



Randy L. Flink, Principal ❖ Christopher M. Gregory, Principal
Robert I. Kramer, M.D., Medical Advisor

September 12, 2008

MANIC RECESSION

The US Government and taxpayer have fallen victim to the greatest bankruptcy in history. With the ink still drying on the nationalization of Fannie Mae and Freddie Mac, the US Government has increased its public assets by almost \$6 trillion (which grossly overstates true market value) and has increased its public debt by another \$6 trillion. The immediate plan is for the US Government and taxpayer to invest \$200 billion of new capital into the bankrupt entities and keep them operating until they can be liquidated in part or in whole during more prosperous economic times.

This drastic step was taken by a nation that has preached the benefits of free markets and free private enterprise. Make no mistake about it that our national liabilities and debt service burden have just entered the Twilight Zone. It is guaranteed beyond a doubt that the Federal obligations cannot be satisfied via conventional means. The US Government has reached the point of needing to auction Federal lands and offshore waters to plug the massive holes in its financial hull but not a word of this will ever be breathed in Congress.

This national financial catastrophe comes on the heels of the collapse of Bear Stearns and foreshadows the imminent collapse of Lehman Brothers. These are 2 of the largest investment banks on Wall Street. It also follows the demise of Countrywide Mortgage, the nation's pre-eminent mortgage lender and the imminent demise of Washington Mutual, the nation's largest savings and loan.

We can't know where the list of potential bankruptcies will end but 2008 is now a confirmed tipping point for the world's financial system. Yet the daily headlines emanating from the traditional sources in Washington and on Wall Street still indicate that a recession has not yet been marked down as official.

Our political and business leaders struggle mightily to tell us that the US is in recession. They cannot seem to get the words out. Major media consistently spins the facts away from the public's eye. Only by looking back and measuring actual performance against official Government assessments and predictions can we begin to understand the real story.

We must seek an understanding of actual conditions in order to properly manage our wealth, even if it is an imperfect understanding. Seeing the truth presents a monumental challenge, similar to navigating through a very bad storm trying to find a safe harbor.

The investment markets are short-circuiting before our very eyes. Or are they? There are 3 distinct possibilities:

1. We are about to awaken from a bad dream. There soon will appear market bottoms and excellent long-term buying opportunities.

2. This bad dream is very real. The fires are very real and they will require another 1-2 years to burn themselves out. The excellent long-term buying opportunities are a ways off in the distance.
3. This is not merely a very real dream but a living nightmare. The financial Global Positioning System is completely broken and we are sliding into an abyss not seen since the decade of the 1930s.

What is one to do? As we look back and begin to appreciate that actual results have fallen far short of even the most conservative predictions, we should be hearing warning sirens. Within our "AARP" framework (Accumulate, Allocate, React and Protect), all buttons must be pushed to some degree.

*The full text of our commentary on recession contains much more insight and analysis and concludes with recommendations. As previously mentioned, we stand ready to share the entire report with our faithful **DocOnomics** readers. If you would like to receive the commentary in its entirety, please click the e-mail link below and submit your request via a brief note.*