The Casey Report

Investing Ahead of the Crowd

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Snake-Bit Economy

Dear Reader,

Arriving in Chandler, Arizona two days ahead of our Casey Research Summit, I found myself with a bit of leisure time available. Given that the conference facility was located on an Indian reservation, which is to say a forlorn desert that our forefathers felt an appropriately stark and desolate place to intern the native freedom fighters, there was not much to do other than try to escape the heat by splashing about in the pool or tough it out in order to play a round on the golf course or venture into the desert on horseback. As I can play golf pretty much anywhere and splashing about in pools holds only limited appeal, I decided to join a friend for a horseback ride, something I love very much but do only infrequently these days.

As might be expected, this being the Arizona desert at the tail end of summer, it was hot. How hot? In the days immediately preceding my arrival, the temperature had registered 115° F. Fortunately, on the day we went for our ride, it was a more moderate 105°. But I wander, because my purpose here is not to regale you with stories about earlier versions of Guantanamo or, heaven forbid, the weather. Rather, it is to tell you a tale about a girl, a snake, the nature of a Navajo, a bloody act, flaming vodka and the ruin of the US economy.

The story begins about 15 years ago, when the young Navajo woman who guided us through the searing desert on horses was but eight years old. While riding in the company of cousins and uncles, she fell behind. It was then, while separated from the group, that her attention was drawn to something wiggling on the hot sand. As eight-year-olds are prone to do, she decided to take a closer look… then, on dismounting, further decided to pick the small snake up. Of course, having grown up on the reservation, she knew snakes can be dangerous, especially those that rattle at you. However, as this one had rattled not at all, she came to the erroneous conclusion that it was a snake of the safer sort and grabbed hold of it.

What happened next, she told us, happened quickly.

First, the snake revealed its true nature by sinking its fangs deep into her thumb. Initially, she related, she felt no pain and so, for precious seconds, stood there with the reins of her horse in one hand and the fangs of the snake in the other as it continued doing what comes naturally to a viper in such a situation: pumping her thumb full of venom. (As a relevant aside, the venom of a young, smaller snake is, paradoxically, far more potent than that of a larger, older snake.)

When the pain ultimately became apparent, she screamed, catching the attention of her companions who had ridden well ahead, following the tracks of a stray cow. Turning to the sound, they saw her standing there with the snake hanging from her hand and, as she related it, came at a fly, leaping off their horses to dispose of the snake.

Acting quickly, her uncle sliced her thumb open to let the blood and venom flow freely, then cut a strand of rawhide from his saddle in order to make a hasty tourniquet for her thumb. Climbing back onto his horse, he took the girl in his arms and spurred the horse into a run, à la Rooster Cogburn in *True Grit*, moving as fast as the horse could carry him back toward the family homestead.

As they rode, the girl noticed that the top of her thumb had turned dark black, and that the black was creeping down her digit.

Arriving home, her uncle hurriedly passed the girl down to her father, who gathered her up and rushed with her into the kitchen where he laid her hand down on the kitchen table to examine the damage done.

No sooner did he have her hand flat on the table, however, when her grandfather pushed his way forward and, with a solid and well-delivered blow with a butcher's knife, took most of her thumb off. Right behind him, her grandmother stepped up with a bottle of vodka, splashing it on the stub of the thumb, then set it on fire.

As you can imagine, the whole thing then became a blur, as she was rushed out to the car and on to the hospital where the doctors were able to clean up the mess.

"Did your grandfather actually have to cut off your thumb?" I asked incredulously. "Or was he completely out of his mind?"

"Yes," she replied without hesitation, "the doctors said that if he hadn't, I would have died for sure."

By now you may be wondering why I would lead off a publication dedicated to the economy and investment markets with a wild story about snakes.

Snake-Bit Economy

After hearing the above story, in response to my asking the guide what had happened to her thumb while riding through the parched Arizona desert, several thoughts came to mind.

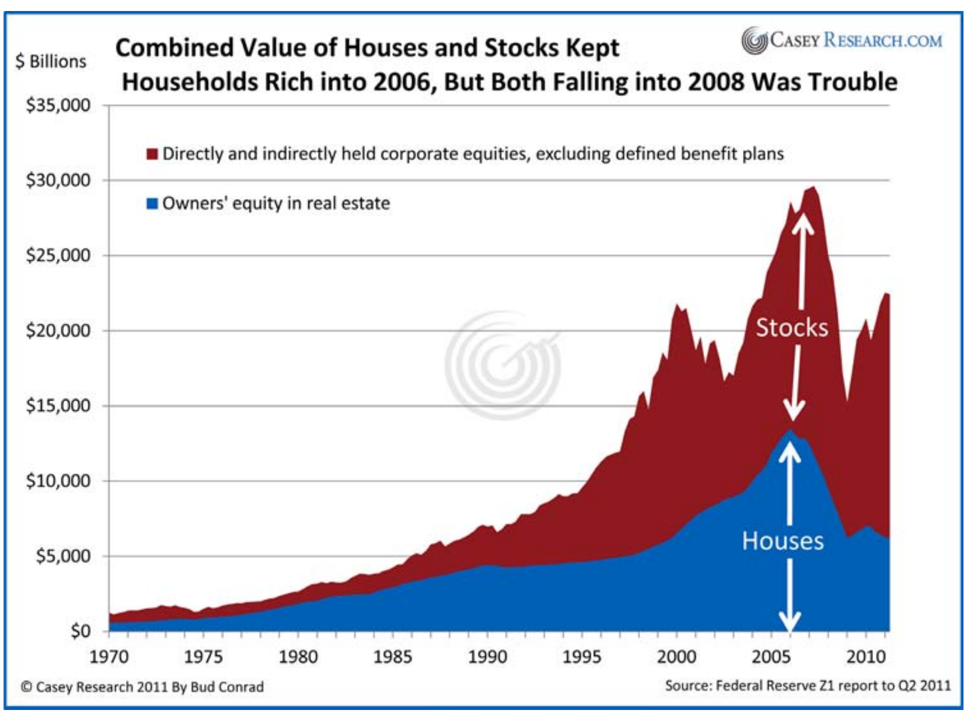
First and foremost, if it had been my child, the child would have been a goner, for sure. Now, that may not have been the case if I had been raised in a native household in that forsaken desert – because I would have been well aware of the natural environment and the risks it held. And my attitude about such things as chopping digits off in order to save lives would have been fashioned by experience and stories passed down by others about similar snake encounters. Then it would have come down to having the presence of mind and the fortitude to bring the blade down, something that none of us knows we are capable of until the moment arises. The girl's grandfather had the historical reference point necessary to properly assess the threat, the knowledge of what to do, and as importantly, the appropriate sense of urgency. From the sound of it, if he had procrastinated for even a minute or two, it would have been too late.

But more to the point of this service, other thoughts were related to today's deep economic malaise, summed up well, I believe, by our conference title, *When Money Dies*.

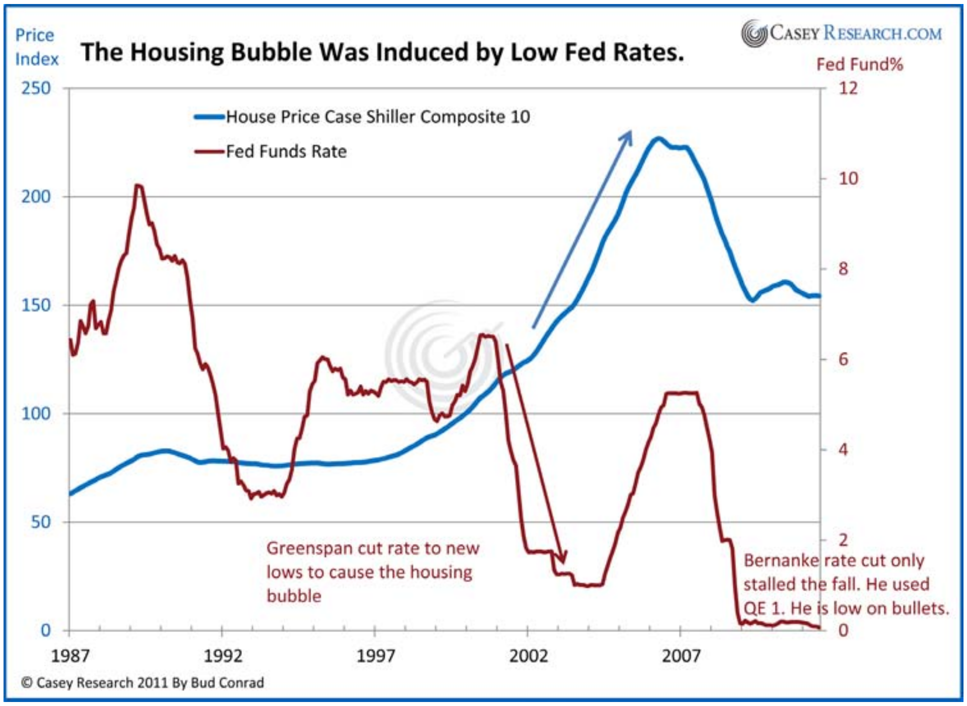
There is, I would contend, a very relevant metaphor to be drawn between the incident just related and the dangerous poison coursing through the economic lifeblood of the world's nation-states. The deeper roots of this crisis can be tracked back decades, when the US government (and almost all others), encouraged by voters and politicians looking to appeal to those voters, began to skew toward socialism. Which is to say, when the scale and scope of the government's role in the economy was allowed to expand to the point where there was literally no corner of human endeavor where its dead hand could not be felt.

Against that broader landscape, we arrive at the impetus for the current crisis, which I would attribute in no small measure to the response of the government and its minions at the Fed to the bursting of the dot-com bubble.

To make a longer story short, as the dot-com mania collapsed, the government adopted a multifaceted loose-money strategy that involved ratcheting up M3 money supply, pushing down interest rates and relaxing lending standards. The result, shown in the chart below from the December 2006 issue of *International Speculator*, is that the losses suffered in the stock market crash were met with a surge in the nominal values of homes – for most Americans their single most substantial asset – to the point where the stock market crash was fairly quickly blunted by the fast-expanding bubble in housing.



In this next chart, we drill down to see how the specific actions of the Fed triggered the housing bubble.



Returning to the metaphor, if the government's reaction to the dot-com crash had been the indifference of a capitalist, rather than the "do something" of a socialist, then the malinvestment in dot-com stocks would have been resolved as quickly as if struck off by the old Navajo… which is to say that those investors who got carried away by the lure of dot-com riches would have been cleaned out and the business cycle would have continued apace.

Unfortunately for the patient – in this case the US economy – the government couldn't help but meddle, therefore setting the stage for the calamity that has now befallen not just this country but the world.

You might sum up the situation with the old adage, "In for a penny, in for a pound." And so it was that – by cranking up the money supply, lowering interest rates and, in time, guaranteeing mortgage loans for anyone with a pulse as part of establishing homeownership as a new American "right" – the government set off a poisonous cycle that remains with us to this day.

Rather than being quickly resolved, the necrotic reaction started by the government's response to the dot-com crash spread to the housing markets and ultimately rebounded back onto the balance sheets of the Fed, the banks and the government itself. Today, instead of having to lop off a thumb to save the patient, the equivalent of an arm is required.

But rather than act, we can only expect officialdom to continue to dither, even as the poison continues to spread through the economy and the body politic. And when they do act, it will be in ways that are entirely political in calculation, which is to say, actively counterproductive.

The reality is that there is no way to cut off an appendage without causing pain, any more than you can unwind the historic levels of debt and malinvestment in today's economy without a substantial segment of the economy suffering a degradation in their quality of life. Done properly, however, those who made the malinvestment will bear the full brunt of their mistake. The list of constituencies that will be wiped out or at least significantly damaged is, unfortunately, long. But trying to solve the problems by further meddling will only make things worse, which means the resolution will be increasingly devastating – and maybe in ways that you and I would have a hard time believing possible today.

At our recent summit, we assembled a "Crash Panel" of individuals who had lived through inflationary collapses in Argentina, Yugoslavia and Zimbabwe. While there were many interesting anecdotes and observations, one that popped out at me was that government-instituted exchange controls preceded each of the major inflations. Something to watch for, because at this point there is literally nothing the government won't do – rather than doing what's right, that is.

And what's right is to bring down the knife on the holders of unpayable debts and on government programs and spending that the nation can no longer afford… and never could. These and numerous other tough actions are required if the patient is to be saved. As the odds of that action being taken are slim, so are the chances for a recovery.

This brings us to the contents of this month's edition, in which *The Casey Report* team once again tries to keep you in the know about what's really going on in this challenging economic environment and how to position yourself to come through it okay.

In This Issue

In our lead article, ***The Battle for Low Interest Rates***, Bud Conrad takes a detailed look at the potential for US interest rates to spin out of control and destroy the US economy as we know it.

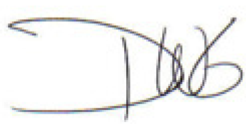
Commenting on growing signs of social unrest, in ***Under Siege***, Don Grove takes a look at the growing protest movement here in the US and finds little to inspire, but much to concern.

For his article ***Crystal Ball***, Doug Casey plays the guru with a series of forecasts on a wide range of topics. Given his track record in anticipating future events, you'll want to pay close attention.

And in ***The Gleam in Your IRA***, Terry Coxon discusses the dos and don'ts associated with using your IRA to invest in gold.

Of course, you'll also find our regular features, the ***Data Farm*** and ***How to Invest***, in which we update our latest portfolio moves and provide you with an exciting options strategy to take advantage of the next shoe dropping.

So much to do, so little time to do it in, so let's get right to it.



David Galland
Managing Editor

P.S. Speaking of the just-concluded *When Money Dies* Summit, the complete set of recordings is now available.

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The Battle for Low Interest Rates

By Bud Conrad

Of all the forces now weighing on the outlook for the United States as well as many large Western economies, none is currently more important than interest rates. Simply, if the Fed loses its battle to keep interest rates at record lows, the soaring costs of servicing historic levels of debt will crush wide swaths of the economy.

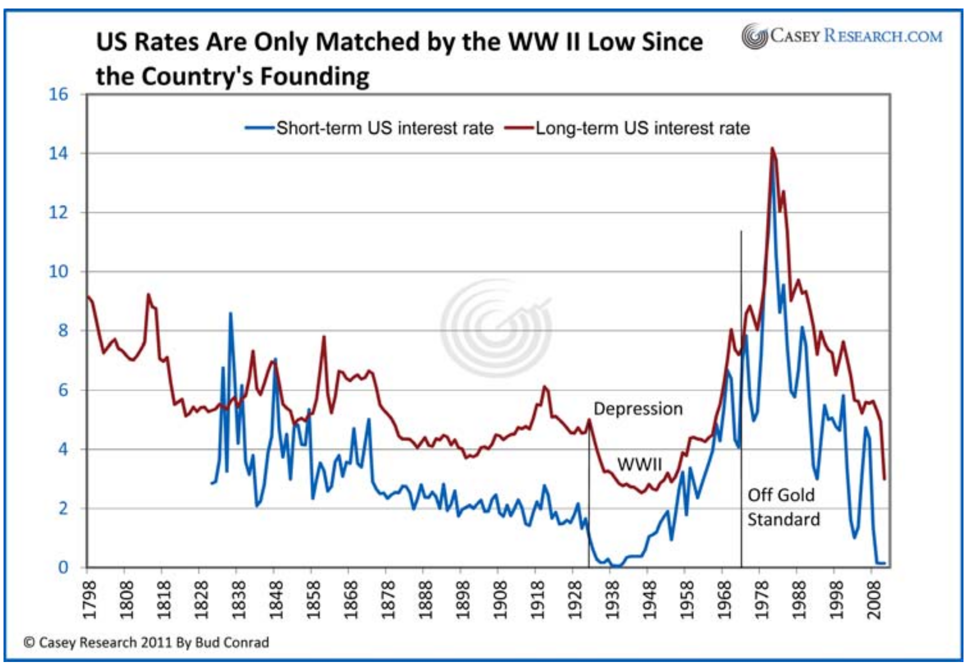
In the following article, Casey Research Chief Economist Bud Conrad digs into the battle for interest rates, a battle that, if lost, will result in the government losing its war to maintain the debt-fueled status quo of endless expansion and spending without restraint.

David Galland
Managing Editor

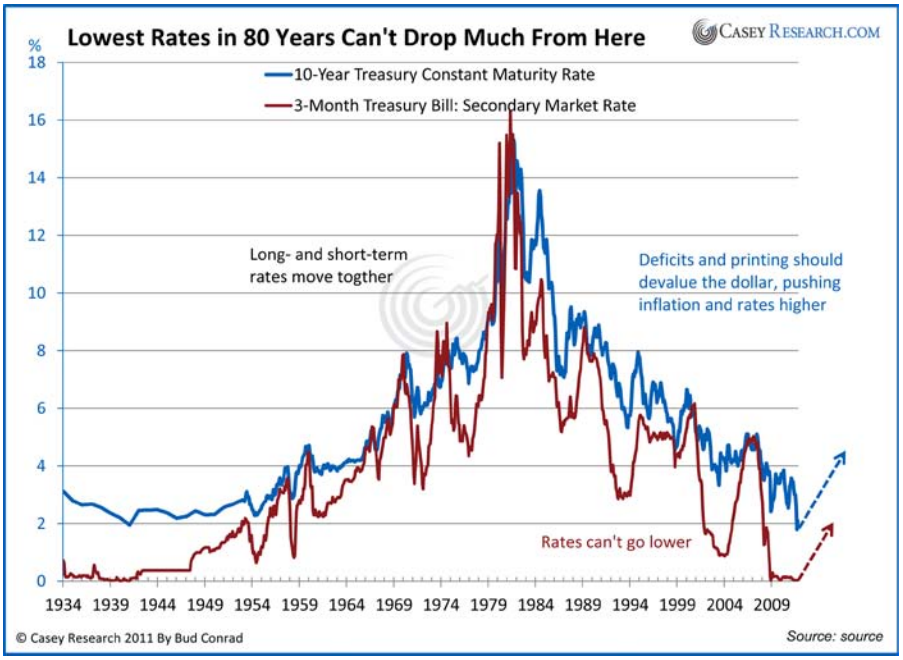
It is truly amazing that US interest rates are at the lowest levels in US history, especially considering that the government is running the most egregious deficits ever, except for times of all-out war. These unusually low rates are due in no small part to manipulation by the Federal Reserve. For reasons I'll explain, I don't believe the Fed can suspend the normal laws of economics forever. By the time you have finished reading, it is my hope you will fully comprehend how serious the situation has become and why I believe that this distortion in interest rates will begin to unravel in the near future.

US Interest Rates Are at Record Lows

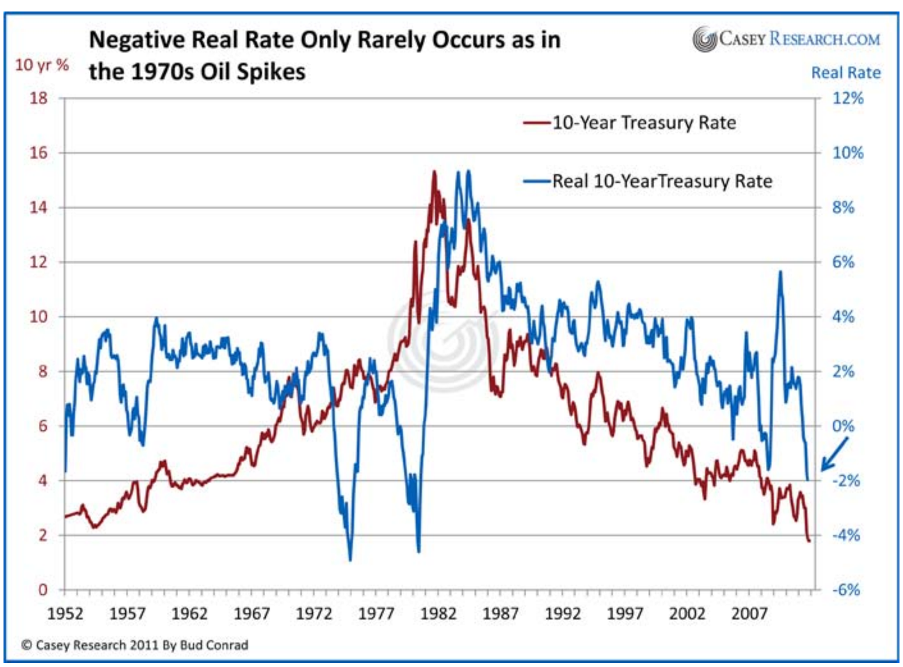
My first chart shows that US interest rates have never been lower, all the way back to the founding of the nation. Only during World War II, with government taking control of large segments of the economy, did rates approach today's lows. With huge government deficits and a completely unredeemable currency, today's rates are not justified by normal market forces.



The next chart shows a more recent look at the data. Again, you can see that short- and long-term rates tend to move together as they both reflect the need to compensate investors for expected inflation. The short-term rate today has been forced to almost 0% by Federal Reserve purchases of debt. Obviously it can't go lower. With the long-term rate also in record-low territory, there is a clear disconnect with the lack of confidence that markets would normally assign to a government running record-high deficits, as is currently the case with the US government.

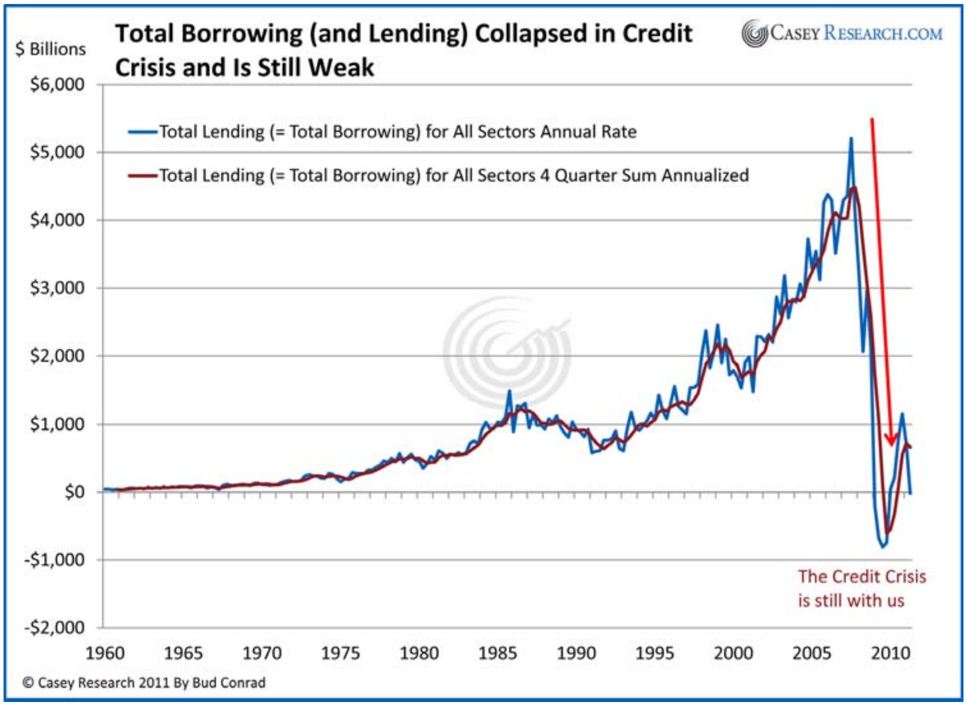


The following chart shows the real interest rate for the 10-year Treasury note after accounting for inflation, as calculated by the Consumer Price Index (CPI). Only in very unusual times does the rate become negative. During the two large oil price spikes in the 1970s, for example, inflation exceeded the rising interest rate. As you can see, today's rates have been forced below the CPI. In that the government CPI number doesn't properly reflect rising prices, interest rates are almost certainly even more negative than shown.



Too Much Debt Created the Credit Crisis, and It Is Still with Us

The bubble of continuing credit growth has imploded into the worst economic crisis since the Great Depression. The following chart clearly shows the dramatic growth in debt going into 2008 and how anemic the growth has been since, despite the infusion of trillions of dollars into the economy by the Fed and Treasury Department. An important conclusion is that we are still in the credit crisis, even though some indicators of our economy show improvement due to high levels of government spending.



Key to understanding the credit market is to know what is happening in each of the important sectors of supply and demand for credit. For every borrower, there is also a lender.

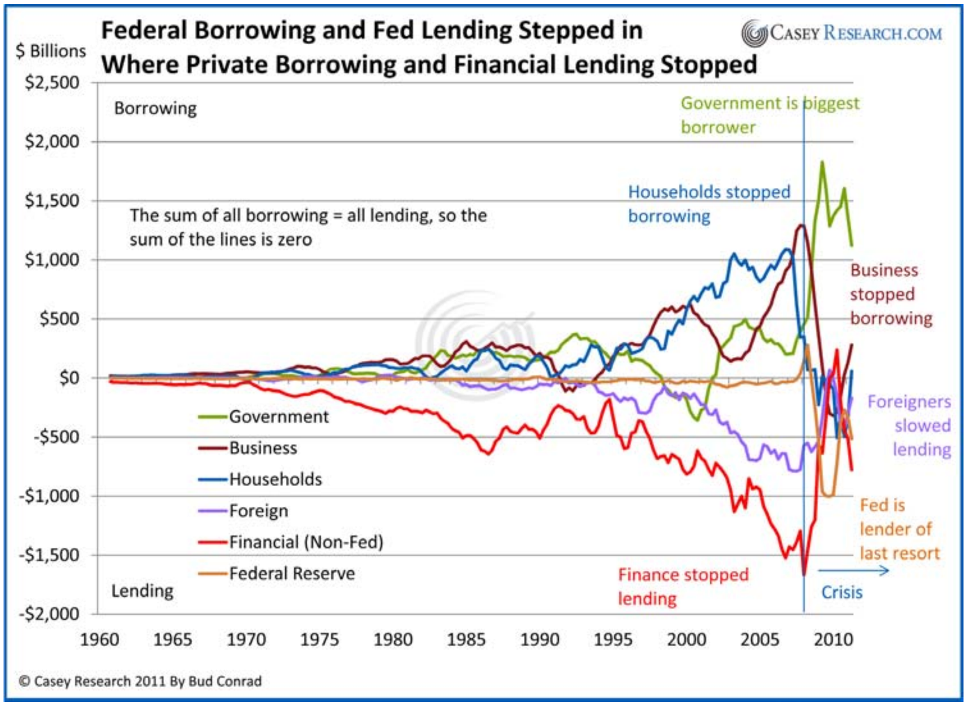
Debt Flows Show Which Sectors Are Growing

When there is a large supply of money to the credit market, as there is now from the easy policy of the Federal Reserve, rates are kept low. Conversely, high demand for credit can drive rates higher. Key to understanding the credit market is to know what is happening in each of the important sectors of supply and demand for credit.

The following chart, built from data from the Fed's Z1 report, lays out the *net* borrowing for six major sectors of the US economy. A given sector, like households, could be borrowing large amounts of money to finance the purchase of their houses, but at the same time they have savings in the bank that provide lending power to the credit market. The chart, therefore, shows the net flow by sector, so that we can more readily ascertain whether the sectors are net borrowers or lenders.

I have shown the amount of borrowing as a positive in the chart and the amount of lending as a negative. In some cases, a sector can move across the boundary from one to the other. For every borrower, there is also a lender, so the sum of all the lines on the chart is zero.

At first glance, the chart may appear like a plate of Salvador Dali brand spaghetti, but it offers what I think are important insights into the current state of US credit markets.



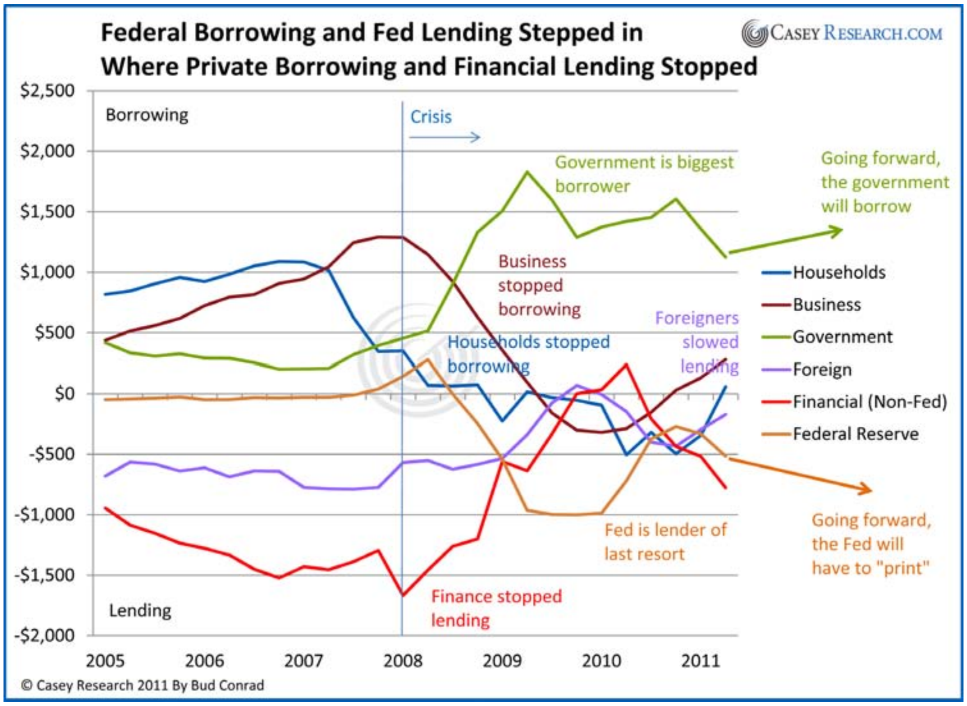
Some observations.

Private Debt Has Not Risen, But Government Debt Is Out of Control

Dramatic shifts occurred during our credit crisis. Most importantly, the private sector, made up of households and businesses, abruptly stopped borrowing. This is understandable as people stopped taking out mortgages to buy homes and businesses stopped raising new capital to expand. In tandem, the financial institutions stopped providing new loans in the face of concerns about their viability and the weakness of the economy. This dramatic shift is why this crisis has been so different from normal recessions.

Financial Institutions and Foreigners Have Been Replaced by the Fed

Again focusing on more recent events, below I have repeated the chart from above, homing in on the events after 2005. As you can see more clearly, not only did the financial sector (the banks) immediately stop lending, but the next-biggest source of lending, foreigners, also cut back (shown in purple).



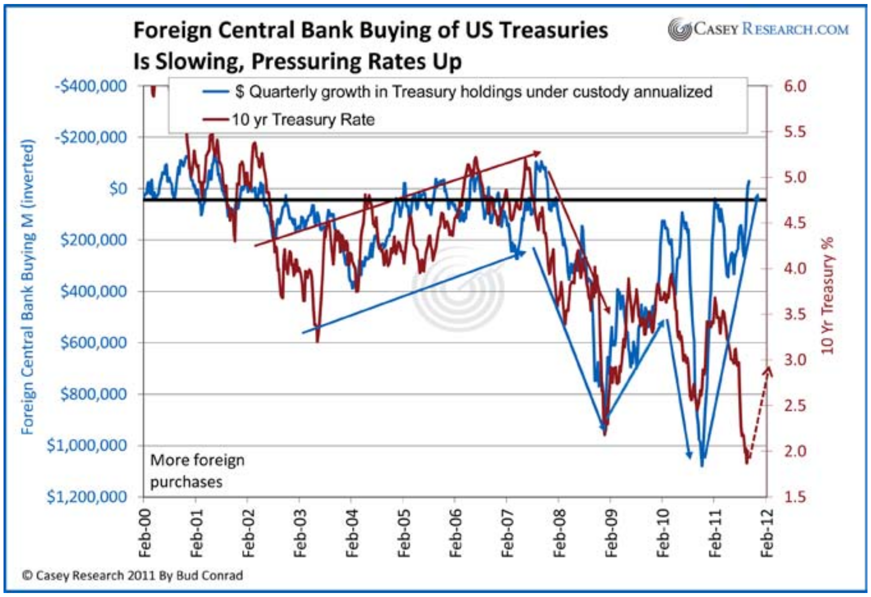
Looking to the future, I expect government deficits to continue at high levels for years to come. The question of who will meet this large demand for credit is answered by turning to the Federal Reserve. That's because more traditional sources of lending are unlikely to be drawn into buying government debt at the current low rate of interest. This puts the Federal Reserve in the role of having to keep rates low so that the government deficit does not expand beyond the government's ability to pay interest on the debt. The Fed's low rate policy also provides liquidity to the banking system in an attempt to support economic growth and make banks profitable.

In short, the Fed has little choice but to continue its role as lender of last resort. It is the large creation of money and credit by the Federal Reserve – which is required to play that role – that will lead to the demise of the dollar.

Foreigners Slowed Government Debt Purchases

The previous chart showed foreigners lending less to us than they did during the height of the bubble. The following chart shows the more detailed and up-to-date weekly slice of foreign central bank purchases of our Treasuries. The blue line showing foreign purchases is inverted, so that a falling line indicates increased buying. And increased foreign buying supplied the liquidity to our markets and helped keep interest rates contained, even as our demand for credit for housing and government spending expanded when the credit bubble peaked. As you can see, the rate of lending spiked to $1 trillion in 2010 but in the latest data has dropped to essentially zero. In other words, foreigners have become disenchanted with buying new Treasuries and are finding other places to invest their dollars.

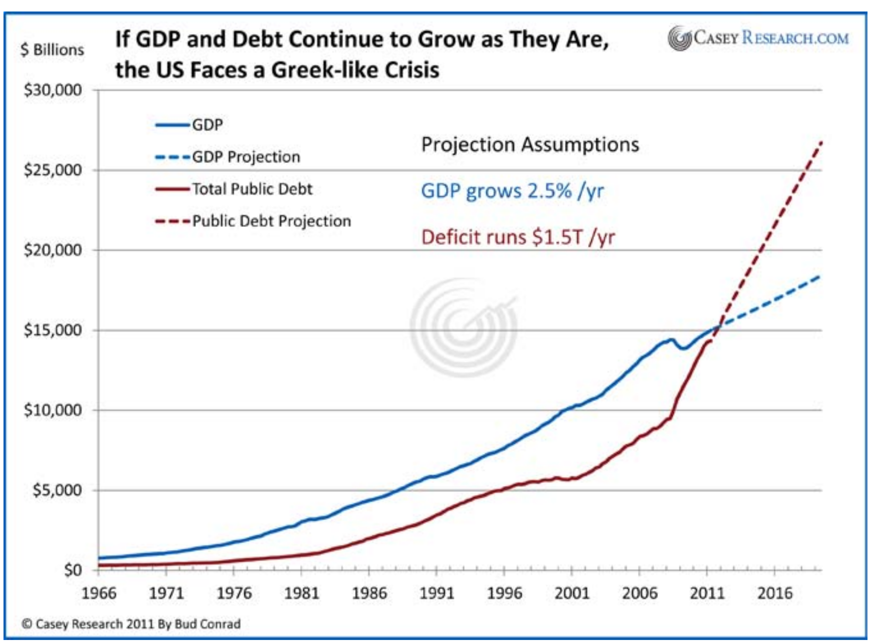
Historically, the rate of interest on US 10-year treasury issues tended to move up when foreigners were buying fewer Treasuries. But as you can see, interest rates have dropped dramatically even as foreigners have stopped supporting the market. This change is caused by the Federal Reserve stepping in dramatically to buy US Treasuries and mortgage-backed securities.



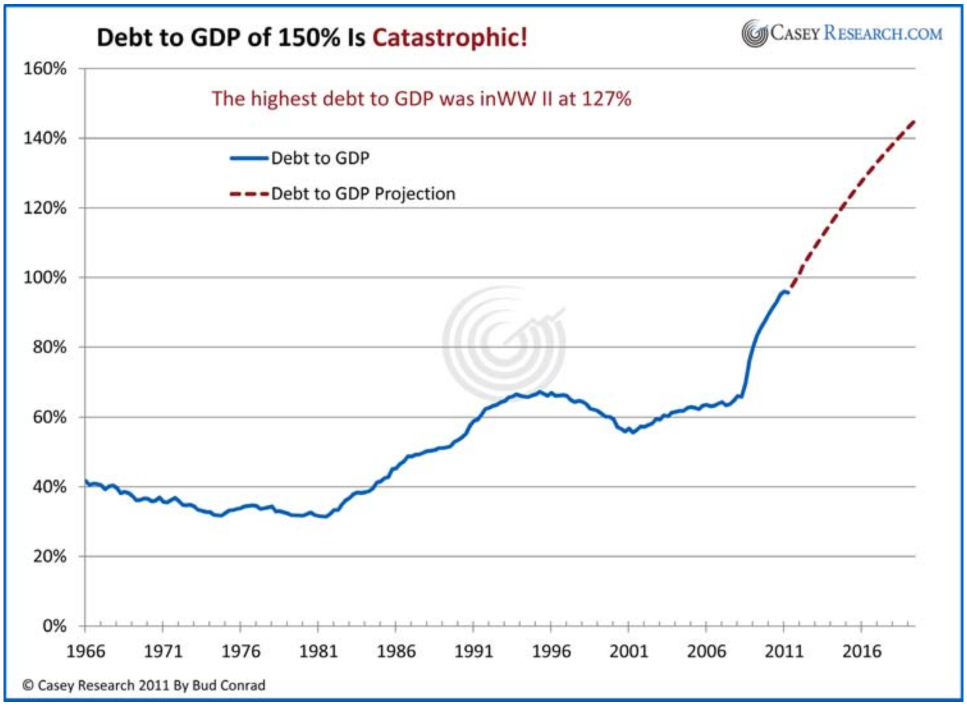
Our Debt Will Be Unmanageable If We Follow Current Policy

One of the most important measures of a country's ability to manage its government debt is the ratio of debt to GDP. Carmen Reinhardt and Ken Rogoff's book called *This Time Is Different* provides many historical examples of crises, and they conclude that when the debt-to-GDP ratio approaches 90%, crises arise. The United States has many supporting factors, including its size and global respect for its currency, but the US debt situation is worrisome, to put it mildly.

The following chart shows the actual GDP and debt in solid lines up to the present. Each is projected forward in dotted lines reflecting current growth rates. GDP is expected to grow at 2.5% per year because the economy is not rapidly recovering and we may yet have another recession sometime in the next decade. The debt is assumed to grow, as it has been in the last two years, at around $1.5 trillion per year. While there is much discussion in Washington about cutting deficits, progress has been almost nonexistent, with Republicans wanting to cut social programs and Democrats wanting to raise taxes. The long-term projections for baby boomer retirement funding will make these deficits even worse than is reflected here.

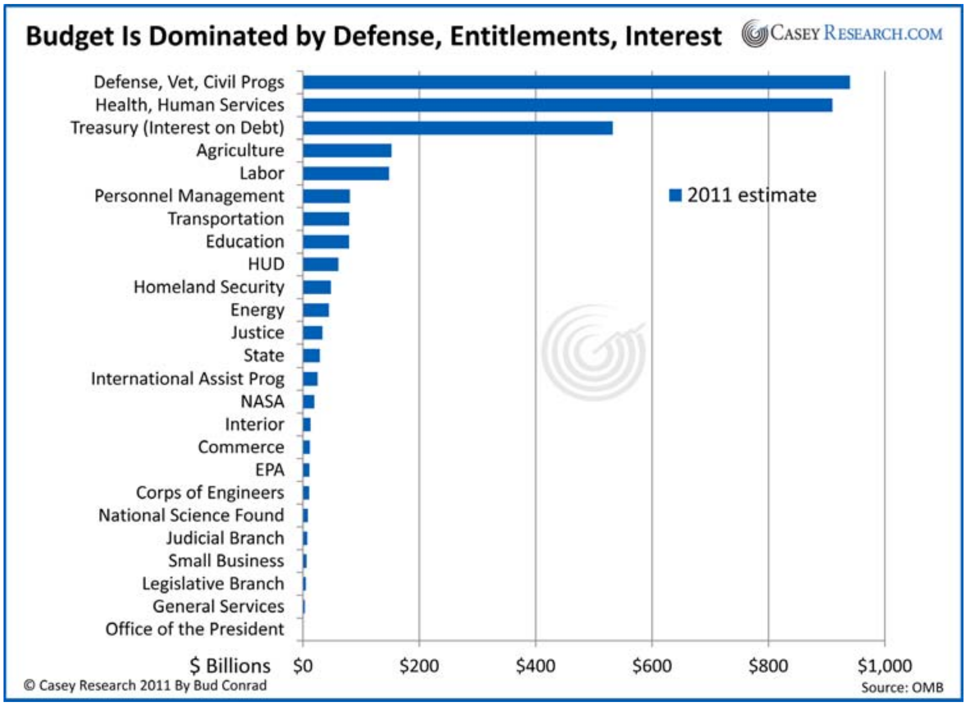


With these two simple assumptions, we can predict the ratio of debt to GDP, shown in the following chart. Historical studies show that this level of debt to GDP, approaching 150%, is unlikely to occur without a major disruption of other markets, most notably the purchasing power of the dollar and the interest rate at which investors will buy Treasuries.



The Causes of Deficits Are Defense, Retirees and Interest on the Debt

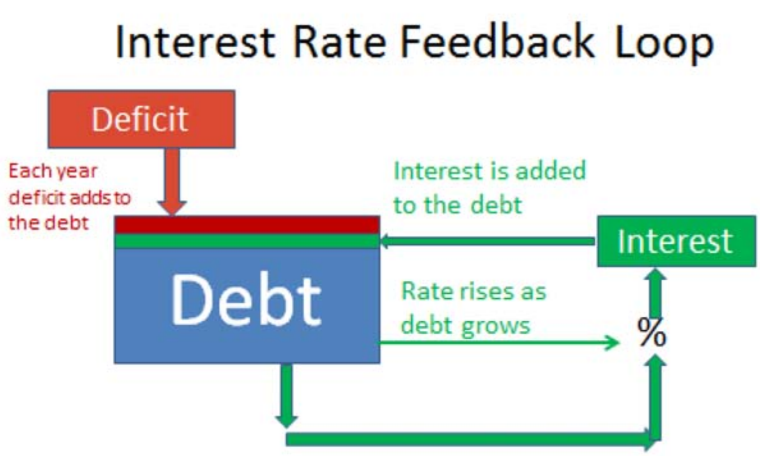
The following chart shows the size of federal government spending by major category. Defense, including Veterans' Affairs, is the biggest, followed closely by Health and Human Services, with each costing around $1 trillion. Interest expense is included under the category of the Treasury Department and amounted to $433 billion in 2011. Defense has many entrenched supporters and is not usually considered a debatable item for cuts by either party in Congress. With the ongoing war and upheaval in the Middle East, the military budget is not likely to be cut by any significant amount anytime soon. Social Security and Medicare are the big components of social services and are often called the "third rail" of politics, since older people tend to vote and do not want to see their benefits cut, and so they are also likely not to experience significant cuts. At least until such cuts are absolutely unavoidable, but we're still a ways from that.



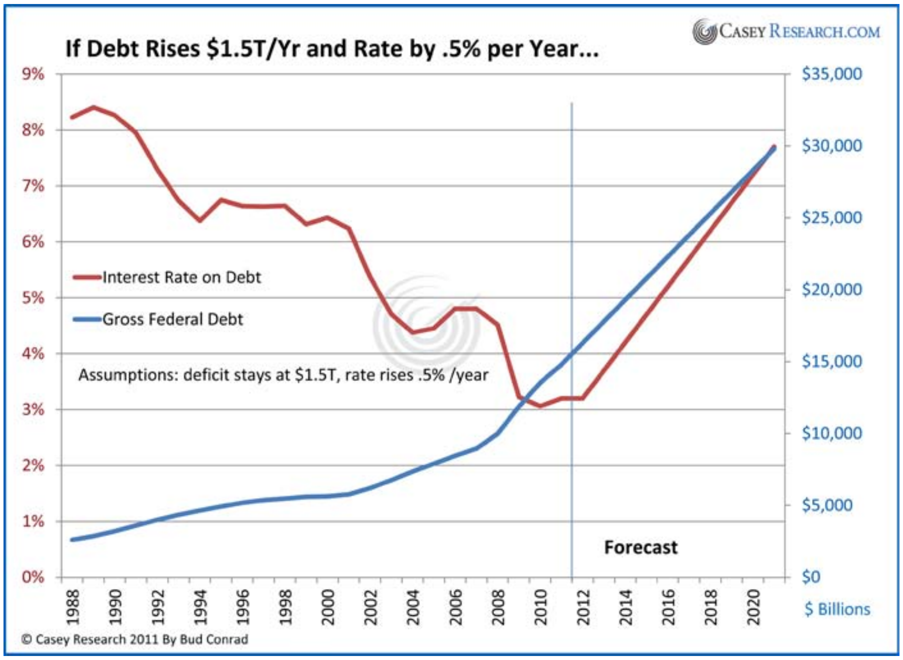
When Interest Rates Rise, the Deficit Will Become Unmanageable

Rising interest payments on outstanding debt are almost certainly the single biggest risk the federal government faces in terms of triggering dangerously higher levels of deficit spending. While the cost for debt servicing could escalate dramatically due to continued increases in outstanding debt, it is the increase in the rate of interest on that debt that is most troubling.

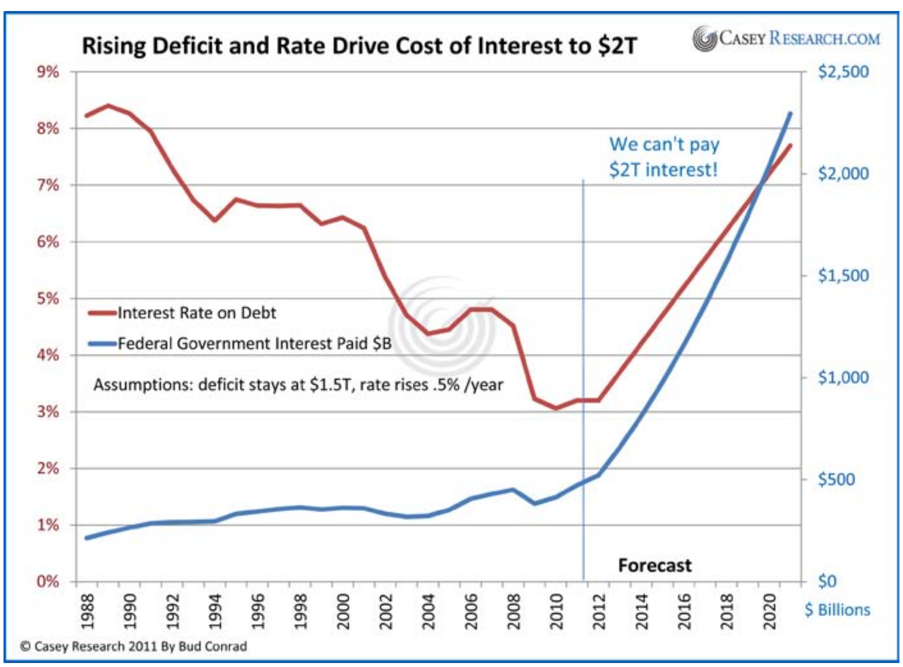
The simple diagram below shows the dangerous feedback loop that kicks off as the outstanding debt increases by the amount of interest that must also be borrowed, in turn causing Treasury buyers (lenders) to lose confidence in the outlook for the dollar's purchasing power and to demand a higher interest rate. This, of course, only exacerbates the situation and gives rise to the very real possibility that debt and rates both quickly spiral out of control.



The following two charts show what could happen if interest rates rose only half a percent per year, and if the outstanding debt only increased by the same $1.5 trillion per year assumed in the above charts. In 10 years, US government debt would rise to $30 trillion.



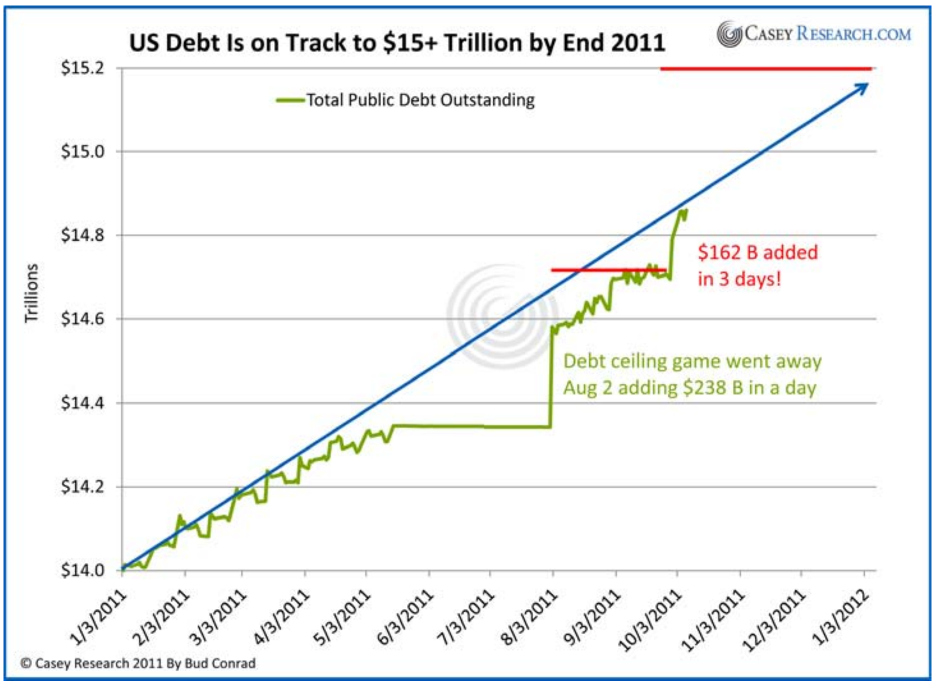
The second chart below shows what would happen if the interest to be paid on the US government's debt jumped to 7% in the coming decade, not an unreasonable level given the nation's shaky finances. At that rate, the amount of the budget dedicated to debt service each year would soar from $433 billion today to $2 trillion in less than a decade. To keep that number in perspective, the US government took in only about $2.5 trillion in total tax revenue last year. Clearly something will break if we stay on the same path we are now on, as the government cannot afford that level of interest on its massive debt.



The Politicians' Deficit Cuts Are Trivial Compared to the Problem

Washington's games are as predictable as before the debt ceiling debate. As the chart below shows, the government has continued its insane levels of spending without missing a beat. The big controversy of whether to increase the debt ceiling from May to August can be seen in the middle of the green line of outstanding debt. In the two days after the August 2 vote to increase the ceiling, US government debt immediately jumped $238 billion.

There was a second ceiling hit at the end of September, indicated in the chart by the red line, at close to $14.7 trillion. That passage allowed $162 billion to be added in three days. In other words, despite all the wrangling, deals and promises, this debt monster grinds on. It won't be long before we hit the next limit at just under $15.2 trillion. The ceilings are meaningless. And so far, the politicians have shown that they are unable to make meaningful cuts, so deficits will continue.

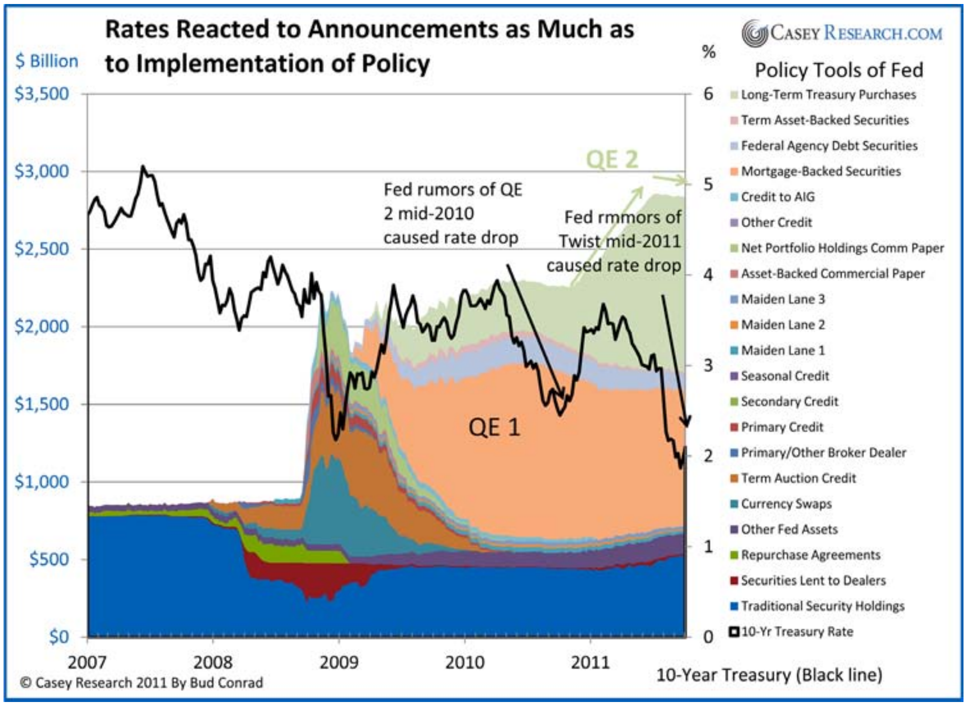


The Fed Enables the Deficits by Buying Debt and Keeping Rates Low

As shown in the following chart, many iterations of which I have presented before, as the crisis unfolded, the Fed sprang into action with a battery of policy tools to bail out weak financial institutions and to create liquidity. The actions are unprecedented (and large), because in a fiat currency system, there are no limits.

The chart lays out the various Fed policy programs in detail as I have shown in previous articles, but this time I overlaid the interest rate for the 10-year Treasury as a black line.

The Fed announced they will "Twist" the rate of longer-term treasuries lower by selling off $400 billion of short-term Treasuries and buying longer-term Treasuries between now and next summer. Since they are buying one form of Treasury and selling the other, the first impression is that this should have only a minor effect on the markets. But the mere rumor and announcement of the Fed's plan brought a swift 0.5% drop in the 10-year yield, shown toward the right of the graph. Concurrently, US mortgage rates fell to their lowest ever, with the average rate for a 30-year fixed mortgage falling to 4%. It is much like the QE II of last year where the Fed bought $600 billion of longer-term Treasuries. Most of the movement in rates occurred before the actual buying got going.



The Fed has announced other policy actions this month, including promising to keep the short-term interest rate close to zero until mid-2013. To make good on that promise, they will have to continue buying up Treasuries, much as they have done with $2 trillion in purchases over the last three years. My estimate is that the Fed will need to buy something on the order of another $1.5 trillion in Treasuries in order to maintain the zero interest rate policy (ZIRP) out to mid-2013.

That, of course, assumes everything remains mostly the same – especially that the markets continue to view Treasuries as the ultimate safe haven and therefore continue to provide the support necessary to avoid leaving the Fed as the lender of last resort, which is what leads to a disaster.

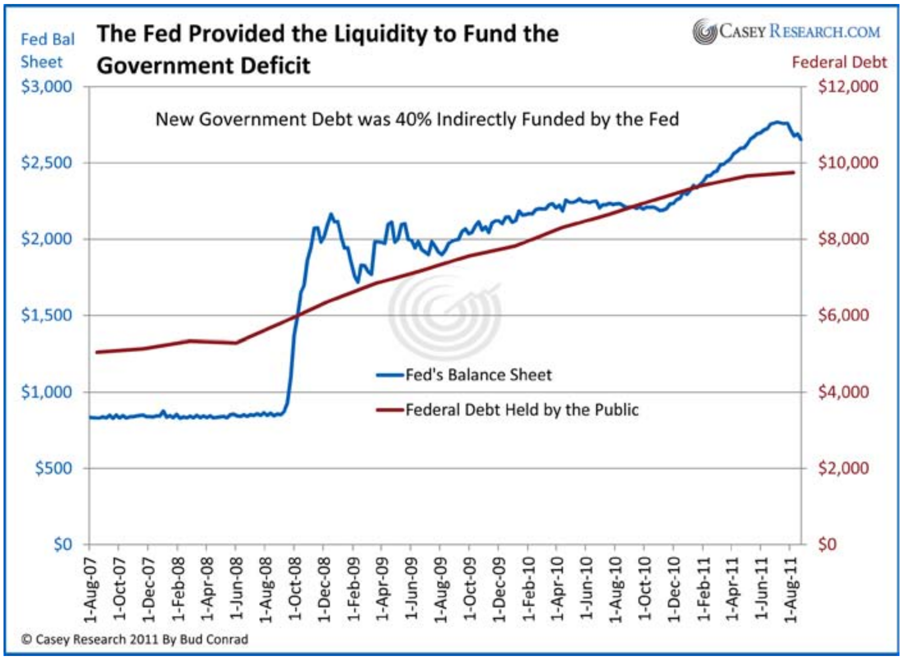
Which begs the question how they will manage to sell off $400 of short-term Treasuries as part of Operation Twist, without short-term rates rising, in order to keep their zero interest rate pledge. My guess is that they won't be able to keep the rate low, so they'll just abandon the announced sales of short-term Treasuries, allowing Operation Twist to morph into yet another program of quantitative easing.

The Fed also announced it would maintain its portfolio of agency debt at current levels, replacing it as it matures with new Treasuries. This amount is smaller than the $400 billion for Operation Twist but will add another $150 billion or so to the money creation.

Meanwhile, in an effort to head off possible shortages of dollars in the Eurozone, the European Central Bank, working with the Federal Reserve, will offer three-month loans denominated in dollars to banks in the 17 nations that use the euro currency. The central banks of Britain, Japan and Switzerland are also participating. Normally, American banks would have played this role but of late have been unwilling to loan to their European counterparts because of uncertainty about the European markets. Auctions will decide the size of the liquidity offerings, so we don't know how big the program could become, but we'll note that at the height of the crisis, the Fed's swap program with foreign central banks hit $600 billion.

None of these items is called QE III, but the net effect is a large number of programs aimed, in sum, at adding liquidity and expanding the supply of money. In the short term, they are also keeping rates low.

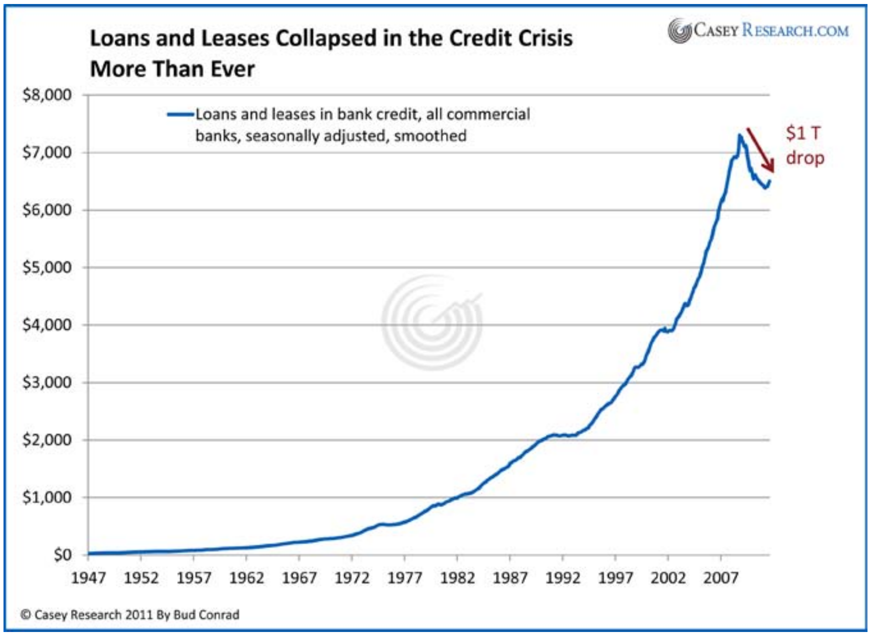
In essence, therefore, the Fed continues to do everything in its power to support the US government deficit spending. The chart below overlays the increasing level of federal debt held by the public with the increase of the Fed's balance sheet. Over the period of the crisis, the Fed has, in effect, absorbed 40% of the new federal credit demands.



Despite the Fed Easing Programs, Inflation Has Been Tame

As seen in the long-term chart of the CPI as measured by the government, inflation has not taken off.

Why so little inflation so far? There are many reasons, including less demand for goods in a recession and the outright losses from defaults and foreclosures. Another contributor is that the banks have been shrinking the amount of loans they have outstanding. The following chart shows this surprising decline after many years of loan growth.



Banks' $1.6 Trillion in Excess Reserves Keep Inflation Low with No Growth in Loans

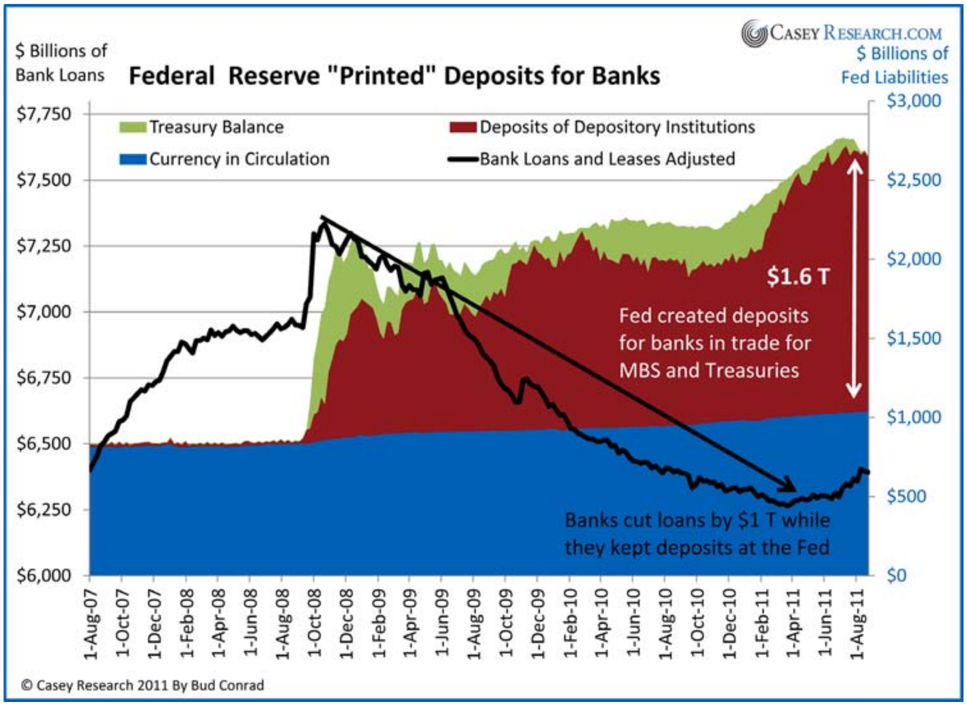
A stated goal of the Fed is to improve the economy by making money available to banks that can then be lent out to businesses and households, in turn helping to expand the economy and therefore reduce unemployment. But referring back to the all-important chart of debt growth by segment, it is clear that little new lending to households and businesses has gone on.

The next chart shows where the money went: nowhere. It got stuck on the Fed's balance sheet as excess reserves.

The liability side of the Federal Reserve's balance sheet in the following chart mirrors the chart of Policy Actions above. You can see a relatively steady blue area of currency with no unusual growth. But there is a huge expansion of $1.6 trillion in excess reserves. Those reserves were created when the Federal Reserve decided to buy securities such as Treasuries or mortgage-backed securities. In essence, the Fed created the reserves out of thin air as a bank account for the party that sold the mortgage-backed securities and Treasuries to the Fed.

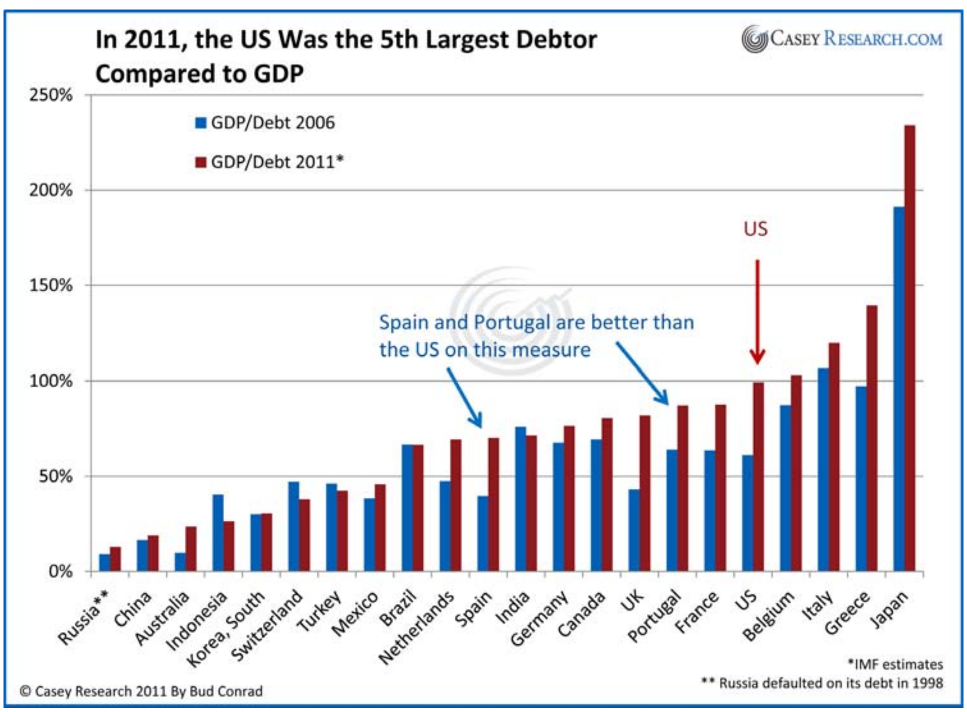
This money sitting on the Federal Reserve's books has little effect on the economy, so the result has not been particularly inflationary. Rather than making loans, which the banks are as reluctant to do as the private sector is to borrow, the banks leave the money at the Fed where they are paid a modest 0.25% on the reserves. With the money not making it into circulation, the inflationary effects of the newly created money are not transmitted.

The black line shows that banks' loans outstanding declined by $1 trillion during this time of Fed expansion. (The data have been adjusted for a jump in March of 2010 from a change in measurement.) The big jump in excess reserves and the decline in loans are the opposite side of the same decision not to make new loans. Should the Fed decide to stop paying interest on these deposits, or if credit demand were to rise, these excess reserves could fund new lending and inflationary pressures would increase.

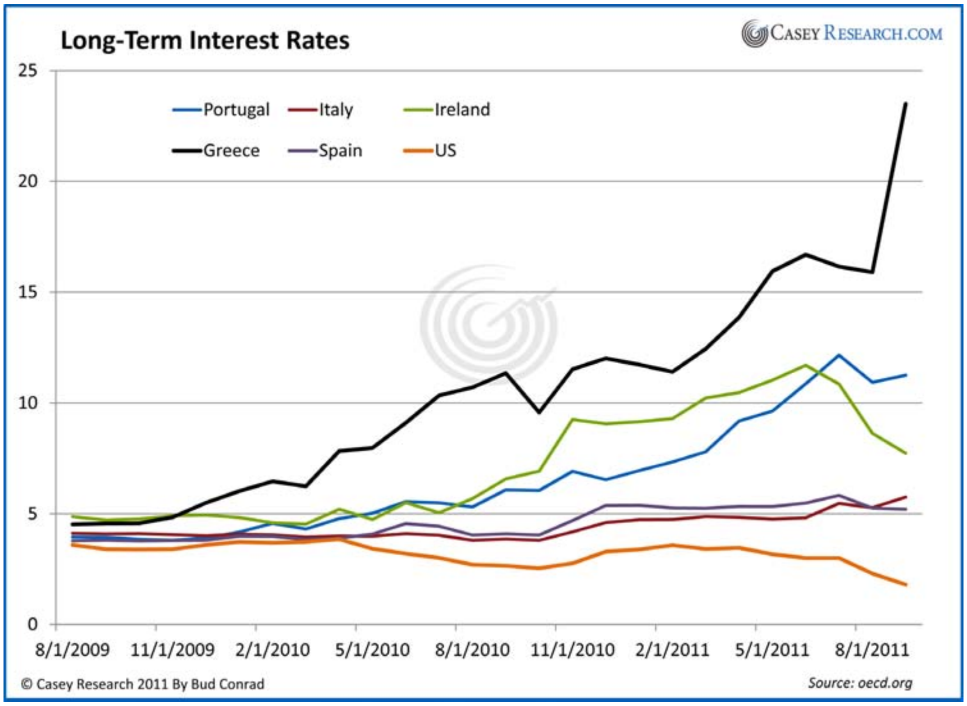


The US Debt Is as Big as Other Questionable Countries'

Virtually all the countries of the developed world have expanded their debt faster than their economy. Tellingly, the US debt-to-GDP ratio is in worse shape than that of some of the countries of Europe where confidence is already being lost. The chart below shows that the US has the fourth-worst debt-to-GDP ratio of developed nations. Spain and Portugal actually look safer.



The difficulty for nations with too much debt is that once confidence is lost, interest rates will rise. The chart below shows that the stronger countries like Germany and the US have benefited with lower rates while those European countries on the periphery have seen their rates skyrocket.



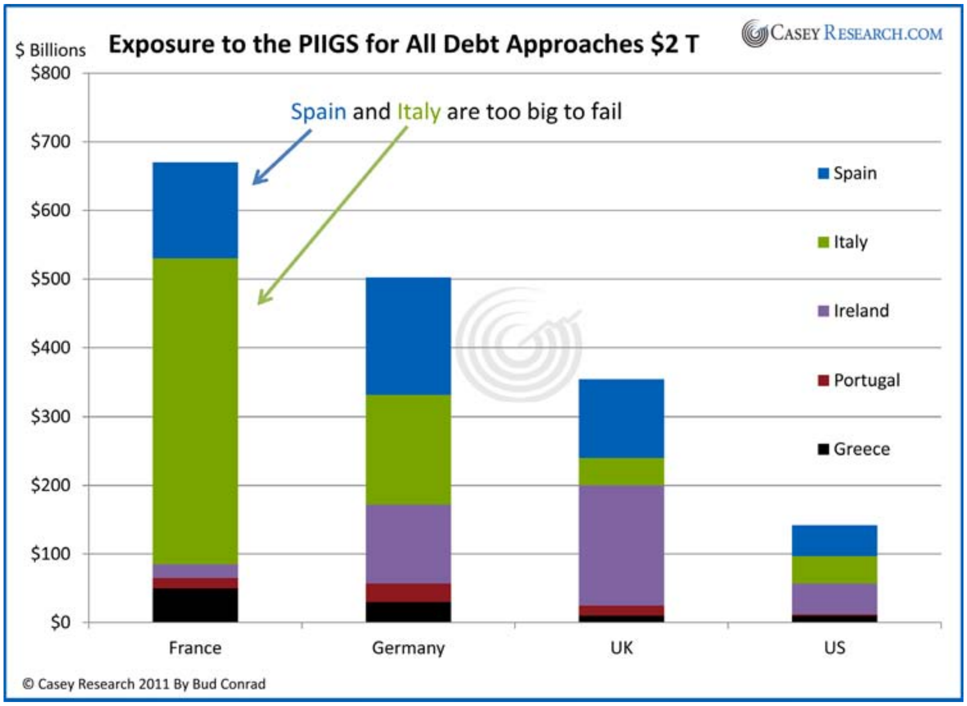
Europe's Debt Problems Are Dangerous for US Banks

The European debt crisis is in the news on a regular basis, and with each new announcement of problems and "fixes," world stock markets react strongly. The banks of the stronger European countries have made sizable loans to the weaker countries. If a country defaults, other nations' banks, many of which are highly leveraged, could face serious problems. The problems extend beyond Europe, however, because most banks around the world are interlocked through credit or guarantees on credit, such as credit default swaps. The following chart provides a glimpse at just how big the interlocking credit dependencies are. At $2 trillion, the problems could easily overwhelm the new European Financial Stability Facility, even though its €447 billion budget has not yet been approved by all 17 nations.

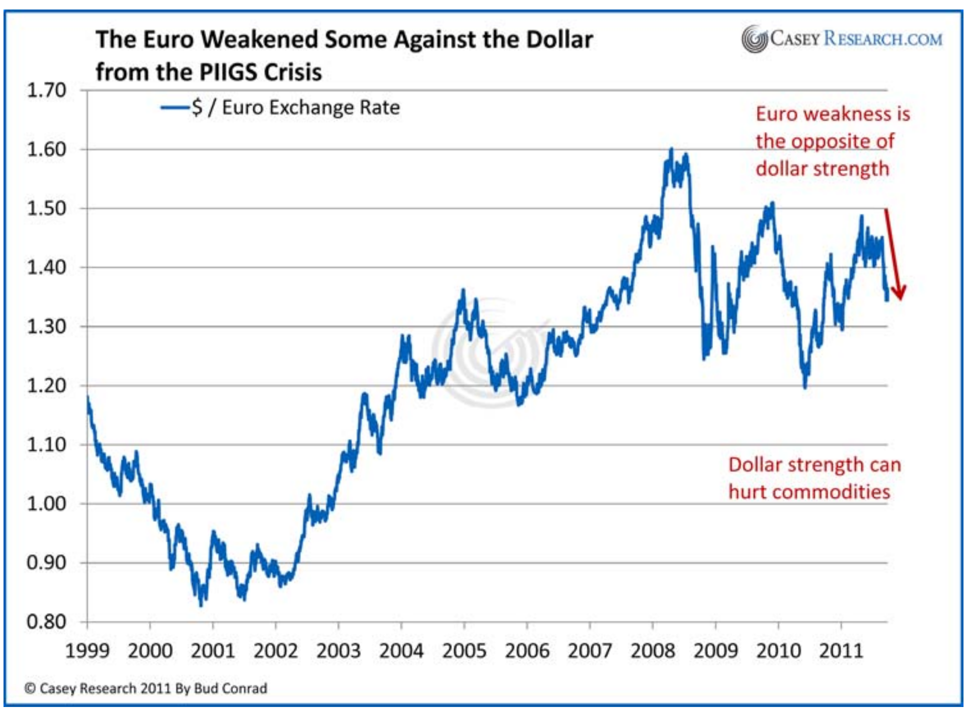
As the situation in Europe deteriorates, our own financial institutions are coming under growing scrutiny from investors. American banks have made loans to European financial institutions. Some have also written credit insurance on the debt of European institutions and troubled nations. So if a default were to occur, a number of banks in the US would be on the hook.

Morgan Stanley had $39 billion in exposure to French banks at the end of last year, not counting hedges and collateral. As of the end of June, some 34 federally insured commercial banks had sold a total of $7.5 trillion of credit protection, on a notional basis, according to the Comptroller of the Currency.

Dexia is the first defaulting bank in this European crisis. Belgium will buy the national subsidiary for €4 billion ($5.4 billion) and provide tens of billions of euros in new guarantees as part of a wider bailout. Other banks were reluctant to lend to Dexia due to its exposure to highly indebted states like Greece and Italy. This will certainly not be the last European bank to fail in this crisis.



The very public difficulties of the weak European countries have spilled over into a weakness of the euro currency. Of course, the dollar benefits as a safe haven for people fearing European defaults. My prediction at the beginning of 2010 for the euro to decline to 126 $/€ by the end of the year, which didn't look likely this spring, is now more reasonable.



Consequences and Predictions

US rates at all-time lows are out of step with the economic realities of government deficits and fiat currency. Rates have been driven down by a Fed complicit with the banks and the government to provide short-term stimulus by increasing money creation. Since higher rates would create deficits that the US government simply can't handle, a lot is riding on the Fed policy of keeping rates low. As such, you can expect those policies to be strongly defended by the Fed and supported by the government in any way possible.

But manipulating interest rates at artificially low levels involves creating money in order to buy Treasuries. That process plants the seeds of future inflation, ultimately driving rates higher. In essence, we have already created the money that will bring the inflation, so it is just a matter of time before we see the dollar destruction that ushers in a new era of higher prices and higher interest rates.

The current low interest rates are similar to gold being priced at $35 per ounce in 1971. I think we are close to that cracking point where rates cannot be kept this low any longer.

The continuation of ultra-loose monetary policies and new rounds of QE is supportive of gold. Negative real interest rates mean that there is no lost opportunity cost when you own gold. Quantitative easing will come to be seen as bailing out banks and financial institutions and a form of currency debasement rather than an economic stimulus package.

How Much and When?

As a template for what is likely to occur going forward, I look for a pattern similar to the increase in interest rates of the 1970s when rates rose 10% over the decade, or about 1% per year. And it could be worse than that, given that the financial instability is worse now than then. Availability of information in this electronically connected world could create much faster spikes if confidence is lost by the investing public.

The following chart puts the future in perspective by showing what the future would look like if interest rates rose as they did starting in 1954 and peaking in 1980. The red line is just the same rise as experienced in those decades, pasted onto the present. And again, it's important to recognize that from today's historic low levels, it is not likely that the rate can fall far, if at all. In other words, we are reaching the bottom of the current interest cycle. Soon, the big question will be how high and how fast interest rates will rise from here.

One contrary indicator is that almost no one is calling for rising rates right now, as they were so widely doing at the beginning of 2011. A year ago, Nassim Taleb, who wrote the popular book *Black Swan*, called investing in Treasuries "suicide." This lack of fear about rising rates could be a contrarian indication that the rise in rates may start soon.

In what might be a straw in the wind, the latest Commitments of Traders report shows large speculators are now betting on rising rates. And open interest has dropped, possibly indicating an end to the big downtrend in rates we have seen over the last couple of decades.

It is much harder to predict when rising rates might get out of hand, as it is not clear when the Fed will hit its limit. Their sequestering of $1.6 trillion on the Fed balance sheet has kept lending constrained and inflationary forces at bay. But I don't believe the Fed will be able to keep the zero interest rate policy in place though the promised mid-2013.

The breaking of European banks is starting with Dexia, and this will bring the need for further Fed backstops for not just the European banks but also for US banks. That will lead to further bailouts and stimulus, as has every crisis in the last four years. With each new program, confidence in the Fed will decline. At some point, a new Fed program of easing will cause rates to rise rather than to fall, and then the game will be over for the Fed's high level of influence in the markets. From that point on, the market, rather than the central banks, will dictate the level of interest rates, as it has in so many cases in the past. Greece is following that path, with its interest rate quoted at 150% for a one-year term. The Fed will have no more "bullets," and the world will call an end to the US monetary hegemony and the attendant fiat system.

The dollar is tethered by a slender thread: confidence. Dollars are worth nothing except that the next guy will accept them in payment for things, and that confidence can be elusive.

The Fed has the impossible task of keeping rates low by printing money. In the short term, they can have an effect, but in the long term, they will lose the battle as money expansion makes the situation worse.

At this point, rates have no place to go but up, and my view is that 0.5% to 1% higher in a year's time seems much more probable for the 10-year Treasury rate than any significant fall from here.

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Crystal Ball

By Doug Casey

My dear friend, business partner and co-editor Doug Casey has a long and somewhat storied history of making forecasts that come true. Forecasts about specific investment sectors, uranium and precious metals in particular, that literally made subscribers rich. And about geopolitical developments, most notably the following from his paper, ***Waiting for WWIII****, published July 13, 2001, two months ahead of the events of 9/11.*

> ***"An attack will soon come from outside American borders, in the form of war. But it won't be declared war in the conventional sense with ballistic missiles. When the attack comes, it will be delivered through a much cheaper, reliable and unexpected form such as a car bomb, boat or plane."***

That is not to say that Doug's guru sense has been infallible – he'll be the first to tell you that he's a bad political handicapper and that no one can actually see the future.

Yet, there is abundant evidence that skeptics make good forecasters, perhaps only because they're not easily fooled by government and mainstream media propaganda machines. So they learn to rely on their own analysis to understand the world as it actually is, as opposed to how we are told it is. And when it comes to being a skeptic, Doug sits right at the head of the class.

With that introduction, I now turn the page over to Doug, challenging him with the daunting task of trying to see through the info-noise of the present to what the future might hold.

David Galland
Managing Editor

How long might the current crisis last?

It's clear that the second leg of the crisis that started in 2007 is well underway, and it's going to be much more tumultuous than the first leg that ended in 2009. It will not only be much bigger but much longer lasting, because governments all over the world are doing exactly the opposite of what they should. And they're far more powerful than at any time in the past.

As I've said, we've entered something that I call the Greater Depression. A depression is a period when most people's standard of living drops noticeably. A depression isn't necessarily a bad thing; if you've been living above your means for decades, financed by debt, it can force you to live below your means, get rid of debt, rebuild capital and restore your financial health. The key to recovery is to keep government out of the economy – but it's becoming ever more involved.

How long could the Greater Depression last? Well, much longer than most would expect, actually. The Dark Ages lasted hundreds of years. Russia went through a nasty depression from the 1917 Revolution up until the early 1990s, and China had one from 1948 up until around 1980. In other words, a long time. But I'm an optimist. I'd like to believe that a serious crisis could, perhaps, force government to shrink and reverse the trend.

Now, a depression can have natural causes – a serious fire, flood, earthquake or the like – but the worst depressions are man-made. That's because they not only destroy wealth but can make it impossible to produce more. I think the current crisis has got a long way to run because it's caused by government action in the economy, and it won't end until the government retreats by radically reducing taxes, radically reducing regulation and restoring a sound, non-discretionary monetary system. But they're not doing any of those things. So there's no prospect for the depression waning anytime soon.

Most of the governments in the developed world are now bankrupt. Perpetual optimist that I am, I would like to see those governments collapse, like any other failed or dysfunctional organization. A collapse of all of them would be a very good thing because they've reached a size where they compromise the viability of their hosts. Perhaps then people will learn a lesson and, after these gigantic, dysfunctional governments collapse, will go back to minimalist governments.

But actually I'm afraid that it's likely to work in exactly the opposite way, because governments will do everything they can to maintain themselves; the first rule of any organism, including governments, is to survive. Since the state has a monopoly of force, it is likely to use force to maintain itself. Governments, however, don't produce anything; they're parasitic in nature, and I'm afraid that the parasite might actually kill the host this time around. They're not going to cut things back, and they'll keep sucking more capital out of the private economy.

Is the global sovereign debt crisis reaching a tipping point where the masses realize that they are actually in the Greater Depression, not just another cyclical downturn? When might that realization become obvious?

As I said, we're exiting the eye of the storm as we speak and will feel the storm's full fury next year. This is unfortunate timing, partly because it's said the Mayan calendar predicts that 2012 would be the end of days or some such nonsense; it's bound to hatch a group of nutters who will attribute their problems to Mayan end times, which would be exactly the wrong reason. It's a bit embarrassing to have to say we're in for tough times just when these people are parading in sackcloth and ashes. But confusion is being sown by all quarters – you've got people like Stiglitz, Krugman and other Keynesians running around blaming the free market for everything that goes wrong and urging even more government "planning." Between the Mayan calendar people and the Keynesians, the average guy is likely to be very confused.

The last couple of years in the eye of the storm have fooled many people, who thought, based on post-WW2 experience, that we were going to have another cyclical recovery. So few have used this temporary period of calm to prepare for what's coming. I suspect 2012 is going to be a bad year from almost every angle – economically, sociologically, politically and militarily. By that, I mean riots all over the world as people become very upset that they can't afford food and are losing their homes.

The military situation is very worrisome because governments always like to find a foreigner to blame for domestic problems. The US government, for instance, might blame the Chinese for unemployment, the Iranians for high oil prices, the Pakistanis for the failed Afghan war and the Mexicans for drug violence. The possibilities are endless.

This decade is a mirror of the 1930s in some ways; wars are likely to start again. I hate to make predictions where I give both an event and a time – certainly such a close time – but I think 2012 is going to go down as a banner year for trouble of all kinds.

How will the US stock market do between now and the end of 2012?

The US stock market is overpriced by all the classic fundamentals. Dividend yields are very low, about a third to a quarter of what they typically are at historical bottoms. In addition, dividends could be cut as earnings start falling.

Price/earnings ratios are also high, especially when you look at the financial hurricane we're going back into. People forget how cheap stocks can get. In the mid-1980s, for instance, there were three stock markets – Spain, Belgium and Hong Kong – that were all selling for an average of two to three times earnings, selling for 12% to 15% in dividend yields and selling for half to one times book value. That can happen anywhere, including the US. Right now the P/E ratio on the S&P 500 is around 19.

I can think of lots of reasons the stock market should crash, and by that I mean go down 50 or 60 or 70 percent from where it is now. On the other hand, if the foreign holders of trillions of US dollars start dumping them, the cash will find its way back into the US, which will spark very high inflation. That will ensure that the $1.6 trillion that the banking system has on deposit with the Federal Reserve will also be unleashed. At that point, everyone will be dumping dollars. But in exchange for what? In good measure for common stocks, because they're liquid. So we could see the market soar during a disastrous time economically.

Will Obama get reelected? Could the US have a military coup?

The only time I have successfully picked a US presidential candidate was in the case of Obama. That wasn't because I have my finger on the pulse of Boobus americanus, but rather because even I couldn't see Americans electing a hostile, mildly demented old man in 2008. I've become very cynical about the US. But when I look at the bozos running for the Republican nomination, I think I'm probably not nearly cynical enough.

As for 2012, an economic disaster in the world at large and the US in particular augurs very poorly for incumbent Obama. So, based on the economy, it almost has to be somebody other than Obama, presumably a Republican. On the other hand, the half of Americans that are net recipients of government largesse will vote their empty pocketbooks – meaning for the guy who promises them the most freebies. In addition, some blocks – like the union people, the blacks and ideological collectivists – will vote reflexively for Obama.

Plus, the Republican candidates (with the exceptions of Ron Paul and Gary Johnson) are horrible. They make my skin crawl. They're all Bible-thumping warmongers. Romney looks like a plastic wind-up doll, and Perry could pass for an assistant manager at a Family Dollar store.

I consider the election a complete tossup. But perhaps it's academic; maybe we'll have martial law by the time of the next election. I realize that's an outrageous thing to say, but I don't think it's completely unrealistic, depending on how bad things get. Anything is possible in a failing, late-stage empire. America no longer exists; it's been replaced by the US, which is no different from the 200 other nation-states that cover the face of the earth like a skin disease.

The average American will look for someone with "leadership" who can "straighten things out." The chances are good it will be a military man – they're viewed as competent, patriotic, decisive and uncorrupt. So I'll bet on some type of military regime, which will be a disaster.

You have to remember there was nearly a coup against Roosevelt in the '30s that Smedley Butler was invited to lead. People were thinking those thoughts in the '60s as well. You might remember the novel *Seven Days in May* and the movie of the same name.

Will the US get into another conflict in the foreseeable future, perhaps as a distraction from the stark political problems?

There's an excellent chance the US will become involved in another war. Who could be next on the dance card? Well, let's see – Iran hasn't gone away. Pakistan is coming up. A war with either of them would be a catastrophe. The US has gotten used to pushing around tiny little chipmunks, without much success. But that would be hunting big game. And going into the war already bankrupt would be a disaster – usually a country is only bankrupt after a war.

Libya is another pickle Obama has unnecessarily gotten us into. Now that Kaddafi has effectively gone, the chance of a civil war there, with several different groups trying to grab control of the government, or a break-up of the country into several new ones, is high. Libya will probably split into at least two different countries, and the US just won't be able to resist becoming more deeply involved. The odds of another war are excellent.

Could the US suffer another 9/11?

The entire War on Terror has just been a stupid, counterproductive and unnecessary charade. It's created lots of new enemies. They haven't done anything yet only because they're disorganized and fairly incompetent. While some of those disgruntled millions could get a hold of a nuclear weapon from any number of sources, I suspect we're more likely to see something dramatic but low-tech. Like what happened in Mumbai a couple of years ago, when a determined group of jihadists took over a hotel and set about doing their worst. There are a thousand opportunities to do that type of thing. We might see them blowing up undefended pieces of infrastructure, such as the electrical distribution grid or oil tanks.

Actually, doing something like Mumbai is not only easy but would, as Osama bin Laden said, act to destroy the United States not by winning a war against it but by causing the government to destroy the country economically. They'll lock the whole US down like one of its numerous new prisons.

Anyway, it seems inevitable that as the US goes around the world whacking hornet's nests, eventually a few hornets are going to decide to take the war to the US.

Will the US exit Afghanistan and Iraq anytime in the next year or two?

It surprised me that the US has built at least three really gigantic bases out in the desert in Iraq, as well as the world's largest embassy in Baghdad. I've wondered why they would spend billions of dollars doing that, building these monstrous bases. Are they just going to desert them? Are they going to be filled with incompetent Iraqi soldiers for some reason? The question has never been answered.

Regardless, I think we're going to be forced to exit Iraq and Afghanistan simply because the US government is bankrupt at this point, so it has no alternative. What a gigantic waste. Those wars were perhaps the most criminally stupid undertakings in history.

Is a collapse of the US economy inevitable?

Although it's unpredictable exactly in what way the collapse is going to occur, the one thing that's increasingly certain is that a collapse will occur, and that's what nobody is really looking at. They're still looking for ways to weather a deep recession and then return to boom times. Forget about boom times, forget about even a recession; this is the type of thing that only comes up every few hundred years, if you're lucky. That's what we're looking at.

During this period the US will turn into a genuine police state. Of course it is already well down that road, with people now being frisked as they go into NFL games. I've always gotten a laugh by saying that Americans are whipped dogs, but it's not a joke anymore, it's a statement of fact.

How bad could the police state become?

One where you're absolutely afraid to speed on the roadways, where all of your financial transactions are monitored, where sending money outside the US is going to be questioned and will need to be pre-approved. One where every envious nobody "sees something and says something." One where you don't dare sass the lowliest TSA employee. One where you don't say anything that someone might think is unpatriotic.

For most Americans, the slide into a police state has been acceptable because the standard of living has been high. They think, "As long as I'm living well, it doesn't matter." But as the standard of living in the United States collapses, which it will along with the value of the dollar, I think that will change. People will feel cheated, and they'll want to blame someone, something (like capitalism). Or perhaps some group.

How bad will unemployment get?

In the Great Depression, unemployment got as high as 25%, but it should be greater this time around. If you calculate the number with the same methods used in the early 1980s, it's already around 20%, not 9%, as the government claims.

It doesn't seem so bad because, instead of standing in bread lines, 45 million Americans get food stamps. Instead of standing in unemployment lines, scores of millions get assistance checks enabling them to sit around. Many millions more are going to school as a form of disguised unemployment, while simultaneously cluttering their minds with nonsense they learn in sociology, political science and gender study classes – even as they turn themselves into indentured servants with the debt they incur. Most of the people in government – including the military – have to be considered unemployed because they produce nothing, even though they're drawing a paycheck. Official figures are misleading, at best, and often meaningless.

I expect unemployment will be worse than in the '30s, partly because back then, most people were actually producing real things with their hands; today we live in a service economy, where most people just shuffle paper or its electronic equivalent. They provide services that can easily be dispensed with, like preparing steamed lattes and giving fu-fu haircuts. There's going to be a glut of personal trainers, personal assistants and the like in the years to come.

There are a lot of completely dispensable occupations that cater to an artificially high standard of living, which has been enabled by debt and by the dollar's status as the world's reserve currency. So I think that unemployment could in fact get much worse than it was during the last depression, and people today have many fewer survival skills than was the case back then.

I hasten to add that the question of unemployment is very complex, in that within a couple of generations advances in robotics, biotech and nanotech – among other things – will obviate the need for almost all "jobs" as we know them today. But that's a subject for another day.

Could we see another Timothy McVeigh, with a soldier returning from one of the current wars turning against the government?

Contrary to popular opinion, you don't pick up much in the way of good habits in the military. Perhaps you learn things any well-adjusted nine-year-old already knows – shine your shoes, say "sir" or "ma'am," and make your bed. But you mainly learn to thoughtlessly take orders from the wrong type of people. The military basically brainwashes its members and inculcates all kinds of robotic, statist, collectivist values. I consider it just a better-disciplined, heavily armed, more dangerous version of the Post Office. It's unfortunate that the military has been apotheosized by the average American in recent years.

The type of war the US is fighting in Iraq and Afghanistan, among other places, is especially destructive to the character of the average soldier or Marine. They're getting used to operating among a civilian population, using deadly force and showing zero respect for private property or personal rights. The more soldiers cycle through these combat zones, the higher the odds of hatching more Timothy McVeighs.

That's especially true because the size of the US Special Ops forces has ballooned over the years. The guys who have been through special ops training have actually learned a lot of really destructive skills, and many have acquired elitist anti-social attitudes and become well-trained killers. Don't mistake them for Sgt. Bilko or Beetle Bailey. Worse, when and if they get out of the military, many of them join the police, where they get preferential hiring – when actually they should be prohibited from joining the police.

So is another Oklahoma bombing likely to happen? It seems to me it is, especially when you combine the size and nature of today's military with the fact that a high percentage of the population is on Prozac or Zoloft or Ritalin or something else – it's like the whole population has been turned into postal workers. There could easily be another Waco as well.

On the outlook for Israel

It's unlikely the state of Israel, which was born in 1947, is going to reach its 100th birthday. In fact, I question whether it's going to reach its 80th birthday. It's always been a theocratic welfare state. Taxes and regulation are extraordinarily high, as is the amount of economic corruption. Any young Israeli who has the opportunity wants to get a second passport and bail out for Australia, Canada or the US. Partly for that reason, the Israeli Army isn't what it used to be.

Meanwhile, the Palestinian population is growing rapidly. The only Israelis who are propagating at a comparable pace are the ultra-orthodox Hasids, who live off the state and, apart from babies, produce absolutely nothing but religious tracts. If you didn't see it, take a look at my report, ***Back to the Middle East: Israel and Egypt*** from August 2011.

On the outlook for the Middle East

All of the countries in the Middle East – like almost all of those in Africa and Asia – are artificial constructs, put together by European politicians and bureaucrats, with no regard for culture, religion or ethnicity. That makes for deep instability, which has been disguised by dictators holding countries together with police state brutality. In recent years, many of those "strongmen" have also been stooges of the US; the Arab street knows that and deeply resents it. All these countries are political time bombs.

The situation is immensely aggravated by the fact that most of them are absolutely dependent on food imports. And they produce almost nothing beyond oil, with almost all the oil revenue going to the ruling elite and the military. The populations of these countries continue to grow rapidly, and most people are under 25, unemployed, bereft of opportunity and well aware of what's going on in the rest of the world. The "Arab Spring" is just the opening round of something much bigger.

It's entirely possible for the entire area to descend into a modern version of the Dark Ages. I hate to say that, speaking as an optimist who believes the Ascent of Man will continue. I say it because of the risk of prolonged interference with two things: capital accumulation and technology.

Every individual's primary directive is the survival of himself and his family. That means – even if he has no understanding of economics – he intuitively tries to produce more than he consumes and save the difference. That creates capital, which is the mainspring of progress. A problem arises, however, when all your savings are in a currency that is destroyed – all of your capital is destroyed with it.

The other factor is technology. You can only have increases in technology if you have capital. Capital gives you the spare time to invent. Capital allows you to buy the tools and knowledge you need to create. So, if capital is destroyed, technology goes down with it.

When you pare things down to these essentials, you can see that progress – or even survival – is not automatic or guaranteed. We've been very fortunate to live in an industrial world, created by the rise of capitalism and personal freedom, over the last two centuries. But this could be going into decline in much of the world. It's not out of the question that we could be heading for something that's out of an apocalyptic science fiction novel – especially and most obviously in the Middle East.

What is the outlook for Saudi Arabia?

Saudi Arabia is a gigantic accident waiting to happen. It's about the most repressive, backward, lopsided place in the world. A police state, held together by fear and religious fanaticism. It's a client state of the US as well, which means that when it blows up, the US military will certainly take over the oil fields. As the home of the Prophet, that will be totally unacceptable to a billion Muslims around the world. At that point, all bets are off.

Outlook for China

China is the elephant in the room that nobody is adequately bearish about. It's absolutely wonderful what's happened in China over the last 30 years. It's transformed itself; there's been an immense amount of progress on all levels. There's been nothing like it in world history. But, especially over the last decade, there's been a lot of pyramid building, mainly intended to provide employment. Transportation systems, tens of millions of apartments, shopping centers, even whole cities, have been built for political reasons – not because they're in any way economic.

It's been financed by Chinese banks, which are in effect parastatal organizations. The Chinese people have been saving 20% to 50% of their earnings for decades, in yuan, and depositing the money in these banks. The banks have lent it out to finance these modern pyramids. The banks are totally busted and propped up by the government's creation of tens of trillions of new yuan. China is a huge real estate bubble because, in addition to saving yuan, the Chinese save by investing in expensive apartments. So if he's got it in the bank, he's going to lose, and if he's got an apartment, he's going to lose. If he's put money into the stock market – most companies are either property or export oriented – he's going to lose.

The bottom line is that as the world economy slows further, you're going to have a whole bunch of really unhappy Chinese who now are mostly urbanized. Riots and revolutions start in cities, not in the countryside.

I have no doubt the 21st century will belong to China, but it's going into a very rough patch. China could easily experience a civil war or some type of revolution or disintegrate into breakaway provinces, as happened in the 1930s.

Outlook for Canada

The good news about Canada is that it doesn't have the huge military budget that's bankrupting the US. That's a big plus. Canada is a resource-driven economy, so high oil, metals and agricultural prices – on top of a very strong currency – are supercharging the country. But it, like China, is still in a real estate bubble. Part of the bubble is due to millions of rich Chinese trying to diversify internationally, buying property in Canada, concentrating on Vancouver. The same thing is true in Australia, which resembles Canada closely in most regards.

I expect Canada is going to have a property bust much like that of the US. The Canadian dollar is fundamentally no sounder than the US dollar and, in fact, you could argue it's fundamentally less sound because the assets of the Reserve Bank of Canada are primarily US dollars. They sold almost all their gold 10 years ago, basically at the bottom.

Outlook for commodities

Commodities aren't cheap anymore; they've been in a bull market for ten years.

The best cure for high commodity prices is high commodity prices. Farmers and miners are making money now for the first time in a long time. Which means production is going up, which pushes prices back down.

As the standard of living around the world drops in the Greater Depression, however, people will be forced to cut back on everything. They're certainly not going to live as high off the hog as they used to. So I'm no longer bullish on commodities, with just a few exceptions. Cattle remain cheap, even though – actually, because – herds have been in liquidation all over the world for years. Crude oil has reached a new minimum plateau around $80; usage isn't going to grow much for some years, but production is likely to decline. Natural gas is now available in gigantic quantity because of new technologies, so it's quite cheap. But it can't be produced for less than current prices, so it's at a bottom in price.

Outlook for gold and silver

Gold and silver are special situations, simply because their main use has always been as money, and that will again be the case. People who save, all over the world, will increasingly want to use them instead of currencies for their savings. Gold and, to a lesser degree, silver are the only media for saving if don't want to save in currencies. That's especially true when there is no reason to believe that real estate is going anywhere but sideways to down for the next generation. I'm sorry that they've both gone up six or seven times from where they were 10 years ago, but they're headed higher. They're nowhere near being in a bubble – although a bubble will definitely develop, perhaps when gold and silver prices double from here.

The price of gold and silver a year from now

While these sorts of forecasts are solely for entertainment purposes, if pushed to name a price, I'd say that a year from now gold is going to at least $2,500 and silver is going over $50, perhaps even to $75.

Will the euro survive another year?

The whole euro thing was a bad idea from the very beginning. The idea was that you could cobble together a currency that has no backing of any type. At least the US dollar is backed, in a way, by the tax revenues of the US government and the power of the US military to steal things from foreign countries if necessary. The euro, however, literally has no backing. It's like an agreement by a bunch of bankrupt drunks to trade chits among themselves. It's an entirely faith-based currency, an Esperanto currency, created from the imagination. Its death has always been inevitable.

But when? Could it happen in the coming year? I would say the chances are really excellent, because Greece will default. Then Italy, Portugal and Spain. France will follow. Everyone will leave the Eurozone and then the EU itself – another bad idea, trying to create a big country when the natural trend is toward smaller, more homogeneous ones – will fall apart. It's rather ridiculous. The USSR falls apart into 13 countries. Yugoslavia breaks up into five. Czechoslovakia divides in two. The Basques still want out of Spain, and the Welsh and Scots want out of the UK. Yet these idiots try to cobble together the EU and expect it to last…

Outlook for the future of Fed Chairman Ben Bernanke

Bernanke has to be made into a scapegoat. If Obama can't effectively blame someone else for the economy, he's not going to be reelected, or maybe not even be the Democratic candidate. So the chairman of the Federal Reserve Board, an appointed official, has got to go; he'll be the fall guy. Which begs the question of who might replace him. He might be replaced by someone with a radically differing philosophy. But at this point it almost doesn't matter what the philosophy of the chairman of the Fed is because the ship of state has already run into a gigantic iceberg. The ship is going down, and the captain's name and story are just details.

Outlook for the US dollar and the global fiat monetary system underpinned by the dollar

The only good thing about the dollar is its ubiquity. It's still accepted almost everywhere, almost to the degree of the local currency. You can go anywhere in the world today and if you've got a wallet full of $100 bills – I don't care if you're in Central Africa, Bolivia or Cambodia – somebody is going to make change for you. The dollar is the only currency (not the euro or the yen) for which that's true. Every other currency is basically either worthless or substantially discounted once it leaves home. In addition, the US dollar is the primary holding of most central banks. Its main value is its liquidity.

But it's clear that, with the US government running a trillion-and-a-half-dollar deficit and with that deficit likely to double in the next few years as interest rates rise – a slam dunk, in my opinion – there is likely to be a worldwide panic out of the dollar. On the part of everybody; even the man on the street in places like Cairo and Shanghai increasingly views it as a hot potato. Especially in that most of the increasing deficits will be monetized. The Chinese and others are going to stop buying US debt.

When people panic out of the dollar, they'll grab for any kind of physical asset. A lot of money will flow into stocks and real estate, of course. But gold and silver, even though they are not cheap anymore, will be the biggest beneficiaries. To me that's the best argument for owning those metals at this point. They'll be the biggest beneficiaries of buying from just about every source, including the central banks. Interestingly, that's already well underway with reports of gold buying by the central banks of Russia, China, India, Thailand and Mexico – all third-world countries. Their central banks have been buying gold consistently in large quantities. Or, in the case of Venezuela, stealing it by nationalizing that country's gold deposits.

One indication of the growing lack of trust in the dollar is that Venezuela has asked for delivery of its gold stored in foreign depositories. Chavez may not be quite as crazy as he appears.

On silver versus gold over the next couple of years

If I were limited to buying only gold or silver, I'd have to buy gold, because I know central banks are going to keep buying it and in fact put a floor under the price. But because silver is such a relatively small market, it's going to be much more volatile, but the volatility is going to be on the upside. So flip a coin, either a gold or silver one will do.

Outlook for US interest rates

Here I have to repeat my favorite financial joke:

Einstein dies and goes to heaven. St. Peter greets him enthusiastically but has to apologize that heaven has a temporary housing shortage because, for obvious reasons, it's a centrally managed economy. Einstein will have to bunk with three other guys for a while.

When he arrives at his room, the three are thrilled. The first walks up to him and says: "Mr. Einstein, I've got an IQ of 130, and very much want to get to know you." Einstein says: "After lunch, let's bounce around some theories of astrophysics I've been working on."

The second guy then comes up and says: "Mr. Einstein, I'm not as smart as that first guy; I've only got an IQ of 100. But I still want to get to know you." So Einstein says: "Let me put my grip away, and we'll have a game of chess."

Then the third guy comes up and says: "Mr. Einstein, I'm not as smart as those other two guys. I've only got an IQ of 70. But I still want to get to know you." So Einstein says: "So, where do you think interest rates are going?"

That said – and I've been early on the timing so far – I think interest rates have got to start moving up, perhaps rapidly and radically, in the next year. I don't see how that can be avoided. The only cure for many of the economy's most profound problems – including too much debt and not enough savings – is much higher rates. Bernanke, idiotically and perversely, is artificially suppressing them. But when interest rates start moving up, some of the consequences are going to be very problematic.

It really is strange that all of this is going to happen by this time next year, and it's an election year. And I say that in full appreciation of how dangerous it is to predict both what's going to happen and when it's going to happen. The consequences are going to be momentous.

While I'm hesitant to guess how high interest rates might move before this is over, I will say that holding bonds in the current situation is the worst thing you can do. Bonds are a superb speculative short sale.

How high could rates go? You've got to be looking at a 10% or better yield on 10-year Treasuries, but there is no reason rates shouldn't go much higher than they did during the 1980s, when the prime rate hit 21%. At that level, well over half of the federal budget would be interest expense, up from about 20% today.

What is likely to surprise people the most over the next year?

Almost nothing would surprise me at this point. I think we're looking at the biggest upset in 200 years. What will surprise most people is that times are going to be so tumultuous – that's because most people are completely oblivious to the underlying problems. But even I expect to be surprised at how ugly this could get.

Which transformative technology is most likely to catch on in the years just ahead?

Despite a lot of negatives for the economy, there is a technological revolution happening now. For instance in 3D printers, where a machine anywhere in the world can download a template that allows it to "print" machines, car parts, toothbrushes, even other 3D printers. It's reminiscent of A.E. van Vogt's brilliant and prescient book, *The Weapon Shops of Isher*. It's like the Internet was back in 1985; it's going to develop at the rate of Moore's Law and has the potential to change the whole basis of production and distribution.*

Another area is biotech, where huge advances are being made. Over the last few generations, people were able to found huge computer companies starting from simple components in their garage. That will start happening with biotech. And it's going to be even bigger and more far-reaching in its effect. We're already able to grow some body parts.

Meanwhile, there is a dark side. The military is rapidly advancing in making veritable Terminators on land and powerful drones in the air. I expect even the near future is going to be stranger than anyone imagines. And then we might see the world of Ray Kurzweil's Singularity.

Hold on to your hat. We're in for a wild ride.

**Editor's note:* *This and all manner of investible technology are covered in our Casey's Extraordinary Technology letter. However, Senior Editor Alex Daley currently has a "Buy Under $25" recommendation on 3D Systems (DDD), as a moderate-risk play in the 3D printing sector that you might want to research.*

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The Gleam in Your IRA

By Terry Coxon

You likely have seen invitations to open a "Gold IRA" or something with a similar name. Perhaps you should, but before you do, think about why an Individual Retirement Account might or might not be a good place to hold gold. That may tell you something about the best way to introduce gold into your IRA.

Gold isn't the only investment that raises the "Does it belong in an IRA?" question. Every investment does. And for every investment, the answer is, "It depends." It depends on the nature of the other assets in your overall portfolio. It depends on how big the IRA is compared to your total holdings. And it depends on your judgment as to which investments are likely to be the most profitable.

It's against the rules for you to buy anything from your IRA or sell anything to it. But there is a way for investments to commute between your personal accounts and the IRA. You can in effect take an asset that you now own directly and move it into your IRA by selling it from your personal account and simultaneously buying it for the IRA. And you can do the reverse.

Even though the asset migration trail is wide open, you don't have a free hand to simply move unlimited amounts of assets into the IRA. So, to get the best tax results, you need to consider which investments would do the most to reduce or defer your tax bill by living in the IRA rather than in your back pocket.

Tax-Efficient Allocation

The general answer is that what belong in the IRA are the investments that you would expect to contribute the most to your tax bill if you owned them directly. To identify them, start by sorting out your investments, whether they are in an IRA or held directly, into three categories:

High-tax-rate assets. These are investments owned primarily to earn income or to generate short-term trading profits – high-yield stocks, bonds (if you like such things), money market instruments (in more normal times) and trading sardines that you expect to generate short-term capital gains. All of these, if you own them directly, generate income that is taxed at up to 35%.

Middle-tax-rate assets. Profits on holdings of physical metals (including ETFs that own physical metals) are taxed, if you own them directly, at up to 28%.

Low-tax-rate assets. Investments other than precious metals that you hold primarily for long-term appreciation, such as no-dividend stocks. If you own them directly, the profits will be taxed at no more than 15%.

In more normal times, the most tax-efficient approach would be to start with the high-tax assets and march them into the IRA one by one until the IRA is full. That would mean starting with cash and bonds. But if you take this publication seriously, you probably don't own any bonds, and if you do own high-yield stocks, you probably don't expect them to do nearly as well as precious metals. And for the foreseeable future, the yield on cash is going to be zero, so there is no tax to be saved by keeping it in an IRA – and it would be taking up valuable space.

So in today's abnormal environment, the first assets to put into your IRA are the speculative investments that you expect to hold for less than one year. Next come precious metals. Then high-yield stocks. Only if there is still room would you move in stocks being held for long-term appreciation.

Available Gold and Silver Media

IRAs are subject to a general prohibition on owning "collectibles," which are defined to include physical metal. However, there is an exception to the general prohibition that makes room for two types of gold. Gold is permitted if it is bars that are good delivery on a futures exchange and the bars are in the possession of an IRA custodian. Gold is also permitted if it is in the form of certain bullion coins, including American Eagle or Buffalo coins.

Assuming that you have a garden-variety IRA sponsored by a mainstream stockbroker, only one medium is available for including gold in your IRA. It's an exchange-traded fund, such as GLD. The bars that GLD owns are good delivery on futures exchanges, and the fund has obtained a revenue ruling (from the IRS) that GLD shares are a permissible investment for IRAs. If you prefer a different ETF, check the Tax Considerations section of its prospectus to confirm that it has obtained a similar revenue ruling.

For silver, the story is exactly the same. Use an ETF, but first read the prospectus to be sure the shares are a permissible investment.

A second approach is to use an IRA that is dedicated to gold. A number of such programs are available, and each is sponsored by a gold dealer. The advantage, at least in the eyes of some investors, is that a gold IRA cuts out the need to use an ETF. The IRA holds actual bullion or coins, not shares in a fund that owns gold. If you are an ETF-doubter (sorry, I won't be joining you for that party), avoiding ETF worries can look like an important advantage, even though a gold IRA still leaves the metal in the hands of a third party.

That method of ETF avoidance comes at a cost, however. With a gold IRA, you are a quasi-captive of the gold dealer that sponsors it and of the custodian that holds it. When you buy or sell, expect spreads or commissions that are bigger than what you'd pay if you were free to shop around. In addition, you'll be paying the custodian something for each transaction, and you may be paying storage fees. There's also a convenience factor to consider: if you decide you want to sell part of the gold and buy something else, you'll need to move the proceeds of the sale into an IRA that will accommodate the new investment.

There is a third alternative, which I've dubbed the Open Opportunity IRA, that starts with a simple idea but opens many doors for you. It's an IRA that directly holds just one thing – a limited liability company that you manage. The IRA custodian is the legal owner of the LLC, but you deal with the custodian only during the setup process. During that process, assets are rolled over from your old IRA to the new custodian and then into the LLC. After that, you as Manager of the LLC have your hands on the steering wheel and can invest and reinvest in just about anything with any broker, dealer or other party, and you can do so without waiting for the custodian to approve anything and without paying the custodian for storage or for handling transactions.

In the case of gold and silver, since the metal will be owned by the LLC and not by the IRA custodian, you will be limited to American Eagles and Buffaloes. But you are free to buy them from any source that is not related to you, and you can store them in whatever way you think is best – in a safe deposit box, under the floorboards at home or in the back of your refrigerator. And they don't need to stay or even be purchased in the US. If you think that a dealer in Uruguay is the best place to buy the coins or that a hollow tree in Patagonia is the right place to store them, you can buy and store in those places. You are in charge, and you only deal with the third parties you want to do business with.

You can learn more about the investment freedom possible with an Open Opportunity IRA by reading "The Year of the Roth" in the June 2010 edition of *The Casey Report*.

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How to Invest

Our monthly look at ideas to keep your portfolio aligned with the bigger trends.

With the eye of the economic storm passing, the investment world appears to be reentering crisis mode. As they did in 2008, systemic financial problems are once again rearing their ugly heads, refusing to be papered over by trillions of dollars and euros. For now, the epicenter of the crisis is the Eurozone, but the shockwaves will reach across the globe.

As a result, markets have been staggeringly volatile of late, and we expect that to continue. That's why our theme this month is how to cope with this volatility. Buying real, tangible, useful things (and companies that produce them) remains our core investment philosophy, but the additional element of volatility presents an extra degree of risk and, as importantly, an added reward opportunity for those who know how to harness it.

Historically, the VIX, a measure of market volatility, spikes, then quickly recedes during turbulent markets; protracted spikes are extremely rare. For the past two months, the VIX has closed above 30 every day, which is only the third time in its 30+ year history it has done so. The other two? The dot-com crash of 1998 and the financial crisis of 2008.

Creativity during these exceptionally volatile times can earn us extra returns; here are three recommendations for exploiting volatility and making it our friend:

1. **Buy in tranches, on weakness:** Our strategy in all times, volatile or not. But it becomes even more important during highly unstable times.

2. **Place stink bids:** We usually use stink bids in the *Casey International Speculator* and *Casey Energy Report*, publications that follow smaller, earlier-stage companies. In these fields, volatility is the norm rather than the exception, so stink bids are particularly effective. Increasingly, volatility is becoming commonplace in the broader market, affecting micro-cap and blue chip alike, so well-placed stink bids should work well in the months ahead.

   If you're unfamiliar with stink bids, they are bids well below the current market price of a stock, typically in the neighborhood of a 25% discount, but can be more or less, depending on a particular stock's historical volatility. You set this low bid and leave it on the market in the hope that a temporary price shock sends the stock tumbling to meet your stink bid.

   Stink bids are a great way to get into an investment at very low cost. More often than not they won't get filled, but when they do, it's likely a great bargain.

3. **Sell Puts:** This strategy is more advanced than the other two, but can result in a win-win situation if done properly. Here's how it works:

   Put options are the opposite of call options. Instead of granting the buyer the right to buy a stock, they grant the buyer the right to *sell* a stock at a predetermined price before a predetermined date. On the other end of that transaction is someone ***selling*** the puts; that seller is obliged to buy the stock should the buyer of the puts exercise that option. As compensation for this risk, the seller gets paid a small premium.

   The most important rule when selling puts: **Make sure you want to own the company outright at the strike price**. This is extremely important. If company XYZ gets put to you, will you be happy? If not, don't sell puts on it.

   Here's an example: You decide you want to buy Exxon Mobil (XOM). You do all of your research and due diligence, and are convinced the stock price is going to appreciate significantly. But you know the market has been extremely volatile, and you think there's a good chance XOM's price will decrease in the short to medium term, so you decide to sell puts.

   XOM is currently trading for $72/share, and you think it may drop 10% in the next few weeks, so you choose the November 19, 2011 puts at a strike price of $65, which are currently priced at $2.10. You sell one put option contract, which represents 100 shares of the underlying stock. Here are the possible outcomes:

   Scenario 1: The price of XOM does not fall to $65 before November 19. You pocket the $210 and the put option expires. You don't need to buy XOM. You're happy because you made $210.

   Scenario 2: The price of XOM falls below $65, and 100 shares get put to you. Your acquisition price is $62.90/share ($65 strike price minus the $2.10 premium you received) instead of the $72 you would've paid had you bought XOM outright. Once again, you're happy because you saved almost $10/share in buying a company you wanted to own.

Scenario 3: XOM causes an oil spill and is sued for billions. The stock price falls to $30, and XOM is put to you at $65. You're not happy, because you're suddenly down over 50%.

So selling puts can be risky. You should only sell puts on high-quality, well-managed companies to minimize this risk; but sometimes unforeseen events can happen. Only risk money you're willing to lose.

Finally, always have enough cash on hand or in liquid securities to cover the cost of the shares you have committed to buy. American options can be exercised at any time during the life of the contract. So you could sell a put option today, and the stock could be "put" to you tomorrow if the buyer of the option decides to exercise it. Even if your brokerage only requires a small amount be put aside, for this strategy to be as low-risk as possible, we recommend you not use leverage. You don't want to be caught with the obligation to purchase and not enough cash to do so.

Keeping with our theme, this month we're sharing our recommended stink bids and put options for each of our open positions. You'll find those in our new and improved portfolio table, which now includes gain/loss calculations and short updates for each of the companies we follow. The condensed updates allow us more room for information and analysis elsewhere, and if we want to discuss an investment more extensively in a particular month, we'll give it its own section as we have previously.

Before we get to this month's recommendation, we have a special feature on how to keep cash safe. With 1/3 of our portfolios in cash, ensuring that it's safe is critically important.

How to Keep Your Cash Safe

In the October 2008 edition of *The Casey Report*, our CEO Olivier Garret outlined some precautions necessary to keep cash safe. Three years later, banks are no safer, but some of the rules have changed. Here are our updated recommendations on how to protect yourself as a depositor:

The first step remains the same: limit your deposits in any given institution to the FDIC-insured amount. In late 2008, the FDIC raised this limit from **$100K** to **$250K**, and the new limit still applies to *each person*, meaning different family members are entitled to this coverage for their personal accounts held in the same institution; joint accounts also benefit from the same protection. Businesses are still eligible for the same insurance up to $250K (but DBA accounts are pooled with individual accounts to arrive at the $250K limit). IRA deposit accounts held in an FDIC-insured bank can benefit from a separate $250K insurance limit (however, some other retirement accounts such as 401(k)s may not). For the most comprehensive guidelines, visit the FDIC's website here: http://www.fdic.gov/deposit/deposits/insured/faq.html

If you still hold amounts in excess of the FDIC-insured limit after maximizing your coverage using the guidelines above, you have some other options:

- Open accounts with different institutions. While multiple individual accounts for one person at the *same* institution are combined to reach the $250K limit, accounts at different institutions each have their own $250K limit.
- The FDIC is temporarily insuring non-interest-bearing accounts at participating banks up to an unlimited amount until 12/31/2012. Large depositors should check with their banks which accounts are eligible for the entire coverage. With record-low rates, the minimal interest forfeited is a very small insurance premium for unlimited protection.

- Several banks, including our favorite, EverBank, offer CDARS® CDs, which cover up to $5 million. Interest rates are generally very low, but again, the forfeited interest is a small price to pay for the security of full coverage.

If you want to learn more about the financial health of your bank, here are some good resources:

- The best free site remains Bankrate.com, which issues free reports.
- For more information, including the ability to run comparisons with other banks of your choice, the FDIC website is also useful.
- Finally, for a reasonable fee, another service, Institutional Risk Analytics provides more in-depth, comprehensive data.

When researching, continue to look for the same warning signs we outlined in 2008: liabilities that greatly exceed assets, troublesome derivatives, and general financial weakness, both absolutely and in comparison to peers.

Remember, bank ratings and financials are based on historical data and do not account for recent exposure or upcoming write-offs. Ratings help you understand if your bank is conservatively managed, but they provide little assistance in understanding hidden off-balance sheet risks and associated derivatives. We believe neither regulators nor bankers themselves truly understand these risks, so even the seemingly soundest banks could be dragged down by systemic financial problems.

The most important thing you can do is remain vigilant. Keep an eye out for any red flags, and proactively move your funds out of danger's way should they appear.

Of course, one thing has not changed: the Fed still creates massive amounts of money. Consequently, while your cash deposits may be insured against bank failure, the FDIC will not save you from inflation eroding the value of your cash savings. Gold remains the ultimate insurance, the refuge of last resort in times of crisis.

One last reminder – these days, money market accounts in general are rarely worth the risk, especially if they are uninsured. Take a look at Terry Coxon's article from last month, which explains why.

New Investment Recommendation:

Brazil Foods SA ADR (NYSE.BRFS)

Executive Summary: Global food demand is increasing, particularly in developing countries. BRFS, a Brazil-based food producer, is poised to capitalize.

The Trade: Buy BRFS below $18.00. Price target of $24 to $28 in 24 to 36 months.

Key Financials:

Information listed in USD. 1 USD = 1.88 BRL on 10/4/11	
Current Price (close 10/4/11)	$16.95
Market Cap	$14.91 billion
Revenue (12 months ending 6/30/11)	$12.91 billion
EPS (Diluted – 12 months ending 6/30/11)	$0.88
P/E Ratio (price/diluted EPS)	19.15
Price to Book Value	1.92
Long-term Debt to Equity (12 months ending 6/30/11)	34.84%
Current Ratio (12 months ending 6/30/11)	1.72
Dividend Yield	2.10%
Short Interest Shares	7.56 million
Beta	1.10

As readers know, we've had our eye on the agricultural world for some time. Powerful global trends are conspiring to push food demand to heights never before seen. Population growth, urbanization, rising income levels and evolving diets are all contributing to this increase in demand for food. Much of the population growth and quality-of-life improvements to come will occur in developing nations. Thus, our search criteria for an investment opportunity in this space included the ability to capitalize on growth in the developing world.

Our recommendation, **BRF – Brasil Foods S.A. (NYSE.BRFS)**, does just that. BRFS is a vertically integrated company that participates in all areas of the food value chain from raising and slaughtering animals to branding and selling fresh and packaged foods.

BRFS is headquartered in Brazil. While it is dominant domestically with shipments reaching 98% of its home country, BRFS is also the largest poultry exporter and second-largest meat exporter in the world. It derives 60% of revenue domestically and 40% internationally, a well-diversified mix. By the numbers, the company has an impressive 10-year revenue growth rate of 29.1% and five-year revenue growth rate of 34.5% compared to industry averages of 6.5% and 8.6%, respectively.

BRFS targets middle-class consumers, so its two primary export destinations, the Middle and Far East, are ideal. They are two of the fastest-growing regions on earth, and the expanding middle classes of these areas will fuel food demand growth in both quantity and quality for years to come. When people become wealthier, they eat more meat; BRFS is poised to capitalize on this powerful demographic shift like no other company.

Beyond that, BRFS's growth strategy is to increase its market share in Brazil (currently 24%) and expand internationally through new product launches and better distribution. Recently, management announced plans to build an industrial plant in the United Arab Emirates to further penetrate the Middle Eastern market. Overall, it's very difficult to find a large, dominant, stable company that still has great growth prospects, but we believe BRFS fits the bill.

Another plus: BRFS should slowly improve its margins going forward. The company was created in 2009 by the merger of Sadia and Perdigão, but integration was impeded by an ongoing anti-trust battle with Brazilian authorities, harming margins. Thankfully, in July 2011 the merger was finally approved, with only small concessions made by BRFS. With the recent approval, integration will continue and margins should recover within the next eighteen months.

On the downside, BRFS is susceptible to economic slowdown because it targets middle-class consumers in developing economies. Any major market meltdown would hit BRFS hard as investors flee to developed countries for perceived safety. We believe such a situation would be temporary, as BRFS's diversified revenue base, fundamental strength and the necessity of food in general should allow it to weather economic storms. We believe the potential reward far outweighs these risks.

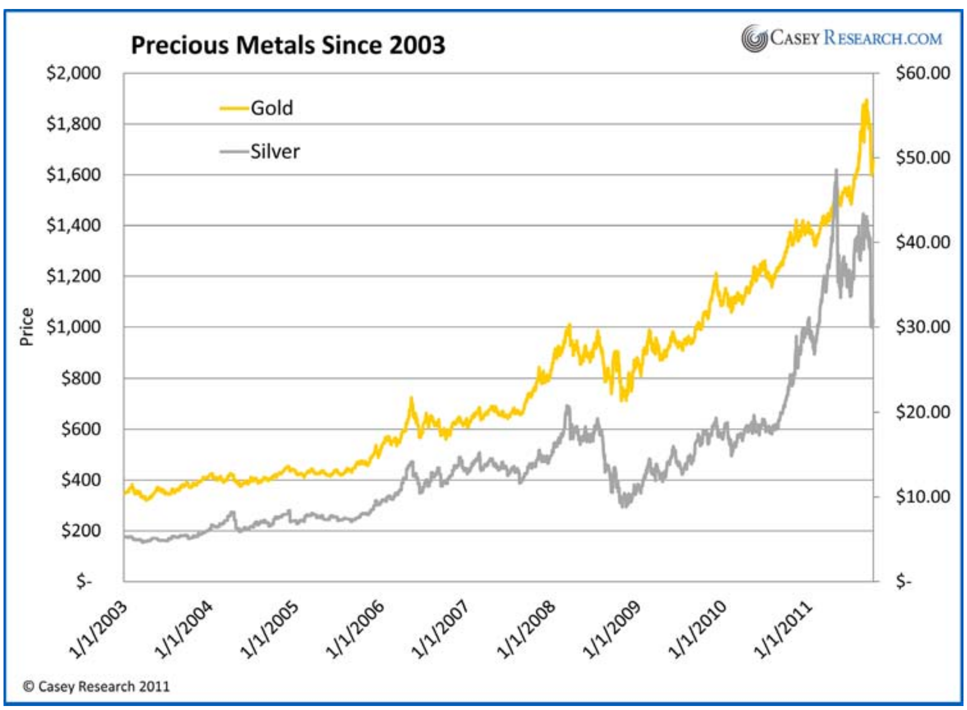
Our price target is $24 to $28 in a timeframe of two to three years. Shares of BRFS trade as American Depository Receipts (ADRs) on the NYSE; these ADRs allow investors to purchase shares of a non-US company on a US exchange and trade just like shares of stock of US-domiciled companies. Each BRFS ADR equals one share of Brasil Foods stock. ADRs also add currency risk to the investment equation, as BRFS's profits in Brazilian reals are translated back to dollars. If the real appreciates against the dollar, we will benefit as investors, and vice versa.

Options volume is almost nil, so we recommend a straight-up stock purchase. Alternatively (or additionally), place your stink bids under $14. Market selloffs have been commonplace lately, so we may be able to pick up BRFS at bargain prices.

Gold & Silver

We get a lot of inquiries about why we recommend holding 1/3 cash. After all, our investment thesis is primarily driven by the inevitable destruction of the US dollar, so why do we hold so many of those dollars?

Here's why:



Precious metals are prone to corrections, often very big ones. This is easy to forget when the gold bull market is raging as it has over the past few months and even years. During those periods, gold can feel like a "can't miss" investment, and investors question the wisdom of holding cash when it results in forgone gains.

But with the arrival of the sharp correction we've been warning of, our 1/3 allocation to cash never looked so good. With it, we have the ability to purchase more gold at these lower prices. The diversification gives us flexibility that investors lacking cash simply don't have.

That said, we're not quite backing up the truck. Gold could remain weak for a while, especially given the world's renewed confidence in the US dollar, undoubtedly driven by a lack of paper alternatives. As always, buy in tranches. If you want to *temporarily* skew your gold/cash allocation slightly in favor of gold to take advantage of these low prices, we wouldn't object. But after doing so, build your cash balance back up so you have plenty to deploy at opportune moments.

There's no telling how low markets could go – the 2008 crash may get a run for its money. Stay patient and disciplined, and don't use up all of your cash in one purchase; prices can always get cheaper in the short run in our volatile environment.

The Speculator's Corner

The Next Domino: US Mid-Cap Banks

By Aaron Bedrick

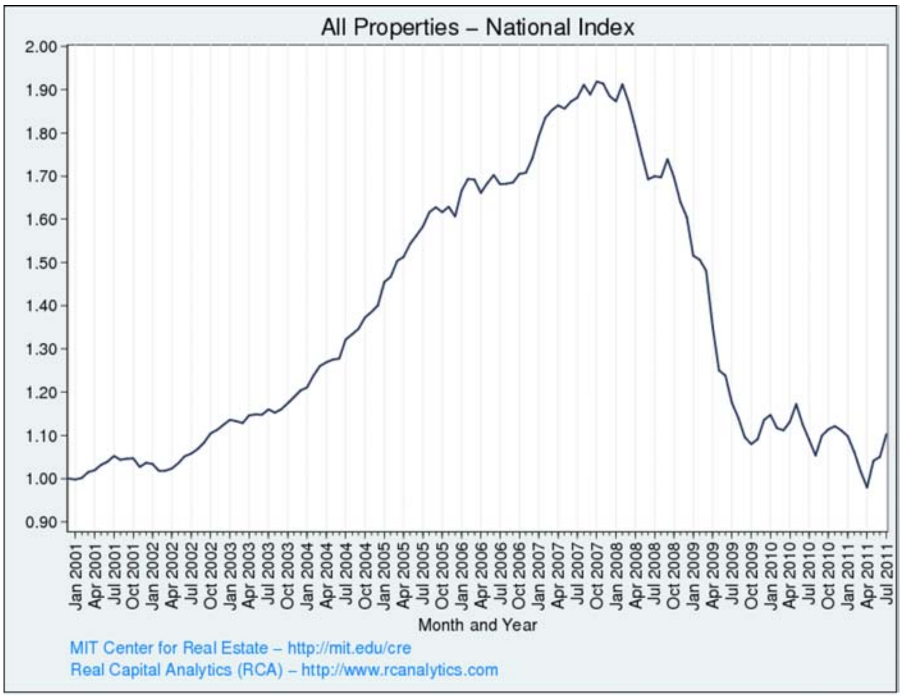
Executive Summary: The world is undergoing a banking crisis with Europe at the center. The chance of international financial contagion is both high and not fully priced in. We recommend short exposure to mid-cap US bank shares, which should fall sharply in the next leg of this crisis but have a low probability of being bailed out.

The Trade: Buy the January 2012 50.00 puts on MTB when they are trading below 1.50. Sell them when they are trading between 4.00 and 20.00.

The European banking crisis is clearly underway, as evidenced by skyrocketing CDS spreads and nervous assurances of executives. Bank CEOs such as Frédéric Oudéa of Société Générale have been summoned to calm the masses and convince the public of their organizations' solvency, just as Bear Stearns CEO Alan Schwartz did two days prior to its collapse. While the spotlight is firmly on Europe, the US has underpinnings of a banking crisis of its own, though the warning signs are less developed. Below is a chart of the average price of default protection on all US banks. As you can see, August ushered in a new phase of increased debt risk:

The credit markets are clearly telling us that we're entering a new period of financial chaos in which international contagion is highly likely. Of course, this is not surprising; none of the core causes of the 2008 financial meltdown have been addressed and many have been exacerbated. Take residential mortgages, for example: instead of allowing them to liquidate, the Federal Reserve merely shifted them to its own balance sheet.

Commercial real estate (CRE), a far bigger market, crashed at the same spectacular rate that the residential market did. A cursory look at MIT's Commercial Property Price Index illustrates that banks loaned money to businesses to buy a depreciating asset, meaning many of these CRE loans are already underwater. The point? Financial institutions that hold a high percentage of these CRE loans are in even more dire straits than other banks.



All said, now is the time to buy protection against the crippled US banking sector, and we have an ideal short candidate. M&T Bank (NYSE.MTB) is heavily invested in US commercial real estate: it holds over $20 billion in commercial real estate loans alone, compared to an overall market cap of just $8.67 billion. With its comparatively small market cap (JPMorgan and Bank of America's market caps are $115 billion and $63.95 billion, respectively) and lack of political clout, M&T Bank is not too big to fail, meaning it's unlikely to receive a bailout.

Already, the highly publicized "double dip" in US real estate is putting serious pressure on MTB's stock price. As the business climate continues to slow, MTB's overleveraged position in US CRE should wreak havoc on its balance sheet.

Mid-cap US bank stocks have been relatively ignored by the markets until recently because high-profile companies with more European exposure, like Bank of America and Morgan Stanley, have been falling so precipitously in recent weeks. But MTB has just completed a confirmed breakdown out of a bear flag formation, which indicates it is highly likely that the share price will continue below the $72.00 area. These technical merits combined with MTB's bleak fundamental picture lead us to believe that MTB will test its support levels established in 2008 and likely those established in 2009.

There are some nice mid-term targets on the downside: a move to 2008 lows would equal a drop of 22%, while a move to the 2009 low would yield a decrease of nearly 58%. These targets are fully achievable, and by using put options, we risk only the premium of the options with a possible payout of multiple times our risk.

As of this writing, the January 2012 put options at the strike price of 70.00 are about 3.00 out of the money, but they still have an implied price of 4.25. The January 2012 50.00 puts are trading at an implied price of 1.30. This means that if the stock drops to our first target of 52.00, the puts would be only 2.00 out of the money and would be trading at about 5.00, giving us a risk/reward ratio of over 1:3. If MTB tests its 2009 low of 29.16, the puts would be over 20.00 in the money for a probable option price of 23.00. This amounts to a risk/reward ratio of over 1:15, which, needless to say, is both attractive and rare.

As always, this is a risky speculation, so only use an amount of capital that you're comfortable losing should the puts expire worthless. Anything is possible in this volatile climate, including massive central bank intervention or even wholesale financial-sector nationalization. As such, we're wary of putting too many eggs in our doomsday basket, but we believe the compelling risk/reward ratio makes this a smart speculation with the potential for handsome returns.

The Casey Report Portfolio

THE CASEY REPORT PORTFOLIO[1]							
INVESTMENT	**Ref. Date[2]**	**Symbol**	**Current Recommendation**	**Price at Issue**	**Price 10/10/11**	**Price Target**	**Gain / (Loss) %[3]**
GOLD & SILVER							
Buy Gold		-	**Buy**	$937.50	$1,676.28	-	79%
Buy Silver		-	**Buy**	$17.56	$32.08	-	83%
Central Fund of Canada	10/5/2009	CEF	**Buy**	$12.98	$21.70	-	67%
		T.CEF.A		$13.90	$22.25	-	60%
Please see above for gold and silver update. **CEF Stink Bid: $17.00** **CEF does not trade options**							

THE CASEY REPORT PORTFOLIO[1] *continued*							
INVESTMENT	**Ref. Date[2]**	**Symbol**	**Current Recommendation**	**Price at Issue**	**Price 10/10/11**	**Price Target**	**Gain / (Loss) %[3]**
Market Vectors Gold Miners ETF	11/1/2008	GDX	**Buy Below $57**	$57.00	$56.84	-	0%[4]
GDX fell from $66 to $53 during the current correction, hitting our bid of $57 on its way down. Count this as an example of why disciplined buying is always better than chasing rising stocks. We remain convinced of the explosive upside potential in gold equities in the near future, and are happy investors with a discounted entry point. **Stink Bid: $45** **Sell Puts: Nov. 19th, 2011 puts @ $50 strike price when trading at $1.50 or above**							
ENERGY PLAYS							
Vanguard Energy ETF	7/6/2010	VDE	**Buy on Weakness**	$97.17	$93.42	-	-4%
VDE plunged along with the broader market this month. Oil generally tracks the economy, so more weakness may be on the horizon. Continue to average down on current and future price weakness; we expect ever-increasing world demand to eventually break VDE free from its high market correlation and net significant gains. **Stink Bid: $69** **VDE options are not liquid enough to sell puts.**							
AGL Resources Inc.	7/20/2011	AGL	**Buy**	$41.28	$41.17	$50	1%
In contrast to VDE, AGL continues to show resilience to overall market weakness. As a utility, AGL has solid, predictable revenue streams, allowing it weather market volatility far better than most. As AGL integrates Nicor and expands its customer base, we expect its share price to rise slowly and steadily. **Stink Bid: $32** **Sell Puts: December 17th puts @ $35 strike price when trading at $1 or above**							
EMERGING TRENDS							
American Water Works Company Inc.	8/11/2011	AWK	**Buy Below $28**	$28.00	$30.11	$38 - $42	N/A
The patience that worked so well with GDX cuts both ways; we're still waiting for AWK to hit our entry price. When we're particularly excited about an investment, as with AWK, it can be tempting to chase the price. Stay disciplined and resist the temptation; we'll be rewarded in the long-term. **Stink Bid: $25** **Sell Puts: December 17th, 2011 puts @ $25 strike price when trading at $.50 or above**							
Brasil Foods SA (ADR)	10/13/2011	BRFS	**Buy Below $18.00**	$17.50	$18.53	$24-$28	N/A
Please see above for our recommendation of Brasil Foods.							
GLOBAL DIVERSIFICATION							
iShares MSCI Chile Investable Market Index Fund	2/3/2011	ECH	**Buy**	$70.83	$55.54	-	-20%
Global X FTSE Norway 30 ETF	2/3/2011	NORW	**Buy**	$15.93	$12.70	-	-20%
Weak global markets hit the smaller economies of Chile and Norway hard this month. Use this weakness as a chance to average down cost; we're invested in these fundamentally strong countries for the long haul. **ECH Stink Bid: $42** **NORW Stink Bid: $9** **ECH options are not liquid enough to sell puts.** **NORW does not trade options**							

THE CASEY REPORT PORTFOLIO[1] *continued*							
INVESTMENT	**Ref. Date[2]**	**Symbol**	**Current Recommendation**	**Price at Issue**	**Price 10/10/11**	**Price Target**	**Gain / (Loss) %[3]**
INTEREST RATES							
ProFunds Rising Rates Opp Inv	7/1/2008	RRPIX	**Buy**	$17.88	$8.36	$49	-53%
ProShares Short 20+ Year Treasury	6/9/2011	TBF	**Buy**	$41.50	$33.16	$61	-20%
Bernanke and company continue to toy with interest rates, most recently through "Operation Twist". So far they've managed to keep rates low, but the catch-22 of unmanageable debt and high inflation will eventually overwhelm the central planners. Continue to short bonds, which is best accomplished through these two inverse interest rate instruments. **RRPIX Stink Bid: $5** **TBF Stink Bid: $24** **RRPIX does not trade options** **TBF options are not liquid enough to sell puts.**							
DIVERSIFY CASH							
Norwegian Krone	6/3/2010	NOK	**Buy**	0.1542	0.1754	-	14%
Canadian Dollar	6/3/2010	CAD	**Hold**	0.9542	0.9741	-	2%
The flight to dollar safety has substantially (and we believe temporarily) trimmed our gains in the krone and loonie. As we've learned recently, keeping cash in these volatile times is essential, and the CAD and NOK remain the best vehicles for that purpose.							

[1] This sheet represents our current portfolio recommendations and is not a comprehensive track record.
[2] Reference date is the release date of the publication when the recommendation was originally made in The Casey Report.
[3] Includes Dividends
[4] We also hold a free ride position in GDX, which we recommended for purchase on 1/14/2010 and recommended a free ride on 4/14/2011. We netted a 28% gain upon taking the free ride, which is not included in GDX's performance above.

***Portfolio Page Updates:** Get the latest on your companies by regularly visiting the portfolio page on our website, or click here.

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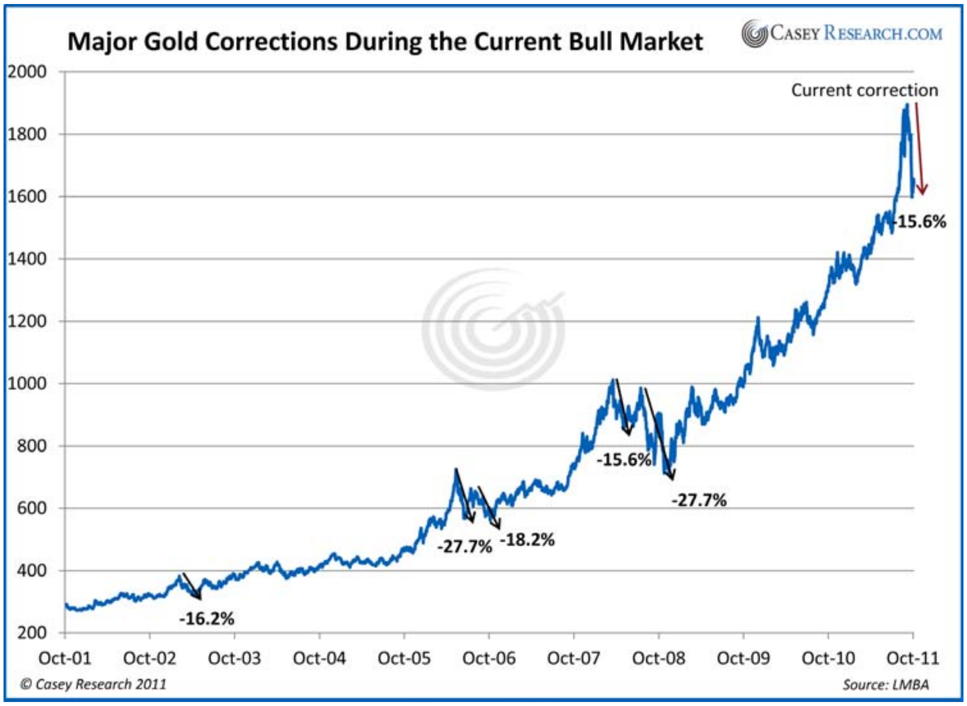
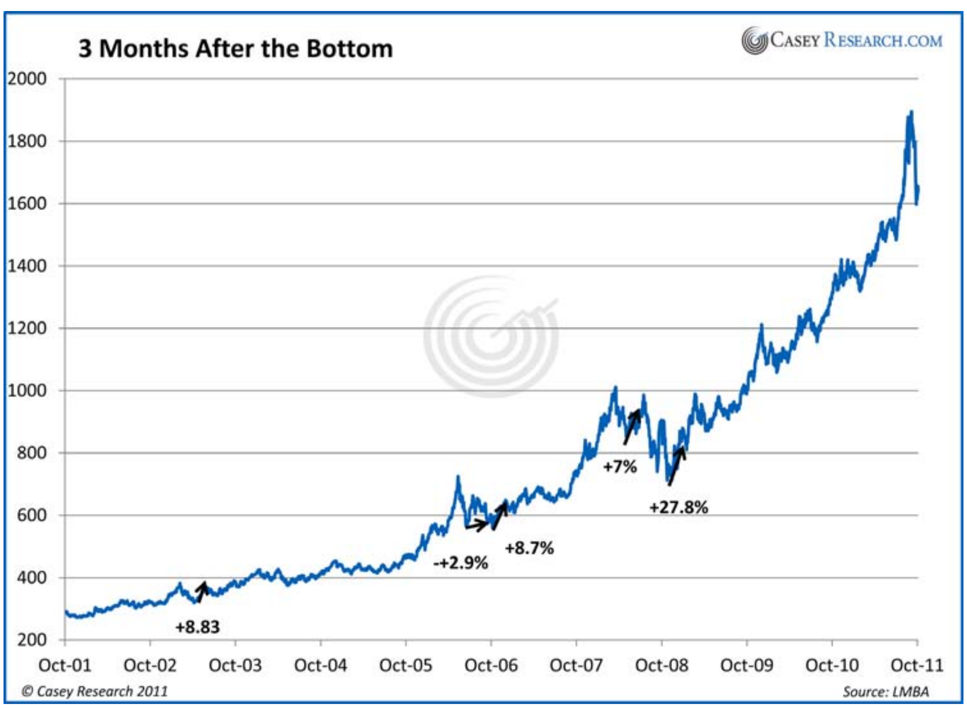
Casey's'Data Farm

A monthly recap of data worth paying attention to.

Major Gold Corrections and Their Aftermath



Recoveries in gold prices three months after a correction

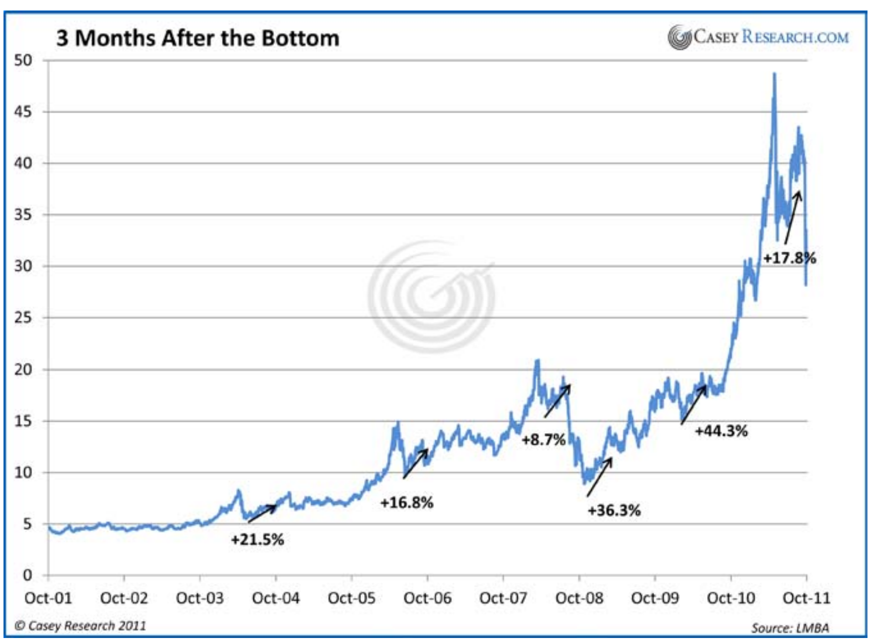


Given gold's volatile nature and the many corrections experienced over the past decade, some of which were rather steep, the recent retreat was entirely to be expected. However, confirming that it is in a secular bull market, in each instance the yellow metal recovered quickly before powering on to new highs.

Our pair of charts here show the major corrections as well as the price action in gold over the following three-month period. As you can see from the second chart, the three-month rebound can be as much as 27.8% or as little as 2.9%. Based on the London Bullion Market Association's (LBMA) recent low price of $1,598 on September 26, this could mean a jump to $2,042.24 or a modest rise to only $1,644, a level it has already surpassed at this writing.

Major Silver Corrections and Their Aftermath

Recoveries in silver prices three months after a correction



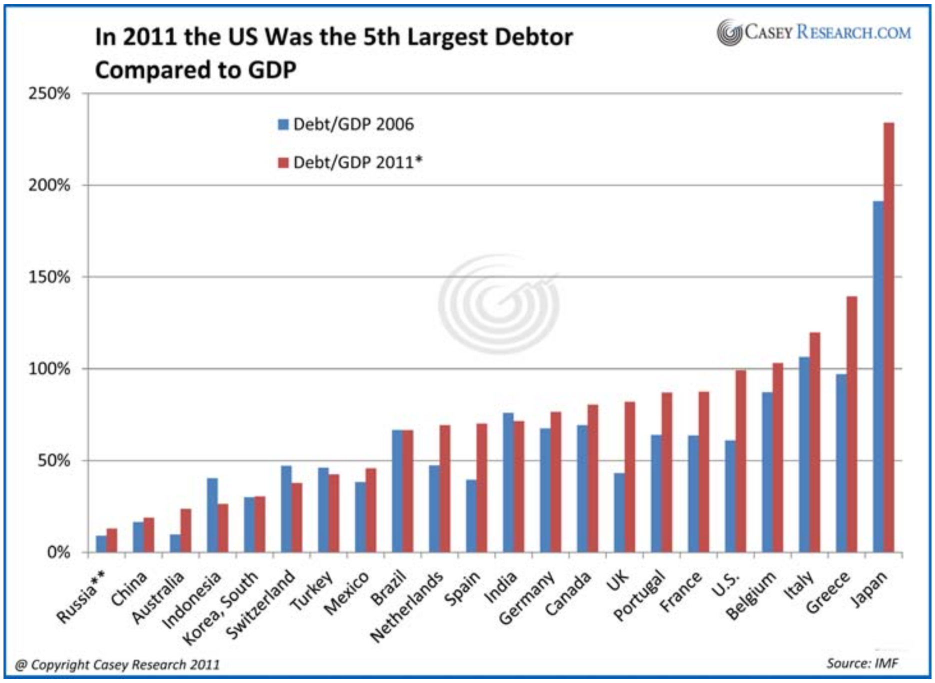
If gold is volatile, then silver could only be called hyper-volatile; in no small part because, in addition to being considered a precious metal, it is also considered an industrial metal – therefore at risk during economic downturns. As you see in the chart, corrections and recoveries are bigger for silver, with recoveries ranging from a low of 8.7% to a high of 44.3% within three months. Based on the LBMA's low from the recent selloff of $28.16, this could mean a move to $30.61, which has already been surpassed, or an energetic spike to $40.63.

Debt/GDP Around the World 2006-2011

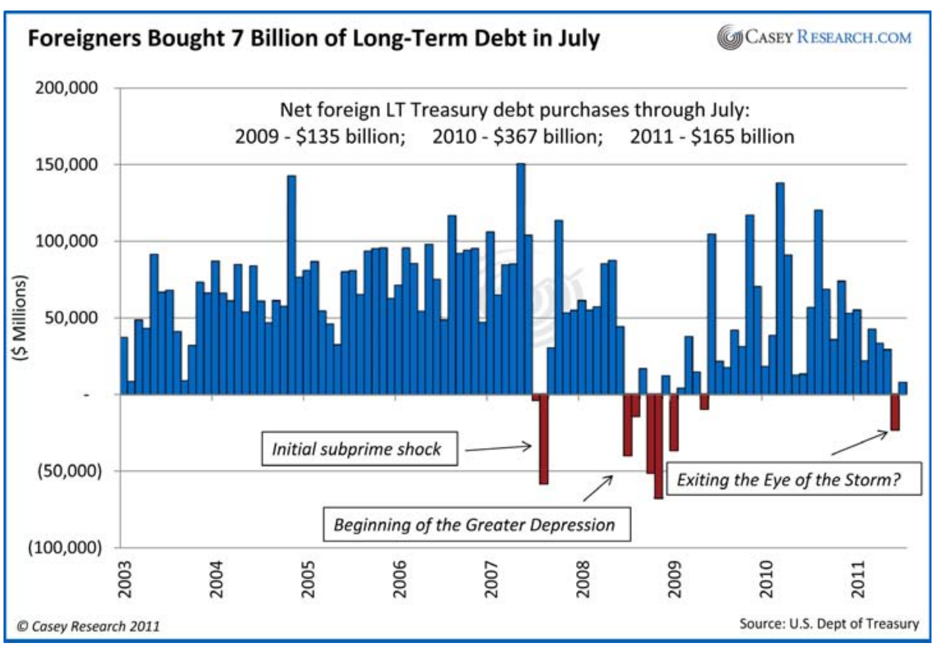
	Debt/GDP 2006	Debt/GDP 2011*
Russia**	9.0%	12.9%
China	16.5%	18.9%
Australia	9.76%	23.6%
Indonesia	40.4%	26.3%
Korea, South	30.1%	30.5%
Switzerland	47.2%	37.8%
Turkey	46.1%	42.4%
Mexico	38.3%	45.7%
Brazil	66.7%	66.6%
Netherlands	47.4%	69.4%
Spain	39.6%	70.2%
India	76.0%	71.4%
Germany	67.6%	76.5%
Canada	69.4%	80.5%
UK	43.1%	81.9%
Portugal	63.9%	87.1%
France	63.7%	87.6%
U.S.	61.1%	99.3%
Belgium	87.3%	103.1%
Italy	106.5%	119.7%
Greece	97.1%	139.3%
Japan	191.3%	234.1%
*IMF estimates		
** Russia defaulted on its debt in 1998		

As the table above shows, Greece's debt as a percentage of GDP has increased from 97.1% to 139.3% over the period of the sovereign debt crisis, from 2006 through September 2011. Similarly, Spain's debt has jumped from 39.6% to 70.2%, and Italy's has climbed from 106.5% to 119.7%. Contrary to it being widely perceived as a safe harbor , the US has experienced its own sizeable leap, soaring from 61.1% to 99.3% in just five short years.

Though the PIIGS and the US tend to dominate the news, the table reveals the increasing sovereign debt problem as a global phenomenon. For example, France jumped from 63.7% to 87.6% and England from 43.1% to 81.9%. They may not be in the headlines today, but they will likely be epicenters of a future crisis. Even if the PIIGS were bailed out and the United States got its fiscal house in order, there are still dozens of extremely important countries that have ruined their balance sheets over the course of the current crisis, and only a very small handful that have remained stable or even improved. For a graphical representation of this change from 2006 to 2011, see the chart below.



Foreign Purchases of US Government Debt



With QE2 winding down, the market was spooked and uncertain about the outlook for continued foreign buying of US Treasuries. June's data, which showed net negative purchases for the first time in a long while, suggested bad news for the Fed – and July wasn't too much better. Since then, thanks in no small part to the ongoing Eurozone crisis, investors have jumped heavily into Treasuries, so the expectation is that the August and September numbers will likely be very positive for the Fed. Nonetheless, given the soaring debt and historic low interest rates discussed elsewhere in this edition, any new rush into Treasuries is likely to only be temporary.

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Obama Watch

Under Siege

By Don Grove, Casey Research Washington Correspondent

Protests in New York dubbed "Occupy Wall Street" have spawned similar uprisings in cities all across the country, including "Occupy DC" in the nation's capital.

Raging Bull -- Occupy Wall Street

Protestors camped out in McPherson Square Park near the White House, just down the street from my office. I wandered down to the encampment to check things out. Homemade signs were strewn all over the muddy ground in preparation for a march down K Street – Washington's lobbying corridor – and then on to Freedom Plaza. The park service fights a losing battle trying to keep grass growing in these public spaces. I thought back to the early days of the Obama administration when I attended a Tea Party rally on September 12, 2009. Back then, hundreds of thousands of people marched down Pennsylvania Avenue from Freedom Plaza to the Capitol to protest the new administration's policies, including Obamacare and out-of-control spending.

I could not determine exactly what the Occupy DC protest was about, but maybe that's the way it's supposed to be. From what I could glean from those milling around McPherson Square, banks, corporations, "the rich" and those who commit crimes against the environment were among the villains. The occupiers were against war.

There actually seems to be some commonality between these protestors and the Tea Party. Both share resentment over bank bailouts, i.e., "Banks Got Bailed Out; We Got Sold Out." I saw a smattering of scraps of cardboard with "End the Fed" printed neatly in magic marker. The Occupy Wall Street (or DC, or wherever) movement seems to draw a random collection of malcontents, many unemployed. I would say that the occupiers largely want someone else, notably the government or big corporations, to do something for them, while the Tea Partiers largely wish to be left alone.

Later that afternoon, I watched the march down K street from our eighth-floor offices. DC police herded the crowd. Traffic stalled. On and on they came; then they were gone, down 14th St. to Freedom Plaza.

Occupy DC march down K Street

The Occupy DC campers in McPherson Square seem to have gathered spontaneously as predecessors to a larger and more organized October 2011 Movement, which later staged the occupation of Freedom Plaza and takes its name from this "11th year of the US invasion, occupation and destruction of Afghanistan."

David Swanson, a spokesman for the movement, explained: "Inspired by the courageous, nonviolent uprisings in Tunisia, Egypt, Bahrain, Yemen, Greece, Spain and elsewhere, people in the United States have come together to form the October 2011 Movement," which "stands in solidarity with our global allies."

The October 2011 Movement posts the following pledge on its website:

I pledge that if any U.S. troops, contractors, or mercenaries remain in Afghanistan on Thursday, October 6, 2011, as that occupation goes into its 11th year, I will commit to being in Freedom Plaza in Washington, D.C., with others on that day or the days immediately following, for as long as I can, with the intention of making it our Tahrir Square, Cairo, our Madison, Wisconsin, where we will NONVIOLENTLY resist the corporate machine by occupying Freedom Plaza to demand that America's resources be invested in human needs and environmental protection instead of war and exploitation. We can do this together. We will be the beginning.

Although the Park Service only issued a permit for the protestors to "occupy" Freedom Plaza through Sunday, spokespersons for the group stated in a video that they would remain "until it's over." They repeated it twice for emphasis. As the permit expired Monday the Park Service offered the demonstrators a four-month extension, right through the dead of winter.

Dallas Fed President Richard Fisher said, "I am somewhat sympathetic – that will shock you. We have too many people out of work for too long. We have a very frustrated people, and I can understand their frustration."

House Majority Leader Eric Cantor called the protestors "growing mobs" that are trying to "divide America."

Back in New York, about 700 protestors were arrested occupying the Brooklyn Bridge.

Occupy Brooklyn Bridge

A Pattern?

The movement emulates protests against oppressive regimes in Tahrir Square in Cairo, Egypt, which led to the ouster of Hosni Mubarak; and in Manama, Bahrain, Yemen and Tunisia, where a street vendor, Mohamed Bouazizi, set himself on fire, setting in motion the wave of revolutionary demonstrations known as the Arab Spring. Somewhat incongruously, the movement also emulates protests in Greece and Spain, where workers staged strikes against austerity measures, and finally it emulates the protests in Madison, Wisconsin, right here in the United States, also a strike against austerity measures. More austerity measures in the US must inevitably follow, much more severe than what today's protestors have encountered so far. Presumably the outrage will escalate accordingly.

In Madison, protestors camped out in the rotunda of the statehouse earlier this year to protest Governor Scott Walker's legislation to limit collective bargaining by public employees. Like other governors, including Chris Christie of New Jersey and John Kasich of Ohio, Walker faced crippling state budget deficits. Their efforts to rein in out-of-control spending were met with indignation from those who felt that they should be immune from such inconveniences, albeit at the expense of other, less privileged citizens. Governor Walker threatened to call out the National Guard as angry, demanding crowds engulfed the state Capitol and remained for weeks, growing to more than 50,000 strong.

State House Rotunda Madison, Wisconsin **Occupy Wall Street**

The parallels to the democracy protests in the Middle East were already apparent during demonstrations here in the US against cutbacks in "rights" enjoyed by union members and what were characterized as attacks against "working families" by Midwest governors. One sign in Madison, Wisconsin this winter read: "I didn't think Cairo would be this cold." Union demonstrators mocked their Wisconsin governor as "Hosni Walker." In a reference to demonstrations to remove Libyan dictator Col. Moammar El-Gadhafi, another sign in Madison, Wisconsin read, "Scott Walker for President – of Libya."

Social Media

A notice from Adbusters that launched the occupation of Wall Street described a "worldwide shift in revolutionary tactics." Adbusters offered a quote that captures the "spirit of this fresh tactic, a fusion of Tahrir with the acampadas of Spain."

> The antiglobalization movement was the first step on the road. Back then our model was to attack the system like a pack of wolves. There was an alpha male, a wolf who led the pack, and those who followed behind. Now the model has evolved. Today we are one big swarm of people.
>
> *Raimundo Viejo, Pompeu Fabra University, Barcelona, Spain.*

Iran's post-election "Green Revolution" protests and Egypt's Tahrir Square uprising made effective use of social media like Twitter and Facebook. So have Wisconsin and other Midwest union demonstrations, and now the occupation of Wall Street and other cities, including DC. Similarly, the recent phenomenon of "flash mobs" relies heavily on social media to coordinate participants. A large sheet of poster board leaning against a tree in McPherson Square, apparently listing strategies from a planning session, included "online outreach."

Demands

A list of 13 demands posted early on at occupywallst.org quickly attracted ridicule and threatened to reduce the protest to a laughing stock. The demands included restoration of a living wage (guaranteed regardless of employment), raising the minimum wage to $20 per hour, ending free trade, universal health care, $1 trillion in infrastructure spending (now), fast-track ending of the fossil fuel economy and bringing the alternative energy economy up to meet energy demands, $1 trillion in ecological restoration, decommissioning all US nuclear plants, a racial and gender equal-rights amendment, open-borders migration, bringing American elections up to international standards, forgiveness of all debt, doing away with credit reporting agencies, and a union ballot policy that sounds like card check. The person posting to the website forum stated confidently that these demands "will create so many jobs it will be completely impossible to fill them without an open borders policy."

Website administrators, however, were quick to note, "This is not an official list of demands. This content was not published by the OccupyWallSt.org collective, nor was it ever proposed or agreed to on a consensus basis with the NYC General Assembly. There is NO official list of demands." Other contributors to the forum were warned to stick to one demand: "Don't make us look like extremist nut jobs, you don't speak for everyone."

Adbusters had started things off with a more narrow focus:

> On September 17, we want to see 20,000 people flood into lower Manhattan, set up tents, kitchens, peaceful barricades and occupy Wall Street for a few months. Once there, we shall incessantly repeat one simple demand in a plurality of voices. Tahrir succeeded in large part because the people of Egypt made a straightforward ultimatum "that Mubarak must go" over and over again until they won. Following this model, what is our equally uncomplicated demand? We demand that Barack Obama ordain a Presidential Commission tasked with ending the influence money has over our representatives in Washington.

Good plan. Sadly, however, switching from fiat money to real money is probably not even on the protestors' radar screen, although that would certainly quickly bring legislators back to their senses.

Adbusters is already building on this momentum to instigate an October 29 global protest in advance of the November 3-4 G-20 summit in France. The latest single demand Adbusters urge protestors to focus on is the "Robin Hood Tax," which would make the financial industry help pay to correct the economic crisis it helped to create. Oddly, the overt collusion of government itself in creating the economic crisis seems to be largely overlooked.

Bank of America, Los Angeles

The October 2011 Movement in DC adopted an overarching objective: "Stop the Corporate Machine and Create a New World" and a key slogan: "Human Needs, Not Corporate Greed," but apparently it could not resist the temptation to present its own list of demands:

> Tax the rich and corporations
>
> End the wars, bring the troops home, cut military spending
>
> Protect the social safety net, strengthen Social Security and improved Medicare for all
>
> End corporate welfare for oil companies and other big business interests
>
> Transition to a clean energy economy, reverse environmental degradation
>
> Protect worker rights including collective bargaining, create jobs and raise wages
>
> Get money out of politics

Protestors did not seem to have any clue how all this would work. Candace Wolf from Takoma Park, Md. (home of State Senator and Professor Jamie Raskin and his wife, Federal Reserve Governor Sarah Bloom Raskin) held a handmade sign that read, "Just Say No to War and Capitalism." Although she acknowledged that her desire to replace capitalism with socialism "sends up red flags and harkens back to the Soviet Union," she still hopes that maybe "we can make socialism work so it doesn't reproduce some of the errors of the past." Not likely.

Union Support

Despite the concerns of protestors that they would be co-opted by established outside interests, unions could not resist jumping on the bandwagon. The Occupy Wall Street protests have been officially endorsed by the AFLCIO, the Teamsters, the American Federation for State, County, and Municipal Workers, the Service Employees International Union (SEIU) and the New York State United Teachers Union (NYSUT). The SEIU said, "Wall Street CEOs and millionaires must pay their fair share to create good jobs now. We can put millions of Americans back to work right now by passing [Obama's] American Jobs Act."

Mother Jones reports:

> It has gone beyond just rhetoric. The unions are sending food, busing members down to the protests, and even educating and strategizing with various participants of Occupy Wall Street. Cara Noel, a spokeswoman for United New York, a coalition of unions and community groups helping plan the march, says her organization is planning a week's worth of events to follow. Noel says UNY decided it was the time to get involved when it heard the concerns and demands of Occupy Wall Street protesters. "Some of the things they're asking for are similar to what we're asking for," she says, citing "the fight for better jobs and good wages" and making corporations "pay their fair share in taxes."

Presumably Cara has not considered whether US corporations might create more jobs if they were not saddled with what is probably the highest corporate tax rate in the world, perhaps topped only by Japan's. By the time these protests made their way to DC, the unions' participation was very apparent. The homemade signs that characterized the movement's infancy had been replaced by much more sophisticated placards.

Obama's Tea Party

With a Rasmussen poll showing that 47% of prospective voters would vote for "anyone" other than Obama, it's time for the president to do what he does best: community organizing. The Washington Post reported that the White House's political operation, Organizing for America, helped to build the crowds in Madison, Wisconsin using social media. According to the Democratic National Committee, Obama's organization then geared up to help union workers in Ohio and Indiana, whose legislatures were considering similar bills to limit collective bargaining.

Obama himself spoke to Milwaukee television station WTMJ saying, "Some of what I've heard coming out of Wisconsin, where you're just making it harder for public employees to collectively bargain, generally seems like more of an assault on unions." Now he says the demonstrations against big corporations – "the same folks who acted irresponsibly" – are reasonable. He supports "trying to crack down on abusive practices that got us into this situation to begin with." What!? This is straight out of Saul Alinsky's *Rules for Radicals* playbook. By redirecting the mob's anger to banks and corporations, Obama hopes to divert attention from his own failed policies.

The Occupy Wall Street protestors were demanding the creation of jobs from the beginning, although they didn't seem to understand where jobs come from. As union members joined their ranks, a refinement of the jobs demand emerged: pass Obama's Jobs Bill. The occupiers all want to Tax the Rich – a mainstay of Obama's class warfare message – especially the richest, certainly those from which the 99% distinguish themselves. "We are the 99%" is a key slogan for the occupiers.

The Tea Party has been a thorn in Obama's side. Here is his opportunity to have a Tea Party of his own. His friends are already on board. Moveon.org – big supporters of President Obama – have come out in support of Occupy Wall Street. Vermont's Independent Senator, Bernie Sanders, a socialist, said Obama would be "well served" politically to embrace the protests. While he might risk alienating corporate donors, he can now count on his union cronies to keep the troops of useful idiots in line. President Obama told reporters, "I think people are frustrated and . . . the protesters are giving voice to a more broad-based frustration about how our financial system works."

Hope

> Throughout history, poverty is the normal condition of man. Advances which permit this norm to be exceeded – here and there, now and then – are the work of an extremely small minority, frequently despised, often condemned, and almost always opposed by all right thinking people. Whenever this tiny minority is kept from creating or (as sometimes happens) is driven out of a society, the people then slip back into abject poverty.
>
> *Robert A. Heinlein*

In the midst of this apparent mass compulsion to embrace self-destruction, I found and took heart from a post by Dan from Connecticut on one of the OWS forums. Dan writes:

> You've got it backwards. The source of the problem is the government and the Federal Reserve. If it wasn't for the government's actions not only would this reckless banking behavior not have been possible, but the free market would have bankrupted these firms long ago. This is a problem the free market tried to handle on its own and the government didn't allow it. Perfect example of how the free market works and government intervention does not.

Well said, Dan. Simply taking the government out of the picture would solve most of these problems.

I also took some comfort from another sign I saw in DC, notwithstanding its juxtaposition to another protestor's "Tax the Rich." Of course the small hand-lettered sign may have meant something else to me than to the man who was carrying it. The sign read: "Anarchy Is Order."

Don Grove is our Washington, D.C. correspondent. Don casts a jaundiced eye upon the activities of Congress, the White House, and the courts from his front row seat in the nation's capital where he is an attorney in federal practice and a managing partner in his law firm. He is admitted to practice in Maryland, Washington, D.C., and Tennessee and is admitted to the bar of the U.S. Court of Federal Claims, the U.S. Court of Appeals for the Federal Circuit, the U.S. District Court for the District of Columbia, and the U.S. Supreme Court. Don is a champion of limited government in the belly of the beast.

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