ISSUE:
3RD QUARTER 2014

$79.50 USD

LAS VEGAS INVESTMENT CLUB

Economy Report

HELPING YOU BECOME AN INFORMED INVESTOR

Reported by:

Mike Lathigee

ECONOMIC ANALYST

Contents

3rd Quarter Newsletter

What We See in the News is Not What We Get

In this newsletter I will discuss what is happening in the world and the economy and how it applies to investors like you – on an individual level – and what you can do to make money or protect yourself from losing money.

It can be argued that from the government economic information we see in the news, it appears that we are in a full scale recovery. I agree that we have been in a five year bull market in stocks and in most of the American cities Real Estate values are well on their way to recovery. However, I maintain that only a small part of wealthy and upper income earners in society have benefitted from this small up-tick.

The media and the news outlets do not discuss what is really going on. They don't talk about what I refer to as the "Great Divide."

The facts are that upper income earners are getting much wealthier and the Middle Class is having a much lower living style. An overwhelming majority of Americans are much worse off now than they were during the Great Recession of 2008. All indications are that this divide will continue to grow.

The easiest way to prove my case is to cite some of the facts I've gathered after months of research.

The Facts: The rich get richer and the poor get poorer

-Fifty percent of Americans make less than $27,000 a year. After taxes, that breaks down to less than $2,000 a month. You cannot pay a mortgage, make a car payment, afford health insurance and provide food clothing and everything else your family needs on that income.

-Over the years, the cost of living has risen steadily while paychecks have not. This has resulted in a steady deterioration of the Middle Class.

-Overall, the rate of homeownership in the United States has fallen for eight years in a row and has now dropped to its lowest level in 19 years. That means that a much larger percentage of the population is renting, because they cannot afford to buy a home.

-Only 36% of Americans under the age of 35 own a home. That is the lowest level that has ever been measured. Much of this is due to the fact that the Student Loan Debt is out of control in America. It is a sad fact that universities routinely raise their tuition to levels that have no basis in the results Graduates get when finished University – Universities are not dependent on performance or outcomes for their graduates. Students graduate with what I refer to a "Student Loan Mortgage" and must pay off this mortgage before they look at getting their first home. That is a big reason why the numbers of first time home buyers are down by such huge percentages.

-One out of every six men in the United States between the ages of 25 to 54 does not have a job. I refer to this as the "American Spring." We know that the main reason the "Arab Spring" that toppled many regimes in the Middle East occurred, was because of high unemployment among working age males.

-The Labor Participation rate released by the US Department of Labor shows that for Americans between the ages of 25 and 29, this rate has fallen to an all-time low. In fact, since Obama took office the Labor Participation rate has dropped from just under 66% in January 2009 to 59% as of June 2014. This is a much more important number for measuring employment

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than the government's misleading unemployment rate, which ignores the large number of people who have given up looking for work or who are underemployed.

-The number of working age Americans, who are not employed has increased by 27 million since the year 2000.

-A staggering 25% of all American adults have no money saved for retirement. With the huge US debt these Americans will be in for a rude awakening that the system will not be able to assist them.

-One out of five children in the United States is living in poverty.

-The number of Americans on food stamps has reached 49 million.

-Approximately 100 million Americans receive some sort of government check every month. That is nearly one-third of the 314 million people in this country! America has moved towards a system of entitlement. Socialism does not work. It has never worked and never will work! Look at what is happening in Venezuela today. After several years of socialism Chavez and the crony who replaced him have destroyed the lives of an entire nation of people.

-In the world economy we live in now more jobs will continue to be shipped out of the USA and low skill workers will continue to lose their jobs to technology. There is a reason the Fortune 500 companies shop for workers in India, China, Brazil, etc. It is because our universities are graduating generalists without the practical working skills needed in our modern economy.

These are just some of the facts. There are a lot more that paint the same picture.

My objective here is to not just outline the current challenges in the economy, but to give you some guidance that will help you navigate through these challenges.

If you read the news you would think the economy is well on its way to recovery and that is true for certain regions in the United States like New York City, Washington DC or San Francisco. However, there are many parts of America where it appears we are back in another recession. Overall, major retailers are off to a dreadful 2014 and home sales are in decline, which always precedes another recession.

We are seeing a surge in pricing for upper end homes, but at the same time Middle Class home values are plummeting. What makes this situation even worse is the fact that the US economy is dependent upon consumer spending by this same Middle Class. If that spending dries up we are definitely going into another recession.

There will be no announcement

So what will be the catalyst that causes the Stock Market and Real Estate Bubbles to burst?

I believe we will see two factors combine to snap us back to reality. The economy will falter because of a much weaker consumer and interest rates will rise.

There is no way we can have sustainable growth in the US economy without the consumer being healthy. We need plenty of new jobs and those need to be good jobs with good wages. Although the job gains over the last few months have exceeded 200,000 jobs per month, in general those are low paying service jobs.

If you are expecting the government to warn you that a recession is on the way – it isn't going

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to happen. If you recall, in 2008 the Fed Head Bernanke repeatedly told the American people that we would not have a recession, yet we experienced the worst downturn since the Great Depression.

Once the Federal Reserve stops its easy money policy of buying treasury bonds and forcing down interest rates, then we are going to see interest rates go much higher. It is at this time that we will be dangerously on the edge of another recession, and possibly another Great Recession that will be even worse than the 2008 economic disaster.

Inflation is a fact of life

My biggest concern is that once the Feds stop buying down the 3/5/10/30 year treasury bonds the interest rates will move up quickly. The only reason that interest rates are so low is because the Feds print money to buy US Treasuries at bond auctions. If the Feds did not buy these bonds then interest rates would have to increase to attract other buyers. It is a complete scam, but it is the scam we call our financial system!

The true definition of inflation is more money supply chasing the same amount of goods and services. Money supply is actually increasing by 8% per year, which means the inflation rate is actually 8%. Yet, the CPI is reported to be hovering at only 2%. The CPI number government feeds its citizens is a flat out lie!

The Feds have many games they play to keep this CPI rate artificially low, including the way the calculations are made and adjusted. The reason they keep this CPI artificially low is because many age-related pensions, social security payments and other entitlements are indexed to the CPI. If it officially goes up, then everything else goes up, too.

So, there you have it. With an 8% increase in the money supply the true inflation rate is 8%. At the very least, the 2% CPI number reported by the government is a giant fib!

Here are just some of the problems higher interest rates will create:

- The decimated Middle Class will have higher interest payments on credit cards and loans. This will discourage consumers from borrowing and they will save instead of spending. Saving is good for the individual, but bad for the economy.

- The housing market will definitely take a huge hit as homeowners struggle with higher interest payments and cap rates on investment properties become much worse. This will cause the housing bubble in many cities to collapse. Yes, I said it. Many cities in America are back inside a housing bubble!

- The stock market will see a correction of 20% -- and likely more -- as investors move out of the risk of the markets and into safer vehicles with higher yields than we've seen in the past six years.

- Higher interest rates will increase the value of the US dollar as investors will put money into a country paying higher interest rates on their treasury bonds.

- Higher interest also makes the US export market less competitive, thereby reducing exports and increasing imports.

Over it all the debt looms

What is particularly concerning in this entire situation is the massive US debt. If we return to simply historical

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average interest rates then the majority of tax dollars will be used to pay interest on the debt. That means there will be no money for schools, highways and infrastructure.

However, if in addition to that scenario, the interest rates escalate into double digits then government programs could go bankrupt as there will be no money to pay for these programs.

Have we forgotten about the derivatives?

Very few people understand this market and know the exposure it represents for our entire financial system. Many banks are highly leveraged in the derivatives markets and will go bankrupt if a huge percentage of derivatives trades go bad. Many trades will in fact "go bad" if interest rates increase too quickly. The "too big to fail banks" will fail and the Feds will be too broke to bail them out.

The likelihood of a derivatives blowup is very small, but this situation has a much higher chance of happening now than at any other time in history.

There is no point in describing all these problems without giving you some solutions for navigating through these challenges. So, once again, after six years, I am talking about investing in precious metals as part of the solution.

Why you must buy silver and gold in this market

The right mix of precious metals acts as an insurance policy for your portfolio. No one argues that at any given time between two and four percent of your portfolio should be in gold and silver. If you are not in this position now, then you should definitely get started today. I don't think any financial advisor would argue with this.

But my guidance in the face of the dismal economic situation that could unfold quickly, is for investors to increase their precious metals holdings to 10% of their entire net worth.

For those of you who have been reading my newsletters and listening to my webinars for the last 15 years, you will recall that in 2003, in my many webinars and newsletters, I guided investors to increase their precious metal portfolio to 20%.

At that time I spoke in terms of doing it because I believed the price of gold and silver were going much higher. I took much criticism from traditional financial advisors, who almost universally said this was too high. We all know what happened! Gold at that time hovered at $300 an ounce and in the next several years it escalated by several hundred percentage points.

Today my reasons to encourage you to buy precious metals are different. In 2003 I believed gold was positioned to go much higher based on fundamentals. Today I am guiding you to buy gold and silver as a hedge against financial catastrophe.

I need you to understand that if the value of your gold and silver was to double that would neither be good nor bad news. It would simply mean we have entered another devastating financial collapse and investors will panic into gold and silver.

Yes, the value of your silver and gold will catapult much higher, but I am sad to say the rest of your assets will have a huge drop. This is exactly why I am suggesting you buy silver and gold at this time – as an insurance hedge for your portfolio. The risk at this time is more extreme than most people believe!

Between silver and gold I am much more bullish on silver

Why Silver?

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"...you should increase your weighting in precious metals up to 10%"

-Silver is more affordable. Traditionally, silver trades at a ratio of 12 to 1 versus the price of gold. Today it is more than 60 to 1. In my opinion silver is well undervalued in relation to gold.

-Unlike gold, silver has hundreds of industrial and medical applications and its usage is on the rise. Silver is the most electronically conductive and thermally conductive metal. Usage includes an array of electronic and digital products, as well as medical products. Products such as cellphones, cameras, laptops, mirrors, monitors, etc. all contain trace amounts of silver; silver that is never replenished or returned to stockpiles.

-The majority of the world's silver comes from nations marked with political turmoil, labor unrest and undeveloped economies. This makes silver difficult to access and thus, somewhat scarce.

Why not just buy a precious metal ETF?

When investors ask me if they should just buy gold or silver Exchange Traded Funds I tell them, "Forget Exchange Traded Funds and paper funds. They aren't the real deal."

In general, these ETFs exempt themselves from providing evidence of their holdings and therefore, they might only contain a small amount of the precious metals to back up the paper they sell. So, when you buy an ETF it may only own a small amount of actual silver or gold.

In my opinion, the financial services market created ETFs in gold and silver simply as a great new way to fleece retail investors.

Also very concerning is the idea that silver and gold could escalate hugely in value and you could be in a position – if you owned an ETF – that the ETF goes bankrupt while these metals are skyrocketing. Bottom line is you are not buying precious metals with an ETF, you are simply buying paper and therefore that ETF does not act as an insurance hedge.

If your financial advisor recommends an ETF then get him to read this newsletter! Most likely he recommends an ETF, because he wants a commission and cannot get one if you buy physical gold and silver.

Most important – silver is a great insurance hedge against inflation and uncertainty.

So where does this take us?

If you agree with anything I have said, then you should increase your weighting in precious metals up to 10%. Any financial advisor will agree that holding 2% to 4% of your portfolio in precious metals during stable times is a good idea. But I advocate increasing your holdings of precious metals to 10% of your net worth.

I have shopped around for three years looking for the best way to buy physical gold and silver. Frankly, the markups of all companies I interviewed were a rip off. So I did something I would not recommend you do. In order to buy these metals I ran ads to buy silver coins and gold coins. Although I managed to buy a lot of coins I can tell you it is a world of counterfeits and desperate people needing cash. All in all it is not the realm of experience I want my subscribers to follow.

Finally, I found a company called Anthem Precious Metals. They have the lowest markup of any company I have ever interacted with, especially for the smaller investor. Most importantly, you can take physical possession of your precious metals and I encourage you to do that.

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"The important thing is you increase your precious metal holdings to 10% of your net worth."

It doesn't matter if you have a net worth of $10,000 or $10 million dollars, everyone can participate. The minimum order is $1,000 for those of you who are just starting out. The important thing is you increase your precious metal holdings to 10% of your net worth.

If you would like more information you can contact the CEO of Anthem Vaults, Mr. Anthem Hayek Blanchard, directly at buysilvergoldnow@gmail.com.
This company allows you to take physical possession of the precious metal you buy and their markups are better than anywhere else I have encountered in the industry.

Your comments are welcomed, and you can send them to theeconomycall@gmail.com

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