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TWO-MINUTE WARNING

Nobody we know wants to hear about a possible Depression. It is too depressing. That probably explains why since the 1970s the term "recession" has been universally deployed whenever the economy takes a turn for the worse.

Right now, your *DocOnomics* authors believe that America is being brainwashed into believing that the US economy "might" be entering a recession that will last into 2010. This is the party line, but it will be no party.

You see, we have come to the not surprising realization that all official economic measurements are backward-looking. With this in mind, it is our concern that we are going to be picking up the newspaper one morning in 2010 only to read that according to the latest official statistics, the US has been in a Depression for the past 12-18 months. Unfortunately, that revelation will have come too late for most individuals interested in protecting their income and wealth from the destructive forces that we generally attribute to a Depression.

Because *DocOnomics* is unwilling to be trapped by the conventional "rear view mirror" brand of economic analysis, it is critical for us to get out in front of the curve and flesh out the forward-looking indicators that might warn us if an actual Depression is in its early stages.

Here is what we see right under our noses:

1. On a global scale (including China), sizable and accelerating job and income cuts
2. On a global scale, sizable and accelerating debt failures combined with the rapidly shrinking availability of credit
3. On a global scale, sizable real estate and stock market declines and the increasing likelihood of sovereign debt defaults on most continents; and
4. On the home front, the declining credit capacity of the US Government as a combined consequence of massive new debt creation and a veritable avalanche of government guarantees within the private sector, e.g., AIG obligations, Fannie Mae/Freddie Mac obligations, money market funds, corporate commercial paper, etc.

Based on our current observations of mounting economic distress in multiple regions of the world and the theorem that "the whole is greater than the sum of its parts", we now think there is a 50% or greater probability that the US already has entered a sustained period (minimum 5 years) that will be characterized by a contracting economy, interest rates falling to and remaining at zero and loss-generating real estate and stock markets. Along the way, there is a possibility for onerous inflation and product shortages if US imports are restricted by our inability to pay exporting nations with honest money and/or if government price controls are implemented. There is a further case for government to nationalize all industries deemed critical to our everyday life. This nationalization process already is well underway in the banking industry.

Like it or not, the above-described scenario is a Depression. The global financial system is glutted with an unprecedented amount of toxic waste and is choking on non-productive debt. The cleansing/purging process has begun. There has never been anything like this since the 1930s, which explains why all attempted solutions have been nothing more than fancy guesswork followed by plain failure. (And yes, former Federal Reserve Chairman Alan Greenspan finally has admitted that he was very wrong not to have pushed for regulation of the derivatives markets. This tends to prove our case that most economic thought and action is trapped by backward-looking analysis.)

You either are with us or against us on this call, but *DocOnomics* is telling you that there is a high probability that we are in the early stages of a Depression of unknown duration. We have read our history books and sense that the US is about to be humbled if not trampled by mounting joblessness, shrinking paychecks, a destruction of real estate and investment wealth and an increasingly insolvent and more invasive government. The clock finally has expired on a nation that insisted on breaking all of the time-honored rules established in its democratic constitution. We fear that we are now back in 1930 (and we guarantee you that nobody in that era called it a Depression until 1932.)

Although everyone has different needs and some will fare better than others under adverse circumstances, our basic financial strategy for these next 5 years is as follows:

First, get as liquid as possible. You may need to live out of your investment capital and you do not want to be selling assets when there is a declining population of buyers and limited access to credit. With a portion of your portfolio, lock in guaranteed returns. This strategy will protect you against a prolonged scenario of zero interest rates. A ladder of fixed and indexed annuities issued by the highest-rated insurance companies is an excellent way to execute this strategy.

Most of your remaining liquidity should be kept safely on the sidelines and reserved for investments that could benefit if we get into a hyperinflationary scenario caused by product shortages and/or a significant devaluation of the US Dollar, which would raise prices of consumable and tangible items in dramatic fashion. Investments of this nature would be in the following sectors: commodities, industrial resources, precious metals and real estate.

If you are willing to break from the herd and wander down our path, we'll be happy to work with you on an action plan if your current financial advisor is unwilling to administer the Prozac. Also, please feel free to forward this commentary to anyone that might benefit from it.

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