They cannot stop this. Human technology cannot contain a liquid at that pressure, especially at that depth under

the ocean. We simply do not have the technology or know-how to fix this. We don't. The relief wells are essentially useless now because the original well cannot be plugged so oil will always flow out of it regardless of how many other wells they dig".

The oil volcano could flow for many years and pollute not just the Gulf but much of the Atlantic.

<http://www.youtube.com/watch?v=5utdssJ2CoQ&feature=related>

*"We're going to have to evacuate the gulf states," said Matt Simmons, founder of Simmons and Co., an oil investment firm.... **"Can you imagine evacuating 20 million people? . . . This story is 80 times worse than I thought."***



Upon speaking the truth about BP and the spill, Mr. Simmons had to resign his position as Chairman Emeritus of Simmons & Company – the firm he founded.

Sources:

<http://oilprice.com/Environment/Oil-Spills/The-Cover-up-BP-s-Crude-Politics-and-the-Looming-Environmental-Mega-Disaster.html>

http://beforeitsnews.com/news/79/871/Oil_Leaking_from_Cracks_in_Gulf_8217;s_Sea_Floor.html

This catastrophe is the direct result of bad policy from Washington. Desperation with Iran caused D.C. to approve it.

War trumps environmental issues, ignores safety warning systems and crushes cultures and foreign governments that oppose it. Everything is secondary to the imperialist agenda and our national oil addiction. Prudence was thrown out the window in the Gulf because common sense was thrown out ten years earlier when we decided to become imperial America.

Most Americans have no idea yet that the federal government is responsible for this fiasco and the impending consequences.

The real danger is from methane gas in the water and gas still trapped under the sea floor.

Much of the carbon being released in the Gulf is in the form of methane gas. Estimates run from 40% and higher. Normally, methane gas at great depths and pressure mixes with water to form a deep ice slurry called methane hydrates. In the

Gulf, the waters are more shallow than the deep ocean and the water is warmer. In addition, the Gulf has a slow mix with the greater Atlantic ocean. This creates the potential for concentration and a methane gas release if the water is churned by a hurricane.

One issue we have read about recently is very elevated methane levels in dissolved sea water, near where the oil and gas mixture are currently

escaping in the Gulf of Mexico. Approximately 40% of the oil/gas mixture that is escaping is natural gas, and it is some of the natural gas (which is mostly methane) that seems to be dissolving in the water.

The most recent report on this issue is from John Kessler, Professor of Oceanography at Texas A & M University. He reports that near the surface, levels of methane are normal, but "Below approximately 1,000 meters, the concentration of natural gas and methane in the ocean waters jumps by a factor of one million." In other areas, methane concentrations are 100,000 times normal levels.

Source:

<http://www.reuters.com/article/idUSTRE65L6IA20100622>

These methane levels resulted after only 60 days. Imagine what it will be like after six months or a few years. A local reporter from the Tampa area states that FEMA has an evacuation plan if methane threatens the city.

FEMA has plans to evacuate the Tampa Bay area in the event of a controlled burn of surface oil in the Gulf of Mexico, or if wind or other conditions are expected to take toxic fumes through Tampa Bay, according to a report by Maryann Tobin in the Hernando County Political Buzz Examiner. Source: <http://www.veteranstoday.com/2010/06/23/florida-gulf-oil-spill-plans-to-evacuate-tampa-bay-area-are-in-place/>

The sea floor above the oil dome is fracturing and that's why there's numerous leak points. It's possible the intense pressures could collapse the dome and unleash a massive bubble of methane. This could cause a gas explosion and maybe a tsunami although a tsunami is a low probability event.

The fracture problem was known beforehand and the government still let BP drill there!

By some geologists' estimates, the methane could be a massive bubble trapped for thousands of years under the Gulf of Mexico sea floor. More than a year ago, geologists expressed alarm in regard to BP and Transocean putting their exploratory rig directly over this massive underground reservoir of methane. Warnings were raised before the Deepwater Horizon catastrophe that the area of seabed chosen might be unstable and inherently dangerous.

According to geologists, the first signs that the methane may burst its way through the bottom of the ocean would be manifest via fissures or cracks appearing on the ocean floor near the path of least resistance, ie, the damaged well head. Evidence of fissures opening up on the seabed have been captured by the robotic midget submarines working to repair and contain the ruptured well.

A methane bubble this large -- if able to escape from under the ocean floor through fissures, cracks and fault areas -- is likely to cause a gas explosion. ... the tacit fear now is this: the methane bubble may rupture the seabed and may then erupt with an explosion, ... fracturing and rupturing miles of ocean bottom with a single extreme explosion.

Source:

<http://www.mi2g.com/cgi/mi2g/frameset.php?pageid=http://www.mi2g.com/cgi/mi2g/press/210610.php>

Here's a History Channel five minute clip from a few years ago of what a methane bubble could do. This is unlikely in the near term and a worst-case scenario, but we have no idea how bad this could actually get.

<http://www.youtube.com/watch?v=25BE42PzZZc>

I'm certain the US military has vessels in the area monitoring fissures in the sea floor. They've enacted a no-fly zone over the area. As

for evacuations, I haven't heard a timeline or what criteria will trigger a decision. Maybe they'll do nothing. I hate to sound cynical, but dead people would get public buy-in to a national emergency with relocations and unrestrained spending. Rahm Emanuel said, "Never let a good crisis go to waste". They've got a doozy to play with!

The science and the confirmed observations indicate that this is an outlier event with the potential for social and financial disruption. There's no rulebook or plan of action for something like this. Let's examine some likely social and financial concerns.

Consequences of the Gulf Oil Volcano

The Gulf situation is a disaster on many levels. It's imperative to understand that this is a Black Swan economic disruption. FEMA sources say the disaster will cost well in excess of \$1 trillion, and likely closer to \$2-3 trillion.

1. According to Mr. Simmons, the oil will shut down America's oil refineries in the spill area. Simmons says the oil leak could flow for decades. It will flow up rivers during the frequent seasonal storms that hit the low lying areas of the Gulf. It will flow into the refinery water intakes forcing them to shut down. There are 30,000 oil wells in the Gulf waters and oil is processed mostly on coastal areas. This could take a portion of our oil supply off-line. [Power plants in the area are at risk too.](#)
2. It makes a military solution with Iran difficult. If Iran blocks the Straits, we have no backup oil supply. Thus Iran can continue with its nuclear program unhindered. The US would have to strike Iran very soon because the longer we wait the more likely we won't have an oil backup.
3. The fishing industry in the waters of the Gulf states appears doomed. The Atlantic industry is endangered.
4. If Simmon's is correct, where do 20 million Gulf state residents go? The government will have to relocate these people and probably to large urban areas where they'll be unemployed for many years. The well-to-do will find places of their own choosing but the southern urban poor will not adapt to a relocation program.
5. Could vacant homes and apartment buildings across America become occupied if the government must relocate millions of people? Should an entrepreneur start snapping up foreclosed apartment buildings expecting government paid rents for years to come? US states will require huge sums of resettlement money. This could help with their budget problems. The consumer housing crisis could end suddenly but D.C. would have to foot the bill and that would force up our deficits immensely.
6. What will happen to the people from Haiti and the Caribbean nations when their economies are affected. There will be many empty homes available in Florida for squatters looking for a better life. Who will stop them from moving in? Will we pay them to stay away?
7. The Gulf disaster is bad for the US economy and ruinous for specific industries. At the very least, we'll become more dependent on the Middle East and Canada for oil. With refineries possibly off-line in the gulf, I would expect fuel prices to rise. Heating oil and propane may become more expensive. I wouldn't be buying stock in Royal Caribbean cruise lines. The cruise liners operate out of Florida. Who's going to board the Love Boat to ride an oil slick. Same for Disney World.

8. We may see a martial law scenario in the Gulf. Debt problems, domestic disaster and demands for better border security are putting pressure on our world military presence. I expect a rapid reduction in the numbers of National Guard soldiers stationed overseas as troops are shifted home for domestic security in Gulf cities.
9. This disaster has its roots in runaway corporatism. Our Gulf energy policy was initiated under Bill Clinton to help mitigate oil imports in a world of declining oil production. It was relied upon to support the imperialist agenda of the Bush/Cheney regime. The oil desperation highlights that we've gone past the safe zone of exploration and have entered a period of growing environmental danger. We must transform our energy economy eventually or risk destroying sea life in much of the world.
10. In an economy already wobbling under a massive debt burden, the oil blowout is a game changer. It will be impossible now to ever cut government spending. The required social expenditures will be staggering. The implications for the dollar and US long rates are negative. On the positive side, it provides the spark to switch to clean energy. It provides support for the carbon credit crowd.

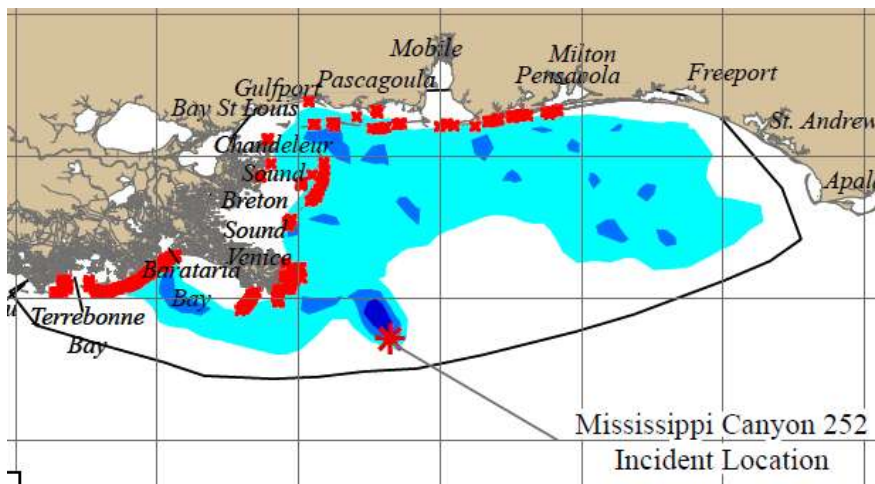
Before you dismiss me as an alarmist, think it through. It's not TGR originating the facts but competent experts and insiders. I'm simply projecting forward logical consequences.

A Time For Decisiveness

We're used to top government officials that lie all the time. They can't fix the economy, they run crazy wars, they're bribed by banks, foreign nations and special interests, and cities and states are approaching bankruptcy. We can't fix this Gulf problem with a bomb, can't blame the Taliban, or white supremacists – what to do. Mr. Obama, what should we do?

Obama said don't worry; it will end up fine. *On a recent visit to the Gulf coast, President Obama vowed that the Gulf coast will "return to normal."*

That is not likely. Will our leaders be up to the task? Look what they did with the residents of New Orleans after Katrina. What will they do with millions of people now that they're faced with impending disaster. The rich and informed will get out. The the poor will be caught up in a system of relocation camps.



Summary

There's a split in educated economic thinking at this time with some saying more stimulus is needed to save the economy and others saying we need austerity and a short depression to clean out the debt. I believe the Gulf of Mexico oil

disaster is a budget buster that takes the austerity option off the table. The enormous costs and lost productivity change the whole game. I think there's a huge risk here for our currency and economic system.

A dollar debt crisis was, at most, maybe four years away prior to the Gulf of Mexico spill. Events will now be accelerated.

My scenario for the unfolding Gulf disaster should be considered as a sequential process. I would be alert to news of the truth of the situation. First, we need confirmation that the oil cannot be stopped and will continue for an indefinite period. Second, look for an admission that some relocations are necessary. This will confirm the reported warnings of federal officials talking "off the record" and Matt Simmons' prediction. It will set the spending ball in motion.

[Louisiana has 16 oil refineries](#) – about 15% of US facilities. It's a good assumption that most will have to be readied for emergency shutdown. I don't know if they can stay open or will be closed permanently. I can see domestic oil prices rising significantly if that happens. Many oil wells are in the spill area. Will they be forced to shut down?

If they decide to relocate millions of people then it will require a resettlement to many areas across the nation. I might well be wrong but I don't think empty houses will be a problem for the banks after 2011. Expect a shift of military forces to the mainland with martial law in some areas.

This information issued on 6/28 is from a usually credible source.

Well-placed source in California told WMR that the California Emergency Management Agency (CEMA) has been briefed by its counterpart agencies in the Gulf coast states that there are

plans to conduct a mass evacuation of millions of Gulf coast residents due to the catastrophic environmental and public health effects of the BP oil disaster.

The Gulf states' emergency planners stressed to their California counterparts that they are dealing with a disaster of unprecedented proportions and that contingency plans are being constantly updated and revised on ways to deal with the transformation of the Gulf of Mexico into a deadly "toxic soup" of oil and Corexit 9500 oil dispersants and the atmosphere into a dangerous mixture of hydrocarbon gases.

CEMA was briefed on the impending mass evacuation since California would be expected to absorb a large number of evacuees from the Gulf states. CEMA officials did not say how the state of California, which is virtually bankrupt, would pay for the influx of hundreds of thousands and perhaps greater numbers of evacuees from the Gulf coastal region.

Source:

<http://www.abovetopsecret.com/forum/thread588807/pg1>

Financially, look for statements from Congressional leaders about the need to spend whatever it takes to "protect the people of the Gulf". After that we'll see a national emergency spending plan with hundreds of billions disbursed and it will go on for years. The deflation will be over and inflation will skyrocket. I thought gold was a safe investment before the BP volcano and now I have no doubt.

As for investments in a crisis, I don't think commodity etf products like USO or DBC will be wise. In a national emergency the government will prevent speculation and enact financial controls. Money placed in non-futures hedges before a declaration of emergency should be safe. They aren't going to bother rolling back trades or worry that someone had a bit of foresight.

The United States will be the center of the inflation cyclone. Therefore, I believe investments in the gold or the closed-end funds GTU and PHYS are a hedge along with perhaps silver SVRZF.PK. Alternatives are BullionVault and Gold Money. There's also GLD, IAU, and SLV – not my favorites because they're too tight with the big banks. A quick currency play is MERKX – it's well managed and more stable than a single currency. I can't give specific advice because I'm not a financial planner. You get the idea. Have some sensible inflation hedges but don't bet the farm.

It's good to have a backup plan. That means having cash on hand. In a social or financial emergency expect runs on gasoline, propane, food staples and ammunition. I've sometimes discussed having a Mormon-type survival pantry. I've discussed buying a pellet stove for low cost heat. It wouldn't hurt to fill a couple of five gallon gas cans. Be prepared for supply bottlenecks.

What if I'm wrong and these experts I've mentioned are hysterical and hyperventilating. Well, the government was getting ready to print money anyway. The US is determined not to slide into a deflationary depression that could last for many years. Some believe we could drop in and get out of it quickly and get the debt erased. I don't think that is possible and it's too risky to even attempt.

RBS had already warned its clients that massive money printing is ahead. This is unrelated to the gulf but worth knowing.

Andrew Roberts, credit chief at RBS, is advising clients ... [that] the Fed is soon going to have to pull the lever on "monster" quantitative easing (QE)".

"We cannot stress enough how strongly we believe that a cliff-edge may be around the

corner, for the global banking system (particularly in Europe) and for the global economy. Think the unthinkable," he said in a note to investors.

Roberts said the Fed will shift tack, resorting to the 1940s strategy of capping bond yields around 2pc by force majeure.

Source:

http://www.telegraph.co.uk/finance/comment/ambroseevans_pritchard/7857595/RBS-tells-clients-to-prepare-for-monster-money-printing-by-the-Federal-Reserve.html

RBS is saying that the government will cut official spending while injecting trillions of thin air dollars into the economy. They'll fix interest rates at 2% to prevent a bond market collapse. How can anyone believe that a government with a digital money machine cannot print enough money? That's what they'll do. We just don't know when it will start.

I'd like to point out that Obama's budget director, the competent [Peter Orszag quit this week.](#)

In recent months, Mr. Orszag, 41, espoused deficit reduction strategies in administration debates against those who pressed for more stimulus spending and tax cuts to keep the economy from slipping back into recession. He will leave before the bipartisan debt-reduction commission that Mr. Obama formed earlier this year — and which Mr. Orszag championed — is due to report its recommendations by Dec. 1.

Looks to me like Orszag lost the battle.

Also this week, Congress said there will be no budget until December. October is the end of the federal fiscal year. That's unprecedented. Obama intends to propose big budget cuts and tax hikes and will call the Republican's bluff. Thus, they won't be able to use the budget

against him in the November election. They'll shut up rather than put up.

Source:

<http://wizbangblog.com/content/2010/06/26/wheres-the-budget.php>

Once big spending financial plans are observed, it will be critical to act promptly to save your wealth because a currency crisis won't be far away.

The government has already initiated laws that allow it to block offshore accounts and capital flight to non-dollar assets. I've discussed this in past newsletters. This is targeted toward the privileged financial class who've been allowed for two decades to offshore money and avoid taxes. The law will bleed over and impact the small, honest investor.

We can all feel that events are moving towards a messy resolution. A financial crisis and a social/environmental crisis provides the government sufficient reason to spend without restraint. They could convert the \$15 trillion in private retirement accounts to government bonds if the government can't sell any more debt. This isn't a certainty but who knows what they'll do in the name of national security and financial survival.

Watch, gather facts about the crisis and see if they verify my scenario.

The financial disaster that has befallen this country resulted from a concentration of power in the hands of bankers who were allowed to loot globally from the common people. The environmental disaster sweeping over the American South results from a war machine run amok. The political disaster is from a civilian leadership that abdicated their stewardship role. They borrowed from the future to continue their partisan gamesmanship. They let Bush pursue his insane imperial ambitions. Nature is about to crush our southern flank amid a financial crisis

and they continue to bicker. How can any sane person have confidence in this government?

My personal feeling is President Obama is fighting an internal war with hard-liners in the military and intelligence services. He wants to reset relations with Russia and move America toward more sensible international relationships. He's being opposed by the entrenched bankers and military-commercial groups and their politician allies who profit greatly from the failing system.

I believe that Fox News, as the country's most watched information channel, needs to use its resources for the benefit of America and step away from partisanship. Continually suggesting to the American people that Obama is a satanic socialist plays right into the hands of the extremists within our shadow government and prevents mending the ideological divide.

The only way America will come out of this financial crisis intact is if the political class is continually challenged by a critical media to accept the responsibility of their elected roles. Those with wisdom should be permitted a venue to provide good ideas. Those spewing partisanship and hate should be exposed for what they are.

Q & A

Q. Since there has been so much discussion in financial websites about the rising risk of holding bonds, including your own comments in the June newsletter, I found a recent analysis on the Vanguard website offering a very different view on this. I especially liked the evidence-based and historical approach of the analysis.

Using historical data going back over a hundred years, as well as internationally, they found that there is basically zero correlation between

national debt and interest rates, and also basically a zero correlation between analyst predictions on where interest rates were headed and where they actually ended up going. The final surprising finding - the analysis shows that long term bonds, which investors fear the most when interest rates rise, actually provide the best inflation protection and returns during years of rising rates.

A. Well, I guess Vanguard thinks a trusting person should just hold a bond allocation of varied maturities. Recent yield changes in Greece and Spain have zapped long bond holders but short term bonds probably have done pretty good. One hundred years of bond history sounds impressive but it's not often that numerous nations head into a sovereign debt crisis together. Vanguard says the law of averages means don't worry about it. Buy bonds. Ok, let's all load up at 3.2%. Just ladder the bond maturities and keep rolling them forward. With short rates yielding zero, that's an appealing idea. It's likely we won't have to even call a broker to buy bonds. By 2015 America will have a \$20T national debt. There's \$15T in US retirement accounts and some in gov't have discussed forcing some of that money into gov't bonds in exchange for an annuity stream.

In the early 20th century, lots of people in Europe held Czarist bonds - best credit risk in Europe. The law of averages didn't work out so good that time when Russia defaulted on the whole lot. Maybe I'm wrong but I suspect that few of today's governments will ever pay off their debts with good money.

Q. As far as I can see, you were long gold all threw the autumn of 2008? But, after all, gold went down 33% from the top in March -08 1050 to October 700, which is 33%. Even if the USD went up 20% during that time, is it not a bit too much of volatility for peace of mind? Best

Regards and thank you for very interesting reading.

A. I have two models for gold and they're very different. One is Value based and the other is Trend.

Here's the dates for the Value Model. Although gold hit around \$800 in 1980 it was there for a very brief time. The Value model gained 1554 points since 1973 whereas gold was up around 1200 points. *The model was in the market much less time than buy and hold.*

Buy	Price	Sell	Price
Jan-73	65	Jul-73	120
Dec-73	106	Jan-81	593
Sep-92	345	Oct-94	390
Sep-01	283	??	??

Here's the dates for the Trend Model. The Trend model gained 1582 points vs 1200 for buy and hold. Again, the model was in the market only half the time. The trend model had one small losing trade.

Gold Trend Model

Action	Date	Price
BUY	Mar-72	48.3
SELL	Jul-75	165.2
<i>In Cash</i>		
BUY	Feb-77	136.5
SELL	Dec-80	593.8
<i>In Cash</i>		
BUY	Nov-82	415.2
SELL	Aug-83	416.3
<i>In Cash</i>		

<i>BUY</i>	<i>Nov-85</i>	<i>325.2</i>
<i>SELL</i>	<i>Apr-88</i>	<i>451.6</i>
<i>In Cash</i>		
<i>BUY</i>	<i>Jul-93</i>	<i>392.8</i>
<i>SELL</i>	<i>Apr-94</i>	<i>377.3</i>
<i>In Cash</i>		
<i>BUY</i>	<i>Jul-95</i>	<i>386.2</i>
<i>SELL</i>	<i>Aug-96</i>	<i>387.5</i>
<i>In Cash</i>		
<i>BUY</i>	<i>Aug-01</i>	<i>272.4</i>
<i>SELL</i>	<i>Oct-08</i>	<i>806.6</i>
<i>In Cash</i>		
<i>BUY</i>	<i>Apr-09</i>	<i>889.5</i>

In 2008 I did not exit gold though my Trend model advised to. The Value Model was very positive so I stayed in. That's a judgment call on my part. In the future I will advise subscribers when either model buys or sells and let them make their own call. Staying in was the right thing to do despite a period of bad heartburn. The Trend Model avoided the heartburn but had to buy back at a higher price.

Q. I know I should be able to find this on your page somewhere Tom, but I'm not. In this month's report, there is mention of a difference between Stock Models - Value vs Trend. In everything I read on your page, I cannot find the difference between the two in simple terms

A. The chart of Asset Class Returns each month shows YTD returns. If either the Value or Trend model is in stocks I call it IN just for simplicity. The first page of the newsletter shows the status of each model. The Value Model is based on the relationship to other asset classes. The Trend Model is based on price action. So, at present,

the valuation is positive for stocks but the trend is not. That's why I am warning to be cautious despite the valuation being good. Many commentators are very negative on stocks and warning of another crash. I don't see how that's possible at this time.

Q. In your reports you have highlighted the problems that US and Europe will face. Why don't you simply recommend Emerging market ETFs? These have in many case have large surpluses and huge resources and rapidly expanding middle class. They have also performed a great deal better than the S&P 500.

A. I don't have timing model for Emerging markets so I don't recommend them. I could see investing a fixed allocation there and have no problem with that. I wouldn't invest in VWO (Emerging Market) right at this time. Things look a bit dicey short term.

Q. Obama released his birth certificate almost two years ago and it is posted it on the web. Both the Hawaii Department of Health and the Republican Governor have examined the birth certificate and formally stated that it is valid. There are pictures of his mother heavily pregnant in Hawaii and announcements of his birth in the local papers. Evidence he was born elsewhere? Well, nothing specific but we can always come up with something that looks suspicious when we present it in just the right light.

OK, so even if it's errant nonsense, what's the harm in continuing to discuss it? Well, because it feeds into this us-vs-them, left-vs-right nonsense that is preventing meaningful discussion of the real issues. American political discourse has devolved into the two-minute hate.

A. I agree with everything you say. Obama released a 'certificate of live birth' not a birth certificate - not the same thing. Should we care?

He's hiding something and his SS# is reported to be from Connecticut so why take his word for it. I don't trust pols of either party. Being nice to them hasn't worked out for us.

On the other hand, the constant partisan talk on America's #1 news channel means Obama is certain to face withering criticism if he acts sanely and preemptively on the Gulf disaster. So, I will acquiesce to your logic and will avoid personal topics in the future unless it's truly noteworthy.

Q. I'm looking to add to my gold in the next week or so. Tulving has 1 kilo Johnson and Matthey bars available with a modest premium. (Spot + \$7.95 per ounce.) Do you think buying 1 kilo bars instead of 1 oz. bars or coins makes sense?

A. Spot plus \$8/oz sure sounds like a low markup to me. Markups on 1oz bars are about \$24/oz vs \$8/oz for a kilo. The good thing about 1oz bars is you can sell them easier for cash and that might be important down the road. A 32oz bar requires selling to a larger firm. Personally, I'd buy small bars and pay the extra markup for the later convenience. I guess it depends if this is keep forever gold or something you might want to gradually sell if prices get extreme.

Best Regards,
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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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