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Unless you have spent the past year marooned on a desert island, you are acutely aware that 2008 was the single worst year for the stock market since the Depression-era 1930s. We now understand the humility and pain of a stock market crash. In a macro sense, a crash materializes because few investors are prepared for it. The obstacles to preparation are primarily psychological in nature and are rooted in the uncanny ability of Washington and Wall Street decision-makers to convince the American public to "ignore that man behind the curtain." The official mantra that "everything is under control" and "the worst is behind us" is deafening. It takes a really good pair of earplugs to block out enough noise to be able to concentrate and engage in rational thought.

Speaking of noise, during the past 2 weeks we have been inundated with previews, live footage and reruns of "Obamarama, the Inauguration Drama." There were some incredible moments associated with this monumental event along with a few ironies. Not lost on your *DocOnomics* authors was the fact that tens of millions of Americans, hundreds of US companies and the majority of US states are lined up at the Federal begging bowl desperate for financial assistance, yet the US Government proceeded to dole out nearly \$200 million on "pomp and circumstance." From where did this money originate? Did we get it from our friendly loan officers in Asia or did Uncle Sam simply go down to the basement and print it? Either way, it speaks volumes about why the US is in the midst of its most devastating economic collapse since the Depression-era 1930s.

OUR FIRST-EVER INAUGURAL ADDRESS

DocOnomics commenced publishing its commentaries in late 2006 so this is our first encounter with a change in presidential administrations. Suffice it to say that there is a new sheriff in town. Contrary to popular belief, this looming symbol of law and order is not our money-slinging president Barack Obama and his trusty sidekick Deputy Joe. The new sheriff is an apparition that bears a striking resemblance to Andy Taylor.

We fondly remember Sheriff Taylor from The Andy Griffith Show and Mayberry RFD. He was a man of high morals and rock-solid values who never would have dreamed about spending a buck that he hadn't saved. Now, we sense that America is about to be dragged kicking and screaming back to the era of Andy, Barney, Aunt Bea and young Opie.

It seems that when the last episode of Mayberry RFD aired in 1971, Americans were just starting to latch onto the notion that "investing for retirement" would be a more rewarding strategy than "saving for retirement." Perhaps coincidentally, 1971 was the year that President Nixon officially severed the Dollar's link to gold, meaning that Dollars could be created in infinite quantities. That is exactly what happened during the past 38 years. The US economic model was transitioned from "savings consumption" to "debt consumption." Rather than continue on with the generations-old practice of saving for things that we wanted, we were both encouraged and enabled to make our purchases with loans and credit cards. At the same time, investment returns were both aided and abetted by a rapidly expanding money supply and the liberalization of credit on Wall Street. Former Federal Reserve Chairman Greenspan literally tore up the old playbook and made "liquidity-driven" inflationary capital gains the foremost consideration in wealth accumulation. These developments paralleled the US going from an economic force to an economic farce wherein trillion dollar annual budget deficits are about to become the norm.

Around the time that Sheriff Taylor was receding into his Hollywood-scripted retirement, we were

introduced to a TV doctor by the name of Marcus Welby. As we recall, the ever-smiling Dr. Welby was all about preaching "an apple a day" and "plenty of exercise" for continued health. He was not much of an advocate for "pills and procedures". Is it not ironic that the financial management of our country has come to resemble the "pills and procedures" platform that has all but destroyed the economics of healthcare? If you want to know what happened to the "prevention" platform, we already have hinted at the answer. President Nixon threw it out the window in 1971 when he severed the Dollar's link to gold. In fairness to President Nixon, he may have had little choice in the matter as he inherited from President Johnson an expensive war in Vietnam and a major ramp up in social spending (i.e., entitlements.) President Nixon wound up as the boy with his finger in the dike, much like President Obama today.

In our professional opinion, this truly is one of those times to be tightening the belt and saving for your future. Investing is a noble endeavor but presently there is zero visibility as to what lies on the global economic horizon. In 1930-31, the most brilliant and powerful American minds were not able to accurately predict where the world would be in 2 or 5 years, much less 10 or 15 years. Today's experts look back at the 1930s and say that serious policy blunders were made that turned an economic slowdown into an outright financial disaster. How do we know that serious policy blunders haven't already been made by Clinton, Bush, Greenspan, Bernanke, Rubin, Summers, Paulson, Frank, etc. that are taking us down a similar path? We don't. The current generation of political and economic decision-makers has proven beyond a doubt that they are no wiser than their predecessors of 70-80 years ago. Why should we expect a different outcome?

Today, the true unadjusted unemployment figures in America are 13.5% and climbing. Most of the official economic data is now being classified as the worst since the Great Depression. It does not take a rocket scientist to understand that history is repeating itself before our very eyes. Now is the time to detach ourselves from the past two decades of lifestyle enhancements and steady stock market and real estate returns that fluffed up our retirement pillows. If we can make decisions based on the paradigm shifts that are occurring, we shall be in a much better position to survive emotionally and financially than those who don't.

What is the major paradigm shift? It is the near total breakdown in trust within the entangled worldwide networks of governments, big businesses, regulatory authorities and taxpayer constituencies. This is best seen via the meltdown of the global credit system. It is a grandiose development that has no precedent in our lifetimes and renders all mainstream forecasts and government prognostications as worthless. By this very development, it will be a long time coming before we have any chance of returning to the glory years.

Please be convinced that the "debt consumption" economic model no longer is in play. It was placed in ICU following the implosion of the securitized loan industry that bundled Joe Six Pack's "zero down" Countrywide mortgage loan and Jane Six Pack's "zero down" GMAC auto loan into rated investment securities for sale to the world's fund managers. These securities offered returns commensurate with Joe and Jane's loan rates and assumed that the loans would be repaid in accordance with their stipulated terms and conditions.

Now that the "debt consumption" model is looking like Humpty Dumpty after the fall, by default we are returning to the "savings consumption" model that will bring with it a vast reordering of consumer behaviors and personal priorities. Increasing government control of troubled business sectors will add a measure of socialism to the mix. Try to envision the US Postal Service as the poster child for the automobile, banking and housing sectors.

From a practical standpoint, your portfolio should be positioned for two broad outcomes that **DocOnomics** defines as serious inflation and serious deflation. While these outcomes are polar opposites, they both spring from the same bad seeds of excessive money creation and deficit spending. We already have gotten a taste of both outcomes during the past few years as commodity prices soared and then plummeted. We can expect recurring cycles of deflation and inflation to continue in fits and starts until the bad seeds are rooted out and destroyed.

Eventually, our faith in conventional money as a unit of exchange and a store of value will be

severely tested as the money pumps are run non-stop by many of the world's central banks. This is why ***DocOnomics*** continues to advocate investments in sectors that are characterized by relative scarcity as well as currencies that can be soundly managed during times of severe economic stress. If you want to be opportunistic, there will be investments that will stand to benefit from public spending programs and the development of new mass markets. An example of the former is "infrastructure modernization." An example of the latter is "clean living", which embraces low-cost environmentally-friendly solutions for heating and cooling, power generation and many elements of transportation.

However, this clearly is a time to be fixated on "saving" for your retirement. Please do not lose your focus. Sheriff Taylor is watching.