DECLARE ECONOMIC FREEDOM

A NEWSLETTER TO HELP CLEAR THE AIR OF MONETARY AND ECONOMIC CONFUSION

BY CRAIG GRIFFIN

VOLUME 2 OF 12

Today (September 18, 2007), the Fed made a significant announcement. It cut the Fed Funds Rate by half a percentage point—50 basis points. As a result, gold surged to a 27-year high. At the time of the announcement, this issue of the newsletter was going to press. That means it was written, except for these two paragraphs. With that in mind, I trust that, as you read this issue, your confidence in ITM will be further strengthened. I believe you will see clearly that the information in our newsletters has been consistently accurate and timely, including most of our forecasts, regarding all aspects of the various financial markets and their trends. Most significantly, I hope your faith in our wisdom of precious metals markets, particularly gold, will move you to action.

When friends and family ask me, "Is this a good time to buy gold?" — I tell them it would be foolish to acquire gold for the short-term, but it would also be unwise not to own some gold for the long-term!

KEYS TO THE ECONOMY

Interest rates, the US dollar, and, most significantly, the American Consumer are the three keys to the US economy.

During the 20th Century this great country built its wealth by manufacturing goods and selling them here at home and around the world. Today, China has taken over that role, and their wages are dirt cheap. The economic boom that America has enjoyed since 1993 has been built on low interest rates and easy money. In other words, the very foundation of our economy has been built on debt, particularly since the early '90s. The US has accumulated more debt in the last 17 years than in the previous 214. **How have consumers survived or prospered — by borrowing money using their homes as collateral. Take away the consumers' ability to borrow, and the US economy is dead!**

This is very troublesome when you consider what is happening in credit markets. Nearly 1.2 million foreclosure filings were reported last year. Commercial paper has lost over $300 billion, and it is estimated that $500 billion in adjustable-rate mortgages are coming up for reset through 2008. **We are in the midst of a credit meltdown;** and if the Fed doesn't act by lowering the Fed Funds Rate and lifting restraints upon institutions to aid borrowers, the American economy is going down the tubes.

WHO KNEW

The recent meltdown in the subprime mortgage market should not have come as a surprise. Does anyone truly believe that the Fed didn't know that we were headed for a meltdown? If they didn't know, we are in big trouble. They would have had to have been in a coma not to have known! I warned of it, and many analysts were predicting it! But days before the financial markets froze to a standstill, the Fed and the Administration were still assuring us that things were going to be fine.

Now, I am not blaming the Fed here, but you and I better understand that this is the way it works. In the midst of a known crisis, those leaders at the top are going to deny the inevitable until it becomes a fact glaring us in the face! At that point, it is too late for you and me to act. That is one reason we need gold in our respective portfolios! There are many ticking financial time bombs floating around our universe; and if you are waiting for Fed Chairman Ben Bernanke or President Bush to put out an all-points bulletin, you are kidding yourself. It's not going to happen! The Fed can't come out and warn folks about a financial meltdown that is going to occur tomorrow. That would only contribute to the financial collapse, because every trader on the planet would begin selling everything and anything that might be affected by the crash.

Imagine President Bush and Fed Chairman Ben Bernanke standing side by side at the podi-

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um, tears rolling down their pale, white faces when suddenly they proclaim, “Tomorrow at 7:00 AM EST, we will suffer a severe financial meltdown. The financial markets, as we once knew them, will never be the same!” There would be a mad stampede for the exit door. Of course, Mr. Bush and Mr. Bernanke would have already sold out of their positions; and regardless of the size of those positions, they would be miniscule in comparison to, say, China. China holds a few trillion dollars worth of our (US) bonds. If they began liquidating those positions, *KATIE BETTER BAR THE DOOR!* Yes, when the Fed and the President speak these days, they aren’t just talking to you and me. They are putting on a good face for the world, because panic selling by our foreign friends would be a disaster.

EASY MONEY

It didn’t take a rocket scientist to understand that the real estate and mortgage industry was standing on something less than thin ice. We just went through the greatest real estate boom in world history, fueled by interest rates at a record low of 46 years. Following 9/11, everyone from the President of the United States to the head of the Federal Reserve encouraged Americans to borrow and spend money. It was, after all, the patriotic thing to do. Lending standards were lowered to the ridiculous. People were borrowing as much as 100% to 110% of the value of a property. **Standards had become so lax that borrowers under programs like Stated Income Stated Assets (SISA) could borrow up to 100% of a property’s value without providing proof they had enough income to make the payments.** Equally as irresponsible, some appraisers were giving appraisal values based on the willingness of buyers to pay rather than on what the comps indicated the property was worth. This was further complicated by the phenomenon of multiple contracts for the same properties, which resulted in bidding wars and buyers willing to pay the cash difference over a property’s appraised value. This artificially increased real estate values. And let’s not discount the significance of then Federal Reserve Chairman Alan Greenspan, maybe the most powerful and influential figurehead in the world, who encouraged our citizenry to sign up for variable-rate mortgages in 2004! Yet, it is obvious from one of Greenspan’s recent statements that he believes interest rates cannot stay at these low levels for very long.

On August 26, 2007, Greenspan, attending a conference held by Secretary of Treasury Paulson, spoke the following words (and you can write them down, because it is critical that you digest them): *“THE COST OF CAPITAL IS NOT GOING TO STAY DOWN AT THIS LEVEL.”* In other words, the historically low interest rates that we have experienced from 1992 through 2007 cannot endlessly continue! Greenspan then said what nobody wanted to hear, *“AS TIME GOES ON OUR ABILITY TO RESPOND TO THAT BECOMES EVER LESS.”* Greenspan is still speaking in parables, but the *“THAT”* Greenspan is talking about is a *“CRISIS.”* Translation: When a country is overburdened with debt, at some point interest rates must rise; and when they do, that country will lose the flexibility to respond to changing economic conditions.

EMPLOYMENT

On September 7, 2007, we had one of the weakest Job Reports in four years. Former Department of Labor Secretary Robert Reich, also author of ***Supercapitalism***, said on CNBC’s **TheCall**, “Anyone who expects consumers to go to the malls and buy goods and services as they have in the past, given the Jobs Report, given all the other indicators doesn’t understand what’s happening on Main Street.”

Consumers are key to the economy. There is no job growth and little growth in wages, and now the punch bowl (easy money) has been taken off the table. As a result, consumers no longer can finance their standard of living through their homes. The Fed must act — and act soon — by cutting interest rates and flooding the economy with liquidity.

THE DOLLAR

The move to cut interest rates will, of course, impact the US dollar. I call it a “Catch 66.” That’s three times worse than a “Catch 22.” If you raise interest rates to support the dollar, you choke off the economy. If you lower interest rates to give the credit markets a much-needed boost, you destroy the dollar!

After rising against the Dollar Index to a record high of 121.50 on July 5, 2001, the US dollar began its decent. (“What goes up must come down!” — Blood, Sweat, and Tears.) By December 30, 2004, the dollar had dropped to a level most could not fathom. It bottomed at 80.40. This dramatic decline was brought on by the Fed lowering the Fed Funds Rate to a historical 46-year low of 1%. Lower rates equal a weak dollar.

Conversely, when the Fed raises rates, over time the dollar rises. As I am writing these words, I am reminded of December 2004, when the dollar hit its multi-year low of 80.40. At that time, the Fed Funds Rate was only 2.25%, 300 basis percentage points lower than today's (as of this writing) 5.25%. My point is that the dollar has already broken its December 2004 low of 80.40, closing at 79.86 on September 7, 2007. With the Fed Funds Rate at its highest point in the tightening cycle, one might have expected the dollar to strengthen considerably as the Fed Funds Rate hit 5.25%. However, during the tightening cycle the dollar only rose to 92.14 against the Dollar Index. That means the dollar is already considerably weaker today than it was in December 2004. **If the Fed does act here, as I think it must, the dollar has already broken its critical support level of 80.40.** If the Fed were forced to push rates as low as it did after 9/11, you can imagine the negative effect it would have on the dollar. How low will the dollar go in this next round of Fed easing? Of course, gold is discounting this and the fact that the Fed will cut interest rates, and gold has sustained sufficient momentum to reach its current spot price of $711.50.

At this juncture, I believe lowering rates would be very tough on the dollar. In fact, I believe the Fed would like to raise rates to strengthen and support the dollar; however, the weakened real estate market and the subprime mortgage debacle have significantly impacted the financial markets. As this negative impact increases and foreclosures become unmanageable, it could tip us into a recession. With all of the debt that has been accumulated over the last 17 years, the last thing the Fed wants to deal with is a recession. Therefore, I believe the Fed will sacrifice the dollar by cutting rates in order to avoid a deep recession.

A weak dollar is gold's best friend. A dollar crash or a severely weakened dollar would almost assuredly send gold soaring! Over the long term, I absolutely expect gold to benefit from a dollar that is burdened by too much debt; and I believe "Big Money," "Smart Money," feels exactly the same way.

DEBT

Debt by whatever name you call it — Trade Deficit, Account Balance Deficit, Public Debt, Mortgage Debt, Subprime Debt, Margin Debt, and/or Corporate Debt — continues to implode. The national debt in 1995 was around $4 trillion. On July 27, 2007, the National Debt Clock read $8,915,799,737,286.85 ($8-plus trillion). That is $2 trillion more than it was on April 10, 2005, just a little more than two years ago. At that time the National Debt registered $7,782,816,546,352. The estimated population of the United States is 302,545,457. That means that each man, woman, and child's share of this debt is $29,469.29. Since September 29, 2006, the national debt has continued to rise by an average of $1.36 billion a day.

This enormous mountain of debt is especially astounding when we consider that the United States was a creditor nation just 30 years ago. Today, it is the largest debtor nation the world has ever known. Debt does matter! Over time it has killed every currency on the planet.

I liken it to people who receive credit card offers in the mail each month. In the short run, by making borrowing easy, they can prop up their living standards. In the long run bills come due, and the debt has to be paid. The more debt one has, the more vulnerable the individual becomes to economic shocks; and creditors begin to demand higher rates of interest to offset their risk. That is one of the real dangers here in the US, because there is going to come a time when borrowers (China) will demand more interest to lend America money! When a country has as much debt as the US, higher interest rates are a killer! Do you see why I call it a "Catch 66"?

GOLD

There are, of course, many factors currently driving the gold market, including geopolitical influences. Specifically, the dramatically-enlarged, global economy has added new groups of people into the equation. China and India are both nations of increasing concern to the world's economy. Both are looming in growth and power, and we are all aware that both are in the race to become global economic powers. These are countries with billions of people, and their respective economies are growing by leaps and bounds. The race is on for the earth's natural resources. This new phenomenon is still in its early stages and has been reflected in commodity prices across the board. Oil and gold prices have risen dramatically. China's citizens have only been allowed to own gold in the last few years. On the other hand, the citizens of India are big buyers of gold. As the standard of living for these folks continues to rise and their disposable incomes increase, they will certainly take more and more natural resources off the planet, including gold. So say the Adens: "Remember, in all

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of world history no country as large as China, with its over one billion population, has grown as fast and strong as China has in a short time."

In the June 2007 *Aden Forecast* newsletter the Adens characterize the current global boom, which is coinciding with a mega-commodity cycle, as *THE PERFECT STORM!* And they point out that it is not just China, India, and the former communist nations that are bidding for the world's natural resources — the whole world is doing well. Over 100 countries are growing at an annual rate of 4% or more. The Adens went on to say that this global growth fuels demand, which is good for commodities and, therefore, good for gold.

The *Aden Forecast* further noted: "We continue to believe gold will likely rise for years to come, eventually reaching at least $2,000 and it probably will go even higher." For those of you who have been reading this newsletter for sometime, I will remind you that both Richard Russell *(Dow Theory Letters)* and Charles Allmon *(Growth Stock Outlook)* have said on numerous occasions that they believe gold will reach beyond $3,000 an ounce.

During an interview with the late, great Albert Sindlinger, he had shared his conviction that gold would rise within a range of $3,000 to $5,000 an ounce; and that was in 1995, when our National Debt was only a little above $4 trillion. At that time, NAFTA was an infant; the World Trade Agreement was years away from its inception; China was an economic, sleeping giant that had not yet demonstrated its ability, or its desire, to become an economic world power; and the stock market was only hovering around 5,000.

I often wonder what Sindlinger would think the ultimate price for gold would be today. Terrorism wasn't even on his radar screen, nor was the war in Iraq or Afghanistan. Yet, history has taught us that military spending always equates to inflation. You can count on that, and it seems that the war on terrorism will last for many years to come. I wonder what Sindlinger would think the long-term potential for gold would be today. I believe he would be tying it to the long-term destruction of the dollar!

For those who still question the wisdom of owning gold for the long-term, I offer some advice from the **Aden sisters: "Holding gold is the best long term investment you can make. Bumps in the road shouldn't sway you. This is a mega trend based upon fundamental factors that are not going away anytime soon. So again stay invested and we feel strongly that you will be glad you did."**

RARE COINS

In 1971 Nixon closed the gold window and made it legal for US citizens to own gold once again. Gold had been fixed at $35 an ounce for 38 years. Over the next nine years gold rose to $850 an ounce, 24 times its 1971 price. During that period, most rare coins outperformed gold by wide margins. From August 1999 through May 2006 many rare coins again outperformed gold.

As the bull market for gold moves into its final phases, which may take several years, I believe rare coins will once again outperform gold bullion by a wide margin. Rare coins are a very popular way of holding gold today. Each year more and more investors and collectors come into the rare coin market. Like gold, rare coins have risen substantially since August 1999, but, unlike gold, they are not trading anywhere close to their bull market peaks. For instance, as of this writing gold would only have to rise a little over 19% to reach its all-time high.

MS64 $20 Liberty coins would have to rise 3.75 times higher than they are today to reach their all-time high. Yet, these coins outperformed gold during this first phase of the bull market for gold. Remember, the public doesn't really get involved in a bull market until its third and final phase. However, when the public does fully embrace this bull market for gold, I expect that rare gold and silver coins will once again explode in price and outperform gold bullion by a wide margin!

Allow me to share one more critical point before I conclude this newsletter. During the summer of 1989, MS64 $20 Liberties reached their all-time peak. At that time, although gold was selling for $360 an ounce, gold bullion was actually entrenched in a full-blown bear market. In other words, there have been periods in history when rare coins did extremely well in spite of the fact that the price of gold was flat or declining in value.

We are all aware that we don't mint rare coins anymore! As gold prices increase, supplies get squeezed. So, call and check our Dated Gold availability before it's too late. Dial us at **1-888-O-W-N-G-O-L-D (1-888-696-4653)** or contact us at our website: itmtrading@earthlink.net.

Best wishes to all!

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