DECLARE ECONOMIC FREEDOM

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

BY CRAIG GRIFFIN
VOLUME 2 OF 13

So much has been written about what is happening... who's to blame and what's going to happen... that I am bleary-eyed. Personally, I like to focus on what I think is going to happen. But before I do that, I want to express my concern for the welfare of our nation and its people.

Although I believe what has happened and the steps being taken to thwart the evils of deflation are going to be good for gold, I am deeply concerned that the economic face of our nation will never look the same. I am intuitive about the markets and the economy; and, currently, my gut is telling me that once the credit crisis is over, the table will be set for a huge dose of inflation. It is there for everyone to see. You can't help but see it, if you just open your eyes!

It is no secret at this point that the Fed is creating money at a record pace — a historic pace — bailing out both Wall Street and the banks! The following article by Mark Pittman and Bob Ivry appeared on Nov. 24 (Bloomberg): **"The U.S. government is prepared to provide more than $7.76 trillion on behalf of American taxpayers after guaranteeing $306 billion of Citigroup Inc. debt yesterday.** The pledges, amounting to half the value of everything produced in the nation last year, are intended to rescue the financial system after the credit markets seized up 15 months ago."

"The unprecedented pledge of funds includes $3.18 trillion already tapped by financial institutions in the biggest response to an economic emergency since the New Deal of the 1930s, according to data compiled by Bloomberg. **The commitment dwarfs the plan approved by lawmakers, the Treasury Department's $700 billion Troubled Asset Relief Program. Federal Reserve lending last week [Nov. 27] was 1,900 times the weekly average for the three years before the crisis."**

A few years back the Fed did away with M3 (Money Supply), making it more difficult to define the amount of money being created by the Fed. Is it possible that they knew what we were headed for and wanted to disguise how much liquidity they were truly pumping into the system? I don't know, but I found these two statements shocking: **"The U.S. government is prepared to provide more than $7.76 trillion on behalf of American taxpayers,"** and **"Federal Reserve lending last week was 1,900 times the weekly average for the three years before the crisis."** These are truly unbelievable!

Don't be fooled by the rhetoric. There have been thousands of home foreclosures every year for decades. But have you ever, during any one of those past years, heard the government talk about saving people from themselves with regard to foreclosures? Allow me to answer for you: No. You have not. Yet, now that the banks are in trouble, the government says we have to help those borrowers who are going to lose their homes! So, with a gun to our heads (regarding the bailout), we have been led to the river of money creation and thrown in to drown!

There has been a steady stream of information put forth in the mainstream and financial press about possible ramifications of bailing out America's largest financial institutions. What does it mean? It means deficits will explode. The 2009 projected budget deficit alone is $1 trillion. That would more than double the previous record, and the national debt already exceeds $10 trillion.

On Oct. 28, 2008, Ed Bugos wrote in the *Whiskey & Gunpowder* e-letter, www.whiskeyandgunpowder.com, **"It is almost as much as the entire U.S. banking system created in the 12 months ending August 2008.** It is about 20% of the cumulative amount of reserves the Fed has directly injected into the banking system since its inception in 1913. **In one month, the Bernanke**

continued, please turn page…

Fed 'printed' MORE money than the Greenspan Fed in its entire easing campaign from 2001-03 — on top of which the banking system created $1.5 trillion." These are huge injections of liquidity; and, literally, no one is denying the consequences of such money creation.

While in the past two-thirds of U.S. GDP has been dependant upon consumer spending, consumers are being forced to pull back. The result: We will have to depend on the government to pick up the slack in order to prevent a depression. Former Secretary of Labor Robert Reich was recently on CNBC. (I believe it was the day the bailout was passed.) He said, **"You will tell your next president, whoever it is, to forget about deficits. The government must spend to get this economy going!"**

BEAR MARKET FOR STOCKS

When the "bailout" passed and the market swooned, as if to express its disapproval of too little, too late, I wrote in May that the Dow and Transports had better hold their support levels: "Yes, the January lows had better not be broken or KATIE BETTER BAR THE DOOR." The Dow and the Transports had signaled the beginning of a bear market for stocks on Nov. 21, 2007, according to Dow Theory. Well, both the Dow and the Transports smashed through their support levels. As of Nov. 4, 2008, $6.2 trillion had been wiped out in stock market losses, according to *USA Today.*

Now, surely there will be rallies, and maybe the stock market will find some sort of a bottom. Remember the stock market is a forward-looking indicator for the economy. After the massive losses suffered during the dot-com bubble in 2000, we were fortunate to see a resumption of the bull market for stocks. Some would say that a new bull market had been born. But things were quite different, and many of the stocks that had been the main drivers prior to the 2000 stock market collapse never recovered. There were solutions (or ammunition) available to the Fed at that time that are not available today. What were those solutions? The banks were healthy, and interest rates were extremely low. The housing market was robust and supplying money for consumers like a revolving credit card, and China had been employed to lend America money in historic proportions. All of these factors kept the American economy chugging along with the stock market.

At this time, however, I no longer see any of these solutions as viable. The banks have been crippled; housing is in the worst downturn since the great depression; and consumers are tapped out. China, as well as other foreign entities around the globe, has begun to question the strength of the U.S. dollar and our financial system. Like it or not, this is not good for America. We have trillions of dollars floating around the world, and the last thing the Fed wants to see is those dollars sent home.

No, today there are no engines to drive the stock market higher over the long term. Undoubtedly, there will be trading rallies, if you are a trader; but this is not a recipe for long-term growth for stocks. History reflects that more money was lost in the sucker rally that began in 1930 than in the crash of 1929.

As of this writing, the Dow has come within a few hundred points of breaking its Oct. 9, 2002, low of 7,286. If 7,286 is broken, the Dow could plunge much lower than anyone would have thought possible. How low could the Dow go? I have said for months that I thought the Dow could drop to 5,000 points. Why? ECRI's data was plunging in a "Persistent, Pervasive and Pronounced way." (ECRI's catch phrase, not mine; although I have adopted it.) At the same time, the stock market was also spiraling downward in a Persistent, Pervasive and Pronounced way.

Now, very few people in America understand that the recession is deep and that it has made us very vulnerable. In other words, when the economy was ticking along, we were less susceptible to shocks. Even if, or maybe I should say when, they are able to turn the tide and provide some stability, we will remain very vulnerable to further shocks. It wouldn't take much to kick the economy into a new level of turmoil. The longer and deeper this recession goes, the less it will take to create severe havoc. This appears to be the path we are on, and it is truly something we have not experienced in our country since the Great Depression!

This is the kind of action that historically has taken the stock market down to great values, or undervaluation. We have been in a long period of overvaluation. In order for the S&P 500 to return to a state of undervaluation, it would have to fall to 514 points. This would bring the P/E range on the S&P 500 to around 10… or undervaluation; according to Decisionpoint.com, a decline of around 48%. Of course, the S&P 500 doesn't have to sink to undervaluation

but it has been almost 27 years since stocks have reverted to great values. These declines are often very deceptive because some stocks will go broke or lose 95% of their value, while some others will find footing and carry the stock indexes higher.

I believe this is where we are headed, and I believe it is beginning to sink into the psyche of investors, as well. Why is that important? Because this bear market for stocks is fierce. On Sept. 29, 1929, at the height of the stock market, the Dow reached 381 points. By the summer of 1932, the Dow had plunged to 41 points. This, along with the Great Depression, crushed the public's desire for stocks. And it wasn't until 1954 — some 25 years later — that the stock market again reached 381 points.

RECESSION

I also wrote, as early as March, that we were already in a recession: "Somewhere on or about March 20 or 21, 2008, ECRI's data turned undeniably recessionary!" On Oct. 13, 2008, I spoke again with ECRI's Managing Director Lakshman Achuthan. ECRI estimated that the recession actually began in late 2007 or early 2008. Regardless, we are now clearly in the midst of a deep recession!

The organization that officially calls the beginning and end of recessions is the National Bureau of Economic Research. Often, by the time they make an official call, the recession is history. They did not call the beginning of the 1990 recession until 24 months after it had ended. ECRI, on the other hand, accurately forecasted the beginning and end of the 1990 and 2001 recessions without any false signals. They have been consistently accurate. Sure enough, on Dec 1, 2008, just as we are going to press, the NBER made it official: The recession began in December 2007. If you have been reading our updates and newsletters, you knew the economy was in recession many months ago.

On Nov. 4, 2008, the headlines of the Money section of *USA Today* asked, "Is this another Great Depression? Many comparisons were made and the conclusion was that, 'Times aren't great, but this is no Great Depression.'" Well, from my perspective, it is a little early to make such a determination. As I have written many times in the past, "They didn't call it the Great Depression until months after the 1929 crash." Just because we aren't in a depression today doesn't mean that it is a predictor as to how this will end. If jobs continue to be lost and real estate continues to decline, the stock market will also decline; and, in fact, our current condition could turn into a depression.

The *Wikipedia* had this to say about the Great Depression: "The Great Depression was not a sudden, total collapse." [I think I said that earlier.] "Together, government and business actually spent more in the first half of 1930 than in the corresponding period of the previous year. But consumers, many of whom had suffered severe losses in the stock market the previous year, cut back their expenditures by ten percent, and a severe drought ravaged the agricultural heartland of the USA beginning in the northern summer of 1930." How will the Fed fight this possibility? It is already engaged in the fight. Remember the earlier quote from *Whiskey & Gunpowder*, **"The Bernanke Fed 'printed' MORE money than the Greenspan Fed in its entire easing campaign from 2001-03."** And the one from Bloomberg, **"Federal Reserve lending last week was 1,900 times the weekly average for the three years before the crisis."**

Again, only time will tell. But if ECRI's indexes keep falling, I would expect the stock market to go much lower than its most recent bottom. As of this writing, that bottom — 7,552.29 — was hit on Nov. 20, 2008. Unfortunately, the recession will also deepen. In my talk with Lakshman in October, it was the first time in the last eight years (since the stock market collapse of 2000) he actually acknowledged that a depression was possible. It's not probable yet, but it is possible. Again, the Fed's answer will be to INFLATE… and that will be good for gold!

UNEMPLOYMENT

Again, just as we are going to press, we received horrendous unemployment numbers. Since the recession began in December 2007, 1.9 million jobs have been lost. During November alone, there were 533,000 jobs lost. We have experienced the biggest job loss in 34 years.

INTEREST RATES

In April and May, as analysts and the Fed began to speak of raising rates, I wrote, "The Fed has definitely painted itself, or should I say the American consumer, into the proverbial corner! However, it wouldn't surprise me to see the Fed pause for a meeting or two, but I am relatively confident that, with a recession now under way and a nation strangled by debt, they are not going to stop 'easing' (lowering rates) yet!"

continued, please turn page…

Well, the Fed paused for two meetings. Then on Oct. 8, 2008, in an unprecedented move by seven major central banks, including the Federal Reserve and European Central Bank, each lowered short-term interest rates by .50 basis points (or half a percent). The markets yawned. THESE ARE THE DAYS MY FRIEND! Then, on Oct. 28, 2008, the Fed again lowered the fed funds rate by .50 basis points, taking it down to 1% and back to the historical low of the Greenspan era. Many have argued with great merit that it was this action — lowering the fed funds rate to 1% and leaving it there too long — that created the mess we are in today. Now, there is talk that the Fed might take the Fed Funds Rate to zero. Again, I think the long-term case for gold is very bullish!

Around the fall of 1996, I interviewed Dr. Gerald Swanson, Economic Professor at The University of Arizona. He and Harry E. Figgie co-authored the book entitled *"Bankruptcy 1995: The Coming Collapse of America and How to Stop It."* During the interview, Dr. Swanson expressed his belief that the United States escaped bankruptcy in 1995 mainly because the Fed was able to bring down interest rates. How did they do that?

Well, there may have been a couple of factors. The U.S. entered into a recession in 1990, and in 1994 we entered into the North American Free Trade Agreement. Much like the WTA, NAFTA allowed the U.S to import deflation into the United States. Wages in Mexico were much lower than those in the U.S., and American corporations moved to Mexico and shipped goods back into the United States. This kept wages suppressed and interest rates low, creating a disinflationary environment in the midst of a huge money creation by the Fed. Of course, China took over this role in 2001. These two agreements have been instrumental in keeping interest rates down in the United States.

And every year the national debt has continued to grow ("explode"). According to federalbudget.com, "Each year since 1969, Congress has spent more money than its income." But, most important, they report: **In the "fiscal year 2008 the U.S. government spent $412 billion of your money (our money) on interest payments* on the National Debt."**

Now, those interest rate payments have been occurring in a low interest-rate environment. If the Fed is forced to raise interest rates, or maybe I should say if the market demands a higher interest rate, that is when the national debt will begin to compound very rapidly. This is the great fear of the Fed that is never talked about. But if interest rates were to rise, as they did in 1980, to levels of 18% or more, KATIE WILL DEFINITELY HAVE TO BAR THE DOOR!

Below are the fiscal year interest-rate payment totals for the years 1988 to 2008, and the total paid over that period.

You can view them at http://www.treasurydirect.gov/govt/reports/ir/ir_expense.htm.

Available Historical Data/Fiscal Year End	
2008	$451,154,049,950.63
2007	$429,977,998,108.20
2006	$405,872,109,315.83
2005	$352,350,252,507.90
2004	$321,566,323,971.29
2003	$318,148,529,151.51
2002	$332,536,958,599.42
2001	$359,507,635,242.41
2000	$361,997,734,302.36
1999	$353,511,471,722.87
1998	$363,823,722,920.26
1997	$355,795,834,214.66
1996	$343,955,076,695.15
1995	$332,413,555,030.62
1994	$296,277,764,246.26
1993	$292,502,219,484.25
1992	$292,361,073,070.74
1991	$286,021,921,181.04
1990	$264,852,544,615.90
1989	$240,863,231,535.71
1988	$214,145,028,847.73
Fiscal Year Totals:	$18,984,305,636.29

As you can see for yourself, we have paid out over $18 trillion in interest on our national debt over the last 10 years.

To further enslave us into the current abyss of debt, the Treasury and Fed have embarked on the unprecedented measures of bailing out and nationalizing the banks and private institutions here

in America. Compounding interest is a major factor in rising inflation. As a result, the balancing act of the Fed has become unmanageable. As I have written before, "The Fed is caught in a catch 66, that's three times greater than a catch 22!" (I may have to raise this phrase to a "catch 88.")

HYPERINFLATION

Whether you are Liberal or Conservative, or whatever your political view, I think what was said in an interview with Peter Schiff on the *Glen Beck Show* is something we must all hear and truly understand is not nonsense. I have been writing about the ravages of inflation and severe deflation for years, and they are the inevitable consequences of a fiat money system gone wild.

At times, I have been labeled as a forecaster of doom and gloom. But one must be ahead of the curve. I guess even mainstream media is now waking up to the disastrous consequences of the fiat money system! Yet, it comes way too late! We needed more people tolling the bell years ago. The excerpts that follow are from the Oct. 13, 2008, *Glen Beck Show.*

Glen opened the show by saying, "I have a lot of people who talk to me offline, if you will. They'll tell me things they won't tell anybody else because of their position, or they don't want to seem crazy or whatever. I got a call from a friend of mine who is very high placed." He said, "Everybody I know, Glen, is reading about the Weimar Republic." And I said, "Oh geeese, the loaf of bread with a wheelbarrow full of money Republic." He said, "Um, hum." Glen said, "It is what a lot of people believe is coming. Try to buy a book online about the Weimar Republic. You will have a hard time finding some of the books."

I guess, finally, everyone wants to read about the inflationary consequences of a fiat money system. A little bit into the interview, Peter Schiff said, "Remember, credit comes from savings; and we blew through most of our savings when the dot-com bubble crashed, and then we started borrowing a lot of money from the rest of the world. Wall Street helped us do this with these structured products, where we tapped into the global savings glut, and we borrowed from China and Saudi Arabia and Russia and Japan. But now we can't pay the money back, and nobody wants to lend to us anymore. So, they are trying to recreate it with the printing press; and that's exactly what happened in Weimar Republic, Germany; and that's what's happening in Zimbabwe now."

Beck asked Schiff about inflation, and Schiff responded. "Well, I think it's already running a little bit north of 10%. I think pretty soon, maybe a year or two down the line, it's going to be going at least 20% or 30% per year; but the government won't admit it, but it will be." I am not sure when it is going to happen, but I believe with absolute certainty it will happen; and inflation at 20% to 30% may be conservative. Schiff went on to say, "The government, instead of encouraging us to start saving now so we can pay back the debt, they're trying to encourage us to borrow even more money and spend that. **You know what's going to happen, of course, is, as inflation starts running out of control and prices start going through the roof,** the government again is going to focus on the symptoms and not the disease. **And they're going to impose price controls on energy, on food, on a lot of other things that are vital, which means shortages, which means long lines, black markets, civil unrest! All this stuff is coming if we don't stop!"**

I think this next statement is the most important one made in this entire interview. We have been brainwashed into believing that it can't happen here; that fiat money is safe, and gold is a risk. But in reality, gold is the ultimate safety net, while paper money has plastered the walls of many a country's citizens throughout history. Let's read what Schiff had to say: **"People think that hyperinflation can't happen here. Well, you know the laws of physics work everywhere. If you throw a ball up in the air in Zimbabwe, gravity is going to bring it back down just the way it is here; and economics is a science; there are laws; and it doesn't matter where you apply them. You're going to get the same results!"**

"The law of physics works everywhere." I think that is correct! No matter where you go on planet earth, gravity is always constant. I am sure that is why Jim Rogers feels the way he does.

On Oct. 9, 2008, author and international investor Jim Rogers interviewed on CNBC's *First in Business Worldwide*. The narrator's name is Jeff, a British-sounding fellow. He began the interview, "Jim, of course, a legendary investor. Jim, can I start off by asking you why you think the equity markets are not responding to the stabilization plans that are being introduced around the world at the moment?" Jim: "Because they are absurd,

continued, please turn page…

Jeff. If I had come on your show every week for 100 weeks in a row, and everything I said to you was wrong, would you keep me on your show? Would you have any confidence in me? Would you listen to me? Mr. Paulson, Mr. Bernanke and the guy at the New York Fed, Tim somebody, every week they have been dead wrong! Why would you listen to them? I wouldn't listen to them!" Jim also said, "Jeff, never before in world history were people able to buy houses with no money down. Many people bought four or five houses with no money down, and no jobs. And then they did it with cars, and student loans and credit card loans. You think we just say, 'Well, that's too bad. We're going to start over, and nobody loses his job'? Jeff, be realistic!"

Now, I have written about this many times in the past. And I must admit that the result of this easy-money policy, which was put forth from the very top levels of government and the Federal Reserve, has turned worse than I thought they would ever have allowed. Meaning, I thought there were solutions that could be… and would be… employed to avoid this mess. In fact, when I interviewed Lakshman Achuthan of ECRI in January 2008, he said that ECRI felt that if the Fed, Congress and the Administration acted swiftly, a recession might be aborted. Well, they didn't act! Now, how are they going to get us out of this mess? As I have written before — through the printing of fiat money. And what is going to be the result? Again, extreme inflation!

Jeff's next question to Rogers was, "Jim, what do we need from our G-7 leaders this weekend?" Jim said, "Well, what they need to do is go down to the bar and have a beer, and leave the rest of us alone. Let the people who are sound succeed, and let the other people fail. And you know, Jeff, what I am afraid of is they are going to keep doing what they have been doing, which the market hates. You can see that the market hates it, because this is going to unleash rampant inflation around the world, rampant confusion in the currency markets; and you're going to have currencies gyrating all over the world. Bond markets are going to start to collapse, and then we're going to have a real problem; and that's why the stock market, the stock market understands this. **They [the powers that be] are unleashing an INFLATIONARY HOLOCAUST, because they don't know what else to do; and they are making mistakes!"**

Many countries have gone before us. This path has been taken over and over again. Ultimately, it destroys a country's currency. Study history for yourself. **In Germany, January 1919, it took 170 Marks to buy one ounce of gold.** By Nov. 30, 1923, it took 87 trillion Marks to buy one ounce of gold. This is the Weimar Republic that Glen Beck and Peter Schiff are talking about. Germany had been an economic power.

Think about Rome or England. The British pound sterling was the world's reserve currency up until the end of World War II. But the British went down the same road America has been traveling for a while now. They built up too much debt and deficits, and their currency couldn't bear the load. I JUST CAN'T EMPHASIZE IT ENOUGH. DON'T WAIT TO ACQUIRE YOUR GOLD POSITION. OWN GOLD NOW; and hope we aren't sitting on the equivalent of an INFLATIONARY HOLOCAUST like Germany.

Before leaving this discussion of inflation behind, I want to end with one more quote. Say what you will about Alan Greenspan, but he understands inflation very well; and on Sept. 9, 2008, in an interview on CNBC, Greenspan said, **"When we get beyond this [financial crisis], I think we'll see a re-emergence of inflation, which we have not seen for years."** It's a good time to own gold, don't you think?

A few days before going to press, on Nov. 20, 2008, Peter Schiff appeared on CNBC. They showed a clip of Schiff from *YouTube* correctly calling the market collapse way back in 2006. On that Nov. 20 segment Schiff said, "Ultimately, when this dollar rally runs out of steam, and it's going to fall; gold's going up. It's going a lot higher. I predicted it would hit $1,000 an ounce this year. It did! I think next year it's going to hit $2,000 an ounce, and then go higher!"

MARTIAL LAW… IMPOSSIBLE?

When the wheels of deflation or inflation get rolling, it's hard to stop them; and the consequences are devastating. In the days leading up to the bailout in trips to the grocery store with my wife, I would walk through the aisles and give thanks that the food was fresh and plentiful. I wondered if this was the beginning of a new era in modern U.S. history, a period that would lead to empty food shelves and long lines at the gas pump, a period in which martial law would reign. Could we be about to embark on a time in which we might take the garbage out only to find there is no place to put it, because the city hasn't picked it up for

days or weeks? Or could there be interruptions in our water and electrical services? Will our fire departments and police departments function properly? I am afraid these questions are real possibilities, and maybe these "possibilities" are closer at this time than you and I ever imagined!

During the interview with Peter Schiff, Beck switched gears. He said, "When people are frightened, they make different decisions than they would when they were feeling safe or secure. Sometimes when that fear is justified, it's common sense; but when that fear is manufactured, it feels an awful lot like coercion. For example, when the U.S. bailout bill was being jammed through Congress, some members say there was an organized effort to scare them into signing. Here is the California Democratic Congressman Brad Sherman." Beck then showed a video clip of Sherman. Sherman said, "Many of us were told in private conversations that if we voted against this bill on Monday, that the sky would fall; the market would drop two or three thousand points the first day; another couple thousand the second day. And a few members were even told that there would be martial law in America if we voted 'no.' That's what I call fear mongering!" And that's what I call scary!

GOLD

What do I need to say about gold? Well, I think it would be safe to say that gold will be the fortunate benefactor of a Fed and government gone wild. But as I have written so many times over the past 13 years, no one knows when. There is an old saying on Wall Street, "The markets always do what they are supposed to do, but never when."

I have also written numerous times in the past that gold is real money. And it has been real money for over 5,000 years. Actually, I got that drilled into my head by Richard Russell *(Dow Theory Letters)*. I have read Russell for so long… over 17 years now… that it almost seems I know what he is going to say before he writes it. Recently, I had shared one of my opinions with a colleague. A couple of days later, it showed up in Russell's Daily Remarks section.

Another example: I was speaking with my managers not too long ago, and I said, "It has occurred to me that the U.S. government has more gold than anyone on the planet; and, in the not too distant future, the government may want to actually see the price of gold rise in order to pay back its debts in gold!" A few days later I read in Russell's Oct. 6, 2008, Daily Remarks the following, **"Can the dollar hold up in the face of a probable series of trillion dollar deficits? Improbable. How long will our creditors be willing to hold and continue to take in dollars in the face of monster US deficits? Remember, the US is the only nation on earth that can manufacture (out of thin air) the fiat currency to pay off its debts. We won't be able to print our way out of this bear market — our creditors won't allow us to do it. At some point, I believe, our creditors will demand gold instead of Federal Reserve Notes. At that point, it will be to the US's advantage for gold to be as high-priced as possible — What will we do? The US will cut loose the price of gold FROM ITS CURRENT ridiculous official price of $35 an ounce and give gold to our creditors at a price of $30,000 an ounce."**

Now, on one hand I know Russell throws this figure out tongue in cheek; but on the other hand, I think he is dead serious. On at least a few occasions over the past eight years, he has written that this bull market for gold is slated to be greater than the gold bull market of the 70s. That bull market went up 24 times its starting value of $35 an ounce. I consider the starting price for this bull market in gold to be $252.20. That was the bear market low reached on Aug. 25, 1999. If gold went up by the same numeration as it did in the 70s, that would take the price to $6,060.00. I believe before it's over, it could reach something astronomical like what Russell is talking about. Germany experienced it. Germany was an industrial giant in the early 1900s. As I wrote earlier, in January 1919, it took 170 Marks to buy one ounce of gold. By Nov. 30, 1923, it took 87 trillion Marks to buy one ounce of gold; and it took less than five years to do so!

To be honest, I was very hesitant to note that quote from Russell, "… give gold to our creditors at a price of $30,000 an ounce." No one really knows what the ultimate price for gold will be or how low the Dow will go, and I certainly learned that from Russell. But it is an actual quote.

Of course, if gold were to reach what we might consider to be an astronomical figure ($30,000 an ounce) somewhere in our future, it would be a reflection of weakness in our dollar. I think we have seen plenty of evidence confirming that this is more than possible. I remind you: No paper currency has ever stood the test of time!

continued, please turn page…

DEFLATION AND GOLD

Many are asking the question: What would happen to gold during deflation? During the Great Depression, Roosevelt confiscated gold. By the way, this is certainly one reason why numismatic gold (old U.S. gold coins minted prior to 1933) has been so popular over the last few decades. Collectible gold was excluded from confiscation. When the government confiscated gold in 1933, they did so at the legal set price of $20.67 an ounce. They then raised the price to a new, official price of $35 an ounce. This raised the value of gold by 67%. So, during the deflationary period of the 1930s, gold went up; but you weren't allowed to own it. If they did confiscate gold today, I believe it would create an even greater demand for the old U.S. gold coins, thereby, driving them up in value.

I interviewed the legendary James Dale Davidson in the fall of 1998. Davidson believed that gold was a deflationary hedge. I asked him why he felt this way. He would only say, "Look what just happened in Russia…." What did happen in Russia? Russia was burdened by debt — sound familiar? Things were so bad that the Russian citizens would frequently rise in the morning to see the Ruble had been devalued. You might remember press clippings in which Russian depositors were lined up around banks, literally pushing and shoving each other to get in first. Russia is again devaluing its currency. What are Russian citizens doing? They are buying cars, TVs and appliances. They are doing everything but leaving their money in the bank, where it will become worthless.

Just before going to press, Russell wrote in his Nov. 19, 2008, Daily Remarks section:

Question — Russell, how would gold fare in an all-out deflation?

Answer — In a major deflation, any item which was a product of debt would head lower. Deflation renders debt increasingly dangerous, since in deflation debt becomes more and more difficult to carry. The only item of intrinsic wealth that is free of debt is gold. **Thus, in a time of deflation one might see a panic for the safest item of undisputed intrinsic wealth — gold. Furthermore, if the government wants to inflate in a time of deflation, and the dollar's viability is under attack, the government could back the dollar with gold. The government could unilaterally raise the price of the gold it owns to say $5000 an ounce.** The government could then say, the dollar is partly-backed by gold, every dollar is worth one five thousandth of an ounce of gold. In other words, if the dollar falls under suspicion, the US might find it expedient to return to a version of the gold standard." Now, just as I thought, Russell has reeled in his $30,000 an ounce prediction. But in the back of his mind, I am not sure he doesn't think it is possible. Nevertheless, it is clear, whether the U.S. experiences severe inflation or deflation, many experts believe gold is going to be a big benefactor!

Many experts today consider gold a bargain. Who would have thought five years ago that if you could buy gold under $1,000 an ounce, it would be a bargain?

Bull markets are difficult to ride to the top. As Russell has written many times, "The bull's job is to throw you off its back." There were wild gyrations during the gold bull in the 70s. There were times when gold declined or retraced its gains by almost 45% in a year, or year and a half. Those declines only led to huge spikes upward for the price of gold.

It has only been 38 years since Nixon closed the gold window. Since that time the United States has gone from a credit nation to the largest debtor nation the world has ever known. Since the early 70s, the dollar has lost over 80% of its purchasing power, and the national debt has topped $10 trillion; and since 1988, we have paid almost $19 trillion in interest on that debt. These are relatively short periods of time in our economic history, and what the Fed and U.S. government are doing today is even more startling, more unprecedented. Yes, I think gold is an excellent buy today.

It's a tough time in America. But, my fear is that it's going to get much worse! So, remember, "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!"

Blessings to everyone! **Contact us at 1-triple 8-OWN-GOLD, that's 1-888-O-W-N-G-O-L-D or 888-696-4653** or via e-mail at: itmtrading@earthlink.net.

ITM Trading, Inc. • 14231 N. 7th Street • Suite B • Phoenix, AZ 85022

The information in "Declare Economic Freedom" has been carefully compiled from sources believed to be reliable, but the accuracy of the information is not guaranteed. This letter is not intended as investment advice. The opinions expressed are those of the author. If you have any tax questions, please consult a tax professional. Coins are considered a long-term hold. Past performance is never an indication of future profits.