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THE "YOU MAY NOT KNOW REPORT"

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Currency Changes Accelerate

By Dennis Tubbergen

Last month, I began the "You May Not Know Report" by stating:

> *"It should be noted that this report is written approximately 3 weeks before it hits mailboxes. As you all are aware, a lot can change in 3 weeks particularly at the present."*

That may have been the understatement of the year given what has transpired in the world of currencies over the last month.

More on these significant currency changes momentarily.

First though, some background that will be helpful and help to put these changes into perspective.

When I authored the "New Retirement Rules" book and subsequent updates beginning seven years ago, I put forth a money theory that I dubbed the "Money-Currency Cycle".

Simply put, the "Money-Currency Cycle" has four stages:

Stage One

Money and Currency are the same thing. I define currency as the exchange medium used in commerce and I define money as a good store of wealth over time.

Prior to the establishment of the Federal Reserve, the central bank of the United States, in 1913, gold circulated as currency. A one-ounce gold coin was a $20 gold piece and was used to purchase goods and services.

That one-ounce gold piece was also money. While the one-ounce coin had $20 in purchasing power in 1913, today that same one ounce gold piece has more than $2,000 in purchasing power.

Stage Two

Paper receipts circulate as currency, but these paper receipts can be redeemed for the real money.

For example, shortly after the Federal Reserve was formed, there were $20 Federal Reserve notes that circulated. These paper notes could be redeemed for a one-ounce gold coin. Notice on the Federal Reserve note printed on the top of the next page the verbiage, "will pay to the bearer on demand TWENTY DOLLARS"

The holder of the Federal Reserve Note could present the note and get twenty dollars, which was one ounce of gold.

Stage Three

The paper receipts can no longer be redeemed for the 'real money' a.k.a. the gold.

At this point the currency is a fiat currency backed only by the full faith and credit of the issuer. Once a currency becomes a fiat currency it is only a matter of time before the ruling class overspends and then funds that overspending through currency creation.

Excessive currency creation leads to inflation and then ultimately a fiat currency failure.

Stage Four

There is a fiat currency failure which completes the cycle. At this point, the Money-Currency cycle goes back to the first stage and currency and money become the same thing again.

It's important to note that it can take from 60 to 100 years to move through all four stages of the Money-Currency cycle.

The US Dollar has been a fiat currency since 1971. That's when the US moved into Stage Three of the Money-Currency cycle. Longer-term readers of the "You May Not Know Report" will recognize 1971 as the year that President Nixon 'temporarily' suspended the redemptions of US Dollars for gold. The redemption privilege was ultimately permanently suspended.

Fifty-one years (1971 to the present) is a long time by stage three Money-Currency cycle standards. Fiat currencies rarely last that long and as I discussed last month, there is now solid evidence that the rest of the world may be seeking out alternatives to the US Dollar.

Last month, I referenced an article1 from "The Wall Street Journal" that reported that Saudi Arabia was in serious talks with China to price oil sales in the Chinese currency the Renminbi. Should that occur, it would be especially damaging to the US Dollar as all oil exports by the Kingdom of Saudi Arabia are presently priced in US Dollars.

Since last month's issue of the "You May Not Know Report", a major development has transpired. Russia has now tied her currency, the Ruble, loosely to gold.

One could view this event as a move to the next stage in the Money-Currency cycle.

The events leading up to this linking of the Ruble and gold are interesting from an economic and currency perspective.

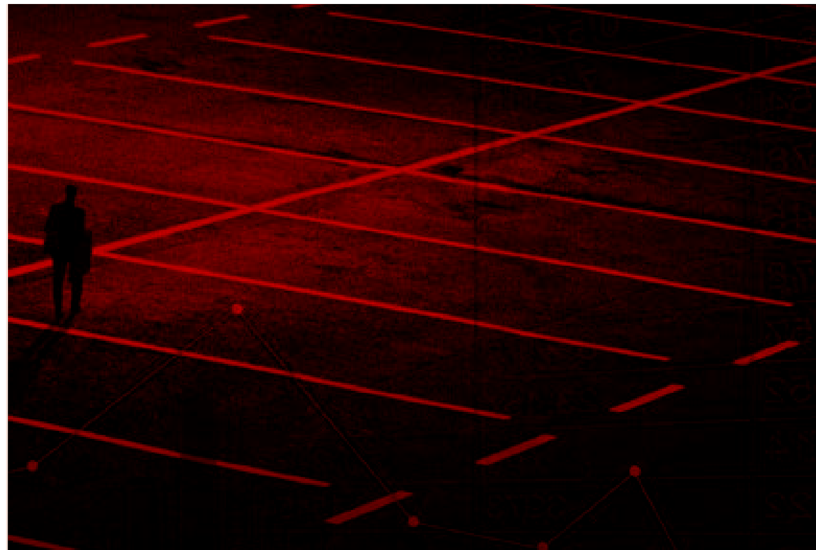
The first event leading to this linking of the Ruble and gold was the unprecedented action of freezing Russian reserves denominated in US Dollars (and Euro's and Pounds). Even when officially at war with another country, this has never been done.

In response, Russia made two moves. One, they required that any countries they deemed to be 'unfriendly' would us Russian Rubles or gold to purchase natural gas from Russia. Second, they tied the Ruble to gold with a moving peg which was initially set at 5000 Rubles per gram.

Alasdair Macleod, Head of Research at Goldmoney put it this way[3]:

> *We will look back at current events and realise that they marked the change from a dollar-based global economy underwritten by financial assets to commodity-backed currencies. We face a change from collateral being purely financial in nature to becoming commodity based. It is collateral that underwrites the whole financial system. The ending of the financially based system is being hastened by geopolitical developments. The West is desperately trying to sanction Russia into economic submission, but is only succeeding in driving up energy, commodity, and food prices against itself. Central banks will have no option but to inflate their currencies to pay for it all. Russia is linking the rouble to commodity prices through a moving gold peg instead, and China has already demonstrated an understanding of the West's inflationary game by having stockpiled commodities and essential grains for the last two years and allowed her currency to rise against the dollar.*
>
> *China and Russia are not going down the path of the West's inflating currencies. Instead, they are moving towards a sounder money strategy with the prospect of stable interest rates and prices while the West accelerates in the opposite direction.*

Put another way, we may, at some future point, look back at current events and observe that it was the beginning of a global transition to the next stage of the Money-Currency cycle.



Margin Debt Falls – Is a Serious Stock Correction Next?

A historically reliable predictor of stock market corrections just signaled that a deeper stock market may be coming. Margin debt declined meaningfully.

If you're not familiar with margin debt, it is a loan that is issued by a broker-dealer using the equity in an investment account as collateral. As a side note, tax-qualified retirement accounts like IRA's are not eligible for a margin loan, only non-qualified accounts.

Margin debt rules require that an account have 50% equity. A brokerage account with a $1,000,000 balance is eligible for a margin loan of $500,000. If the value of the securities in the brokerage account reaches $1,500,000, the amount of the margin loan could be increased to $750,000.

Conversely, if the value of the securities in the brokerage account falls to $500,000, the outstanding margin loan will have to be paid down until the account once again has 50% equity. There are two ways a margin loan can be paid down to achieve the required 50% equity; one, by adding more funds to the account until there is once again 50% equity; or, two, by selling securities until the account once again returns to 50% equity.

Often, this second method of selling securities is the one that is used. This creates selling pressure which can create downward pressure for stock prices.

Historically speaking, declining margin debt has been a fairly reliable leading indicator when forecasting stock market declines.

Notice from the chart, from Advisor Perspectives[4], the relationship between margin debt and stock market performance. The red line on the chart represents margin debt with the amount of margin debt illustrated on the left side of the chart.

Recently, margin debt approached $1 trillion before declining. Notice that prior declines in margin debt levels in 2000, 2007 and 2018 led to stock market declines. At this point in time, that pattern seems to be repeating itself.

Another important point to make is that margin debt levels at their recent peak were about 65% higher than at the market peak in 2007 at the time of the financial crisis.

According to data published by FINRA[4], margin debt declined 4.3% in March.

Universal Basic Income Gets Legs

The Federal Government's response to COVID was, to be blunt, free money.

Now, there are a number of cities following suit. This[5] from "Zero Hedge":

> *Newly elected Mayor Brandon Scott will provide unconditional payments of $1,000 a month for two years to low-income families in Baltimore City's new guaranteed income pilot program, according to local news WBAL.*
>
> *According to a statement released by Scott's office, the $1,000 monthly checks will be distributed to 200 low-income households across a metro area that struggles with violent crime and a broken economy thanks to decades of Democratic leadership.*
>
> *The city allocated $4.8 million in the American Rescue Plan funding to finance the Baltimore Young Families Success Fund. It's a cover for pilot testing universal basic income (UBI).*
>
> *Requirments for free money require that a person be a millennial (18-24), be either the biological or adoptive parents or guardians, and have income at or below the federal poverty level.*
>
> *The free money comes with no strings attached, and they can spend it on anything.*
>
> *Commenting on the UBI test program, Scott said:*
>
> ***"This is fundamentally about putting our families in a position to succeed. We are putting money directly into the hands of our residents because they know more than anyone else what their families need to ascend the ladder of opportunity."***

Baltimore isn't the only city implementing Universal Basic Income. The City of Palm Springs, California recently adopted a Universal Basic Income program for low-income, transgender residents. This[6] also from "Zero Hedge":

It looks like universal basic income could soon become a reality for some Americans.

And those Americans are transgendered people living in Palm Springs, California.

The city's town council voted to allocate $200,000 to Queer Works and DAP Health, two non-profits, to develop a pilot program that would provide cash support to transgender, nonbinary and intersex residents in the form of cash payments.

The city council considered the measure for "an hour and a half" last Thursday, before unanimously voting to support it. "The Washington Post" said the proposal could be "the first guaranteed basic income program specifically for low-income transgender and nonbinary people to be implemented in the country."

Christy Holstege, a Palm Springs City Council member, commented: "We are a beacon in the country and in the world, a place where LGBTQ people have fled for decades to seek sanctuary and safety and their own community. And so I think it's really important for Palm Springs to be on the front lines of supporting the trans community … especially when they're under attack throughout the country."

The City of Oakland, California has also implemented a Universal Basic Income Program. This[7] from "PJ Media":

The city of Oakland, Calif., has just launched a universal basic income program, providing low-income families $500 per month, with absolutely no strings attached regarding how they must spend it. According to a report from CBS News, this program, which is privately-funded, "is the latest experiment with a 'guaranteed income,' the idea that giving low-income individuals a regular, monthly stipend helps ease the stresses of poverty and results in better health and upward economic mobility."

The "Oakland Resilient Families" program has so far raised $6.75 million from private donors including Blue Meridian Partners, a national philanthropy group. To be eligible, individuals must have at least one child under the age 18 and an income that is at or below 50% of the area median income — about $59,000 per year for a family of three.

Half the spots are reserved for people who earn less than 138% of the federal poverty level, or about $30,000 per year for a family of three. Participants will be randomly selected from a pool of applicants who meet the eligibility requirements.

Oakland's project is significant because it is one of the largest efforts in the U.S. so far, targeting up to 600 families. And it is the first program to limit participation strictly to Black, Indigenous and people of color communities.

While the Oakland program is privately funded, the others are not. While many high-tax states have lost residents to more favorable tax states, I expect that the same will happen in cities that tax high-earning residents to pay for UBI programs.

Inflation Continues to Surge

How the narrative has changed!

The Chair of the Federal Reserve, Jerome Powell, recently stated that taming inflation was 'absolutely essential'. This[8] from CNBC:

> *At its March meeting, the Fed approved a 25 basis point move, but officials in recent days have said they see a need to move more quickly with consumer inflation running at an annual pace of 8.5%.*
>
> *"Our goal is to use our tools to get demand and supply back in synch, so that inflation moves down and does so without a slowdown that amounts to a recession," Powell said. "I don't think you'll hear anyone at the Fed say that that's going to be straightforward or easy. It's going to be very challenging. We're going to do our best to accomplish that."*
>
> *"It's absolutely essential to restore price stability," he added. "Economies don't work without price stability."*

It wasn't long ago, that the Fed Chairman stated that inflation was 'transitory'. When the Fed made that statement, I observed that the narrative would have to change and that is exactly what has happened.

This is from the June 2021 "You May Not Know Report":

> *The big economic news presently is the emergence of inflation. Many of us have been talking about this inevitability for a long time. Excessive money creation means inflation.*
>
> *Notice from the chart that the M2 money supply has increased to more than $20 trillion in April of this year, up from a bit more than $15*

trillion at the beginning of 2020.

When the money supply increases at that pace, inflation has to be the ultimate outcome.

Now that inflation has arrived, what has the Federal Reserve's response been?

As anyone who has followed the Fed for any length of time knows, if the reported data looks bad there are one of two actions the Fed has taken historically.

One, they change the way the data is reported.

Or, two, they quit reporting the data.

In this case, predictably, the Fed chose the latter.

And later in that issue:

Much of the population doesn't buy the Fed's argument that inflation is 'transitory'. The number of Google searches for "inflation' has dramatically increased last month.

Then, in the December 2021 issue of the "You May Not Know Report" this:

When Federal Reserve Chairman Jerome Powell first used the word "transitory" to describe inflation, I suggested that the Fed Chair's assessment of inflation was wrong, and that inflation was here to stay until the policy of creating massive amounts of new currency changed.

And should this policy of currency creation or quantitative easing stop, it will still take some time for inflation to subside given the time lag of 18 to 24 months between the time that currency is created and the point that inflation emerges.

Color me cynical, but I also believe that Mr. Powell knew that inflation would not be transitory when he made the statement that consumer price inflation would be a blip on the screen. And even now, as the Fed Chair reverses course on the transitory narrative, he is not pointing to currency creation or quantitative

M2 Money Supply

easing as the cause of the inflation.

The narrative has gone from 'transitory inflation' to 'persistent inflation' to 'absolutely essential to restore price stability'.

In my view, the Fed is painted into the proverbial corner. As I've reasoned previously, interest rates cannot be increased to a level that will tame inflation without pushing the economy into a deep recession.

So, at this point, it seems that the Fed will continue with rate hikes that are modest given the size of the inflation problem. That likely means more inflation along with a shrinking economy.

Collectively, fund managers now share this view. The lowest level of fund managers on record expect a stronger economy in the near future. This[9] from "The Sounding Line":

The following chart, from Bank of America via Acemaxx Analytics, shows that the lowest percentage of fund managers on record are expecting a stronger economy.

The current reading reveals that the overwhelming majority of fund managers see the global economy slowing.

Perhaps the most interesting attribute of this data set is that the prior low was not made during the Global Financial Crisis but in August of 2006, roughly a year before the market and economy peaked in the lead into that crisis. After that 2006 low, sentiment actually rallied briefly as markets pushed higher.

Something roughly similar happened during the lead into the Dot-Com bubble with sentiment plunging lower in 1998 before rallying up right before the Dot-Com bubble popped. Of course, 1998 also saw the Russian default following the Asian Financial Crisis.

May 2022
Special Report

How Evolving Money Affects Investing Markets

This month only, we are making available a free report titled, "How Evolving Money Affects Investing Markets".

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 we believe currency creation leads to economic 'seasons' and predictable investing outcomes
- How a relatively obscure economist identified economic seasons and predictable investing outcomes
- Events and circumstances that cause economic seasons to change
- Where we believe we are presently in the economic seasons cycle.

This report is available for the month of May only.

Time Deposit Rates

At the time of publication, these rates were valid:

1-Year	1.00%
2-Year	1.65%
5-Year	3.50%

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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