



# What's New?

**December 10, 2009**

## **KEYS TO THE BEGINNING OF A RECOVERY:**

- 1. The Real Estate market must stabilize. If not reversing, at least not continuing to fall. *NEW HOUSING STARTS UP this past Spring and Summer because of seasonal factors but inventory still huge! The Nationwide COMMERCIAL COLLAPSE IS JUST BEGINNING!***
- 2. Unemployment must stabilize. If not reversing, at least not continuing to rise. Last report was lower! *IT'S ACTUALLY WORSE as a "%."* Back to near 11% - AND IT CONTINUES TO MOUNT @ OVER 250,000+ weekly.**
- 3. Corporate Earnings (profits) must stabilize. If not reversing, at least not continuing to fall. *SOME POSITIVE SIGNS but mainly in TECHNOLOGY.***
- 4. Banks must begin to make loans again (especially to small businesses and potential home owners...albeit under ancient premises of buyers being qualified and of all things, a down-payment! *Lots of "hoopla" from the mega banks, but it appears that there's no real progress. They're "hoarding" any cash they can get their hands on. And now here comes the Regional problems compounded by PRIME loan and Alt-A resets!***
- 5. The DOLLAR has to decline. *It's started for REAL!***
- 6. Auto sales must stabilize at some NEW level. *Maybe started!***
- 7. The consumer must get "back in the game of consumin'" *NO WAY!***

**ANALYSIS OF THE ABOVE: No Real Hope YET! -12/10/2009**

## **FIAT Currency...the Scourge of Real Money**

It's a fraud because a fiat currency or paper money system allows politicians to create new money out of thin air. Historically, they typically created the most money to pay for wars or social giveaway programs. When they create money out of thin air, it dilutes the value of the existing money. It's a silent theft from people who have their money in the bank.

Thousands of years ago, a dilution of the value of money in circulation meant a government would "water down" the precious metal content of coins with a metal

of lesser value. Now, a dilution of the value of money means government officials simply press a computer button to create new money. This is like clipping a little bit of value from each dollar you have in your wallet.

When money is backed by gold or silver, it creates an honest system. It prevents politicians – who will always promise the most things to the most people – from stealing from the savings of the population. Under an honest monetary system, when you want more money in circulation, you have to create more wealth. You can't just create a new batch of fake money – you can't steal – to pay for a war or a social boondoggle.

We can't give you the entire history of money and banking systems in this piece, but the important thing to realize is that various types of paper money systems have been tried throughout history.

Go back, for example, to the Roman Empire and the history of their silver coin – the denarius – and you can look and see how the Roman government progressively reduced the amount of silver that was in these coins so that they could make more of them.

This idea that you can inflate the money supply and improve economic conditions is a fallacy that was known even in those days. And it seems to be the “modus-operandi” of government officials for time in memoriam! Perhaps it's a disease without a cure? Hmmm.

What happens instead is that you increase the amount of economic activity that takes place for a very short period of time, but sooner or later the fact that the money is worthless becomes clear to everybody, and they realize that all that's actually been done is a sort of redistribution of wealth in a way that's favorable to whoever is in power.

So this happened in the Roman Empire by inflating the number of coins by reducing the amount of silver in each of them. Over time, there were more and more coins in circulation, but each was worth less because they contained less and less silver.

Later financiers got more creative. The best example probably is the story of John Law. You can look up the history of John Law in lots of places if you're interested, but the general idea that Law came up with was that government debt – in this case, the government of France – was better than gold so to speak. That it was an asset that was just as stable as a precious metal but would also pay you a dividend yield or a coupon for holding it.

Law set up a bank, whereby the bank would hold debts of the government and then be able to lend a lot more paper notes based on that reserve value.

What this did was greatly increase the global money supply because everybody was trading notes that were backed by the debt of France, and Law used that money of course to then repay those debts for the government. This trend resulted in huge runaway inflation and several different asset bubbles, most notably the Mississippi and South Sea in the early 1700s.

Another example of paper money leading to vast inflation actually happened earlier in the U.S. colonies in the late 1600s. The colony of Massachusetts decided that they would go on a raiding party against the Canadians in Toronto.

The problem was the raiding party got defeated so they came home. You had a bunch of soldiers coming home broke and hungry, and the government of Massachusetts didn't have any ability to pay their wages that they had been promised – the government was hoping to gain those wages by plundering Toronto.

So the governor of Massachusetts said, "Well, listen here folks. We're gonna print up some paper that's gonna be valid money for all debts public and private and give it to the soldiers. We're gonna print up \$5,000 to pay these guys and we're not gonna print any more money ever. We promise." Yeah right!

Well, the money provided a huge boom to the economy. All of a sudden these soldiers had money to spend and all the merchants were getting this money, and everyone felt like they were getting rich. And so a couple years later they decided, "Wow, that worked so well we're gonna print up 50,000 more of these notes." Notice the extra ZERO!

And so what happened of course was this boom and bust cycle that you now see regularly in the United States – and actually in the world because now the world has figured out a paper money standard gives the “rulers” unlimited power.

What happens is a bunch of paper money is created and economic conditions improve for a short time, but sooner or later somebody loses faith in that paper currency. Then what happens is everyone tries to buy something that they know is more permanent... stable. Things like real estate, gold, silver, even copper.

And as the intrinsic value flees into things that are more permanent, the paper money becomes more worthless and there is an economic collapse.

And this really ties into what's happening today. So what happened in Massachusetts then is every 10 or 15 years there was a bust and then they would have to print even more money than the last time. The amount of money in circulation kept getting bigger and bigger and bigger. And this caused a horrible economic cycle, but it also caused a lot of asset bubbles.

**These bubbles were created because of all the new paper money out there. It causes prices to go crazy for things that people believe are more permanent in value – whether it's stocks or bonds or real estate or tulips or whatever happens to be the popular asset of the day. We've seen this time and time again.**

**Eventually, the king of England got so fed up with these economic cycles and with the problems of these asset bubbles that in 1720 he made a law that outlawed paper money in any of the colonies or in any area under his control and he said, "That's it. We're not gonna have paper money anymore because it causes too many problems and I've seen too many people become impoverished in these asset bubble cycles."**

**He said if you're going to have banks and paper money, you have to have it all backed by gold or silver, and he put Sir Isaac Newton in charge of the mint... He was basically the Alan Greenspan of his day...and you thought he was just a scientist~! He was in charge of making sure that the money was sound. And it was against the law to use anything except precious metals as money.**

**The gold standard that the king of England put into place in 1720 actually stayed in effect globally as a standard of money until 1914, the beginning of World War I. And if you look at that period of time, it's the greatest period of human advancement in history.**

**And that's why people were able to advance so rapidly – because sound money put an end to the government's officials' ability to wage vast wars financed by debts, and it also meant that people didn't have to focus on speculation. They could focus on innovation. They could focus on delivering a better good or service that would actually lower price.**

**Believe it or not, between 1720 and 1914, the average price level fell. That meant that the average price for a bale of hay or a pound of corn or an ounce of gold, or whatever, actually fell. And prices should always fall because humans become more productive over time, and that will reduce the true cost of whatever their desires are.**

**Probably the biggest indictment of paper money is that it always loses value, and you see that in inflation.**

**If you ask most people on the street today whether they expect prices to be higher in 10 years or lower in 10 years, everyone's probably going to say higher because everybody knows that inflation causes the prices of everything to increase. They may not know why it happens, or that it's because of the government's actions, but they know it's true.**

**What most people don't realize is that inflation comes in waves and it comes during periods of economic collapse, because there always has to be vastly more**

**new money created to paper over (no pun intended) the bad debts of the previous cycle.**

**And right now, we're in the middle. In our opinion, we are absolutely, positively at the epicenter of one of those vast expanses of the money supply right now, which is being used to paper over the bad debts of the previous bubble.**

**If you look at what the Federal Reserve is doing today, they're creating enormous amounts of money – almost \$2 trillion in new money in the last 12 months – and they're directly buying all of the bad mortgages from the investment bankers. Folks, this is absolutely true. There's a paper record-trail of it.**

**What there isn't a record of and what we don't know – and why people want to audit the Fed – is the prices they paid for those bad debts.**

**I bet you when the Fed is finally audited (and we believe it WILL BE), we're going to discover that they paid par, meaning that they were buying paper at \$100 that was actually trading at \$10 or \$15. And they're doing that of course to save their friends at the banks “that are too big to fail!”**

**In every paper money system the people who lose are the people who are not heavily indebted. The people who lose are the people who save and invest.**

**The people who win are the people who get to manipulate where the new money is injected. So the people who win are the big bankers and the other folks who are going to have all their bad assets paid off in the new money.**

**The worst part about paper money is it forces everyone in the economy to become a real speculator. A speculator is somebody who has to figure out where the next asset bubble will be, and they have to trade their paper for that asset before anybody else does.**

**There is no way in a paper money system to simply be a saver because you never earn a market rate of interest, because the paper will always collapse faster than the interest that you can gain. -END**

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