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In our previous *DocOnomics*, we directed your attention to the plumes of black smoke billowing from the wreckage of what is deemed to be a global credit crunch, triggered by America's rising mortgage and consumer loan delinquencies and cascading defaults. Closely intertwined are the ensuing losses at major financial institutions and a greatly diminished level of trust among the world's financial heavyweights. It is not a pretty picture.

If there were any previous doubts that the US economic engine is sputtering and that job layoffs and pay cuts are rising to levels that will further propel a downturn, let us assure you that this is the real deal. Within our AARP framework for personal wealth management, the operative keywords are react and allocate.

TOO MANY MIRRORS

If the above-referenced smoke isn't enough to contend with, the occasional rays of truth filtering through the clouds are being purposefully deflected by mirrors positioned and controlled by Washington and Wall Street. These mirrors are intended to create illusions of reality.

We all have experienced a hall of mirrors at the funhouse. Nowhere in the room are we able to see a true reflection of ourselves. Each mirror yields a highly distorted view. There is no clear image. Eventually, we grow tired of the abstractions and start looking for the exit sign.

At times, we might find ourselves gazing into a cracked mirror where we see pieces of an image. Chances are that if we peer into a cracked mirror long enough, we shall come to accept the fragmented view as a completely normal picture.

At the risk of stating the obvious, we have far too many bent and broken mirrors in our society at large and our investment sub-universe in particular. It is a world according to what the political and financial masters want us to see. We are required to endure (1) frequently revised and adulterated formulas for job creation, unemployment and consumer prices, (2) discontinued or altered money supply statistics, (3) unreliable economic growth figures and (4) markets that are not allowed to trade freely. It is a continuous and well-orchestrated charade.

At *DocOnomics*, we believe that an essential rule of the wealth management game is to avoid getting trapped inside a hall of mirrors and to avoid staring into cracked mirrors for any sustained period of time.

At this very moment, our overriding objective is to make you understand that a prolonged debt and deficit mentality in America is the real story behind the smoke and mirrors. Today, all economic benchmarks and measurements are completely distorted by the record levels of debts and deficits deeply embedded in our everyday world. Without question, debts and deficits have produced the fires that are filling the economic atmosphere with toxic particles. Indeed, we find it ironic that the perceived rise in the American standard of living since the early 1980s has been a combined function of dual household incomes, longer working hours and consumers and government plunging deeply into debt.

We urge you to open your eyes to a mega-trend that is winding down in subliminal fashion. We are approaching the end of an era in which the US Government has been able to fuel the greatest credit

expansion in modern history. Since 1946, Washington has owned the rights to the world's trading and reserve currency and hence has been in direct control of a monetary credit card that has been abused repeatedly by elected politicians and their appointees. After more than 60 years of unrestricted and undisciplined Dollar creation, the rest of the world finally has called the America's bluff and is dumping its accumulated Dollar surpluses in favor of currencies and hard assets that are not produced at will to serve political and military agendas.

We keenly observe that our central bank is intent on providing unlimited monetary liquidity to stem the rising tide of loan delinquencies and defaults and to maintain the credibility and solvency of the US financial juggernaut. As a result, money is being made more plentiful via interest rate cuts and tax rebates (from what sources, we wonder.) We suspect that this is just the beginning of a massive binge of money creation and government controls, which has negative long-run implications for a capitalist economic system.

The constructive approach to this set of developments is to identify and implement investment strategies that will outperform in a policy environment underpinned by aggressive monetary expansion, which is all but guaranteed to diminish the purchasing power of the US Dollar even more than what we have experienced in recent years. In our *DocOnomics* mirrors, we can see investment sectors that are destined to rise in value opposite a broken buck. Among these sectors are foreign currency-denominated government securities and various classes of property, natural resources and commodities, including precious metals

We commented earlier on the disappearing trust among sophisticated players in the financial world. In our rearview mirror, we see that the subprime loan mess involved prudence being overcome by mass greed with our political and economic stewards allowing the pendulum to swing too far. Trust is a most precious commodity. Once lost, it can take many years to regenerate. Perhaps we'll have to wait for a new generation of Wall Street financiers that is far enough removed from the present fallout. That could mean 15 or more years until the proverbial den of thieves is completely purged and mutual trust returns to the global financial system.

The combination of too much smoke and too many mirrors is an extremely difficult set of conditions in which to chart one's wealth management course. While we don't like the word "crisis" any more than you, let us be honest and call the present situation a crisis. Only then can we *react* in an appropriate and intelligent manner and *allocate* our wealth utilizing strategies that fit the circumstances at hand.

A surgeon entering an operating room filled with smoke and wavy mirrors would quickly understand that the day's caseload must be cancelled and rescheduled. It is no different for us as investors. It is time to step outside the room, take a deep breath, evaluate our options and proceed with a revised plan.