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THE "YOU MAY NOT KNOW REPORT"

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As Forecast Here, Housing Decline Begins

By Dennis Tubbergen

If you are a new reader of the "You May Not Know Report", let me introduce you to one of my core economic beliefs. It's not an economic principle over which I will claim any ownership, but it is an economic principle that is impossible to refute when studying history despite the attempts of many politicians, policymakers and pundits to do so.

This principle was succinctly and articulately stated by one of the founding fathers, Thomas Jefferson, who said:

> *"If the American people ever allow private banks to control the issue of their currency first by inflation then by deflation the banks and corporations that will grow up around them will deprive the people of all property until their children wake up homeless on the continent their Fathers conquered."*

While there is, in my view, a lot of wisdom in that short statement, let's focus on the 'first by inflation, then by deflation' part of what Mr. Jefferson said.

Inflation, strictly defined, is an expansion of the currency supply.

Deflation, also strictly defined, is a contraction of the currency supply.

Currency in the United States, since 1971, has been loaned into existence. It was at that point that the US Dollar became a fiat currency.

If this idea of currency being loaned into existence, or currency being debt is new to you, heres' the gist.

Banks have a reserve requirement presently of 10%. That means if you make a currency deposit of $100,000 into your bank, your banker must reserve 10% or $10,000. The balance of your deposit can be loaned to another bank customer.

Say your banker loans $90,000 (90% of your deposit) to a bank customer for the purchase of a motor home. The bank customer gives the $90,000 loan proceeds to the motor home dealer who deposits the $90,000 into her bank account.

That banker reserves 10% or $9,000 and loans out the other $81,000. That sequence of depositing and lending repeats itself as long as there are willing borrowers.

According to the website of the New York Federal Reserve Bank, a $100,000 deposit into one bank can expand to $1,000,000 when banks have a 10% reserve requirement.

In other words, more currency is created through the lending process.

In the past, when the powers that be at the Federal Reserve wanted to create more currency, they would reduce interest rates thereby encouraging more borrowing. More borrowing meant more currency would be created and the currency supply would be expanded creating a level of inflation that the Fed told us was healthy and would allow for economic growth.

While this idea of a 'healthy' level of inflation is, in my view, a bogus idea, that is another topic for another day.

The point I want to make here is that currency

Chart 1: Exisiting Home Sales

is debt. Currency creation is essentially debt creation. Debt creation drives up asset prices but, because debt creation cannot continue infinitely, debt fueled bubbles eventually have to burst.

As I write this slightly past the middle of August, I believe that the stock market bubble is in the process of unwinding and housing now seems poised to follow suit. I noted that real estate's slowdown seemed to be starting in last month's issue of the "You May Not Know Report".

This[1] from "Zero Hedge":

> *Another month, another plunge in housing.*
>
> *Hot on the heels of the latest catastrophic homebuilder sentiment print and plunging single-family starts and permits, analysts expected existing home sales to accelerate their recent decline with a 4.9% MoM drop in July They were right in direction but severely wrong in magnitude as existing home sales tumbled 5.9% MoM in June.* (See chart 1, bottom page 2)
>
> *That is the 6th straight month of existing home sales declines - the longest stretch since 2013 - pulling home sales down a stunning 20.2% YoY. From the NAR:*
>
> *"The ongoing sales decline reflects the impact of the mortgage rate peak of 6% in early June," said NAR Chief Economist Lawrence Yun.*
>
> *"Home sales may soon stabilize since mortgage rates have fallen to near 5%, thereby giving an additional boost of purchasing power to home buyers."*
>
> *The collapsing housing market means the SAAR is now below the full year pace of 2012 - one decade ago.* (See chart 2, below.)

SAAR is an acronym meaning Seasonally Annually Adjusted Rate.

Despite the economist from the National Association of Realtors stating that home sales may soon stabilize, I don't expect it.

Chart 2: Exisiting Home Sales - SAAR

What Will the Trapped Fed Do?

I've maintained for a long time that the Federal Reserve is trapped. The central bank has painted itself into a corner in my view and has no good options left.

There is a lot of pressure on the fed to get inflation under control which the Fed insists it is addressing via interest rate hikes.

Presently the Fed Funds rate is between 2.25% and 2.5%, a level that is insufficient in my view to address the inflation problem we are all now facing. To get inflation under control, we need to have real positive interest rates in my view.

With the official inflation rate north of 9% (if you believe the government's heavily manipulated inflation number), interest rates would need to be even higher.

I don't see that happening for two reasons.

The first and perhaps most important is that the Federal Government could not afford the interest on the debt if interest rates were to be raised to that level. With interest rates high enough to get inflation under control, the fact that the Federal Government is broke would become painfully obvious.

The second reason that the Fed will reverse course in my view is to attempt to stop or cushion what will be an ugly deflationary collapse.

I can see the fed making a statement to the effect that they need to lend support to the economy.

Continuing to raise interest rates probably leads to a deflationary depression; continuing to create new currency out of thin air likely continues to feed the inflation monster.

The Fed has two rather ugly choices here in my view; a deflationary collapse or more, intensifying inflation.

This[2] from QTR:

> *A couple of days ago, I had the chance to interview my good friend Andy Schectman, President & Owner of Miles Franklin Precious Metals, a company that has done more than $5 billion in sales.*
>
> *Andy is a world-renowned expert in the field of precious metals and took the time to answer some pressing questions I had about the state of energy markets in the U.S. and the quickly shifting landscape that the global economy sits on, with the BRIC nations banding together and collectively laughing at the West since the sanctions on Russia went into effect several months ago.*
>
> *In what can only be described as an* extremely disturbing interview *that left my jaw agape by the end of it, Andy and I have a frank discussion about:*
>
> - *The price of oil and the country's response to higher prices*
> - *How the Fed is trapped between a rock and a hard place, between inflation and recession right now*
> - *The BRIC nations banding together economically and challenging the U.S. dollar as global reserve currency*
> - *Andy's thoughts on how nearly all traditional assets - including*

stocks, bonds, real estate and the dollar, may wind up "vaporized"

"Inflation is everywhere and gas is just one of the places," Andy says. "Inflation is rampant. They've been pointing to the prices of certain things, but inflation is always a monetary phenomenon. We have not seen peak inflation, but bringing down the price of gas $0.30 or $0.40 is encouraging, but I don't think it's anything substantive at all."

When I asked about how the Biden administration was dealing with the issue, Andy said: "I think the strategic oil supply is supposed to be strategic*, yet why were they selling so much oil from it to China and Pakistan?"*

*He continued about inflation: "I don't think the 9.1% is the peak - not even close to it. I think the 9.1% is bulls*** as well."*

Speaking about what course of action the Fed is going to wind up taking, Andy makes its clear he's in the camp that the Central Bank is definitely going to pivot.

"I don't think that the Fed has any intention of doing what they say, I do believe it's a sideshow," Andy says. "Raising [rates] to 2.25% and not doing anything in terms of QT - I think they're showing us that they're jawboning, they don't want to go down in history as blowing up the whole system."

"They just can't do it. The minute they start to raise rates high enough, they will blow up the system. The Fed is impotent. They are damned if they do, damned if they don't," he continued.

Andy criticized the Fed's inability to see what they were doing, as they were doing it, stating: "When you take a step back and realize that there has to be someone with enough sense to realize that when you blow asset prices up to all-time highs factored against the lowest interest rates in human history, at some point that bar tab has to be paid."

He summed up: "We've milked as much from the system as humanly possible."

Andy also thinks that global de-dollarization is on its way: "I do think the whole system could blow up with the loss of the dollar's petro-reserve status."

"There are certain signposts along the way, that when you see, it becomes clear we are on a path to de-dollarization," he says. "The dollar hegemony is right about ready to break when you realize that Saudi Arabia is about to join the BRIC nations. Do you think Biden is going to fly there to ask for more oil? He went there to beg them not to join BRIC."

"The dollar was made reserve currency only because of our protection of the Saudi kingdom," Andy continues. He then notes that Saudi Arabia has signed new protection agreements with Russia.

"All of the Eastern European countries that have repatriated their gold. They're all part of the EU but they all trade their own currency. They're all going to break away from the Western system!"

This likely points to more inflation near-term, ultimately transitioning to a deflationary environment.

The Inflation Reduction Act Is Now Law

The Inflation Reduction Act is now law and one of the consequences of its adoption will likely be more inflation.

The inflation math concludes that there can be no other outcome.

When the government or any other entity spends more than it takes in, we say that expenditures exceed income and the result is a deficit. Deficit spending needs to be covered by borrowing money to make up the shortfall.

Repeated, chronic deficit spending will eventually see the pool of lenders willing to cover deficit spending shrink ultimately reaching a point that there are no lenders left to cover the operating deficit.

That is essentially where the US has been with the Federal Reserve becoming the lender of last resort creating currency to (at least indirectly) cover the operating deficit. As we all know that massive level of currency creation has led to inflation despite attempts to spin the inflation story more favorably.

Bottom line is this: the inflation math is undeniable. When deficit spending can only be covered by currency creation, a point of no return has been reached. The math dictates that expenditures must not exceed income if currency creation is to cease.

So, despite its name, the Inflation Reduction Act will not reduce inflation.

Past guest on the RLA Radio Program, Ron Paul had this[3] to say about the new law:

> *The Affordable Care Act, No Child Left Behind, and the USA PATRIOT Act received new competition for the title of Most Inappropriately Named Bill when Senate Democrats unveiled*

the Inflation Reduction Act. **This bill will not only increase inflation, it will also increase government spending and taxes.**

Inflation is the act of money creation by the Federal Reserve. High prices are one adverse effect of inflation, along with bubbles and the bursting of bubbles. **One reason the Federal Reserve increases the money supply is to keep interest rates low, thus enabling the federal government to run large deficits without incurring unmanageable interest payments.**

The so-called Inflation Reduction Act increases government spending. For example, the bill authorizes spending hundreds of billions of dollars on energy and fighting climate change. Much of this is subsidies for renewable energy — in other words green corporate welfare. Government programs subsidizing certain industries take resources out of the hands of investors and entrepreneurs, who allocate resources in accordance with the wants and needs of consumers, and give the resources to the government, where resources are allocated according to the agendas of politicians and bureaucrats. When government takes resources out of the market, it also disrupts the price system through which entrepreneurs, investors, workers, and consumers discover the true value of goods and services. Thus, "green energy" programs will lead to increased cronyism and waste. The bill's authors claim the legislation fights inflation by reducing the deficit via tax increases on the rich and a new 15 percent minimum corporate tax. **Tax increases won't reduce the deficit if, as is going to be the case, Congress continues increasing spending**. Increasing taxes on "the rich" and corporations also reduces investments, slowing the economy and thus increasing demand for government programs. This leads to increasing government spending and debt. **While there is never a good time to raise taxes, the absolute worst time for tax increases is when, as is the case today, the economy is both suffering from price inflation and, despite the gaslighting coming from the Biden administration and its apologists, is in a recession.**

The bill also spends 80 billion dollars on the IRS. Supposedly this will help collect more revenue from "rich tax cheats." While supporters of increasing the IRS's ability to harass taxpayers claim their target is the rich, these new powers will actually be used against middle-class taxpayers and small businesses that cannot afford legions of tax accountants and attorneys and thus are likely to simply pay the agency whatever it demands.

Increasing spending and taxes will increase the pressure on the Federal Reserve to keep interest rates low, thus increasing inflation. If Congress was serious about ending inflation, it would cut spending — starting with overseas militarism and corporate wel-

fare. A Congress that took inflation seriously would also take the first step toward restoring a free-market monetary system by passing Audit the Fed and legalizing competition in currency.

While this new law will exacerbate the inflation problem in my view which is, in and of itself, disturbing; it also creates a new army of IRS agents by more than doubling the agency's operating budget.

This will have to mean more audits, and not just for the wealthy and mega-wealthy. This[4] is from "The Epoch Times":

The IRS audited 197 low-income families for every high-wealth family in 2019, according to the Government Accountability Office (GAO)—a number that some experts expected to climb under an IRS turbocharged with more money and manpower.

Over the next decade, the Democrat's new "Inflation Reduction Act" will provide the IRS with 87,000 new agents and $80 billion in funding, with nearly $46 billion earmarked for enforcement.

According to the Congressional Budget Office, the tax and spend bill is projected to bring in $203.7 billion in revenue from 2022 to 2031.

President Joe Biden's administration has promised no new taxes or audits on households making less than $400,000 per year.

But experts say that promise may be hard to keep.

A previous CBO analysis using a similar funding plan featured in the Inflation Reduction Act found audit rates would be restored to levels around 10 years ago. The analysis showed the audit rates would rise for all taxpayers, but the ones with higher incomes would face the biggest increase.

The oldest data available in the 2022 GAO report released this year was for 2010. That's when the IRS was better funded and staffed with some 95,000 full-time employees.

From 2010–2019, the IRS audited 0.9 percent across all income groups compared to 0.25 percent now.

Rachel Greszler, a budget and entitlements senior research fellow at the Heritage Foundation, told The Epoch Times that even returning to the 2010 audit levels for those making more than $400,000 per year, would still fall short of the IRS's revenue goal.

"My rough estimate shows that returning to the 2010 audit levels for all income groups would only generate a little over 20 percent of the bills' estimated enforcement revenues in 2031," she said.

In her commentary on the Heritage Foundation's website Aug. 12, Greszler wrote the numbers don't add up using 2019 data either without the lower- and middle-class.

Even increasing recent audit rates 30-fold for taxpayers making over $400,000—including 100 percent audit rates on taxpayers with incomes over $10 million—still would fall more than 20 percent short of raising the estimated $35.3 billion in new revenues by 2031, she wrote.

So it stands to reason that taxpayers can expect audit rates more like those about a decade ago.

GAO statistics show a larger number of audits in 2010 for taxpayers in the $0–$24,999 tax bracket than the high wealth households. About 579,000 audits were performed on the lowest tax bracket in 2010, compared to 197,000 in 2019.

Yet for the wealthy, high wealth audits of $10 million or more stood at 2,800 in 2010, dipping to 1,000 in 2019.

While a higher percentage of high wealthy households is audited more than poor ones, the lower class sees more audits overall.

A better-funded IRS in 2010 audited the poor much more aggressively than the super wealthy—at a rate of 207 to 1.

In recent years, the IRS audited taxpayers with incomes below $25,000 and those with incomes of $500,000 or more at higher-than-average rates. But, audit rates have dropped for all income levels—with audit rates falling the most for taxpayers with incomes of $200,000 or more, according to the GAO report.

The Inflation Reduction Act, which is a scaled-down version of Build Back Better negotiated by Democrats Sen. Chuck Schumer (D-N.Y.) and Sen. Joe Manchin (D-W.Va.), took Republicans by surprise. The measure passed the Democratic-controlled Senate and Congress last week through a reconciliation process.

Alarm bells sounded for Republicans after Democrats shot down an amendment to the bill proposed by Sen. Mike Crapo (R-Idaho) to protect the working class from more audits. Crapo's amendment stipulated that none of the funds from the Inflation Reduction Act could be used to audit taxpayers making under $400,000 a year. Still, all 50 Democrats in the Senate voted against it.

Republicans on the House Ways and Means Committee said CBO calculated the monetary impact of Crapo's amendment. Calculations confirmed that had lower- and middle-income taxpayers been protected by the amendment, revenue in the Democrats' bill would have been reduced by at least $20 billion.

Treasury Secretary Janet Yellen attempted to clear up "misinformation" about the bill in a letter to IRS Commissioner Charles P. Rettig. She wrote new resources allocated to the IRS "shall not be used to increase the share of small business or households below the $400,000 threshold that are audited relative to historical levels."

Color me cynical, but I expect a lot more audits as IRS staff is added.

Skyrocketing Utility Costs Add to Recession Worries

As utility costs climb, American industry is feeling it. This[5] from Hal Turner:

> *Soaring natural gas and electricity prices are starting to hit US industry, and plants are being forced to shut down because of it, sending thousands of workers into unemployment.*
>
> *At the second-largest aluminum mill in America, accounting for 20% of US supply, about 600 workers are now losing their jobs because the plant can't afford an electricity tab that's tripled in a matter of months.*
>
> *Century Aluminum Co. says it'll idle the Hawesville, Kentucky, mill for as long as a year,* ***taking out the biggest of its three US sites.***
>
> *A shutdown like this can take a month as workers carefully swirl the molten metal into storage so it doesn't solidify in pipes and vessels and turn the entire facility into a useless brick.*
>
> *Restarting takes another six to nine months. For this reason, owners don't halt operations unless they've exhausted all other options.*
>
> *At least two steel mills have also begun suspending some operations to cut energy costs, according to one industry executive, who asked not to be identified because the information isn't public.*
>
> *In May, a group of factories across the US Midwest warned federal energy regulators that some were on the verge of closing for the summer or longer because of what they described as "unjust and unreasonable" electricity costs. They asked to be wholly absolved of some power fees—a request that, if granted, would be unprecedented.*
>
> *By the beginning of June, natural gas prices had tripled what they were a year earlier, threatening households and businesses alike with some of the biggest utility bills they've ever seen.*
>
> *This summer, electricity rates for industrial customers are set to hit their highest levels ever, based on US government forecasts. Because US plants and factories depend on both electricity and gas, this could very well be the moment the rug's pulled out from under American industry.*

There are two reasons for these much higher electrical costs.

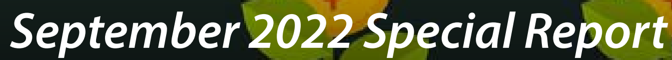
One, as we have been discussing is inflation as a result of currency creation.

The other is an unintended consequence of the Russian sanctions. Any country in the world who purchased natural gas and oil from Russia are now forced to find other sources or face being excluded from US markets.

Many of the other sources of oil and natural gas are countries in the Middle East. With so many new buyers attempting to buy oil and gas from Middle Eastern countries, prices have literally skyrocketed. It's the Economics 101 principle of supply and demand illustrated.

Now, as a result of energy costs that are rocketing higher, some industries are being adversely affected.

Don't look for this to change anytime soon.



September 2022 Special Report

Can You Profit from the Recently Passed 'Inflation Reduction Act'?

This month only, we are making available a free report titled, "Can You Profit from the Recently Passed 'Inflation Reduction Act'".

To request your complimentary copy this month only, return one of the postage-paid reply cards included with this month's newsletter. You'll notice that we've included three reply cards with this month's newsletter; we've done that so you can request a copy of this report for anyone you know that might find this information helpful.

In this month's special report, you will discover how the Inflation Reduction Act may affect you and see strategies to protect yourself and potentially profit from the new law.

This report is available for the month of September only.

Time Deposit Rates

At the time of publication, these rates were valid:

Term	Rate
1-Year	1.80%
2-Year	3.00%
5-Year	4.50%

Call the office for details at

1-866-921-3613

Resources to Help You Stay Informed

All these resources are available at the Retirement Lifestyle Advocates website: **www.RetirementLifestyleAdvocates.com.**

The weekly "Portfolio Watch" newsletter. Each week, I give you an update as to where we are economically speaking and in the financial markets and where we are going based on my analysis.

The weekly "Headline Roundup" webinar. Replays are available on the website. "Headline Roundup" happens every Monday live at Noon Eastern Time. To get an invite to the live event, give the office a call at **1-866-921-3613.**

The weekly "RLA Radio" show and podcast.

We also have the RLA app available. All these resources are also available on the app.

You can download the YOURRLA app for free by visiting the app store (either Google or Apple) and searching under YOURRLA.

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

Sources

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