10 Imminent Threats to Your Finances

MIDAS GOLD GROUP WHITE PAPER

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MIDAS GOLD GROUP

There are several things that we as American wage earners and investors take for granted. After all, we live in the home of free markets, economic independence and the home of the world's reserve currency. As a country, we have also benefited for generations from the greatest wealth creation vehicle in world history: the US Equity Markets.

We are trained and conditioned to manage our money and finances by turning them over to bankers and licensed advisors. We are taught to:

- Deposit our money directly in the bank where it is "safe", even via direct bank-to-bank transfer without touching it.
- Save our money at the bank and let it earn interest.
- Invest extra money in equities, bonds, and managed funds.
- Turn investment decisions over to a financial advisor.
- Save money for retirement in a 401(k) or IRA and invest the retirement plans in managed funds.

However, Larry Sheffield, former Chairman of Federally chartered Goldwater Bank, advises people that **a bank today may be one of the least safe and least secure places to keep your money.**

The financial environment has changed dramatically before our very eyes and is changing at a faster pace than ever. This report examines the greatest risks to your financial plan that no one is talking about.

Threat Number One
The Elimination of Cash

Kenneth Rogoff, Professor of Economics at Harvard University recently published a book titled *The Curse of Cash*, which made the case for the entire elimination of all paper currency. Rogoff argues in favor of eliminating anonymity from all transactions, allowing every transaction to be monitored.

Cash is undoubtedly becoming a more archaic form of payment among younger generations and we are witnessing a surge in usage of electronic payment systems such as Zelle, Apple Pay, WeChat, etc. We are also witnessing both governments and corporations investing billions of dollars in blockchain technology and digital currency. The future of cash has become an ongoing debate among economists, but if you stand back and view the situation from afar, it seems clear that cash's days are numbered as its elimination is favored at the highest levels of politics and business.

Banks are in favor of the elimination of cash. Not only would this allow banks to reduce staff as all payments would become digital, but it would allow banks to collect an estimated $5 trillion of global cash in circulation. Banks could also profit from transactions now conducted in cash which are estimated to account for nearly 50% of sales. Most tax collection agencies from the federal to the local level would favor the elimination of cash as it would make transaction tax very simple to collect. Digital transactions can even be geographically tagged. Many politicians and economists favor the elimination of cash: not only would it allow them greater control and visibility over personal finances, but it would also provide additional trillions of dollars to banks where it could be borrowed against and lent out to stimulate economic growth.

The elimination of cash would even give greater stability to the banks ensuring that they are an intermediary for all transactions.

While the elimination of cash could hinder some criminal activity, it is perhaps one of the greatest threats to economic freedom. The elimination of cash would essentially force a bank into every transaction that we make and every dollar we spend or earn. Ron Paul wrote:

> *"The cashless society is the IRS's dream: total knowledge of, and control over, the finances of every single American."*

The war on cash has already begun. The main policy tactics currently being used in the war on cash are:

1.) **Abolish high-denomination banknotes.** A few central banks in recent years have withdrawn their popular high-denomination banknotes. Most prominently the European Central Bank, citing concern about the criminal use of currency, recently stopped producing its €500 notes and will stop distributing them in 2018. The largest US dollar currency note has remained the $100 bill since the $500 bill was eliminated in 1969, but the $100 bill today buys less than the $20 bill did in 1969. According to Rogoff, it is because of the war on cash that the United States has not reintroduced a $500 bill to keep up with inflation and, at a recent Jackson Hole summit, Rogoff even called for the elimination of the $100 bill.

2.) **Place a maximum legal value on cash payments.** Restrictions on cash payments are currently in place in 12 of the 28 EU member states. In Italy the maximum allowable consumer-to-business or business-to-business cash payment by residents is currently €2,999.99; in France and Spain the limit is €1,000; in Greece, it is a mere €500. The German finance ministry has proposed a national limit of €5,000. Person-to-person cash payments appear not to be capped, which indicates that the target of the restrictions is tax evasion rather than terrorism or crime. While such a cash payment ceiling has not yet been introduced in the United States, any business that receives $10,000 in cash from a single customer must report it to the tax authorities within 15 days on IRS/FinCEN Form 8300. The Internal Revenue Service (IRS) shares the information with the Treasury's Financial Crimes Enforcement Network (IRS 2017). Yes, you can be investigated as a criminal simply for withdrawing or spending your own money in cash!

3.) **Require declarations from any party carrying a cash amount above a specified value across the national border.** Under the Currency and Foreign Transaction Reporting Act (CFTRA), the United States' government requires any party (individual or group traveling together) bringing $10,000 or more of cash (or travelers' checks or other negotiable instruments) into the country to declare the sum at the border. Failure to declare makes the currency contraband subject to seizure. For entrants to the eurozone, the threshold is €10,000. The European Commission has proposed expanding the scope of the requirement to include gold and other precious commodities. For mainland China, the threshold is US$5,000.

4.) **Require banks to report to authorities any cash deposits or withdrawals in amounts above (or suspiciously near) a specified value.** Under the Bank Secrecy Act, a US financial institution must file a *Currency Transaction Report (CTR)* with FinCEN for any deposit, withdrawal, currency swap, or transfer involving $10,000 or more in currency, whether or not the institution employees handling it consider the transaction suspicious. They are required to file a *Suspicious Activity Report* for any activity they do consider suspicious if it involves $3,000 or more in cash. Subdividing deposits or withdrawals in order to avoid triggering a CTR is itself a crime, called "structuring." Innocent family businesses have been charged with structuring, and had tens of thousands of dollars seized by the federal government, merely for making repeated deposits or withdrawals below the $10,000 threshold. In the notorious case of dairy farmers Randy and Karen Sowers, who frequently deposited cash income from sales at farmers' markets, Treasury officials seized $29,500 in February 2012, charging the couple with structuring, without suspecting them of any other crime. After an Institute of Justice petition and congressional hearings into the case, the federal government finally returned the seized money in June 2016.

British Economist and best-selling author, Don Quijones summarizes the real effects of the War on Cash:

> *"The war on cash is being waged for the exclusive benefit of those who already wield an inordinate amount of power and control over the economy and the people that are struggling in it. And they want more. By slowly, quietly killing cash, they seek to seize the last remaining thing that offers people a small semblance of privacy, anonymity, and personal freedom in their increasingly controlled and surveyed lives. And the way things are going, they'll get it."*

Threat Number Two
Fractional Reserve Banking

The concept of fractional reserve banking is not new; in fact, it dates back centuries to at least the founding of Swedish Riksbank, the world's first central bank, created in 1668. The bank accepted banknotes and bank receipts. The bank receipt or banknote could then be exchanged for gold, silver, or other valuables which were deposited to the bank.

Banknotes were considered the standard medium of exchange between everyday people and the bank in which they were depositing their funds. It didn't take long for the goldsmith and banks to realize that they could issue more banknotes than what they had in their reserves. The goldsmith and bankers also discovered that people did not redeem their banknotes all at once, but rather at different times. Thus was the creation of banks and what soon became the *Fractional Reserve Banking (FRB)* system.

In the US, under the fractional reserve system banks are required to hold only between 0% and 10% of deposits on hand in available cash. The rest can be lent out.

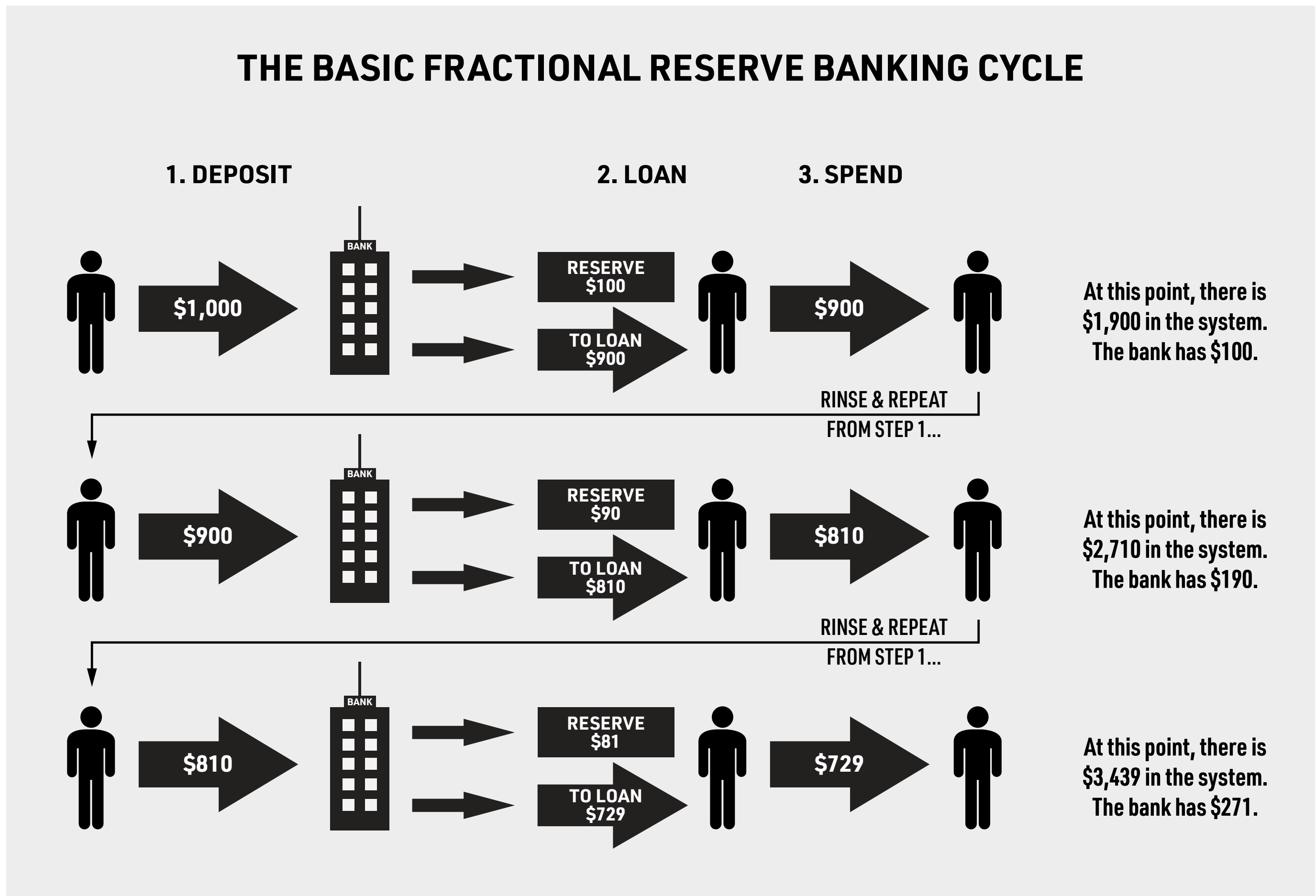
The fact that reserves are a fraction of total liabilities means that problems can arise when a large number of depositors suddenly ask for their money back and banks are unable to get their hands on enough cash to meet demand. This is either because of a liquidity crisis (assets can't be converted into cash quickly enough) as happened in the depression of the 1930s, a solvency problem (assets aren't worth enough) as happened during the real estate crash of 2008, or a combination of the two. If that happens banks face going out of business unless the central bank helps them with cash.

FRB ordinarily runs smoothly because depositors rarely demand their accounts to be withdrawn at any given time. When there aren't as many people requiring their funds all at once, then the chances for bank runs are slim. However, there is still the possibility of them happening when the financial institutions aren't stable and people panic.

Many points of view show that bank runs are inevitable hurdles to maintain a secure and stable financial system. But these views are flawed because they don't take into account the social and political consequences for such events.

It is important to state that the United States debt has been consistently increasing over the years. The money supply and debt are both correlated in their trend upwards. The reasoning behind this increase is due to the 'new' money that is created from the FRB system.

Now, due to the FRB process, the ramifications are inflation, along with the devaluations of the dollar. It isn't the increase of services and goods, but it is debt that is causing the dollar to decrease in value. As long as more money is pumped into the economy that comes from nothing, the dollar will continue to decline.



As of right now, the United States has a debt of over $22 trillion. The cause of such a high deficit is due to funding companies, advancing the US economy, generating innovation, and overspending by the government. But, with all these projects in the works, it has also caused loans to default, wealth inequality, and the increasing misconception of money and value.

Perhaps the most frightening aspect of FRB is that when you deposit your funds at your bank, those funds are no longer your property! The money in which you bring into that institution becomes the property of the bank. However, the bank will issue the depositor an asset which we know as a deposit account.

The deposit account is a liability on the balance sheet of the financial institution. That account shows to the bank that they are legally responsible for paying it to you upon request. In the fine print, however, all banks have a clause that states that you can withdraw your funds as long as they have the requested funds to cover it. In brief, you as the depositor can collect the funds in your account down to the last cent as long as the bank has the funds to cover your request.

The fractional reserve system is why banking is more profitable than normal businesses. In any industry, rich average returns attract competition, which reduces returns. A banker can lend out a dollar, which a businessman might use to buy a widget. When that seller of the widget re-deposits the dollar, a banker can lend it out at interest again. The good news for the banker is that his earnings are compounded several times over. The bad news is that, because of the pyramided leverage, a default can cascade. In each country, the central bank periodically changes the percentage reserve (theoretically, from 100% down to 0% of deposits) that banks must keep with it, according to how the bureaucrats in charge perceive the state of the economy.

In any event, in the US (and actually almost everywhere in the world), protection against runs on banks isn't provided by sound practices, but by laws. In 1934, to restore confidence in commercial banks, the US government instituted the Federal Deposit Insurance Corporation (FDIC). FDIC Insurance will be discussed in detail later but it is important to understand that FDIC insurance covers about $9.3 trillion of deposits, but the institution, as of 2019, has assets of only $25 billion. That's less than one cent on the dollar.

The banking system, with the elastic currency it supplies to the market, ensures the economy at large finds itself almost continually in a state of crisis. Domestic- and cross-border (preemptive) crises meetings, ever new regulations imposed on banks and the financial industry, bail-outs, bail-ins, and state (partial) takeovers of banks and non-banks, are all evidence of economies in a situation of more or less constant crisis.

Banks regularly run into financial problems not by some fault of the free market, by coincidence, or due to a "shock" of some sort, but by design. Fractional reserve banking is inherently unsound from the very beginning. While sound money such as gold is valuable in other uses as well and requires investments and effort to increase its supply, today's fiat money has no intrinsic value whatsoever; its only value comes from being widely accepted as payment in transactions.

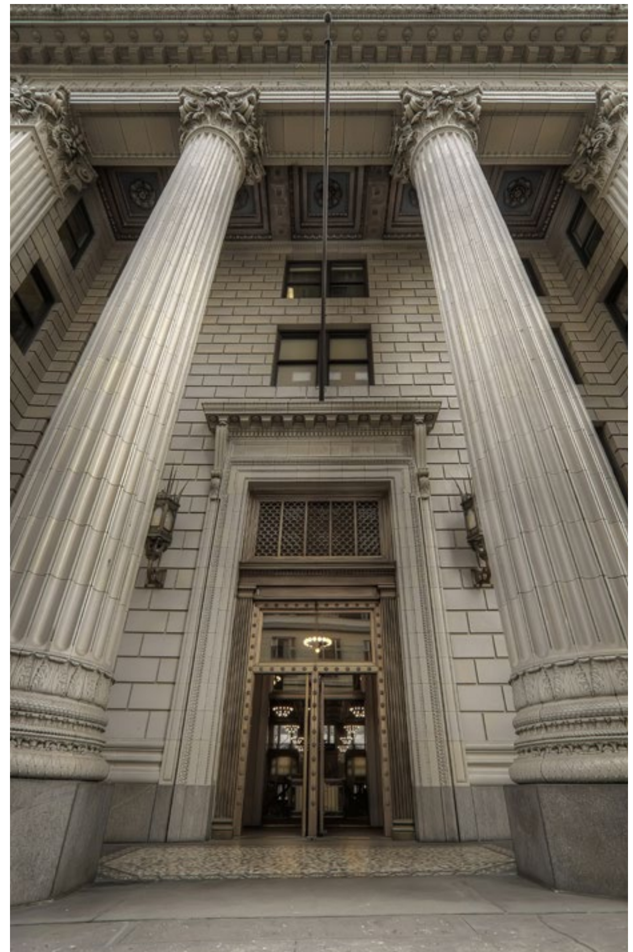
Threat Number Three
Bail-Out or Bail-In of Banks "Too Big to Fail"

Moral hazard is a situation in which one party gets involved in a risky event knowing that it is protected against the risk and the other party will incur the cost. It arises when both parties have incomplete information about each other. ...

This economic concept is known as moral hazard.

Moral hazard is the standard by which the Market proclaims as the law it lives by. It's a kind of survival-of-the-fittest mentality that propels the free market. As the recent financial crisis of 2008 demonstrated, it's a standard they cannot adhere to. There were many factors leading to the financial meltdown of 2008. The real moral hazard was greed. The prevailing attitude was serving yourself and don't worry about the other or future consequences. This lack of fortitude is essentially the flaw that brought the ruin of the ancient Roman Empire. The nature of humanity has changed little since that time.

There was too much debt in 2008. The collective wisdom of Hank Paulson and Ben Bernanke and the heads of leading banks did not resolve the crisis. They merely put a bandage on a large gaping wound. Since 2008 the debt has skyrocketed.



Looking back on the 2008 series of the financial crisis is instructive and beneficial. Many of the conditions are the same and, in some cases, even worse, like the aforementioned mounting debt. The Northern Rock (a British bank that was one of the first to become insolvent) crisis in Britain could have been taken as a serious warning on Wall Street but it was not. The 2008 crisis showed us in a brutal way just how interconnected the international community has become.

The term "too big to fail" arose from the first crisis with Bear Stearns. The problems at Bear Stearns first became widely known in March of 2008 when the word was out, *"Bear Stearns had liquidity problems."* Treasury Secretary Hank Paulson knew it was going to fail. He interceded and arranged for JP Morgan to take it over in a deal bankrolled by the US

government. Most world investors took exactly the wrong message from the bailout of Bear Stearns: that some banks were too big to fail, and that whatever happens the governments will not let a big bank go bust. When the seams started to split at Lehman Brothers, Paulson tried to advise the firm's CEO Richard Fuld, but couldn't get through. Paulson and a lot of other people become exasperated with Fuld — he didn't seem to be able to recognize the gravity of the situation his firm was in and unable to do the things needed. On Friday, September 12 Paulson called an emergency meeting with the Wall Street CEOs to try and save Lehman Brothers. The deal involved all the US banks at the meeting and Barkley's of London, but the British government would not approve the deal. By Monday, the world learned of the largest bankruptcy in history... the fall of Lehman Brothers. A rising sense of panic spread across the globe. Markets from London to Reykjavik, to Paris and Shanghai fell in lockstep. It was an epidemic of fear that caused banks to stop lending money and refuse to accept collateral from each other. It looked as if many other banks could follow Lehman Brothers into the abyss. No one was prepared for the collateral damages that followed.

President Bush convened an emergency meeting in the Roosevelt Room at the White House. Hank Paulson told the President the United States was on the edge of a total financial meltdown. Paulson looked the President squarely in the eye and said, *"If we don't act boldly, we could be in a depression deeper than the Great Depression."* He went on to warn, *"This is the financial equivalent of war and we're going to need wartime powers, Mr. President."* Paulson, acting as a sort of interim president took the lead. He launched a virtual government take-over of the US banking system. None of the bankers liked it but they had no choice. It cost the US taxpayer to the tune of trillions of dollars. The biggest welfare check in history had been paid to Wall Street. So much for moral hazard.

In response to this calamity — many people lost their homes and were kicked out onto the streets and some people even committed suicide, the Federal Reserve would repeat the very mistakes that led us to the crisis. They printed a bunch of money, slashed interest rates even lower, and worked to reflate the bubbles that just popped. They have managed to reflate the bubbles to even larger sizes than ever before. That is why the crisis that we're headed to is going to be so much worse than the one we had. We have bigger problems now. We have had lower rates for longer, the bubbles are bigger, there is more air...more energy that has to be released. It is going to end with the dollar crisis (our dollar will be devalued). This has been a long time coming, and because of the delay, we've been able to make the problem even worse.

We have dug ourselves deeper into debt and made even more significant economic mistakes. All of this has made our economy even more vulnerable now. The government has more debt and corporations are more leveraged.

If you think the bailout of the banks was nefarious, wait until you look at the "Bail-in" strategy they came up with. Basically, the idea is that bank depositors are converted into shareholders…it's a plan to steal the bank customers deposit money in the event of a bank becoming insolvent in order to keep the banks going. It first happened in Cyprus — deposits were taken and the depositors were given worthless shares of the large bank, which was in its death throes already. This criminal practice quickly spread to 5 different banks in Spain where depositors were given shares. The bank customers lost their deposits in the same way while these insolvent banks remained open. There was a popular attempt to reenact Glass-Steagall Act, which was designed to help protect depositors, right after the financial meltdown. Glass-Steagall was crushed in the Senate in 2010. They elected instead to impose open bank resolution regimes which rape depositors of their deposits.

Their rationale behind Bail-ins hinges on the "too big to fail" idea that sprung up at the rescue of Bear Stearns in 2008. Our banks are cross-borders and globally so significant that they cannot be allowed to fail. The danger of your deposits being usurped in a crunch is not only possible but likely. All the banks are connected. The banks can make all the public assurances they want that they will not touch insured deposits. Let's look at what the European Commission did and what they said. They're two different things.

They said, *"Yes, we use the Cypress model across Europe, it is the new template, yes; but, we would never ever touch the insured deposits."* One week earlier, **the European Commission was taking 7 percent of Cypress's insured deposits**.

In a crisis — like the one that is now at our doorstep, the banks won't be stopped. They'll take your money.

When this perfect storm of financial meltdown reaches land, it's going to be worse than the Great Depression. When this thing crashes, it is gone. Brace yourself.

Threat Number Four
FDIC Deposit Insurance Shortfalls

The Federal Deposit Insurance Corporation is a branch of the Federal Government that was born out of the Great Depression. Due to the financial chaos triggered by the stock market crash of October 1929, more than 9,000 banks had failed by March of 1933. This prompted President Franklin D. Roosevelt to take drastic action that would forever change the course of the American and world financial system. First, President Roosevelt recalled gold coins from circulation, effectively made gold ownership illegal, and removed the requirement for banks to redeem paper notes for gold coins. He then went before Congress to proclaim:

"On March 3, banking operations in the United States ceased. To review at this time the causes of this failure of our banking system is unnecessary. Suffice it to say that the government has been compelled to step in for the protection of depositors and the business of the nation."

Congress took action to protect bank depositors by creating the *Banking Act of 1933*, which also formed the FDIC. The FDIC's purpose was to provide stability to the economy and the failing banking system. Officially created by the *Glass-Steagall Act of 1933* and modeled after the deposit insurance program initially enacted in Massachusetts, the FDIC guaranteed a specific amount of checking and savings deposits for its member banks.

The FDIC insurance limits have been raised a number of times from the $2,500 limit set at the institution's founding. Most recently the FDIC insurance limit was raised from $100,000 to $250,000 in the wake of the 2008 financial crisis — a critical move to restore confidence in an illiquid banking system.

FDIC insurance is limited and does not cover every financial system and every bank. It does not cover many of the products offered by banks. It does not cover as stocks, bonds, mutual fund shares, life insurance policies, annuities or securities. FDIC also does not cover many IRA plans including IRA funds held within a money market account.

Despite limitations, FDIC insurance covers about $9.3 trillion of deposits, but the institution has assets of only $25 billion. That's less than one cent on the dollar. I'll be surprised if the FDIC doesn't go bust and need to be recapitalized by the government. That money — many billions — may be created out of thin air by selling Treasury debt to the Fed. Worse yet, it could fall directly on the backs of deposit holders through bail-ins of failing banking institutions.

Threat Number Five
Vulnerable Electrical Grids

There are a couple of distinct ways the nation's electric grid threaten our economy. Here's the first part. It's hard to imagine that the leader of nations, the United States, has one of the most antiquated and vulnerable electrical grids in the developed world. The nation's electric grid, which started operating in 1938, is a network of synchronized power operated by control centers connected by transmission and distribution lines strewn across roads, rivers, and valleys, up and down hills and mountains throughout our country. Parts of this network are more than a century old. Seventy percent of the grid's transmission lines and power transformers are over 25 years old, and the average age of power plants is over 30 years old.

Now, almost 140 years later, our power grid has been built ad hoc, jury-rigged, and turned into 2 major grids. The major grids are the Eastern and Western Interconnections with 3 minor grids in Texas, Alaska, and Quebec. The power grid provides 830 gigawatts of electricity to more than 330 million people with no storage system. Each time you flip on the light switch, your local power plant has to ramp up production just a bit to power that light. The other problem is the power only flows one way, from generators to stations, to your house. If something breaks, they can't just run power around the problem. Someone has to physically go out, find the problem, and fix it. Another problem is that much of our grid is above ground, suspended from wooden poles. Even on sunny days, contact with trees short entire circuits as wires sag under heat and power loads. Another cause of outages are squirrels gnawing on wires.

Today, our electrical needs cause a strain on the grid. It's shocking to know (pun intended) that we have the highest number of outage minutes of any developed nation. America has about 6 hours per year. Korea has about 16 outage minutes per year. Italy has 51 outage minutes per year with Germany and Japan coming in about 15 and 11.

Electrical outages in the US are growing at an alarming and unnatural rate. To remind yourself on just how dependent you are on electrical power, try going through a weekend without using power in your home. Of course, the problem with our electrical grid goes far beyond mere inconveniences. Our society is completely dependent on energy. The whole power grid is incredibly fragile, vulnerable, and dangerously insecure. These facts make our electrical grid a threat to our economy and our national security.

The second part of the electrical grid threat has ramifications that go considerably beyond the economic threat and it has to do with computer hackers from adversarial countries.

Software plays a key role in how our energy is created and distributed. China and Russia already have the capability to disrupt our power grid by hacking into our system and causing an interruption. The Wall Street Journal reported in 2014 that sabotage at 9 key substations would effectively take out the entire grid coast – to – coast. Such an attack would cost the economy between $243 billion to $1 trillion dollars, equivalent to 40 to 50 hurricanes, according to a report by the University of Cambridge's Center for Risk Studies.

It's difficult to imagine this type of event until you read the official reports. Russian hackers have targeted the

US energy grid as part of ongoing operations to penetrate our economy. *"Since at least March of 2016, Russian government cyber actors…targeted government entities and multiple US critical infrastructure sectors, including the energy, nuclear, commercial, facilities, water, aviation, and critical manufacturing sectors,"* according to a report by the Department of Homeland Security and the FBI. Iran is also guilty of this as we all know.

A better way to protect our critical infrastructure is not an option, but an imperative.

This challenge is about ensuring the resilience of our cities, minimizing economic downsides, and delivering national security. Cyber attacks are only becoming more advanced and security systems are not keeping up.

Because of this vulnerability to hacking and the aforementioned fragility of the infrastructure, we have to move forward and rely more on distributed energy sources (DES) like solar panels and home batteries. Advanced battery systems could take homes off the grid, the blunt potential harm of cyber attacks, and minimizes risks to America's security. Renewable energy would also reduce our dependence on foreign energy sources.

There are multiple scenarios that are possible and all of them are going to require a substantial investment. But it's not really an option anymore. Modernizing our 19th century grid is key to achieving safety, resilience, and stability.

Our children, or our grandchildren, might wake up some day and realize that the old power grid, as they knew it, has gone the way of the horse and buggy.

With the majority of wealth stored in the United States being nothing more than a digital ledger at a bank or brokerage house, any substantial attack on our electrical grid would be devastating to our assets, our commerce and our way of life.

Threat Number Six
Proposed Nationalization of Retirement Accounts

Countries such as Belgium, Poland, Hungary, France, Argentina, Bolivia, and Ireland have already seized Private Retirement Accounts. They convinced their citizens through newly formed legislation and of course... tax implications. To believe that such a plot is impossible in the US would be shortsighted. In fact, plots to do so have been underway since at least 2009.

The US federal government is more than $22 trillion in the red. Within the runaway government spending that got us to where we are today, Social Security is the second largest cost at $901 billion only less than the annual cost of Medicare/Medicaid at $1.1 trillion. Both of these programs are seriously underfunded and will cost the government trillions of dollars.

Once thought an impossibility, 401(k) nationalization is looking more likely as a tool for both the Federal government and corporations to cover wasteful spending and rampant corruption.

If you follow the financial news as we do, you will notice some alarming discussions reported over the last few years that has gone from rumors to Federal policy. Under this "new" program patriotically named *Retirement USA*, the government could then demand that part of your retirement contributions go into a government-created annuity funded by purchasing Treasury debt.

Sixty to seventy percent of Americans have a 401(k). The government is looking at targeting 401(k)s because there is close to 16 trillion dollars invested and they fall under ERISA guidelines which handcuffs the employee. The employee can't move their money out unless they retire, change jobs, divorce, or become totally disabled. Therefore, those with a 401(k) are stuck and the government knows this.

New nationalization plans are being touted by the Democrat party including presidential hopeful Senator Elizabeth Warren. Today this threat may sound far off but in the event of a financial disaster, such a move may be used to rescue a faulty financial system and protect government programs.

Threat Number Seven
Ballooning National and Corporate Debt

If the preceding list of threats haven't awakened deep concern about your own financial future or made you want to simply bury your head in the sand, then consider these facts reported from the nonpartisan Congressional Budget Office. The national debt is on track to nearly double over the next 30 years. Federal debt is now equivalent to 78 percent of the country's Gross Domestic Product (GDP). All indications show that the Federal debt will continue to grow well beyond our GDP by 2048. This will easily surpass debt to GDP records set during the World War II era.

It has been stated that we are in one of the longest stretches of economic recovery in history, but it is a recovery propped up like a house of cards. The economic recovery that we hear about so often in the media, and from our politicians, is an illusion fueled by debt and the printing of trillions of dollars and keeping interest rates at historic lows.

The National Debt can be explained simply. Divide the population of the country into two parts: one group is comprised of large corporations and the top 1 to 5% percent of the richest US citizens; the other group is everybody else. The two groups have the exact same demands on the government. Each group wants the government to do things for them, and each of the two groups doesn't want to pay taxes to finance what they want the government to do for them. This creates a problem for the government. Consider you're one of the elected politicians who's obligated, through election campaign promises, to keep delivering the things to the people and the people don't want to pay for them. What's the solution? The answer they came up with is to borrow the money. They borrow the money, with interest, from the rich people and big corporations.

Of course, this perpetual overwhelming debt is never paid off. This has been going on for 25 years; and now, suddenly, the rich people and corporations don't want to lend any more. They don't want to pay for the programs with taxes and they don't want to lend it anymore. So what if the government stops providing goods and services to the people?!

The Treasury Department released the final deficit for the fiscal year 2018. It was $779 billion. The Bush tax cuts since 2001 have cost the country over $5 trillion dollars. The recent Trump tax cuts cost us $164 billion. The wars in Iraq and Afghanistan have cost $2 trillion so far. These are just the deficits that appear on the ledger. We could have ended homelessness in America. We could have eliminated child poverty and provided education for children from birth to kindergarten. Budgets reflect priorities. The priorities of tax cuts for large corporations and billionaires and funding endless wars continues to add to an already overwhelming national debt with the largest and most insidious deficit being a leadership deficit. By now you shouldn't be shocked to realize that the economic gyrations, inflation, and loss of personal freedoms and out-of-control government, are all things we've been warned about for centuries. History has shown us how these conditions are the direct consequences of the monetary system itself. Part of our inability, more accurately... unwillingness, to deal with the problem once and for all, is the nature of our 4-year election cycle. All of the politicians care more about what's going to manifest itself on their watch, and push all the problems forward to the next administration, than what is going to happen in the future. The conditions are ripe for deflation

followed by hyperinflation. When that happens, the politicians and the Fed will respond the way politicians always have.

They are going to make the same stupid mistakes that we have seen repeated time immoral. This is because politicians don't read about monetary history.

Present day the United States has many similarities to the Roman Empire during its decline. David Walker, who was the Controller General of the United States from 1998 to 2008, referred to the US government as being on a burning platform unsustainable policies and fiscal deficits, expensive over-commitments to government-provided health care, swelling Medicare and Social Security costs, the enormous expense of health care, and an engorged military might felt all over the world.

Our culture and our system are based on debt and inflation. We're not going to wean ourselves off of this affliction. We are too seduced by it. At some point, in the not too distant future, there is going to be a major collapse. The increasing energy built over decades of economic manipulation onto the free market has to go somewhere. It is unavoidable and inevitable. When such a release of energy happens, will we have more of a move towards Totalitarianism and give up all our freedom, or will we fortify our spirits and remember the ideals put forth by our Founding Fathers, accept responsibility, roll-up our sleeves, and get to work to build a better society.

Democracy is Not a Free Ride

When Benjamin Franklin left Independence Hall, just after the second drafting of our Constitution, he was approached by a woman on the street.

The woman asked him, *"Mr. Franklin, what manner of government have you bequeathed us?"* Franklin responded, *"A Republic madam. If you can keep it."*

The responsibility of our country is not in the hands of a privileged few. We are strong and free from tyranny as long as each and every one of us remembers our duty as citizens. It's time for you to get educated on monetary policy; learn as much as you can, and to speak out. Make your opinion known to your elected officials and tell them you expect a change in monetary policy. Government managed economies have never worked. It is important to understand the nature of freedom and how the role of government money plays such an important part.

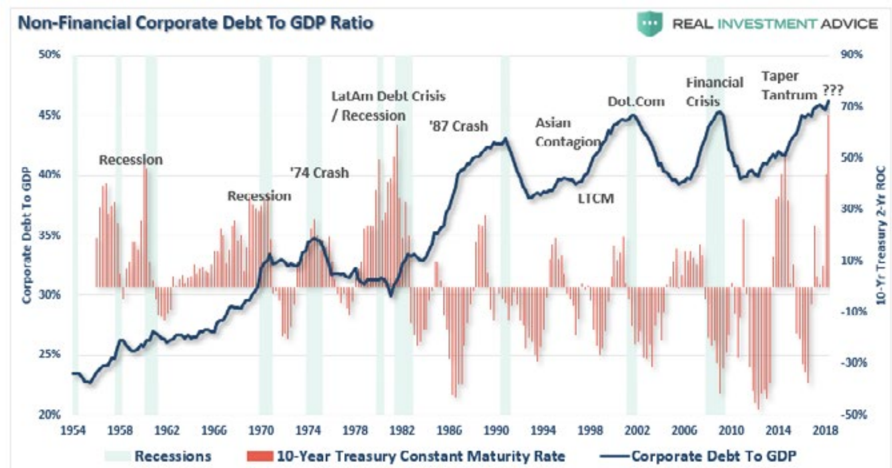
The main reason the Stock Market has had a good run recently is large because of the recent tax cuts. Whatever the strength of the US dollar is enjoying now is temporary. Our dollar has the durability of a house of cards. The recent tax cuts will remove from our economy, over the next 10 years, an estimated 1.8 trillion dollars. Even more, revenue will be reduced if expiring provisions are made permanent. Even Warren Buffett said, *"We can not continue to pay taxes this way when I'm paying less than my secretary. It is unsustainable."*

The money from Trump's tax cuts has not, and will not, bolster manufacturing or create new jobs. The money was used to buy back stocks (which inflated the market). Compensation packages for the senior managers and

CEOs who run these companies are tied to the value of the company's stocks. This is great for the rich and the senior executives of large corporations, but only for the short term. It is, in the intermediate term, self-sabotaging and suicidal for the economy.

The large companies that saved their money, compliments of Trump's tax cuts, did not hire more workers, invest in more machines, and produce more products. They used the money to pay themselves. They bought their own stocks, which they're legally allowed to do, which in turn raised their company's stock value, which in turn increased their own compensation packages. The only growth, in terms of real production, is now happening elsewhere in the world. If policymakers rely more on debt than higher taxation on the wealthy in order to pursue progressive redistribution of income policies, than global markets will begin to doubt that we'll ever be able to grow our way out of these very high and still growing debt levels.

This printing money and pumping up the stock market is a form of greedy short-sightedness that kills the very mechanism that creates growth. It is a kind of capitalism that feeds upon itself...hollowing itself out, but refusing to face it because of the short-term gains. It's the same crazy logic used by King Louis XVI of France in the eighteenth century. We all know how that turned out...the French Revolution.



The ballooning national and corporate debt gyrations, if left unchecked by some counter-balancing force, will spin our economic system out of control and destroy itself in the very way economists have been predicting for years.

The US dollar will no longer be the reserve currency, there will be huge contractions globally, and the United States will lose even more international trading partners. The likely end result would be a multi-polar world and a catastrophic economic meltdown for the United States. Only those who lived through the Great Depression of the 1930s will have experienced something similar.

Stocks, bonds, property, and currencies are going to suffer when this global economic calamity happens. It's not going to be fun...particularly for those who knew about it and chose not to prepare for it.

Returning to the ongoing strategy of perpetual lending and borrowing, the United States government can no longer borrow enough money from its own rich. Nor can it borrow enough money from its large corporations. The US government must go outside to other countries like China and Japan. It has been doing that for quite some time.

Threat Number Eight
Rise of the Chinese Economic Superpower

Forty years ago, in 1978, China set out on its relentless march to the global marketplace. The timing couldn't have been better for its people. Conditions were poor and the government was not working. China had 1 billion citizens. Nine out of every 10 people were struggling to survive on less than 2 dollars a day. Forty years later, in 2018, the situation was completely reversed. Fewer than 1 in one hundred people live below the poverty line. It's a genuine 20th century miracle forged out of leadership and willpower. This is a nation that stopped publishing statistical data on economic performance; it was bad after 1960. China didn't even appear on any of the international league tables. That all started to change in 1978 when the country introduced market principles and opened up the country. Since then, the country has soared and become the biggest economic miracle of the 20th century. This accomplishment was forged out of leadership, a desire for change, and the willpower to act upon that desire. The country rivals; and, in some areas, surpasses the United States. China is an unstoppable rising Superpower, and it's accelerating quickly towards an immovable ruler – the United States. This is the challenge. How that challenge is resolved will shape our world.

The great Greek historian Thucydides wrote in his History of the Peloponnesian War, *"It was the rise of Athens and the fear that this instilled in Sparta that made war inevitable."*

The rise of one and the reaction of the other created a toxic cocktail of pride, arrogance, and paranoia that drove them both to war. This is the Thucydides Trap: the dangerous dynamic that occurs when a rising power threatens to displace a ruling power.

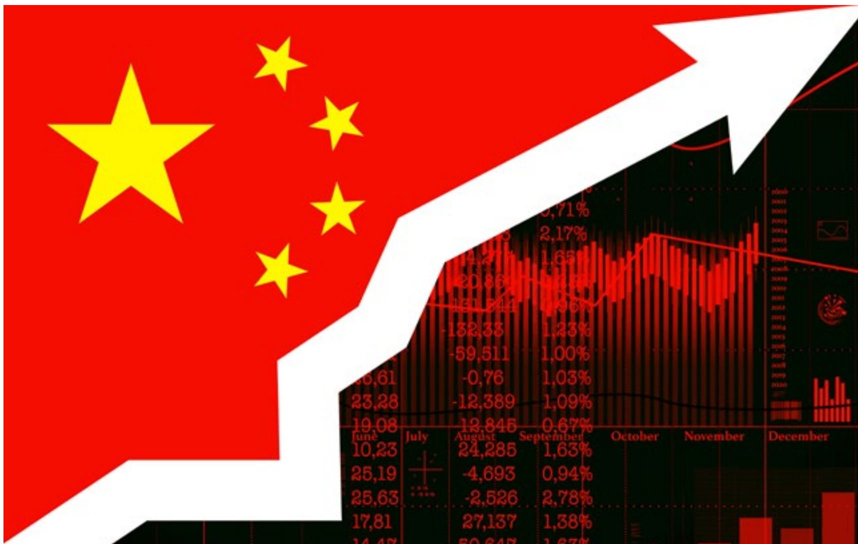
Examples are Athens and Sparta in the ancient world, Germany and Great Britain a hundred years ago, and China and the US today. The Thucydides Trap provides a useful lens to sift through the news and noise of the day to understand what is actually going on.

China has flipped the poverty pyramid so fast that we haven't had time to be astonished. To put this into perspective a bit more, consider a bridge…any bridge being built in the United States. In 2012, the State of Massachusetts announced that they were going to renovate the Harvard Anderson Memorial Bridge in Boston. They said it was going to take 2 years to do this. In 2014, they said it wasn't finished. In 2015, they said it still wasn't finished and they weren't going to project when it would be finished. Finally, in 2017, the bridge was finished. The cost was 3 times over budget.

Compare this bridge story to a similar bridge in Beijing, China. The Chinese announced in 2015 that they were going to renovate the Sanyuan Bridge – it actually has twice as many lanes of traffic rolling over it than the Harvard Anderson Memorial Bridge. How long do you think it took them to finish the project? The answer is 43 hours. And that example is not unique. Behind the efficiency and speed of execution is a purpose-driven leader and a government that works. The most ambitious and competent leader on the international stage today is China's president Xi Jinping. He has announced specific targets with specific dates. By 2025, China means to be the dominant power in the major market across 10 leading technologies that include driverless cars, robots, artificial intelligence, and quantum computing. By 2035, the objective is to be

the innovation leader in all advanced technologies. And to celebrate the 100th Year Anniversary of the People's Republic of China, China plans to be unambiguously number one. This includes having an army described simply as "fight and win."

These are audacious goals, but they are well on their way. Here's a brief list of goals and the projected-completed dates that were attached: number one in manufacturing – 2011; the number one trading nation in the world – 2012; having the world's largest middle class – 2015; and, by 2016, leading the world in number of billionaires, AI research, and solar power capacity.



As China gets bigger, stronger, richer, and more technologically advanced, it will inevitably push against the positions and prerogatives of the United States. For red-blooded Americans, this doesn't resonate with who we are as a country. We see ourselves as number one and the leader in all things. But brute facts cannot be ignored.

We don't need to imitate China. What is needed is not novel or foreign. We need to understand our own history so that we can adapt the formula, the priorities, and the practices that are embedded in our history and culture. We need to reconnect with the values and ideals that made the American dream so compelling for so many generations of people across the globe. The history books we need to read are our own and the country we need to rediscover is America.

In summary: we need to study harder, save more, and spend less, invest wisely, and return to the formula that made us a successful country despite every twist and turn since 1776.

A recent report (*RMB Internationalisation: Where to Next?*) by the Reserve Bank of Australia noted, *"[If] China continues to gradually open the capital account and move towards a more flexible exchange rate, the [next] phase of internationalization could see the RMB emerge as a widely used regional currency in Asia."* As RMB allocations grow over time, there is the potential for a long-term structural shift towards a more multi-currency system, rather than the current system that principally revolves around the US dollar. Such a shift could be both destabilizing and dollar negative: gold can serve as a hedge against both.

Threat Number Nine
Elimination of Petrodollar

Faced with mounting inflation, debt from the Vietnam War, extravagant domestic spending habits and a persistent balance of payments deficit, the Nixon administration decided to suddenly (and shockingly) end the convertibility of US dollars into gold. In the wake of this "Nixon Shock," the world saw the end of the golden era and a free fall of the US dollar amidst soaring inflation. Through a series of carefully crafted bilateral agreements with Saudi Arabia beginning in 1974, the US was able to promote bilateral political and commercial relations, market imported US goods and services, and help recycle Saudi petrodollars. Through this deal, the petrodollar system was born, along with a paradigm shift away from pegged exchange rates and gold-backed currencies to non-backed, floating rate regimes.

The petrodollar system elevated the US dollar to the world's reserve currency and, through this status, the United States enjoys persistent trade deficits and is a global economic hegemony. The petrodollar system also provides the United States' financial markets with a source of liquidity and foreign capital inflows through petrodollar "recycling."

Since the most sought-after commodity in the world — oil — is priced in US dollars, the petrodollar helped elevate the greenback as the world's dominant currency. In fact, according to the Bank for International Settlements (BIS), 88% of all foreign exchanges deals initiated in April 2016, involved the USD on one side. With this status, the US dollar enjoys what some have asserted to be an "exorbitant privilege" of perpetually financing its current account deficit by issuing dollar-denominated assets at very low rates of interest as well as becoming a global economic hegemony.

For instance, countries like China, who hold vast quantities of US debt have voiced their concerns in the past about the possible dilutive effects to their asset holdings should the dollar depreciate. However, the privileges associated with being able to run persistent current account deficits come at a price. As the reserve currency, the United States is obligated to run these deficits to fulfill reserve requirements in an ever-expanding global economy. If the United States were to stop running these deficits, the resulting shortage of liquidity could pull the world into an economic contraction. However, if the persistent deficits continue ad infinitum, eventually foreign countries will begin to doubt the valuation of the dollar, and the greenback may lose its role as the reserve currency. This is known as the Triffin dilemma.

Ever since 1974, the petrodollar has assured global demand for dollars, and the banking system of correspondent Nostro accounts meant that all the world's trade was settled in New York through the mighty

American banks. And having printed dollars to ensure higher energy prices would be paid, they would then be recycled as loan capital to America and her friends. The world had been bought, and anyone not prepared to accept US monetary and military domination would pay the price.

That was until now. The dollar's hegemony is being directly challenged by China, which is not shy about promoting the yuan as preferred settlement medium. Just last year an oil futures contract priced in yuan began trading in Shanghai. Also last year, the Governor of China's central bank met multiple times with the Saudi finance minister, in a coordinated effort to pressure Saudi Arabia into accepting yuan for oil sales to China.

Do not underestimate the importance of this development, because it marks the beginning of a new monetary era, which will be increasingly understood to be post-dollar. The commencement of the new yuan for oil futures contract may seem a small crack in the dollar's edifice, but it is almost certainly the beginning of its shattering.

America's response to China's monetary maneuvering has always been that of a nation on the back foot. For the last year, the yuan has been rising against the dollar, following President Trump's inauguration. Instead of responding to China's hegemonic threat by increasing America's role in foreign trade, President Trump has threatened all and with sundry trade restrictions and punitive tariffs. It is a policy which could not be more designed to undermine America's global economic status and with it the role of the dollar.

In monetary terms, this leads us to an important parallel with Germany and its failed Papiermark nearly a century ago, and that is the contraction of the territory and population over which the mark was legal tender then, and the acceptance of the dollar today. The loss of Germany's colonies in Asia and Africa, Alsace-Lorraine to France, and large parts of Prussia to Poland reduced the population that used the mark without a compensating reduction of the number of marks in circulation. Until very recently, most of the world was America's monetary colony, and in that context, she is losing Asia, the Middle East and some countries in Africa as well. The territory that offers fealty to the dollar is definitely contracting, just as it did for the German mark after 1918, and as it did for the Austro-Hungarians, whose Austrian crown suffered a similar fate.

The relative slowness of the dollar's decline so far should not fool us. The factors that led to the collapse of the German Papiermark in 1923 are with us in our fiat currencies today.

Threat Number Ten
Lower Corporate Earnings & Falling Real Estate Prices

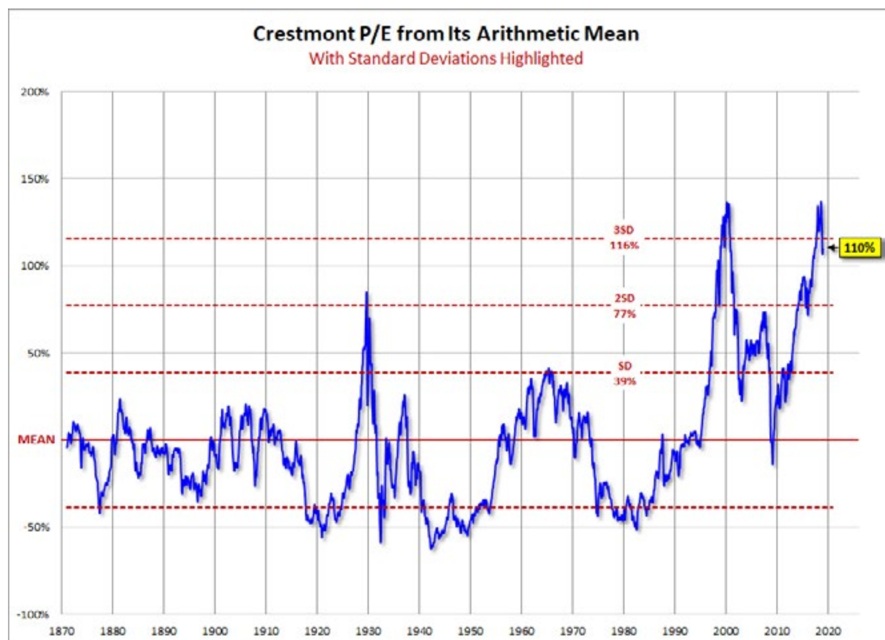
The average stock is overvalued somewhere between tremendously and enormously and as earnings fall and the effects of the Trump Tax Cuts dwindles, that will change.

The main problem is that last year's growth was largely a mirage. I recently calculated that Donald Trump and the Republicans' 2017 tax cut boosted profits for the S&P 500 companies by $144 billion last year, about half of overall earnings growth when analysts had been expecting it to account for about a third.

But analysts are still predicting that, excluding the tax cut, as many as 219 companies will be able to increase their operating earnings more in 2019 than they did last year. That seems less realistic. Some of the companies did have a disappointing 2018, with earnings dropping or slowing. So a rebound, even with a slower economy, may not be out of the question. But others had solid earnings increases, even without the tax gains, and analysts are still expecting better numbers this year. That looks like a recipe for disappointment.

Now, let's look at how these companies are valued and take a look at several charts. These charts show the magnitude of the stock market's overvaluation and, more importantly, put it into historical context.

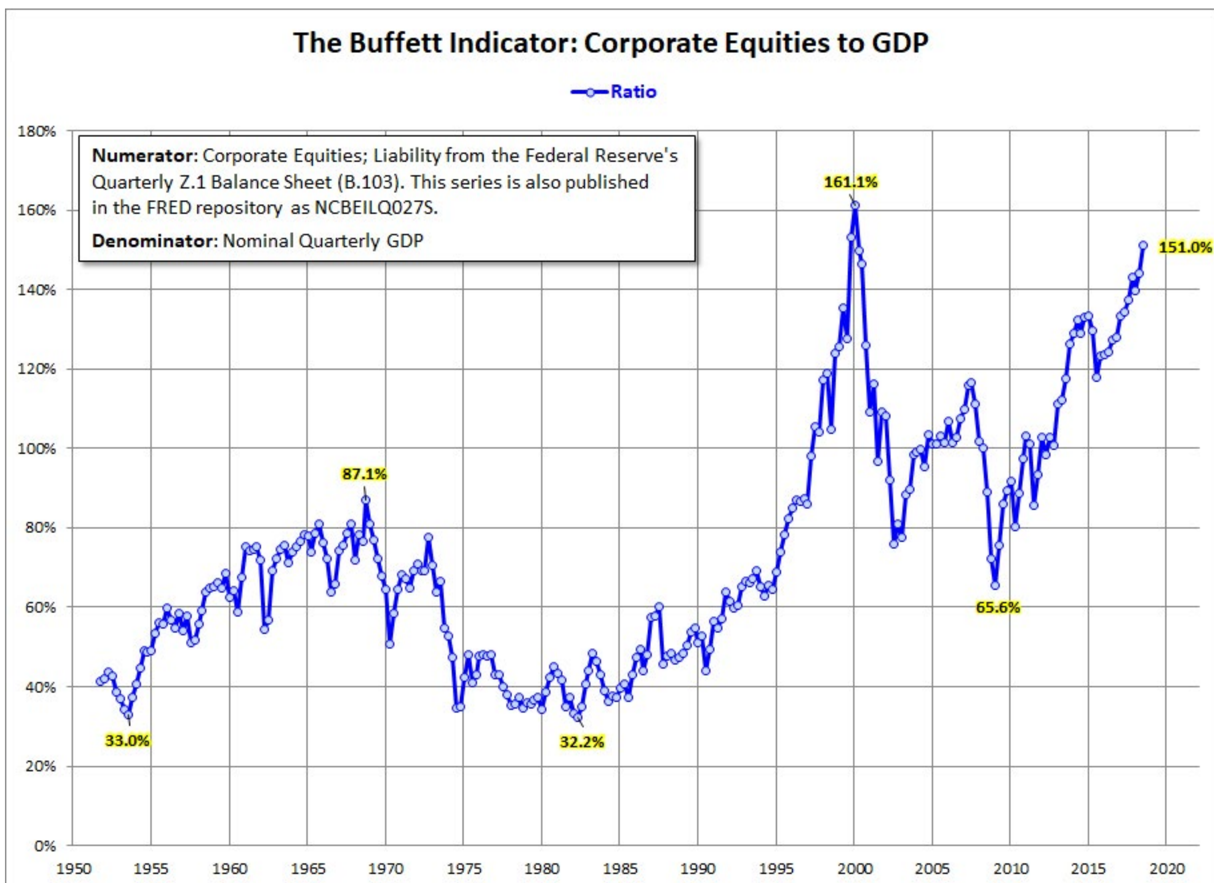
Let's go to the charts. The first chart shows the price-to-earnings of the S&P 500 in relation to its historical average. **The average stock today is trading at 73% above its historical average valuation.** There are only two other times in history that stocks were more expensive than they are today: just before the Great Depression hit and in the 1999 run-up to the dot-com bubble burst.



We know how the history played in both cases — consequently, stocks declined a lot. Based on over a century of history, we are fairly sure that this time too, stock valuations will at some point mean-revert and stock markets will decline. After all, price-to-earnings behaves like a pendulum that swings around the mean, and today that pendulum has swung far above the mean.

What we don't know is how investors will fare in the interim. Before the inevitable decline, will price-to-earnings revisit the pre-Great Depression level of 95% above average, or will it say hello to the pre-dot-com crash level of 164% above average? Nobody knows.

One chart is not enough. Here's another, called the "Buffett Indicator." Apparently, Warren Buffett likes to use it to take the temperature of market valuations. Think of this chart as a price-to-sales ratio for the entire US economy, that is, the market value of all equities divided by GDP. The higher the price-to-sales ratio, the more expensive stocks are.



This chart tells a similar story to the first one. Though many of us were not around in 1929, we can imagine there were a lot of bulls celebrating and cheerleading every day as the market marched higher in 1927, 1928, and the first 10 months of 1929. The cheerleaders probably made a lot of intelligent, well-reasoned arguments, which could be put into two buckets. First: *"This time is different"* (it never is). Second: *"Yes, stocks are overvalued, but we are still in the bull market."* (They were right about this until they lost their shirts.)

The real estate market has enjoyed and benefited from a decade of artificially low interest rates and free money from the Federal Reserve. Much of this money found its way into the real estate market, propelling it to new highs. However, that may be changing.

Mortgage rates rose sharply in late 2018; the average rate on the 30-year fixed reached a full percentage point higher than in 2017. With home prices already overheated in many major markets, higher rates broke the bank for most buyers.

And after one of the worst housing shortages in memory, supply is slowly starting to rise. Inventory jumped in formerly hot markets like San Jose (+123 percent), Seattle (+96.5 percent) and Oakland (+60 percent).

In Las Vegas, which was the epicenter of the housing crash and the subprime mortgage crisis, sales and prices were raging last year and last spring, but supply is now spiking and sales have ground to a halt. The inventory in November was up 54 percent from a year ago and sales were down 12 percent, according to the Greater Las Vegas Association of Realtors.

"Even though our local home prices have been appreciating at the fastest rate in the country through much of this year, prices have been fairly flat for the past few months," said GLVAR president Chris Bishop, an area real estate agent. *"I wouldn't be surprised to see that trend continue."*

In Denver, another market that was incredibly competitive last year due to very short supply and high demand, inventory in November jumped nearly 47 percent annually, according to the Denver Metro Association of Realtors. Sales fell 12 percent. The high end is seeing the biggest shift.

"The power switched to buyers when negotiating on homes priced over $1 million, with 7.22 months of inventory," wrote Jill Schafer, chair of the DMAR Market Trends Committee.

Even in Dallas, where demand is still quite strong due to a healthy local economy, inventory is up over 15 percent, and 14 percent of listings saw price reductions in October, according to Realtor.com.

"I am seeing an increasing number of price reductions in homes over $500,000, as our inflated market has simmered, but not plummeted," said Laura Barnett, a real estate agent with RE/MAX DFW Associates. *"Not too many bidding wars, unless the home is priced well below market."*

Bubbles in both stocks and real estate can easily be created by artificial rates. We're witnessing perhaps the peak of one of the largest bubbles in both stock and real estate in recent history. If your portfolio cannot withstand another crash and a potentially long wait for a recovery, do not hold all of your investments in stocks and real estate.

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