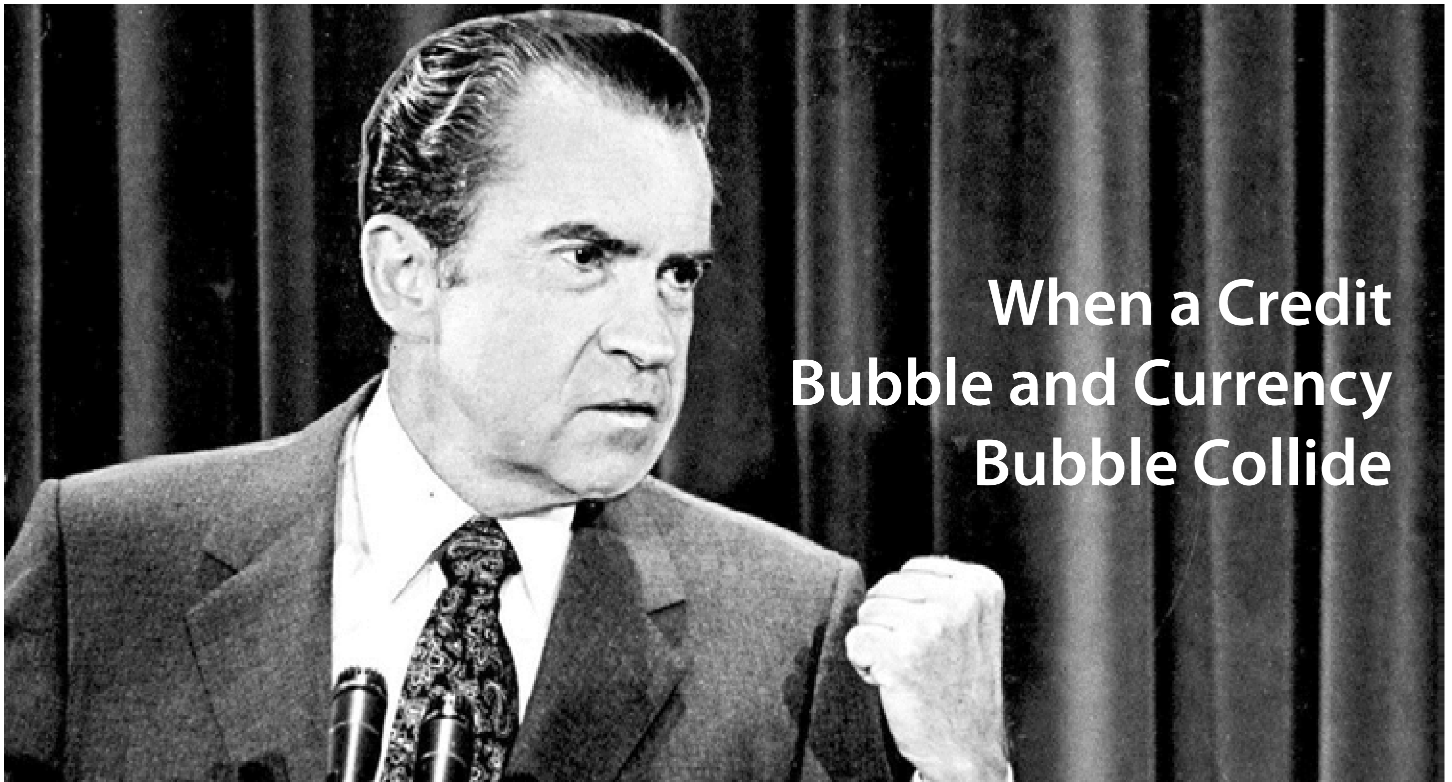
October 2020 Volume 4, Issue 10

THE "YOU MAY NOT KNOW REPORT"

A PUBLICATION OF RETIREMENT LIFESTYLE ADVOCATES



When a Credit Bubble and Currency Bubble Collide

On a recent update webinar, I discussed and offered evidence of 1971 as being a pivotal year in US financial and monetary history. That was the year that the US Dollar began to lose its way.

On August 15, 1971, President Richard Nixon went on television and with a completely straight face said this[1]:

> *"In the past seven years, there has been an average of one international monetary crisis every year. Now who gains from these crises? Not the workingman; not the investor; not the real producers of wealth. The gainers are the international money speculators. Because they thrive on crises, they help to create them. In recent weeks, the speculators have been waging an all-out war on the American dollar. The strength of a nation's currency is based on the strength of that nation's economy—and the American economy is by far the strongest in the world. Accordingly, I have directed the Secretary of the Treasury to take the action necessary to defend the dollar against the speculators."*

The action that Mr. Nixon took was 'temporarily' suspending the redemptions of US Dollars for gold.

Up until that point, from the Bretton Woods Agreement in 1944, the US Dollar could be exchanged for gold at a rate of $35 per ounce. The US Dollar really was 'as good as gold". While those who held US Dollars could exchange those Dollars for gold, there weren't many who did for more than 20 years.

Why?

There was no reason to do so. The United States had enough gold to back the Dollars that had been printed. There was simply no reason to be nervous about the integrity of the US Dollar.

But then came the tumultuous decade of the 1960's. The Viet Nam War, the Great Society and Medicare and Medicaid sapped the federal budget. Money was created to cover the additional, arguably excessive expenditures.

Due to the level of money creation that was taking place, many who held US Dollars began to exchange these dollars for gold as they were entitled to do under the Bretton Woods Agreement. These 'international money speculators' as Nixon would dub them, weren't really speculators at all. They were just looking to protect themselves from excessive money printing by exchanging the paper dollars with little intrinsic value for the gold.

The reality was that Nixon wasn't protecting the US Dollar from international money speculators; he was unilaterally changing the rules by which the money game was played. And, by doing so, US Dollar changes began that continue to accelerate to this day.

Since 1971, the Federal Reserve has been able to create money as they've seen fit to do. From 1971 until the financial crisis, for the most part, the Fed created new money by manipulating the demand for money through increasing or decreasing interest rates. By reducing interest rates, the Fed created more demand for loans. Since money was loaned into existence, more loans meant an increase in the money supply. By increasing interest rates (a maneuver the Fed has now seemingly abandoned), the money supply would contract and inflation would be contained.

This system of controlling interest rates worked reasonably well for many years. From 1971 through 2008 money was created by loaning it into existence. This was not without its side effects. When looking at various price charts of different assets over that time frame, it's obvious that setting artificial interest rates created a series of boom and bust cycles.

These boom and bust cycles are reflective of the credit cycle. When interest rates are low and businesses and consumers borrow money, more money is created. This is the boom part of the cycle.

Easy credit as a result of low interest rates fuel asset price bubbles which eventually burst. As noted above, price charts of various assets illustrate this. A quick review of real estate prices and stock prices since 1971 confirm this boom and bust cycle.

While 1971 marked the beginning of the current decline of the US Dollar, calendar year 2008 was another important year. In 2008, this system broke. Interest rates were reduced to nearly zero percent and the next boom cycle didn't begin as it had begun previously. The Fed panicked and resorted to a 'temporary' and 'emergency' monetary policy. It would embark on a program of quantitative easing or money printing.

The Fed's announcement of these 'temporary'

extreme measures was eerily reminiscent of Nixon's announcement of the 'temporary' suspensions of the US Dollar for gold.

Beginning at the time of the financial crisis, some money might still be loaned into existence, but the Fed had now decided to aggressively make up the shortfall by printing money literally out of thin air. The next boom cycle began only to burst earlier this year when the lockdowns in response to COVID-19 shut down much of the US economy.

The Fed responded predictably. More than $3 trillion in new currency has been created this year alone, an amount equivalent to the total money creation over the prior dozen years.

The Fed's actions have created another bubble in my view. What's important to note about bubbles that form as a result of loose money policies is that each subsequent bubble requires more money creation than the prior.

A little common sense and a minuscule level of critical thinking has one concluding that these boom and bust cycles that appear from ever-increasing levels of money creation will have to end.

As the late economist, Herbert Stein, famously said, "If something cannot go on forever, it will stop."

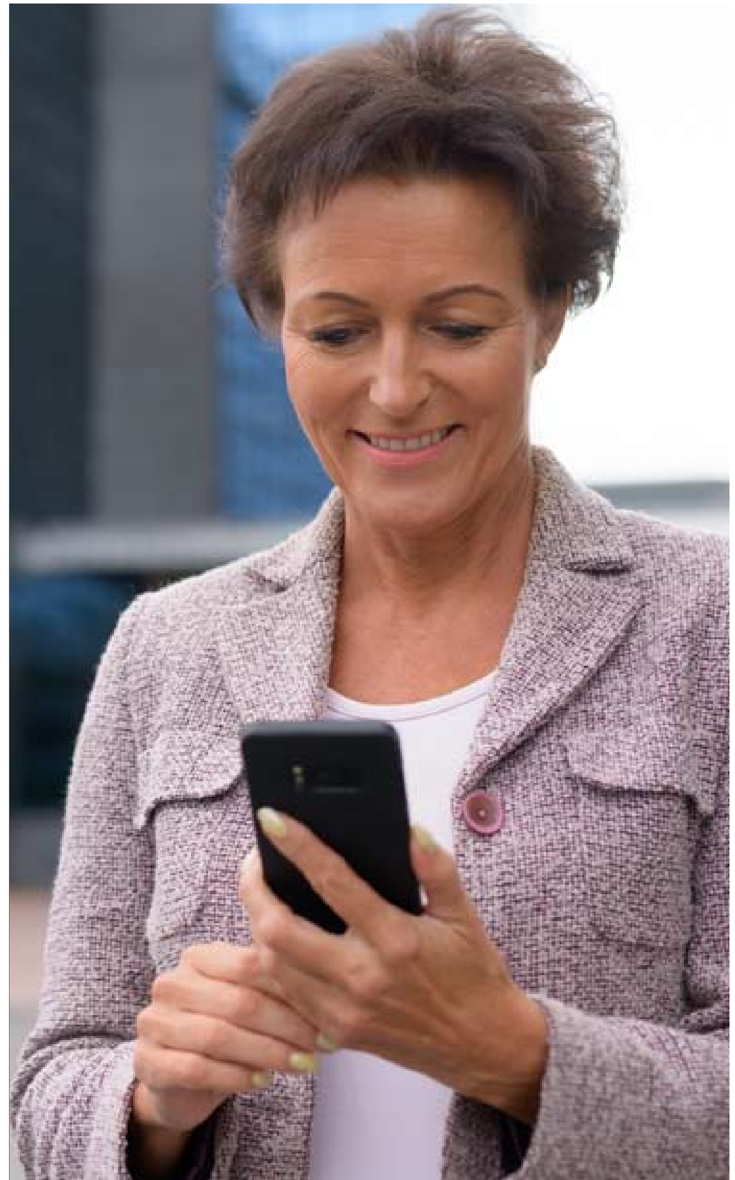
That statement is as profound as it is simple.

So, the multi-trillion dollar question is this; how does it stop and how will you be affected?

History gives us the answer.

The boom and bust cycles fueled by excessive money creation stop when confidence is lost in the currency. When confidence in the currency is lost, it marks the end of the currency cycle.

When the currency cycle and credit cycle end almost simultaneously, a reset occurs.



Have the App?

If not, what are you waiting for?

The "Your RLA App" is available by visting www.RetirementLifestyleAdvocates.com .

The app is your source for:

- The weekly "Portfolio Watch" newsletter
- The weekly RLA Radio podcast
- The weekly update webinar

I have long warned of this coming reset. I have suggested that adding up to 20% of your portfolios in physical precious metals can be an effective way to protect yourself and possibly even profit from this reset.

So, what does this reset look like?

A boy carries huge amounts of cash in a sign of Zimbabwe's hyperinflation

History once again provides us with the possible answer. There are two ways a currency reset can occur – either reactively or proactively.

The Country of Zimbabwe, under the misguided leadership of former President Robert Mugabe, experienced hyperinflation which ended in a reactive reset more than a decade ago. At the time of the reset, the Zimbabwe Dollar was abandoned in favor of more stable currencies like the US Dollar.

As a side note, it's interesting to look at the events and circumstances that led to the hyperinflation occurring2.

Prior to 1980, Zimbabwe was known as the breadbasket of Africa. It had a self-sustaining, vibrant economy producing maize, cotton, tobacco, roses and sugarcane. The economy of Zimbabwe was the envy of many other African countries.

Then, after Mugabe took control after the UK granted the country formerly known as Rhodesia independence, the de-stabilization began. Mugabe, like many pandering politicians, promised the citizens of the country lots of free stuff and attempted to pay for his profligate spending by printing money and confiscating the assets of productive citizens.

"The Economist" describes it[3] (emphasis added):

> *Mr. Mugabe was a Marxist guerrilla who came to power in 1980 after the country won its independence from Britain. Mr. Mugabe made a promising start—calling for reconciliation with white Zimbabweans, and improving access to education and health care for all. But his early policies were overshadowed by what followed.* ***To support the cost of various schemes, Mr. Mugabe overspent wildly—a practice he has continued throughout his***

administration. And as he clung to power over the decades his rule became autocratic, undemocratic and oppressive. This has all caused typical forms of suffering. But the way in which Mr. Mugabe has brought Zimbabwe to its knees is through gross economic mismanagement.

While Mugabe was in charge in Zimbabwe, maize production fell from 6% of Africa's total output to less than 1%. Prior to calendar year 2000, farming accounted for more than 40% of all Zimbabwe's exports but by 2010, this figure was just 2%.

As money creation in Zimbabwe didn't achieve the desired results, Mugabe's government decided to forcibly remove 4,000 farmers from their businesses effectively nationalizing the farms.

The result?

Zimbabwe was transformed from a net exporter of maize to a net importer.

There is an important lesson here. As the currency cycle nears its end, the wealth gap is exacerbated; the wealthy who are closer to the printing press get wealthier as they convert newly printed money to tangible assets and those further down the economic ladder find it harder to make ends meet.

As this wealth gap widens, it's easier for pandering politicians to blame the wealthy and propose radical ideas like wealth taxes to make the wealthy pay their share. Those who are suffering economically are desperate and are eager for any solution to their economic pain.

Problem is these policies, like excessive money printing only make the eventual problem worse. Zimbabwe is just one example of many to which I could point.

A far better way to deal with the end of the currency cycle and the inevitable reset is to have a proactive, planned reset.

This would have to begin with a return to sound money policies. That would mean a return a currency backed by tangible assets like gold or gold and silver. As I discussed on a recent radio program, a system of sound money helps to create more predictable outcomes for all citizens rather than a fiat system that favors the wealthy.

This is essentially what happened at Bretton Woods mentioned above. In July of 1944, representatives from 44 nations gathered in New Hampshire to develop a new, international monetary system. As a result of that meeting, the International Monetary Fund was established and the convertibility of the US Dollar for gold was established. This was a proactive reset that lasted until Nixon ended the system in 1971.

In this political season, in my view, there are many radical ideas being floated many of which, if adopted, moves us further down the economic road that Zimbabwe traveled. History teaches us that the closer we get to the reset, ideas that were once considered 'off the charts' radical become more mainstream.

The trouble with these radical solutions proposed by some pandering politicians is that they will only add to the economic difficulties of those who embrace these ideas.

It would be far better to have a proactive reset and a return to a sound money system that would help to level the economic playing field. Embracing radical, socialistic agendas will only make things worse.

Analysis and opinion piece by Dennis Tubbergen

Is Inflation Already Here?

On a recent update webinar, a participant brought an article from "The Wall Street Journal" to our attention. The article was titled, "Inflation is Already Here – for the Stuff You Actually Want to Buy". Here is a bit from the article[4] (emphasis added):

> ***If it feels like the price of everything you buy has been soaring, <u>that's because it has</u>***—*even as central bankers everywhere worry about the danger of deflation.*
>
> ***<u>The gap between everyday experience and the yearly inflation rate of 1.3% in August is massive.</u>*** *The price of the stuff we're buying is rising much faster, while the stuff we're no longer buying has been falling, but still counts for the figures.*
>
> *Economists will be relieved that the laws of supply and demand are still working, at a time when so much in the discipline is in doubt. But for investors it hangs a veil over the outlook for perhaps the single most important issue for the markets: whether we're headed for a future of inflation, deflation or a continuation of the past decade's lackluster price rises.*
>
> *Start with recent supply and demand.* ***The cost of food at home, where so many of us have been spending our time, was up 4.6% in August compared with a year earlier, <u>the biggest rise in almost a decade</u>****. In deserted workplace and school cafeterias, food is 3% cheaper.*

The article went on to report that the cost of a new bicycle is up nearly 6% year-over-year. Medical care is up about 5%. Newspapers, cable and satellite television, recreational books, cleaning products and housing rent are all up year-over-year from approximately 3% to 5%.

At the same time, shoes and clothing costs are down by up to 17%. Hotel costs and airfares have fallen 13% to 26%.

There is price inflation in the things we want to buy and there is price deflation in the things where there is diminished demand. That's not surprising since in order for inflation to occur, demand must exist.

The reality though is that overall inflation is up. As we have reported in the past, the 'official' measure of inflation, the Consumer Price Index, is an exceedingly flawed metric. Private inflation trackers such as John Williams' at www.ShadowStats.com reveal that the true inflation rate using the methods that were used in the 1970's to track inflation is presently at about a 9% annualized rate. That's approaching the 1970's level of inflation.

The Fed appears poised to continue easy money policies until the official inflation rate as measure by the Consumer Price Index runs above the targeted annualized inflation rate of 2%.

Here is an excerpt[5] from the Fed's September statement following its September 15 and 16 meeting (emphasis added):

> *The Committee seeks to achieve maximum employment* ***and inflation at the rate of 2 percent over the longer run.*** *With inflation running persistently below this longer-run goal,* ***the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent.*** *The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. In addition,* ***over coming months the Federal Reserve will increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace*** *to sustain smooth market functioning and help foster accommodative financial conditions, thereby supporting the flow of credit to households and businesses.*

Let's translate.

The Fed is saying that they are looking to get the inflation rate to at least 2% over the longer-term. To that end, the Fed has also made the decision to allow the officially reported inflation rate to run at a rate higher than the targeted 2% rate for a period of time to achieve the 2% average that is desired.

To achieve that goal the fed will "increase holdings of Treasury securities and agency mortgage-backed securities" at a rate that is "at least at the current pace".

"The Wall Street Journal" article reported that the official August inflation rate was 1.3%, but the real inflation rate is about 9% using the same calculation methods that were used in the 1970's. That means that should the Fed achieve its goal of an official inflation rate of more than 2%, the real inflation rate could reach 15% or even higher.

"JP Morgan Admits Silver Market Manipulation"

JP Morgan Chase agreed to pay $920 million to settle civil and criminal charges after Federal agencies alleged the firm made fake trades in the precious metals markets[6]. This from an article published in "The Daily Mail" (emphasis added):

> ***JPMorgan Chase will pay a record $920 million to settle US civil and criminal charges over fake trades in precious metals and Treasury futures designed to manipulate the market,*** *US agencies announced Tuesday.*

The settlement comes as the US banking giant reached a deferred prosecution agreement with the Justice Department to resolve criminal fraud charges over the long-running schemes.

In one of the schemes, ***JPMorgan traders in New York, London and Singapore between 2008 and 2016 commissioned tens of thousands of orders for gold, silver, platinum and palladium futures that were placed in order to be canceled to deceive other market participants,*** *the Department of Justice (DOJ), one of three agencies involved in the case, said in a press release.*

As a recent "Zero Hedge" article[7] pointed out, it wasn't that long ago that if anyone even mentioned the possibility of a market being manipulated, they would quickly be branded a conspiracy theorist. This from the piece (emphasis again added):

There was a time when the merest mention of gold manipulation in "reputable" media was enough to have one branded a perpetual conspiracy theorist with a tinfoil farm out back. That was roughly coincident with a time when Libor, FX, mortgage, and bond market manipulation was also considered unthinkable, when High Frequency Traders were believed to "provide liquidity", when the stock market was said to not be manipulated by the Fed, and when ***the ever-confused media, always eager to take "complicated" financial concepts at the face value set by a self-serving establishment, never dared to question anything.***

All that changed in November 2018 when ***a former JPMorgan precious-metals trader admitted he engaged in a six-year spoofing scheme that defrauded investors in gold, silver, platinum, and palladium futures contracts. John Edmonds, then 36, pled guilty under seal in the District of Connecticut to commodities fraud, conspiracy to commit wire fraud, commodities price manipulation, and spoofing, a trading technique whereby traders flood the market with "fake" bids or asks to push the price of a given futures contract up or down toward a more advantageous price, and to confuse other traders or HFTs which respond to trader intentions by launching momentum in the other direction.*** *As FBI Assistant Director in Charge Sweeney explained at the time, "with his guilty plea, Edmonds admitted he intended to introduce materially false and misleading information into the commodities markets."*

A little more than a year later, former Deutsche Bank precious metals trader David Liew sat in a federal courtroom telling a jury about how he learned to 'spoof' markets from his colleagues, and that he considered the behavior to be "OK" because it was "so commonplace." *Unfortunately for him, federal authorities didn't see it that way, and have aggressively prosecuted the big dealer banks for market manipulation across a variety of markets. His testimony led to convictions for two of his former coworkers. A few days later, JP Morgan agreed to settle similar allegations with a record $1 billion fine, netting another major victory for the government in the nearly decade-long campaign to root out manipulation from the precious metal markets.*

We have discussed our belief that there has been manipulation in markets for several years. This development merely confirms our suspicions and is another reason one should consider owning physical gold as opposed to other gold ownership options.

Private Sector, Public Debt at All-Time Highs

In a sign that the most recent massive money creation by the Fed simply added to the debt bubble and brought us nearer to the end of the currency cycle, debt levels are now at all-time highs.

This[7] from "Credit Bubble Bulletin" (emphasis added):

> ***The numbers are just monstrous***. *The Fed's own data illuminate the historic Monetary Disorder that today runs wild. The Federal Reserve's balance sheet. Treasuries. Debt and Equities Securities. The banking system. The Household balance sheet. Rest of World holdings. In short, finance has completely run amuck, with the data corroborating the super cycle "end game" thesis.*
>
> *Total Non-Financial Debt (NFD)* ***increased $3.522 TN during Q2, more than doubling Q1's record $1.449 TN gain. This pushed first-half NFD growth to an incredible $4.971 TN****. For perspective, NFD expanded $2.439 TN in 2019 and averaged $1.826 TN annually over the past decade. Q2 growth actually surpassed 2004's annual record $2.912 TN NFD expansion.*
>
> ***At $59.304 TN, Non-Financial Debt surged to a record 304% of GDP****. NFD-to-GDP ended 1999 at 184%, 2007 at 227%, and 2019 at 250%. "Off the charts," as they say.*
>
> *Unprecedented deficit spending saw Treasury Securities jump $2.852 TN during the quarter to a record $22.371 TN. Treasuries were up $3.352 TN for the first half.*
>
> *Over the past year, Treasuries jumped $4.556 TN, or 25.6%. This dwarfs the previous annual record (2010's $1.645 TN). After ending 2007 at $6.051 TN, outstanding Treasury Securities ballooned $16.320 TN, or 270%. Treasuries ended Q2 at 115% of GDP. This is up from 44% to end the nineties; 41% to conclude 2007; and 69% to close out 2010.*

These stats provide more evidence that we are nearing the end of the credit bubble. Dent levels in every economic sector are at record highs.

Time Deposit Rates

As this issue went to print, these rates were valid:

1-Year	1.75%
2-Year	1.75%
3-Year	2.40%

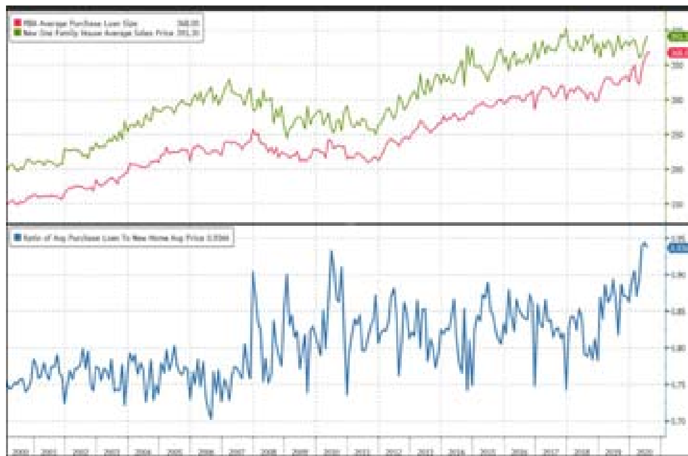
Call the office for details at **1-866-921-3613.**

Are Home Prices Bubbling Again?

Asset bubbles are always fueled by easy credit. It's virtually impossible to look back at history and find an asset price bubble that existed or formed without easy credit.

College and university tuition have skyrocketed due to the ease in getting a student loan. The prior housing collapse was fueled by extending credit on very favorable terms to buyers who were very unqualified.

We believe there is a lot of evidence to suggest that we are experiencing another bubble in the housing market. The chart on this page was previously published in the weekly "Portfolio Watch" newsletter and taken from a "Zero Hedge" article.



The top part of the chart tracks the average single-family home sales price and the average loan size per single family home purchase.

The bottom part of the chart tracks the ratio between the average purchase price and average loan per purchase. Notice from the bottom part of the chart that new home purchases presently have far less initial equity that at any time in the last 20 years.

Couple historically low down payments with record low mortgage interest rates and you've got all the ingredients you need for a housing bubble. According to an article[9] published by Fox Business News, the average interest rate for a 30-year mortgage now stands at 2.88%, down from 3.65% one year ago.

The bubble environment is further evidenced by housing prices. The "Orange County Register" reported[10] that San Bernardino housing prices recently reached the 2006 bubble high median selling price of $380,000. That's median selling price was up nearly 10% from the same time last year.

The Case-Shiller Index which tracks housing prices rose 4.8% in July[11]. This from a CNBC article (emphasis added):

> ***Nationally, home values rose 4.8% annually***, *up from a 4.3% gain in June, according to the S&P CoreLogic Case-Shiller U.S. National Home Price Index.*
>
> *The 10-City Composite annual increase showed a 3.3% gain, up from 2.8% in the previous month. The 20-City Composite rose 3.9% annually, up from 3.5% in June. Detroit was not included in the series, due to data collection issues, so it covered just 19 cities.*
>
> *Phoenix, Seattle and Charlotte reported the highest annual gains among the 19 cities. Phoenix prices rose 9.2%, followed by Seattle with a 7% increase and Charlotte with a 6% increase.* ***Sixteen of the 19 cities reported higher price increases in the year ending July 2020 versus the year ending June 2020****.*

If you or someone you know is thinking about buying a home, here are a couple of thoughts to consider.

One, if you're paying cash for the home, patience may allow you to get into a home for less money in the future.

Two, if you're financing your 'forever' home and you can lock in low interest rates, it may make sense to buy a home as low interest rates will help offset higher purchase prices.

Maximize Your Social Security Book

This month only, we are offering a free copy of the best-selling, "The Little Black Book of Social Security Maximization". This book is must reading for those looking to make the most of the benefits they will collect from Social Security during retirement.

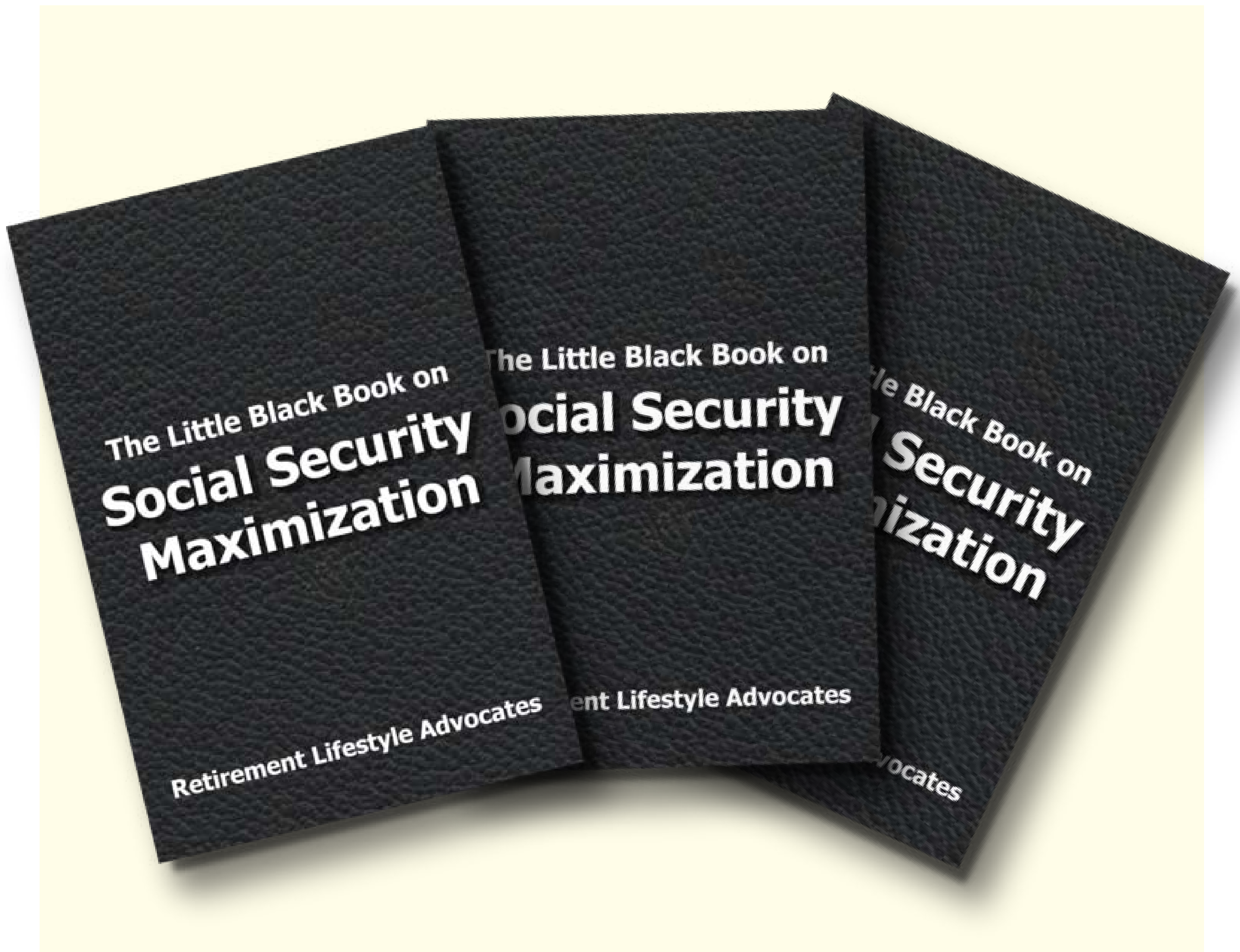
This book may show you:

-How you may be able to realize an additional $5,000 or even $10,000 in income from Social Security

-How to potentially take advantage of a fading maximization strategy under Social Security

-How your IRA or 401(k) may actually cause you to lose some of your Social Security benefits in the form of taxes and how you may be able to prevent it.

To request your copy of this book for you or someone you know who is doing Social Security or retirement income planning, visit www.SocialSecurityMaximizationBook.com.



Resources to Help You Stay Informed

Thank you for your feedback on our weekly webinars designed to help you stay informed and to provide you with perspective and insight on financial matters during these unprecedented times. To participate in the live webinar held on Mondays at Noon Eastern time, download the Retirement Lifestyle Advocates app by visiting **www.RetirementLifestyleAdvocates.com**.

The app will allow you to view the webinar replay as well.

If you know of someone who might appreciate getting this information during these challenging times, feel free to have them download the free app as well.

If you have questions when downloading the app or would like assistance, feel free to call the office. Our office phone is **1-866-921-3613**. Our office phone is answered 8 to 5 Monday through Thursday and 8 to Noon on Friday.

Best wishes to you and yours.

Sources

1. https://time.com/4444172/gold-standard-history/
2. https://www.ns-businesshub.com/science/zimbabwes-hyperinflation/
3. https://www.economist.com/the-economist-explains/2017/02/26/how-robert-mugabe-ruined-zimbabwe
4. https://www.wsj.com/articles/inflation-is-already-herefor-the-stuff-you-actually-want-to-buy-11601112630?mod=searchresults&page=1&pos=3
5. http://www.shadowstats.com/article/csbf1449.pdf
6. https://www.dailymail.co.uk/news/article-8786273/JPMorgan-Chase-fined-920-mn-US-market-manipulation.html
7. https://www.zerohedge.com/markets/how-jpms-precious-metals-trading-desk-manipulated-markets-crime-ring-within-bank
8. http://creditbubblebulletin.blogspot.com/2020/09/weekly-commentary-extraordinary-q2-2020.html
9. https://www.foxbusiness.com/economy/average-rate-on-30-year-mortgage-tick-down-to-2-88
10. https://www.sbsun.com/2020/09/29/san-bernardino-county-home-price-hits-380000-ties-2006s-bubble-era-high/
11. https://www.cnbc.com/2020/09/29/home-prices-rose-4point8percent-in-july-according-to-case-shiller-index-.html