

Facing A Total Breakdown Of Financial Markets

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Yet another bank bights the dust, stocks have net outflows of capital, big insider sell offs and other bad moves that enable insiders to control the market, biggest S&P rally ever, Plunge protection team working overtime, Gold in a new phase

This is another victim of the FDIC Friday Night Financial Follies.

Early Friday morning, state and federal agents walked into the Bank of Elmwood and closed the failed 49-year-old independent bank after a year of struggling to improve a bleak financial situation, officials announced Friday.

The Wisconsin Department of Financial Institutions shut down the bank and turned it over to the Federal Deposit Insurance Corporation. The FDIC in turn sold it to an Oak Creek-based bank.

The FDIC entered into an agreement with the Oak Creek-based Tri City National Bank to assume all of the Bank of Elmwood deposits and assets.

As of Sept. 30, 2009, Bank of Elmwood had total assets of \$327.4 million and total deposits of approximately \$273.2 million.

No advance notice of the closing was given, according to FDIC officials.

Stock funds have had net outflows of capital out of the market for the past six weeks. Insiders at corporations are selling with glee. Thirty times more sell orders than buy orders. Even CALPERS, the world's fourth largest pension fund has cut equity holdings to 49%, the lowest since 1993. British pensions have the lowest equity holdings in 35 years. This leads us to believe that, due to the character of pension plans, that long-term momentum has changed and will remain more conservative for some time to come. They could cut back much further and we may not see them on the long side in a big way until a bottom is reached and a decisive uptrend is in place. It is no wonder US Treasures are so strong. We know fiduciaries are perpetually wrong, but irrespective the trend for whatever reason is for less participation in the equity market. Maybe for once they are being smart and following the insiders who are selling 30 times more than they are buying. A recent example was the CEO of one of our short recommendations, Robert Toll, of Toll Brothers, a homebuilder, who last month sold 1.6 million shares of his company's stock. Stock repurchases are off 65% as well.

During September and October we still saw short covering. We also see that 73% of NYSE trading was of the black box variety, program trading. There are 16 firms front-running all market trades and the SEC refuses to do anything about it, so that Goldman Sachs and JP Morgan chase can further enrich themselves, illegally. The SEC calls it flash-trading not what it really is, stealing. And, yes, the SEC still refuses to stop naked shorting, which is also illegal - another trove of riches for the anointed insiders at Illuminati run brokerage firms. The remainder of the market strength comes from banks, brokerage firms and insurance companies who are leveraging funds received from the Treasury and the Fed, some \$12.7 trillion. That is what this really is all about.

This is the first time ever that the S&P 500 has ever rallied 60% in six months. The Dow reached 10,000, when it should not have exceeded 8,500. That shows you the distortion and manipulation going on and points up the now blatant activities of the President's "Working Group on Financial Markets," which, of course, operates in secret. As a tribute to this phony rally we have lost 2.5 million jobs over its tenure, when two million are normally created. Are there no professionals out there that get it? They cannot all be that dumb, and they are not that dumb. They are engaging in a conspiracy of silence. They want to be thought well by their peers at the club. They do not want to be ostracized in the Wall Street click. We know we were there for 28 years, of course, always on the outside looking in, permanently known as goldie. If you want to see where the US stock market is eventually going take a look at Japan from 1992 to today. 70% losses and still unable to get out of its own way with an economy still in depression. Incidentally, if the US market copies Japan, which we believe it will, we could easily fall to 3,800 to 4,200 on the Dow and we'll be very lucky if it holds there. Others whose opinion we respect are looking for 2,800. Wall Street is pricing into the market earnings not only for 2010 but 2011 as well, which is very dangerous in such an environment. We are still in the worst credit crisis since the 1930s.

Trailing P/E on operating earnings is 27 times. When the Dow was 14,168 in 2007, it was 18.8 times. Reported trailing earnings are 180 times, whereas in 10/07, it was 23.4 times. In 10/87, it was 20.3 times. That should give you something to think about if you are in the market. Normally P/E's should be 14.5 times. Instead of chasing an overpriced goose you should be participating in the bull markets in gold, silver and commodities. That is where safety, preservation of capital and possible large gains are to be found, both short and long term. Why fiddle with an overextended bear market rally when you can gain in relative safety. Get rid of those bonds, stocks, CDs, cash value life insurance policies and annuities, which are really uninsured and in the stock market waiting to again fall 40% to 70% in value. The crisis is not over; it is still in the beginning.

The Fed and Wall Street tell us the recession is over and soon policy actions will continue to a gradual resumption of sustainable economic growth. They see no inflation ahead, only the 1.2% presently. Needless to say, they are well aware that real inflation is 6.11%.

We mentioned CALPERS earlier on as a seller of equities. CALPERS is closely watched by other funds and they probably will influence other pension plans to follow. The plan is to become more conservative as the boomer retirement wave hits. Worldwide retirees will jump to 1.3 billion in 2040 from 500 million plus last year. That will be 14% of the total population. It is inevitable that the market will head lower soon. Funds are not dumb, they see the trend as well and they'll also be sellers. Now the question is when?

Most professionals, investors and the public still do not understand that we are facing a total breakdown of financial markets, which in turn will take down the economy as well, and will lead to a depression of five years or more. There are no solutions; the problem should have been attended to in 1990. After June of 2002, there was no turning back. The damage inflicted will take years to heal. Those who created the crisis, who are now supposedly trying to fix it, are playing for time. Many people are realizing what the bankers and Wall Street are up too, as bubbles deflate inflation is rising. Zero interest rates certainly do not induce people to save, although savings have risen to more than 4% of GDP, as debt is aggressively being reduced. As long as money and credit is being increased, monetization increases and no purge of the problem takes place, the economy will continue to deteriorate.

The Illuminist's plans to destroy America are coming unglued. Their puppet in the White House has monstrous problems. Plunging approval ratings, Cap & Trade legislation being held up in the Senate, medical reform that is going nowhere, massive deficits and a stimulus package that isn't working.

An issue the elitists did not think they would have to deal with is the question of whether Obama is a citizen or not. They thought they would be able to bamboozle the public. That question has become a cause celebre. Thus, if the President's controllers want to dump him it will be easy. They will just make sure it is finally discovered he was born in Kenya. Then it is game over. The failure of Obama will further force the Illuminists to cut back on their plans for a new world order. They will try their best to extend the time frame. The dollar devaluation, rising unemployment that brings social problems, or a breakdown in society will be avoided at all costs. This means more and bigger injections of money and credit, more monetization, more stimulus and more subsidies. That means we definitely will have hyperinflation and a falling dollar. That means gold and silver will go higher. That could mean an abandonment of a green policy, and the failure of Cap & Trade, healthcare reform and Copenhagen. We will have to see how things develop.

From here on out the Fed isn't going to get away with anything. Anyone who has been in the market for any length of time knows all of our current problems emanated straight from the fed. It is now obvious that the take down of the dollar is deliberate and there is little effort to save it; just an effort to bring it down slowly and incrementally. There is no question banks will continue to get cheap loans and either deposit the money with the Fed for a 3% gain to buy Treasuries or opportune the markets. An increase in interest rates is a year or more off. Higher rates mean a collapse not only in the economy, but in credit derivatives as well – some \$600 billion worth. Besides who wants mortgage rates back up to 6-1/2% to 7%? That would send housing prices lower and unsold inventories higher and that would destroy bank balance sheets. That also means the phantom inventory would become much more visible. That would collapse many banks. We say no change in rates for a year or more. Next enters the dollar carry trade and once it ends the dollar will collapse and that should coincide with the official dollar devaluation, default and bank holiday. It is no wonder foreigners are issuing bonds in US dollars to capture the depreciation. Eventually this will lead to US tariffs on goods and services and trade war. It will also bring an end to the fraud and monetization. Either the US purges their financial system or no one will accept dollars. That is when monetization will finally end.

Is it any wonder some nations are buying gold, particularly China. We now have a Chinese put on gold just as the US stock market once had a Greenspan put to keep it at ridiculously high levels. The Chinese are working with an element that has been suppressed since 1968. We now know that from documents released via the FOIA. We saw it in secret gold sales in 1987 via London. Then we were subject to the President's "Working Group on Financial Markets" since 1988. The suppression of the gold price by the US and UK all those years has made gold extremely cheap. Thus the Chinese have the perfect vehicle to dump their dollars into. Every time the US Treasury knocks gold down China and others are there as buyers.

Gold has entered phase 2, which we described in 2000. Phase 2 will carry to \$2,500 to \$3,000. That should be followed by phase 3 to \$6,700. That will then allow gold to reflect real inflation since 1980. Needless to say, in 2000 we had no idea that China would be the propellant to move gold higher. As you know 96% of letter writers, analysts and economists have stated gold will fall below \$1,000 again. They are wrong and as usual they will continue to be wrong. They cannot understand that this is psycho-political warfare and there are no rules. He who has the gold makes the rules. They all believe this is transitory and we will go back to business as usual. That is not the way it is going to be. The US is finished as an international imperial power. We wish it was otherwise, but those are the facts. The elitists who control our economies and financial system have deliberately destroyed it in order to bring about world government. Once these mallet heads understand what the game is they will realize where this is headed. Just stop and think, is it normal for a bank to leave lending at 8 to 10 to one of deposits to lend at 40 to one, as the Fed cheers them on? Of course not. Bankers know that is suicidal. So why did they do so? And, why are they still leveraged at those levels? It is because the big banks controlled by the Illuminists want the system to collapse in order to force Americans and Europeans to accept world government. If you can think of another reason let us know. These people are not stupid. They know exactly what they are doing. We wrote an article for Bull & Bear in August 1988, that described the new manipulation of the gold market, but no one was listening. Finally ten years later others discovered what we had discovered long before. Finally today many understand what the elitists are really up too. Even they though don't understand the end game. If they do they are not writing about it.

We have entered a phase where the Fed and the US Treasury recognize that they can no longer hold up the dollar. They can only impede its downward progress. In that process US and British transnational conglomerates can make even more money by paying for goods in dollars and shorting the dollar simultaneously. This process began at the beginning of the year led by the Chinese and as a result Forex reserves of foreign central banks fell from 64.5% to 62.8% in dollar terms.

Those events have been accompanied by a flight into other currencies and gold and the use of the dollar in the carry trade. Zero US interest rates will stay at that level indefinitely irrespective of the inflation that will rage in the US and be transported worldwide. Once the dollar falls to long-term support at 71.18 to 72 on the USDx, there will probably be a rally and a retest. Sometime in 2010, 71.18 will be broken to the downside and we will then find out where the real bottom on the dollar will be. It could be 40 to 55, we won't know until we get there. That is when official devaluation and default will occur, not only in the US dollar but in many other currencies. That will cause financial chaos worldwide and you had better have gold and silver if you want to survive.

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