The Coming Great Financial Panic

INTRODUCTION

In this book we will reveal the truth about these important topics:

1. What exactly constitutes money?

2. What debt is and what is the future of debt?

3. The truth about Big Banking.

4. World finance. This affects US citizens directly in ways that most don't understand. You will be amazed at how intertwined our financial systems are with those of the rest of the world.

5. The causes of financial panics.

6. How to predict Financial panics. There are fairly reliable indicators that we can follow that can help us predict panics.

7. Most important: How we can <u>profit</u> from financial panics.

Some of the world's greatest wealth has been made during financial panics by people who are shrewd enough to predict them and know how to take advantage of them. Rockefeller made his great fortune during the Great Depression. In more recent times, George Soros became famous for making a fortune by manipulating the Great British pound, and almost taking the whole financial system of the United Kingdom down with it. People who are educated and prepared have been able to take advantage of panics. We have studied these people and we're going to be learning from them.

How many times have you seen a cartoon like this? The Bible teaches that there will be an end to the world at some point but that is not what we are predicting in this book. We are not even predicting the end of the financial system, because life will carry on after the financial panic. Ironically, we are not even trying to create alarm. We are just presenting the facts in a well organized manner so you can prepare. We think that there is enough information to conclude that a financial panic is inevitable, but no one can know exactly when it will happen. That is why it is urgent that we plan in advance. Once the inevitable becomes obvious, it will be too late.

The most important thing to remember about the timing of the crash is that no one knows when it will take place.

Part One

WHAT IS MONEY?

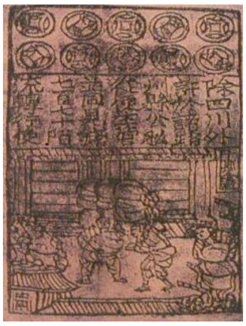
The beginning of understanding finance starts with the history of money. We take money for granted. We live in a modern age, where money is very simple. You go to the store to buy something and usually you hand someone a plastic card. When we think of it logically, is that really money? It's hard to imagine that our ancestors would have been comfortable with that. They would have thought we were absolutely crazy! A piece of plastic is money?

So we pose the question, "What is money?" Is it a piece of plastic? Is it paper money? The Bible is a good resource tool for this subject. At the beginning of recorded time it discusses what money is. Pick up any Bible and turn to page 2 and there it is. It states clearly that gold is good. So all the way back to the beginning of time gold was recognised as money. Furthermore, all the way through the Bible gold is referred to as money. This is where it all began, but since there was never enough gold in supply to facilitate commerce there had to be alternatives; there had to be substitutes.

COMMODITY FORMS OF MONEY

The first substitute currencies are also recorded in the Bible, such as herds of cattle used as money. This is still true to an extent today. If you are considering buying a ranch, part of its value may well be the size of its herds of cattleRice was money at one time. It's hard to believe this, but it was a commodity form of money. Salt was considered money. In fact salt was very valuable because it was the only preservative before there was refrigeration. Cowrie shells are beautiful objects that were used as forms of money many thousands of years ago. And a few thousand years ago leather was also sometimes used as money.

THE FIRST PAPER MONEY



The first country in world history to invent paper money was China about 1,000 years ago. Few people know that China has been the world's largest country in terms of economic prosperity and output for 18 of the last 20th centuries. It has only been in the last 2 centuries that Britain and then the US outpaced China. Many economic experts believe that China is on target to pass the US as the world's greatest economic power in a relatively short period of time. We have seen estimates as short as a few years from now to as long as a few decades from now. It appears to be inevitable that in our lifetimes we will see China become the world's greatest economic super power. Considering their history, it shouldn't be a big surprise to see them reclaim this position.

THE FIRST COINS

The first coins were made in 600 BC, and at that point mostly replaced everything else as the primary form of money in the world. As minting procedures became more developed and coins could be produced in larger numbers to facilitate commerce, it allowed for commerce to spread and empires to flourish. The Greeks and Romans developed the first highly organised currency systems. They also incorporated their love of art into making some of the world's greatest artistic coin designs. These coins were not only made for commerce but also to reflect the grandeur of the Empire. Nobody looked at salt or rice or other substitutes as art works. But coins were not just forms of currency, but also great works of art that are treasured to this day.

When Theodore Roosevelt was President he looked back at the history of coinage and saw what the great artisans did in Ancient Greece. He so admired the artisans of the period that he personally sought out the most famous sculptor of his day to take charge of redesigning US coins, which he called boring.

THE DEFINITION OF MONEY

The Bible definition of money is gold and silver. The definition of money in the US Constitution is also gold and silver. In 1776 the Continental dollar, the first US currency, was first created - only to explode in hyper inflation a few years later. This caused Congress to create a new dollar linked to gold and silver. Thus the United States Dollar was created and it was denominated at $20 per ounce of gold. This worked quite well for over 150 years. What is today's definition of the dollar? Well we might be sweeping them into the trash can at some point. As crazy as that might seem this has actually happened in other countries in recent times where the currency hyper inflated so rapidly that it became nothing more than a fire starter, toilet paper, or wall paper.

What is the future of the dollar? It is likely that we will have a new one in a relatively short period of time. We will be explaining what to do if that happens. What will the new dollar look like? The newly issued $100 bill, which has seven "biometric" features (some of which make tracking possible), may be the design.

The most interesting thing that we discovered while doing research is what our Central Bank has to say about gold as money. Here is a transcript of then Fed chairman Bernanke, being questioned by then Congressman Ron Paul:

PAUL: “Is gold money?”

BERNAKE: “No, gold is not money.”

PAUL: “Even though it has been money for over 6,000 years, you think that you can reverse that economic law?”

BERNANKE: “Well, it is an asset.”

PAUL: “Why do the Central banks hold it?”

BERNANKE: “It’s the reserves.”

PAUL: “So, why don’t they hold diamonds?”

BERNANKE: “Well it’s a tradition, a long term tradition.”

ARE THE FOUNDING FATHERS AND THE CONSTITUTION RELEVANT TODAY?

Today our Central bank has turned its back on both the US Constitution and world history by saying that gold is no longer money. Therefore this is going to be one of the elements that we are going to consider in this book. Is it true? Is gold obsolete? Do we actually believe what the Federal Reserve has to say, that it is no longer money and it is a quaint notion of the past? The Constitution says that gold and silver are the only lawful money. It says nothing about the Federal Reserve or Central banking or paper currency. It simply says that gold or silver are the only Constitutional money.

So were the Founding Fathers, who wrote in the Constitution that gold and silver are the only lawful forms of money, qualified to make these decisions? Is their financial expertise now outdated? Is Bernanke correct when he says, “It’s just tradition”? Is the Constitution outdated and in need of updating? It begs a bigger question: Are the foundations, principles and morals of the United States subject to change?

We have already witnessed this in many ways. Many things that we formerly thought of as inappropriate are now considered appropriate. Important moral principles are now up for interpretation. If this kind of thinking has now morphed into the financial world, then we have begun a descent into financial oblivion. This is why we think that it is important to look at the Founding Fathers world. What was happening in our country at the time when they made the decision that only gold and silver were money?

fathers debated this with their recent experience of the Continental dollar in mind. What exactly was the Continental dollar? The Continental dollar was the first currency of the US when the states declared their independence from England. There was no Mint established at that time. The equipment and buildings had not been set up yet, so the fledging government of the United States started printing the Continental dollar to enable it to do business. This new currency worked for a period of time but then began to quickly deteriorate in an implosion of Hyper Inflation.

The Continental Dollar grew so wildly out of control that some of the most famous economists of the time to write about it. For instance Adam Smith, a Scottish economist and philosopher, wrote “The Wealth of Nations”, considered to be one of the greatest works at the time. Smith was. He published the first description of what it took to build a nation’s wealth. His book is a fundamental work in classic economics that reflected on the beginning of the the Industrial Revolution. The book touches on broad subjects such as labour productivity and the nature of a free market. In this book Smith criticizes the Continental currency, writing that it a “violent injustice” to the creditor. He went on to say that, “Inflation is simply a scheme of fraudulent debtors to cheat their creditors.”

Why does that mean? It means that if the currency is inflated, people on a fixed income lose the value of that income. If, when they try to spend their money, they discover that (due to inflation) the things they planned to purchase have increased in price, they feel cheated. The Founding Fathers recognized this, because they personally had the experience of watching the Continental Dollar dramatically lose its value through Hyperinflation.

How badly did it implode? In just 3 years, the Continental Dollar dropped in value to an exchange rate of 100 Continentals to one new US dollar. Very few people today realize that our very first currency essentially became worthless through inflation. If your ancestors were saving Continental Dollars to buy something valuable, they were robbed. The Founding Fathers saw this, and understood that this was not an experiment that they wanted to repeat.

For this reason, they did not merely suggest that gold and silver should be money, but they Constitutionally mandated it. Our Founding Fathers were not only qualified to make decisions about our money, but they were also quite shrewd. They wanted to make sure that no future politicians could play games with the People’s money. By making it a Constitutional requirement, that meant that this could not be changed without amending the Constitution, which is a very difficult challenge. However the Founding Fathers did not factor in the slick presidential abuse of power that eventually took place.

The first federally chartered bank in the US was known as the Bank of North America. Although it was a private bank, it was chartered by the Continental Congress in 1781 and opened in Philadelphia in 1782. This was our de facto first Central Bank. At the time it was created it was backed in gold. Later it was replaced by our first actually Central Bank, owned and operated by the US government. It was chartered in 1791, and was dissolved 20 years later because it did more harm than good.

Our present Central Bankers don't believe that gold is money. However the money of First Central Bank of the United States was backed by gold, because that was the only way it would have any credibility. Who would think it was credible if it just issued paper backed by nothing like our first money, the Continental Dollar? It would have been considered a laughing stock. Remember the Founding Fathers experience had just experienced hyperinflation of a shocking magnitude and they wanted to protect future generations from ever having this happen to them.

This a $20 bill from the time when our money was backed by gold:

Notice the inscription: "There have been deposited in the Treasury in the United States of America Twenty Dollars in Gold Coin Payable to the Bearer on Demand."

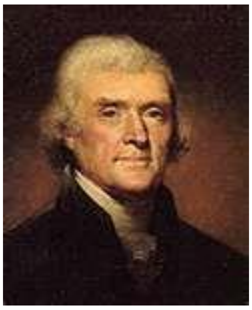
This is the way our currency used to be read. This gave people confidence to accept this substitute paper currency because they knew they could exchange it at the bank and take away hard money. If you own old US gold coins, you know they are quite heavy. If your ancestors had a significant amount of business to conduct and needed a sizeable amount of money to do that, carrying around a large amount of gold could be challenging.

Paper currency did have a useful role in commerce as long as it was backed by real money. What do you think is backing modern money? Before 1933 the government was obligated to give any citizen who requested it one ounce of gold for a twenty dollar bill. Today the government is only obligated to give you two tens, four fives, or twenty singles for a twenty dollar bill. In other words, more paper backed by nothing. The government is not obligated to give you anything of value for your paper money.

The United States is based on our belief that our Founding Fathers knew what they were doing. Either they did or they didn't. If we are to believe Bernanke then we have to question whether anything was done properly in the setting up of the United States. Is any aspect of the economic leadership of our Founding Fathers of any merit? Were they just a bunch of dunces who didn't know what they were doing (as the Federal Reserve Chairman implied)? As we observe how modern finance is playing out, it is hard to imagine that there is any connection of the current United States to the United States our Founding Fathers envisioned and created.

What about the role of money substitutes? Clearly modern finance can function without gold. Anybody who has been to a store knows that. You either pay the merchant with some paper money or a piece of plastic. But without the foundation of gold, the elite bankers and politicians can manipulate our money. This is the problem that the Founding Fathers foresaw. They realized that they needed to protect us from bankers. Thomas Jefferson wrote during these debates:

“If the American people ever allow private banks to control the issue of their currency, first by inflation, then by deflation, the banks and corporations that will grow up around them will deprive the people of all property until their children wake up homeless on the continent their Fathers conquered...I believe that banking institutions are more dangerous to our liberties than standing armies...The issuing power should be taken from the banks and restored to the people, to whom it properly belongs.”



This is exactly what is taking place. Jefferson could not have been more prophetic. His fears have become reality. The more you understand modern finance, the more you realize it’s nothing but a game. If you are good at the game you will profit tremendously. As long as you understand that it is a game then you can make money from it. For those of you who played Monopoly a lot in your youth, perhaps this is your opportunity to use your skills and learn more about what is taking place today.

The big bankers today control the game. It’s incredible to see what is taking place in banking and finance. Banking is not the same anymore. We all remember opening a bank account, meeting the manager of the branch, and developing a relationship with him or her. Then a short while later, the bank was acquired by another bank and the person we were working with had been fired. So now we had to start all over again. Then not too long after that the bank was acquired by another bank, and then by another, bigger bank. Dealing with banks today is like a revolving door.

What started as a community bank relationship in which you knew one another has changed. Today, even the biggest business men don’t have relationships with their bankers anymore. It is all very clinical. There is no personal feel anymore with banking. The reason the government is encouraging (and in many cases mandating) bank mergers is that they want to deal with just a handful of major banks. The fewer the banks, the easier it is for the government to control them.

The banking business today is nothing like what it was just a few years ago. Mortgages and business loans are boring to them. Today banks make big money gambling as if they were giant casinos. The bigger the banks, the bigger the bets, the bigger the pledges, the bigger the potential wins and the bigger the potential losses. If they win, they keep the profits. If they lose, we pay.

But the biggest and most sophisticated player of all in the world is the Federal Reserve. The mandate of the Federal Reserve, as stated in its by-laws, is to protect the country and provide a sound economic system. But what is actually taking place is anything but that.

The Federal Reserve isn't even Federal. The public doesn't realize that the Federal Reserve is a system of twelve regional private banks. The government may have some stock ownership in the Fed, but we don't know exactly because the ownership is kept secret. We know that when the Fed was secretly formed, foreign bankers were involved in its founding. We are not even allowed to know if foreigners have ownership in the most important financial institution in the nation. Think of the National Security implications!

The Fed has more control over our economy than the president and the Congress combined. Yet the only power our government has over it is that the president nominates the Fed Chairman and the Senate confirms him or her. The Fed won't even agree to have its twelve branch presidents confirmed by Congress. Our nation has as much control over the Fed as it does over the Mafia. And the secrecy level is about the same.

One of the important reforms that Dr. Ron Paul tried to accomplish when he was in Congress was to have the Federal Reserve audited. His bill passed the House, but it never made it through the Senate. To this day, in its entire hundred plus years of operation, the Federal Reserve has never been audited. Any public corporation is required to be audited every year. Yet the Federal Reserve System, the nation's bank, has never been audited except by itself. That's like a corrupt police department investigating itself. In that situation, the FBI is brought in. But the Fed refuses to have anyone audit it.

Every commercial bank in the US is also required to be audited every year. It is a cause for grave concern that the nation's central bank has never been audited. This raises serious questions of possible corruption. When we study the record of the Federal Reserve in depth, it becomes even more intriguing.

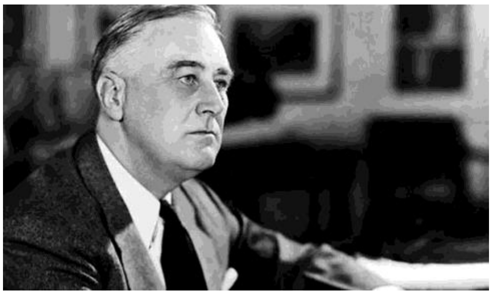
The world is a tinder box and one spark and the whole world goes down in flames. We just assume we're borrowing the money from other countries to cover our staggering debt. But the reality is that other countries are heavily in debt also. It's just smoke and mirrors.

What could cause that spark? I conclude that there are four specific sparks that could trigger a blow up that would make what happened in 2008 look like nothing. Looking at the four possibilities that could cause this, each one by itself could cause this. Further analysing this, it looks like the perfect storm is coming where all four of them are ready to blow up simultaneously.

THE COST OF BORROWING MONEY

The first spark is the cost of borrowing money.

Here's something interesting to contemplate: How do you think the government managed to get away with confiscating gold? What salve do you think the government could have possibly offered the people to have persuaded them into doing this? What could have possibly lulled them into being so gullible, actually lining up and turning in their gold? It's hard to believe that this actually happened. Would you do this? Today Americans would likely get out their shotguns and say, "Just try and take it!"



On April 5th 1933, just a month after Franklin Delano Roosevelt's took office, he criminalized gold with a presidential decree. This was obviously thought through before he took office because he was ready to go with Executive Order 6102 in short order: his first executive act. It's amazing that one of his first priorities would be to steal the money of hard-working citizens. No country in the world has ever made it a criminal act for its people to own their own money. The United States is unique in having done such an outrageous thing.

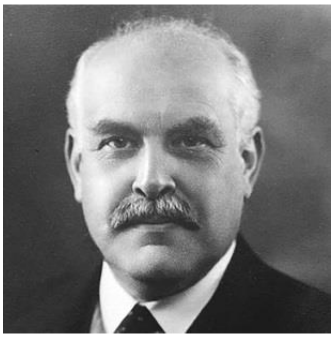
You are about to learn the outrageous truth about our banking system that few people (including most people that work in your local bank) understand. You may or may not have heard the term "fractional reserve banking" but it is important to understand it because of its impact on your personal finances. Banks are only required to keep a fraction of the money that people deposit as reserves. That's normally one tenth, which means that if there is a panic, only the first 10% of depositors will get their money. The rest is loaned out.

Benjamin Franklin said, "The inability of the Colonists to get power to issue their own money out of the hands of George III and the international bankers was the prime reason for the Revolutionary War."

We were always taught that the American Revolution was about taxes as manifested with the tea party. But Benjamin Franklin, one of the wisest men this country ever produced, and one of the most important of the Founding Fathers, says it was the fact that we could not get the power to issue our own money, and therefore we couldn't control our own economy. The greed of King George III of England and the international banking cartel was the primary reason for the Revolutionary War. In Franklin's opinion there would not have been a revolution if England had let us manage our own money.

John Adams agreed. He said, "All the perplexities, confusion, and distress in America arise, not from defects of the Constitution…so much as from downright ignorance of the nature of coin, credit, and circulation." That's a lot of C's: Coins, Credit and Circulation. We are not talking about only the man on the street being ignorant of these things, but also the legislators - the people who were running the country - were very ignorant concerning money.

Many people outside of England never heard of Sir Josiah Stamp, but he was a very interesting gentleman. He was the President of the Bank of England and the second richest man in Great Britain in the 1920s. He spoke these words in a speech at the University of Texas in 1927:



"The modern banking system <u>manufactures money out of nothing</u>. The process is perhaps the most astounding piece of sleight of hand that was ever invented. Banking was conceived in iniquity and born in sin. If you want to continue to be the slaves of bankers and <u>pay the cost of your own slavery</u>, then let bankers continue to create money and control credit."

Of course that is the case in the United States today. The bankers own the Federal Reserve System. The Federal Reserve is not federal. In fact, it's no more federal than Fedex. It is a banking cartel made up of private bankers who own the Fed. We are doing what Sir Stamp described: allowing private bankers to create money and control credit. The public has in essence said, "Bankers, we'll be your slaves and we'll pay you to enslave us."

Canadians are just as uninformed as U.S. citizens. A Canadian Deputy Prime Minister asked hundreds of citizens if they knew how their money was created. No one could answer that question.

The Bank of England was officially established in 1694. It existed informally for years before that. At that time, they set reserve requirements at 2:1. This allowed the banks to loan out twice the amount of gold that they had on deposit. Remember, back then, gold was the money, not debt instruments, not Federal Reserve IOU's like we have today. Compared to today's leverage of 10:1, the leverage was very modest.

Full reserve banking was practiced historically from the early 1600's by the Bank of Amsterdam - the first officially recognized bank - and other early banks. But by 1800 full reserve banking was displaced by fractional reserve banking. England was the financial powerhouse of the world, and set the example for the rest of the world. Over the years there have been many proposals to return to full reserve banking. In reality, you can only loan out what you've got. That just makes sense. Many prominent economists, including Irving Fisher and Milton Friedman, have called for a return to full reserve banking. These calls have fallen on deaf ears because the politicians and the bankers make too much money on the fractional reserve banking system.

What is fractional reserve banking? It is a form of banking in which banks maintain reserves that are only a fraction of the customer's deposits. The bank only maintains a percentage of its deposits, called the reserve ratio, as reserves. Funds are lent out and then deposited at other banks, increasing deposits at those banks - which allows even more lending.

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Currently the funds that are lent out are based on this 10:1 ratio. For example, "Bank A" receives a $10,000 deposit, and loans out $100,000 based on that. If that money was deposited at the bank that loaned it, it wouldn't be too big a problem. But if the borrower deposits the money "Bank B", it starts a chain of events that are a big problem. That allows "Bank B" to increase its lending. They've got fake money that's been deposited and now, based on that fake money, they can lend out even more fake money. This is due to the fact that bank deposits are treated as money in their own right. If the borrower of the $100,000 deposits the money in "Bank C", "Bank C" can loan out $1 Million against it! Think of that. $10,000 has become $1 Million – just by a few strokes of a pen! And it doesn't stop there. There are lots of banks.

Fractional reserve banking increases the money supply, and private banks in reality create new money. You've probably always thought that the Federal Reserve creates all the money. Actually less than 40% of the money in this country is created by the Federal Reserve itself. We will show you statements by the Fed itself that show this to be true.

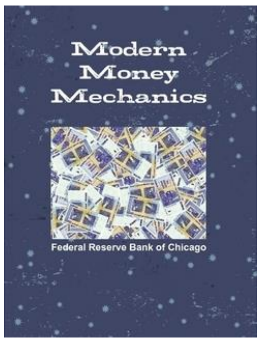
Most of our money is created by local, private banks, with the full blessing of the Federal Reserve. Due to fractional reserve banking, the real money supply of most countries is much larger than the amount of base money created by the country's central bank. And even the base money is fake, because it is based on debt as we described earlier. So money is debt. Let's repeat that. Money is debt. Money created by the central banks is debt, because debt instruments give the money its only backing. Money created by private banks is also debt, for the same reason. Think about this. In the highly unlikely event that the US ever paid off its National Debt, we would have no money! Since our money is backed only by debt, if the debt were to be paid, there would be no money left.

This is how banks create money from nothing…

Have you ever wondered who the culprits are who create fake money? Unfortunately, you are probably one of the guilty parties. If you have ever borrowed money, you and the banker conspired to create money out of thin air. Let's say you took out a $200,000 business loan, or a $200,000 mortgage. Remember that the bank only has to have $20,000 in deposits to make such a loan. Then where does the rest of the money come from? By signing that note or mortgage, you and the banker have conspired together to create $180,000 that never existed before.

The more the money supply increases, the more debt increases, because the money is debt. The more the debt increases, the more inflation increases. As inflation increases, the buying power of money decreases. So, what is inflation? It's not rising prices, as most people think. It's exactly what it sounds like – the inflation of the money supply. Think of a large balloon being inflated and continually growing larger. The larger the money supply, the lower the value of each dollar. It's Economic 101 – supply and demand.

Suppose you raise pumpkins to sell in October. If you raise a whole lot of pumpkins and all your neighbors and friends and everybody in town raise pumpkins, the price of pumpkins is going to drop. "Economics 101" says that as the supply increases, the demand is diminished – and prices drop. It's the same with money. Money is not immune to this law of economics. The more money exists in the money supply, the less the money is going to be worth.



We will quote from a major Federal Reserve publication, but you should consider reading the entire volume for yourself. It's titled Modern Money Mechanics. It describes how money is magically created from nothing. Most people find it surprising that the Fed would admit how it functions. We don't. They publish this information for three reasons:

1) If they admit to it, no one can accuse them of it.
2) They know most Americans won't take the time to study it.
3) They know people simply won't believe what's right in front of their eyes – that the Fed literally creates money from thin air.

This short YouTube video gives a great explanation of money creation: [Modern Money Mechanics Video.]

There are twelve Federal Reserve banks. The New York Fed is the most influential, but the Chicago Fed is the second strongest. The Chicago Fed produced Modern Money Mechanics, but the concepts exposed in the publication apply equally to all twelve branches.

They admit that the Fed and the global web of central banks that it supports create money from nothing. These are their own words. In the introduction they say that the purpose of the book

is to describe the process of money creation in a "fractional reserve" banking system. We teach about Fractional Reserve Banking in the international money shows, college economics classes, churches, conferences and seminars. When we discuss these issues, people look at us as if we have two heads. They can't believe it's possible for local banks to create money from nothing. But under the heading Who Creates Money, the Chicago Fed states that, "The actual process of money creation takes place primarily in banks."

This is how the Fed describes the process…

Money Creation Stage 1: In economics, money creation is the process by which the money supply of a nation is changed. It could be changed up, it could be changed down but since 1913, since the Fed was created, it's been going up. There has been no contraction in money supply, except for very short, brief contractions.

There are two principal stages of money creation. First a central bank introduces new money into the economy by purchasing financial assets or lending money to financial institutions. How do you create new money by lending money to financial institutions? Well, simply when they lend the money, that money shows up on the bank's books as a deposit, up so there is more money. But it's all funny money. Monopoly money, if you will.

In stage 2, the new money introduced by the central bank is multiplied by private banks through fractional reserve banking. This is also expands the demand for money in the economy so it is a multiple (known as a money multiplier) of the amount originally created by the central bank.

Money Creation in Seven Easy Steps (Some excerpts from Modern Money Mechanics):

Step One – The government decides it needs $10 Billion to buy computers or pay rent. It sends a memo to the Fed requesting this much money. The Fed says "Sure, no problem. We'll buy $10 Billion in treasury bonds from you for $10 Billion in currency that we will print. If you want $10 Billion of money, we'll trade you."

Step Three – The Fed prints up some impressive looking pieces of paper (currency) and places a "value" of $10 Billion on them.

Step Four – The treasury prints up its own impressive looking pieces of paper called Treasury Bonds, Bills or Notes, and gives them a "value" of $10 Billion. Neither one of these is real of course.

Step Five – The Fed and the treasury exchange their pretty stacks of paper. "Money" has been created but, note this, nothing, nothing of real value has been exchanged. It's just been a bunch of paper.

The Fed deposits this new, so-called money in a commercial bank in your neighborhood. They can't deposit the whole 10 Billion of course in your neighborhood bank. They are going to spread it around to a number of different banks around the country and that turns it into legal tender. By doing this they add $10 Billion to the money supply but they also add $10 Billion to the national debt. They can't create money without creating debt. Please get that principle down because if you don't understand it then nothing else makes sense. Nothing about the economy makes sense unless you understand that our money is debt.

So who owes the debt? It's not the U.S. government. It's us. It's the citizens, the taxpayers who owe this terrible debt. Of course we can't pay it off, so unfortunately it is just going to be left to our children and our grandchildren who are going to be shackled with this debt.

We refer to money as "paper", but actually only about 3% of all so-called money is printed on paper these days. Most of our money is digital - just a bunch of bits and bytes on computers. Somebody just types on a keyboard, and Billions and Billions of dollars are created. So the entire $10 Billion in the illustration above is debt. The bonds are debt. The government promises to pay the private bankers of the Fed back with our own money, with our taxes. But our tax money is <u>also debt</u>, created from nothing. This is the ultimate in illusions.

The stuff you carry in your wallet or purse is correctly called currency. But currency and money are not the same things. Our US currency is not money; it is a bunch of IOU's. It's the government promising to pay $100 to the holder of the IOU. But what are they promising to give you? Our $20 bills used to have printed on them. "There have been deposited in the Treasury of the United States of America $20 in gold coin payable to the bearer on demand." A one ounce gold coin was worth $20. So if you took a $20 bill (a Gold certificate) to the bank, the bank had to give you one ounce of gold.

Today, the only thing the government is required to give you in return for a $20 bill is more paper: two $10 bills, 4 $5 bills, or 20 $1 bills. They are not required to give you <u>anything of value</u>. Understand this, your money is valueless. It is only worth anything if someone believes it's worth something, and is willing to give you something of value for it.

So at this point the government's deposit becomes part of the bank's reserves, just as all deposits, including your money does. The little bit of money that we deposit plus the large amounts of money that businesses deposit and the Billions of dollars the government deposits, all go to the banks. They all become part of the reserves so it's a multiplier, they are multiplying the reserves so more and more and more money can be lent out. Now it would be logical to conclude that the $9 Billion that's loaned based on the $10 Billion deposited would come out of actual deposits. But that's not the case. The way they work it, they take the $9 Billion, they added to the $10 Billion and now you got $19 Billion.

If I deposit $100,000 in my bank, and the bank then loans out a million dollars, and the person they loan it to deposits it in another bank, that bank can then in turn loan out $10 million. So my original $100,000 has been multiplied to $10 million. If that $10 million is deposited in a different bank, they can now loan out 10 times, making $100 million out of an original $100,000. It can go on forever!

This is why we will never see deflation. How can we have deflation when we continue to inflate, when the federal government is committed to inflation? The only way that this whole crazy system could be ended is for the banks to call back loans. Remember all this money is going out as loans: business loans, personal loans, home equity loans, credit card loans, mortgages. Therefore, to stop inflation and start to deflate, which would contract the money supply and lower the debt, they'd have to call in all these loans and crash the entire economy. This means that the government is on a treadmill. They have to continue creating more and more and more and more money. Otherwise everything falls apart.

Have you ever wondered how your bank survives by loaning money out at the current low interest rates? It's crazy. The answer is that they don't. They couldn't possible survive on that. They make interest on ten times their deposits; and they actually use the money multiplier a lot more than ten times. In simple terms, if they're charging 4.3% for a mortgage, they're actually getting 43% because they're loaning out your money ten times.

And by the way, you are guilty of participating in this process. If you have ever taken out a personal loan, a business loan, or a mortgage, when you signed on the dotted line your banker signed, you created 90% of the amount of that loan. So for example, if you signed a $100,000 of mortgage, it was based on $10,000 of deposits in the bank. The other $90,000 does not exist anywhere. You and the bank have just created that other $90,000. You were guilty of participating in this, but you didn't know what you were doing. You thought that the bank loaned out the money you deposited, but as the Fed's says, we'll see in a second, they don't. If they did, there wouldn't be any money there when you went to take a deposit out. Unless they called some loans in which they are not going to do.

So here is proof. The Fed brags that if business is active, the banks with excess reserves probably will have opportunities to loan the $9000. They're using the example of a $1000 of deposit. Of course they do not really pay out loans from the money they receive as deposits. What they do when they make loans is accept promissory notes in exchange for credits to the borrowers' transaction accounts.

That's fancy banking words for they create fake money. They want money to be created so they're saying. It wouldn't be a good thing if they actually loaned out more money. They are loaning out fake money because if they loaned their own money, no additional money would be created. So they're depending on all the local banks to create additional money. The principle is that banks don't keep deposits on hand. They are only required to keep 10% in reserves and only a small part of that is actually kept at the bank, most of that is kept at the Federal Reserve. So who knows if that's even there but look at the part that is highlighted here:

"Finally it must maintain legally required reserves, okay, in the form of vault cash and/or balances at its Federal Reserve bank equal to a prescribed percentage of its deposits." And for the last many decades that's been 10%. The smaller the reserve, the more the reserve requirement is, the more money can be created so they're talking, in an earlier part of this, if we had 10% reserves, then $10 million could give them a $100 million of money. But if you raised reserves to 20%, then deposits could only expand until they were five times the deposit reserve, as the reserves. Reserves of 10 million could support deposits of 50 million. So this is a chart that came with Modern Money Mechanics and if you see down at the bottom, this was what originally the reserve requirement of 50%, Bank of England, 2:1. So $100 would give you $200 of loan but if you go all the way to the top of the line there, which is what they currently do, 10%, then you could say for a $100 you can loan almost a $1000.

So, it's just like magic, like pulling a rabbit from a hat, except it's not a trick and as they said, they have made you a co-conspirator on the stand, and you didn't even know you were culpable. One last thing, you probably think, as most people do, that when you deposit money in a bank you retain ownership of that money. This is not true. Read the agreement. Nobody reads the agreement. But read the agreement. It says that you are loaning the money to the bank. It doesn't say that your deposit is, that you retain ownership of the deposit. Basically the bank has that money. It's their money to do with it as they will and they can justify that because they give you this little pittance of 1% or whatever. They carry your deposits on their books as a liability of the bank. So it's not in your name. It's a liability that they owe you but it's just like if you loan money to the local Dairy Queen and they go out of business, you lose your money. When you put money in the bank, you don't own it. The bank owns it.

INTEREST RATES

What have interest costs been throughout history? During ancient times, interest rates averaged between 10 and 20%. 10% was considered to be a Biblical interest rate. Jews were required not to charge interest to other Jews; but a 10% rate was considered a fair rate for gentiles. In ancient Rome it was even higher, in the range of 20%.

In the Middle Ages, interest rates averaged between 6 and 10%. Rates didn't begin to drop into the pattern that exists now until the 1600's, with a range of rates between 4 and 6%. For the last four hundred years, interest rates have averaged between 4 and 6%, with short-term rates being not only more volatile, but much higher, averaging between 8 and 10%. We saw a big spike back in the 70's and the 80's. Do you remember the Misery Index (defined as the combined rate of inflation and unemployment) that was coined by Republicans when they got rid of Jimmy Carter? Short term interest rates got up to as high as 20% under Carter, but then they reverted back to a normal range of 4 to 6% when he lost his bid for re-election.

Against this backdrop, the current low interest rates are an aberration. As a matter of fact, while rates have been near zero in the United States, some places are even worse than that. Many Western nations have introduced negative interest rates. This means you have to pay the bank to hold your money! This is obviously abnormal historically. There have only been a few years where interest rates were near zero, out of thousands of years where rates have averaged 10%. This is clearly not sustainable

Why is it not sustainable? It's due to the fact that money today is not being legitimately borrowed. Money today is being created. In the previous chapter, we explained that when money is created rather than borrowed, it is hyperinflationary. With nothing backing our money, more money is in circulation than there are goods and services available to be purchased with it.

Think of it this way. There is a limited amount of real estate in the world. If governments run printing presses nonstop creating money, and give everybody unlimited money to go buy that real estate - what do you think is going to happen to the price of real estate? Of course it's going to go up because everyone will desperately try to trade in their worthless paper money for something tangible.

If money is not legitimately borrowed, then interest rates cannot stay at these levels. The financial world believes that low interest rates are here to stay. There are countless articles stating that today's low rates are the new norm. We think that that is simply ridiculous. Anybody who has seriously thought about it, who has analyzed history and analyzed why it's not sustainable, would conclude otherwise. You should take advantage of these low rates. We will explain how you can take advantage of this in later chapters, but you can be sure that current interest rates are not going to stay at this level.

How can we be so confident in predicting higher rates? Simply because the Fed is committed to creating inflation. On the Federal Reserve's own webpage, it states that the Federal Reserve is committed to inflation: "Having at least a small level of inflation makes it less likely that the economy will experience harmful deflation if economic conditions weaken. The FOMC implements monetary policy to help maintain an inflation rate of 2 percent over the medium term."

Now, granted the Federal Reserve's policy statement does not say that it is committed to hyperinflation. However, they are clearly committed to what they term as a "small" level of inflation because of the fact that inflation motivates people to stop saving and increase spending. If you think that new truck you have been eyeing is going to cost you less next month, then you're going to keep your money in the bank. But if you think it's going to cost more next month, you're going to buy it right now, creating more business for the economy.

There are two problems with this. First, inflation is like the ocean; no one can control it. Nations don't intentionally create hyperinflation. They arrogantly believe they can create the inflation monster, and then somehow keep it from becoming runaway hyperinflation. Historically dozens of nations have found that they cannot restrain Frankenstein.

The second problem is that, to put it bluntly, the government lies about the inflation rate, typically understating it by 50% to 75%. Check out a website called ShadowStats.com. It documents government misstatements of interest and unemployment rates, among others, and gives the true, unbiased statistics. Why do governments lie about inflation? Fist, because it makes them look bad (as in incompetent). Second, the higher inflation is, the more they have to pay to federal pensioners and Social Security recipients.

Also, note the supposed mandate on the Fed's website for full national employment. That was never part of the original mandate of the Fed, which was laid out in the Federal Reserve Act of 1913. Their purpose was to regulate the money supply to keep the economy from having wild swings. But they have added on this so-called mandate to create full employment. They've never accomplished that, but it gives them a great excuse for some of the meddling they do in the economy.

Why does the Fed want inflation? Simply because it is the only way to retire the National Debt. Former Fed Chairman Ben Bernanke, speaking to the New York Economists Club a few years ago made the statement that, "It is in the interest of the federal government to create inflation because it, in effect, lowers the National Debt." As central banks create inflation, the money becomes worth less and therefore, it reduces the value of the debt. It's amazing to us the Fed is deliberately causing inflation, and virtually no national leader except Dr. Ron Paul has raised an alarm.

Former Fed chairmen have danced around this subject. When asked by Congressmen or reporters about the Fed's policy toward inflation, they would typically say, "Sometimes we have to allow some inflation to make sure we don't experience deflation." Bernanke had his faults, but at least he was the first Fed spokesman to come clean about the fact that the Fed deliberately creates inflation.

What is deflation? First, let's explode the myth about the nature of deflation. Just as inflation is not rising prices, deflation is not lowering prices. Deflation is the opposite of inflation. Inflation is the expansion of the money supply. So deflation is the contraction of the money supply.

Recall our discussion of Fractional Reserve Banking earlier in this chapter. The way the money supply is increased (inflated) is by creating money through loans. So how would deflation be triggered? By decreasing the money supply – through calling in those loans. Banks would have to require customers to pay off loans and mortgages early to take money out of circulation in order for the nation to experience deflation.

We know that's not going to happen. Prices would drop as a result. Merchants would have less income. They would either lower wages or lay off employees. Those employees would have no money or less money, so they would not be able to buy from the merchants. Less demand for goods and services would result in ever lower price. We would have a nationwide deflationary spiral - a situation which compounds over time leading to even lower prices in a vicious cycle. When this happens, economies often cannot recover.

So the Fed is deathly afraid of deflation, because in a deflationary spiral they lose their iron-clad grip on the economy. Therefore it is firmly committed to inflation, since they are in firm control of all aspects of the economy during times of inflation. (For a good description of a deflationary spiral from The Khan Academy, watch this video.)

Deflation or inflation? Which is better? Actually, it's not an "either-or" choice. Many nations have found the equilibrium between over-spending (and the resulting debt) and monetary policies that are so tight that there is no economic growth. We used to be one of those nations.

For our first 157 years (about two-thirds of our existence as a nation) we were essentially flat for inflation. Certainly in times of war there was some inflation. But our economy was not manipulated by a central bank, so it adjusted on its own. After wars, when nations tend to borrow, there were mild periods of deflation that balanced things out.

The proof that we had a self-correcting economy can be found in the two most reliable measures of inflation – the cost of labor and the price of gold. A skilled laborer was paid $20 a week in 1776. And he was paid the same in 1933. Gold was $20 per ounce in 1776. And it was the same in 1933. In fact gold cost $20 per ounce for hundreds of years if you go back to gold pricing in England. But everything changed in 1933 when FDR took us off the gold standard. Since then, as we mentioned earlier, the real purchasing power of the US Dollar has dropped more than 96%.

With this understanding of inflation and the money supply, it is easier to comprehend how the actions of the Fed impact interest rates. 30 year mortgage rates currently average around 3%. It is inevitable that during the next 30 years we will experience hyperinflation. Mortgagors may be able to pay off their mortgages for next to nothing. We see opportunity here. We'll discuss in later chapters how to take advantage of the financial world's belief that low interest rates are here to stay.

What is the impact of rising rates? With a $30 Trillion National Debt, how can the US government continue to function? Only because interest rates are very low. With interest rates low, the interest payments – even on $30 Trillion - aren't too bad. But with the impact of rising rates, our $30 Trillion debt load will become a very serious problem. Just the interest alone on the National Debt could conceivably consume most, if not all, of the taxes of the United States. This is one of the sparks that we see coming. When will the rising rates take place? It's inevitable that they will start rising again and once they reach historical norms, we'll have a serious problem.

Looking at the Federal Reserve balance sheet, we see that the amount the Federal Reserve has "lent" toward covering the National Debt has risen dramatically as the Debt itself has grown larger and larger. The historical norm of Fed debt was manageable until recently. However, it has exploded to $5 Trillion as of this writing. This is how much money the Federal Reserve ADMITS to having created out of thin air to finance our nation's operating costs. It is probably a lot higher.

In addition to creating Trillions from thin air to finance operating costs, the Fed has created an even larger amount of money with no backing to use to purchase bonds. This has been the policy tool used to implement QE1, QE2, and QE3. This has been done to force interest rates lower in the marketplace. Fed minutes from 2009 show that the current Fed Chair, Janet Yellen, was worried about how to sell these bond when the Fed's balance sheet was $1.3 Trillion. Today the Fed's balance sheet is up to $9 Trillion of bonds. How are they going to ever sell this many bonds? There just are not enough buyers in the world.

These numbers are so big that we placed these charts here to help you understand what a Trillion dollars looks like. It's a monumental amount of money. Years ago Senator Everett Dirksen expressed his anger at the cavalier way Congress was throwing money around. He said, "A Billion here and Billion there, and pretty soon you're talking about real money." Now we are talking about a Trillion here, and a Trillion there and this truly is a serious amount of money.

Another big problem we're experiencing is that size of the bond market size is growing out of control. Corporations are taking advantage of near zero rates and issuing bonds at an unprecedented rate. An October 5, 2015 Wall Street Journal article was titled, "The New Bond Market – Bigger, Riskier, and More Fragile than Ever." It said that stocks rise and fall, but bonds are starting to make people anxious no matter what they do. That's because the U.S. bond market is now the biggest financial market in the world with $40 Trillion outstanding.

That’s 150% of the size of the U.S. stock market and nearly twice the combined size of the next five largest stock markets in the world.

It is obvious that the current low interest rates will not last. What will happen when interest rates return to normal levels - not just for the government, but for the financial world? With this much money outstanding in bonds, the bubble is becoming frighteningly large. When this bubble pops, it will send inflation to unfathomable levels.

Is it even possible to pay off our debts? That is the real question.

THE ENTITLEMENT CRISIS

Spark Number 2 - The Entitlement Crisis: Is it Possible to Pay Off Our Debt?

100 years ago bank runs were common. People lined up around the block, trying to get into the financial institution to withdraw their hard-earned money. Today we still have the same thing. Maybe not in your local neighborhood; but it is happening in other places around the world and has, and will happen again in the U.S.

When we look at the gigantic U.S. Debt, we can’t help but wonder if it’s even possible to ever repay. If you look at how much each of us owes toward the National Debt, it’s pretty shocking. Analyzing it by the population, it works out to $90,000 for every living person, including babies. Simple math tells us that an average family of four owes $360,000. Since the average family doesn’t have anything close to this much money, who is going to take care of this bill? Where will the money come from?

We think we know where it will come from. We are frequently asked in our teaching Webinars, “Is there any danger that gold might be grabbed again like the government did in 1933?” The answer is, yes they could, but that’s really small potatoes. Do you think the government will send Treasury agents to go door to door looking for gold hidden in your basement? No, the real prize the government will go after are private retirement and pension funds. As shocking as that might sound, there are many people who have studied this intensively, and who believe that the government will go after IRA’s 401k’s, pension plans and annuities because they are the only source of money big enough that can pay off the Debt. They won’t have to raid Social Security. They’ve already done that. There’s nothing left in the “Trust Fund” except some dusty IOU’s from Uncle Sam.

So can the U.S. budget ever be balanced? There are two issues here. The first is, can the Debt ever be repaid and can the budget ever be balanced? We've been running deficits for so long that having a balanced budget seems to be a quaint notion from the past. Let's look at what's been going on in recent times.

The record looks pretty good. Unemployment is down and the economy is doing reasonably well. Looking at the market statistics, the last 3 Presidents have done a pretty good job. Let's all celebrate that.

Of course they did a good job. Why? Because anyone who's a big spender can impact the economy. Do you remember the legendary big spender Diamond Jim Brady? Anybody can impact the economy by spending piles of money. If you walk down the street handing out $100 bills, like Johnny Appleseed spreading seeds around, everyone is going to praise you. Of course the last 3 Presidents have been able to get unemployment down and the stock market up. They did it by tripling the national debt! But the day of reckoning is coming.

Entitlement is a big problem. Below is the text of the speech of a "Hollywood" President:

"Good evening. For too long we in Washington have been lying to you. We say we are here to serve you, when in fact we're serving ourselves. And why? We are driven by our own desire to get reelected. Our need to stay in power eclipses our duty to govern. That ends tonight. Tonight, I give you the truth. And the truth is this. The American dream has failed you. Work hard, play by the rules. You aren't guaranteed success. Your children will not have a better life than you did. Ten million of you can't even get a job, even though you desperately want one. We've been crippled by entitlements, including Social Security, Medicare, Medicaid, and welfare programs. And that is the root of the problem: entitlements. Let us be clear. You are entitled to nothing. You are entitled to nothing. America was built on the spirit of industry. You build your future. It isn't handed to you."

It's hard to believe, but Hollywood actually got this right. We would love to see any politician say what this Hollywood President says. Now of course, he is a make believe politician, but the writers of this are dead on accurate.

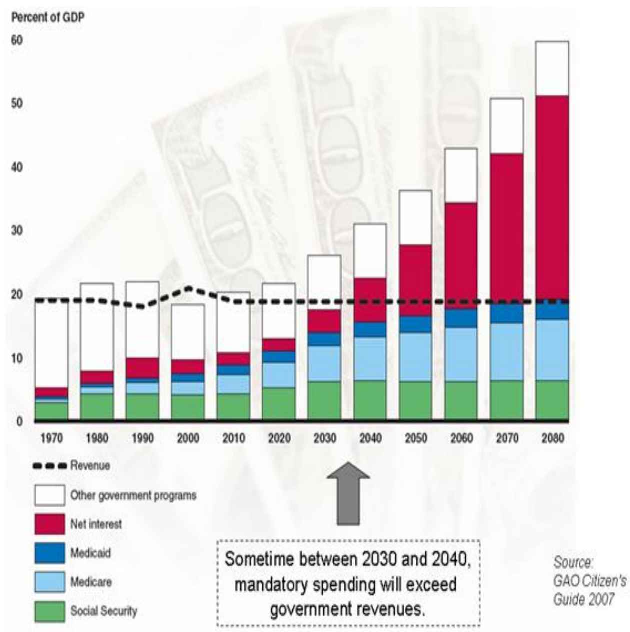
The Hollywood President giving this speech is actually a Democrat. It would be worth changing parties if there was <u>any</u> Democrat making this policy stance. This really caught our attention. It hasn't been said more simply than this. It is a shame that no one running for election is actually putting it out on the table and speaking this truth. Unfortunately, politicians are afraid to speak the truth.

What are entitlements? Entitlements, very simply, are mandatory expenses. They are commitments that the government has made to individuals. Here is the truth, the historical economic data to help you understand the severity of the problem:

- Entitlements consumed 15-20% of all tax revenues in the 1950's.
- They grew to 30% in the 60's.
- They advanced to 40-50% in the 70's and 80's.
- Then they grew to 50-60% in the 90's and early 2000's.

Now that's pretty scary, isn't it? But it pales compared to what's going on today. Entitlements now consume an astounding 100% of the entire tax collections! It's no wonder that nothing gets done in Washington.

The Office of Management and Budget (OMB) is the largest office within the Executive Office of the President of the United States. The main function of the OMB is to produce the president's budget. In the current year budget, total U.S. income is $4.1 Trillion, and total U.S. entitlements are $4 Trillion. You can see there that there is no leeway there. This means that the entire budget that the government can actually manage is paid for by creating money out of thin air. When we talk about getting the house in order, what can the president do? We're not offering the president excuses, but let's look from his point of view. What can he actually do? The entire budget goes to things that he can't do anything about. He has no control of the budget - that's it!



Now look at what has happened in just the last 50 years. The government had three quarters of the pie to work with. Now they've got nothing. There isn't any tax money left to pay for running the country. It's growing rapidly as you can clearly see: from 15-20% in the 50's, all the way up to 100% now.

Just 5 years ago, the OMB predicted this catastrophe coming between 2030 and 2040. However here we are now with the government not able to control any tax revenue. It all goes for entitlements.

Here is what is coming next. We see war coming on several fronts. We see a Social Security war coming because it's completely insolvent. Look at this chart. When it first started, there were 150 workers per retiree. Now it's 2.8. Not too far off in the future it's going to drop to one. The Millennials won't be willing to pay half their salary going to pay a retiree they have never met - nor should they.

Year	Workers per Retiree	Beneficiaries (In Thousands)	Covered Workers (In Thousands)
1940	159 Workers Per Retiree	222	35,390
1960	5 Workers Per Retiree	14,262	72,530
1980	3.2 Workers Per Retiree	35,118	113,656
2000	3.4 Workers Per Retiree	45,166	149,295
Today	2.8 Workers Per Retiree	57,471	163,221
2030	2 Workers Per Retiree	Projected	Projected
2040	*1 Worker* Per Retiree	Projected	Projected

The following chart is based on data from the Social Security website:

Period	Average Rate
1875 – 1925	3.67
1926 – 1965	2.84
1966 – 1990	1.99
1991 – 2003	2.01
2004 – 2015	1.74

All we have did was to take paragraphs from the Social Security website and put them into bullet points for easier understanding. The website even recognizes that people will want to know, "Will I get my benefits?" Most Baby Boomers realize they will probably receive nothing from Social Security. And most younger people surveyed believe that Social Security will be gone by the time it's their turn. Social Security says the answer can be found by focusing on the solvency of the Social Security trust fund. Well that makes sense. Let's see how solvent they are.

The Social Security website itself admits: "Solvency for the Social Security program is defined as the ability of the trust funds at any point in time to pay the full scheduled benefits in the law on a timely basis."

What about these trust funds? There are actually two of them. One is the OASI, which stands for Old Age and Survivor Insurance. Social Security is supposed to help you in your old age but also if you die, it is supposed to help your survivors, like young children and widows. There is also a DI (Disability Insurance) Trust Fund. If you're unable to work, Social Security is supposed to help you out.

Those two Trust Funders, together with HI (the Hospital Insurance Trust Fund) of Medicare, are special. They are different from any other trust fund of the government. The difference is that they share the important feature that benefits can only be paid to the extent that the trust funds actually have the assets to draw on to pay the benefits. Did you get that? They can only pay out if they actually have the assets. Why do they spell this out? Because other government operations, if they run out of money, can just borrow from the general fund. But on the government's own websites they make it clear that, unlike the rest of the federal government operations, these trust fund programs do not have the ability to borrow in order to continue paying benefits when the trust fund reserves are exhausted.

The government tells us the National Debt is $30 Trillion. However, the International Monetary Fund, which measures the debt of all nations, says you cannot play with the books that way. They express U.S. Debt the same way we do with every other nation of the world. The IMF lists our National Debt as $122 Trillion. The discrepancy is that – although the government acknowledges that it has over $100 Trillion in entitlement liabilities - it refuses to list these debts in the National Debt.

Any U.S. company that faked its books this way would be raided by the Justice department and its officers given jail sentences. But the politicians makes the rules. And the politicians have given themselves permission to lie.

There is no funding mechanism to ensure that the money will be paid. Social Security funds are due to run dry in 2037. It could be a lot sooner than that, but let's see what they have to say:

"The ability of these programs to pay benefits is directly dependent on the availability of assets in their respective trust funds. So either one fund had a little more money that could lend to the other one. The existence of assets over time in the future is the critical indicator of solvency." They begin by saying that if you want to know whether you'll be paid or not, we'll have to look at solvency.

Here are three important charts:

Chart 1.
Combined OASI and DI Trust Fund assets as a percentage of program cost, 1990–2008, projected under alternative assumptions, 2009–2085

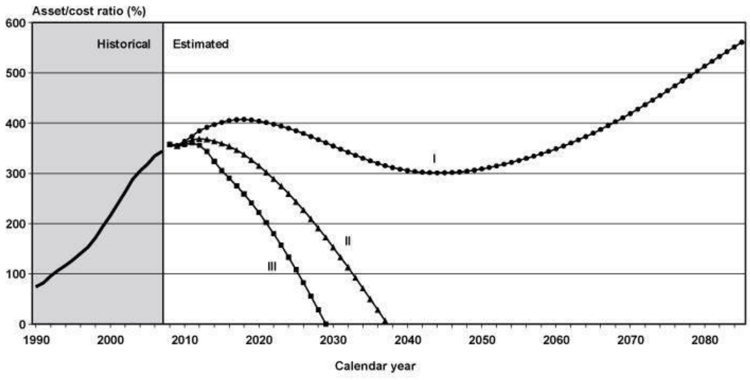
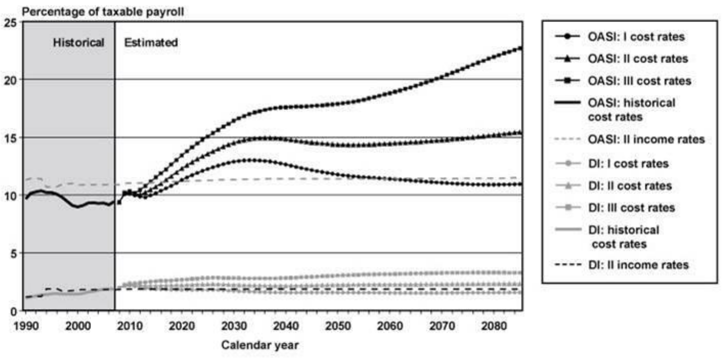


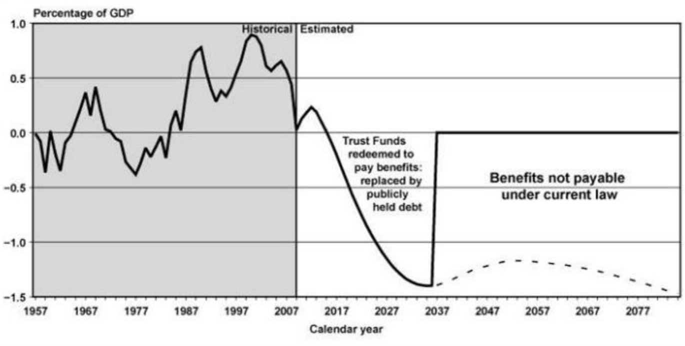
Chart 6.
OASI and DI program cost and noninterest income as percentages of taxable payroll, 1990–2008, projected under alternative assumptions, 2009–2085



SOURCE: *2009 Social Security Trustees Report*, Figure IV.B1 and Table IV.B1.

NOTES: Alternative I = low-cost assumptions; alternative II = intermediate assumptions; alternative III = high-cost assumptions.

Chart 8.
OASDI net cash flows as a percentage of GDP, 1957–2009, projected under the intermediate assumptions, 2010–2085



SOURCE: Social Security Administration, Office of the Chief Actuary.

The charts are taken directly from the 2009 Trustees Report. They give three different assumptions:

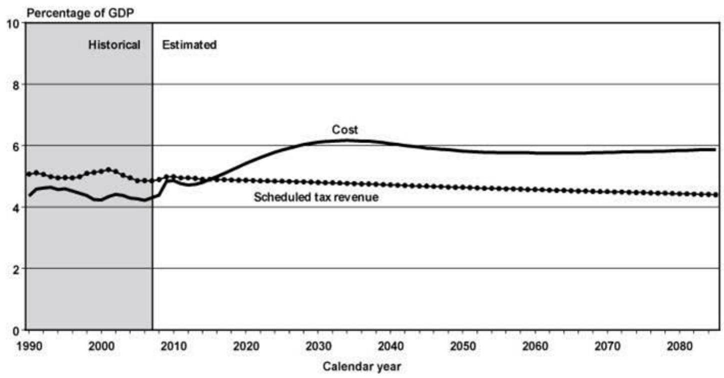
Alternative 1, Alternative 2, Alternative 3. But they focus on Alternative 2, which is the intermediate scenario.

Under Alternative 2, within the next few years, the funds in the program will peak at about 350% of the annual cost of the program. Don’t get too excited about that. That’s three and a half times of what they spend every year but that’s only going to be for a short period of time. Then it just starts to decline precipitously, reaching exhaustion in 2037.

However, it could be a whole lot sooner because the optimistic assumptions of the low-cost Alternative 1. It shows that the program will be solvent for 75 years. Few economists who don’t work for the government believe that these super optimistic assumptions are correct.

The more pessimistic, and probably the more reliable, higher-cost alternative shows that the cost of Social Security will have to go up. What’s happening right now? Medical inflation is two to three times higher than the general inflation rate. We agree with the majority of private and university economist who think the high-cost alternative makes the most sense. They even admit that it may be sooner than 2037. Perhaps it will be in the next 10 - 12 years. These alternative set of assumptions are just one of the several ways the trustees illustrate the uncertainty of long-range projections. They are yet another way of deliberately muddying the waters because they don’t want to tell you the truth about the true long-range projections. So they give us multiple choice.

Chart 5.
OASDI program cost and noninterest income as percentages of GDP, 1990–2008, projected under the intermediate assumptions, 2009–2085



SOURCE: *2009 Social Security Trustees Report*, Figure II.D5 and Table VI.F4.

This chart shows the Social Security trust funds. This is not Medicare. As you can see, the top one there, No. 1 is the optimistic one and they’re saying the cost will be higher than the expenses. No. 2 is the one that they say is most likely to function until 2037 before it runs out of money. No. 3 runs out of money in 2029.

Cost vs. Payroll. Payrolls have not been going up for years, unfortunately. But under the most optimistic of the three sets of assumptions, Social Security will be fine, payroll taxes will go up and so on. And you can see it up there above cost. The dotted line is, is the cost line. No.2, it’s somewhere above cost. No. 3, assumption is below cost.

Here is a very important chart. This is Social Security Cash Flow and as you can see, from 1957 through to 2007, inflation starts. Cash flow is going up but since 2007, dropping like crazy. In 2037, you see the words, benefits not payable under current law. If we continue under the current law, we run out of assets, using assumption no. 2, in 2037. After that they're not required to make any more payments because under the current law unless Congress presented us some major revisions, either taxing us even more or lowering benefits or taking benefits away from multimillionaires. Unless there is some kind of reform, there will be no more payments paid out. Once the funds are exhausted because you see what the law says. These funds cannot borrow money. They had to be self-funding.

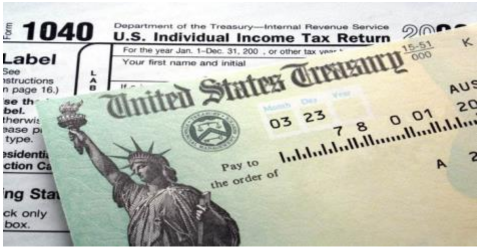


CHART 5

Social Security Cost vs. Scheduled Tax Revenue. Tax revenue is dropping over time, starting about 2009. It is not a big slide but it definitely trends down. Social Security costs are absolutely rising. We should be reducing healthcare costs, and we should be increasing revenue to give our retirees a cushion - but as you can see in this chart there is no cushion.

Here's the key point. **The Social Security system collapses when we get to less than two workers per retiree**. Think about that. You don't have to be an economist or an actuary or even a very smart citizen to figure this out. If there are two or less workers putting money in to the fund for every retiree, each worker will have to pay half of that retiree's Social Security benefits. Workers are going to say, "I am not going to support some retiree that I don't even know." This is why class warfare is coming: workers vs. retirees.

It's not the kind of war that we have been used to in the past. Once it becomes clear to the worker that his Social Security payments are not going for his own benefit, the battle begins. Right now the public still blindly believes in the government. Smart people realize that they will never see a retirement benefit, that they are just paying an additional tax. The Social Security System is in reality a Ponzi scheme. New money that comes is paid out to former participants in the scheme. The money is not going into the "retirement account" of the worker who pays it. As long as there are more suckers joining, people will get paid.

But when the workers finally realize that their Social Security payments are not being saved for their own retirement and are instead going 100% toward someone else's retirement, there will be war. Can you imagine workers sitting still and doing nothing about this? We are likely to see the biggest rebellion in U.S. history.

Social Security taxes are really high. They are currently 15% of total income if you are self employed. If you are employed by someone else, you pay 7.5% and your employer pays 7.5%. It's still 15% of total income because whatever amount your employer pays is income that he would pay you if he wasn't forced to pay that part of your income to the government. It is part of the money he sets aside for payroll expense. Whether it actually goes to you or the government, it is still part of his budget. In reality Social Security is actually just an additional income tax.

When income tax first started in 1913, it was only about 1%. So 15% of total income just for Social Security is a big bite. What is the solution? Even huge tax increases won't keep Social Security above water.

Let's look at the statistics for the current year. Total income is <u>less</u> than the total payouts for this year. Not only is the money you pay into Social Security not going for your future retirement, it's not even covering the costs! This gap has to be funded by U.S. taxpayers. That's how broken the system is. Even ten years ago there was still a reasonable amount of income that went into building up the fund for your future retirement. Not anymore. And it's only going to get worse. This is clearly not a retirement account. It's just another big tax. It may have been envisioned to be a retirement account but it isn't one now. The conclusion: It is impossible, regardless of who the president is, to ever balance the budget.

As you heard from our Hollywood President, you are entitled to nothing and unless we get somebody who steps up to the podium and actually delivers that hard message, the U.S. is going to collapse into a hyperinflationary crash. Entitlements have become nothing more than America's sacred cows. We have allowed this system to completely devour us. So rather than just complaining about what a disaster it is, what can we do about it? Here are the only two options.

Option Number One is default. Default on the payments that are owed to Medicare. Default on the payments that are owed to Medicaid. Default on the payments that are owed to Social Security. Default on the payments that are owed to pensions for former government employees pensions. All former presidents, senators and congressmen get pensions for life.

What politician will actually propose this? Those with a free lunch mentality would never vote for that either. We've been trained to believe think that free money is a perk the government owes us.

Look at what happened in Greece in 2015. Greece was faced with the same situation that the U.S. faces today - a major entitlement crisis. There were countless sad stories about pensioners in Greece who had to take cuts in their pensions because Greece was forced to reduce spending at the order of those nasty and mean Germans in exchange for a bailout. Greeks actually demonstrated and rioted in the streets. They actually demanded that Germany and the EU give them more money! Do you see how outrageous that is? The Greek government actually demanded that EU citizens give up more money so that Greece could continue to overspend.

The whole episode was another outrageous example of what happens when anyone tries to solve the entitlements problem. Germany explained the situation just like our Hollywood president. It said Greece must cut entitlements to survive. The big difference between the U.S. and Greece is that the EU has the power to expel Greece if it failed to handle its finances prudently. The EU said, “Cut the entitlements or we will expel you.”

Greece was forced to the brink. Their Prime Minister called a special election. The drama was tense and Greece defiantly voted to refuse to cut. So the EU finally caved in and agreed to keep giving Greece money so it could continue to overspend. All that drama and that is how it was solved!

It was not solved by cutting spending or cutting entitlements. This is a real world example of what happens when someone tries to cut entitlements. You have riots.

Option number two is just print more money. The EU just digitized more money for Greece. Of course, this creates inflation. To solve the major financial problems the U.S. faces we will have to create money on such a massive scale that hyperinflation will be the certain outcome.

We can’t see option one happening. Option two is the only politically palatable way to go - which means hyperinflation is inevitable. Politicians love inflation because they can offer free money to everyone. No politician will ever vote for austerity. You must protect your finances with tangible assets to protect your family from this inevitable conclusion.

THE COMING COLLAPSE OF BIG BANKS

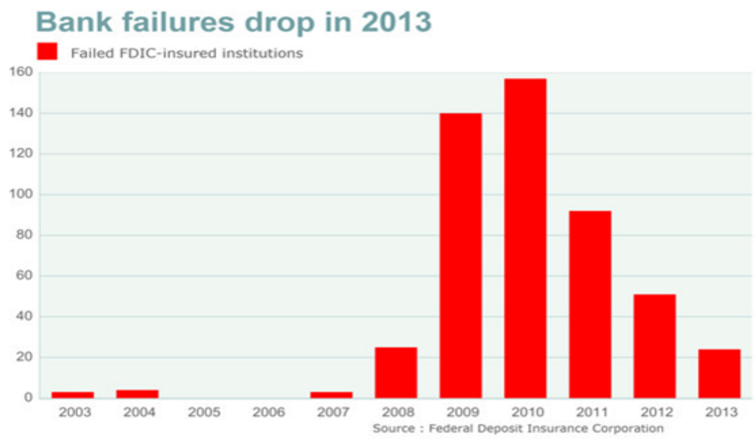
Spark 3 – Too Big to Fail: The Collapse of Big Banking

Insiders know that a gigantic panic is inevitable. The question is would you make a financial bet against the US government that its currency will not last? Let's look at what's happened with bank failures in recent times.

Financial panics have been caused by people having a vote of no confidence. In the past it was a vote of no confidence in banks. During the 19th century banking panics, people were concerned as to whether their bank was viable. The bank's business was to take money in from a depositor and then in turn make sound loans with it. But if the bank instead was making loans that were not sound and people started to get wind of it, they started to demand their deposits back. When that happens, since banks only keep a percentage of their total assets on hand, they quickly overran the amount of money the bank had on hand, causing a banking panic. These happened with a fair degree of regularity in the 19th century.

The 19th century panics are well known historically. Lots of banks went bust but we've experienced the same thing recently. The difference between the 19th century and today is that in the 19th century people lost their money because the government wasn't willing to step in. Today the government willingly steps in and smooths things over. So people basically say ho hum, if the bank fails, so what, that is not going to hurt me. Nobody worries about bank failures anymore. This has created a level of confidence where everybody believes the government will cover every incident. We can just go back to business as usual, just like that reggae song, 'Everything's gonna be alright, just don't worry about it.'

But the reality is that banking has become very scary. Banking has grown so big that it is just absolutely alarming. The biggest banks are referred to as the Big 6. Frankly the data that we are about to discuss is shocking. Take a look at how many trillions of dollars these six banks have under control. It's an unbelievable sum of money. The biggest one on the list, JP Morgan, has trillions of dollars of assets in its books. Bank of America, trillions… now Bank of America should actually be called Bankrupt of America because it has been bailed out by the government not only once but twice. Once in the 80s, Bank of America was caught flatfooted by making very large loans to South American Banana Republics that defaulted on the money. The Fed stepped in to bail them out by agreeing to buy these bad loans.



Then the second time in 2008 another bail out with the housing blowout. Bank of America has been allowed, through government intervention, to grow to be a monstrous size. Collectively these six banks control – are you ready for this - a whopping 67% of all U.S. financial assets. That's an unbelievable amount of control within a very small group of bankers. This is all a result of constant bank failures and consolidation. What do you think happens when a bank fails? Does all of the former business of the bank just disappear? No, what happens is that the government forces the merger of a bad bank with a, "healthy" bank. The definition of a healthy bank is a joke. Nonetheless, this is what is done to solve all of these bank failures. So in other words, bank failures are just government forced mergers and acquisitions. The government forces banks to continually merge so at one time we may have had thousands of banks across the landscape. Now it's been consolidated, as you just saw, into six powerhouses with the rest of the banking industry fractioned among some small players.

Rank	Bank name	Location	Total assets (US$ Billion)
1	JPMorgan Chase	New York City, NY	$2,600.00
2	Bank of America	Charlotte, North Carolina	$2,100.00
3	Citigroup	New York City, NY	$1,890.00
4	Wells Fargo	San Francisco, California	$1,690.00
5	Goldman Sachs	New York City, NY	$856.24
6	Morgan Stanley	New York City, NY	$801.50

Will this consolidation continue? Absolutely. Because bank failures are going to continue. Go back into time and analyze what's happened with banking. The history of banking used to be based on a sound form of business. There were just three simple criteria to getting a loan approved. You had to have good credit, assets and make a down payment.

Just before the 2008 housing crisis, ads on late night TV were offering to give home loans of up to 120% of a house's value. Who is dumb enough to do that? Actually pay you to take out a loan? We were shaking our head thinking that is just absolutely nuts. When the crisis unfolded, we had no idea that so many big banks were involved in such a risky lending scheme.

But in its hay day, banking required a sizable down payment. When our parents bought their houses, they generally had to put a third down. As a result, the bank was sound and the banker earned a fair return. This normal banking business model worked well for about 2000 years.

Today, banks are run more like casinos than they are financial institutions. Banks are unbelievable empires with enormous salaries being paid. The largest paid job in finance is a whopping $1.7 billion. It's crazy what people make in the banking world now.

The normal business model that worked for 2000 years just isn't interesting anymore. Banks aren't satisfied doing normal business. It doesn't bring in the rocking profits anymore. There is no angle to it. Why do you think they offered 120% mortgages? Because they could get the fees off it. They didn't care if the loans were sound. Why not? Because the government would just bail them out if they went bad.

We think banks are like career criminals. They get caught doing slipshod things. Wells Fargo plead guilty to a $1.2 billion criminal deception. What exactly did they do? They were collecting fees for slipshod mortgages that should have never approved, to people that should have never been allowed credit. Did anyone go to jail? No they just paid the fine of $1.2 billion and moved on. Banks hire big shot lawyers, that make a $1000 an hour, get them off the hook and then they're back on the street again. No different than a drug pusher. They get caught, hire a lawyer to get them off and then back on the street again. What's the difference?

In the 2008 financial panic, there was a colossal blowout with huge amounts of borrowers defaulting on crazy 120% loans, forcing the government to step in and orchestrate all of the mergers that were required. It cost the taxpayers over a trillion dollars by the government having to step in and reimburse the banks through these forced acquisitions.

In the new banking environment -- casino gambling banking we will call it -- banks would take any loan application they could get as long as they collect the fee and stick the government if it goes bad. Banks know they're too big and can't be allowed to fail, so they don't care about normal risk. By controlling 67% of the total assets of the U.S., the government has no choice but to bail them out. Banks might as well take as many chances as they can get.

So what caused this epic blowout? A great movie, The Big Short, explained it in plain English. Here is a brief transcript:

Selena: Okay so here's how a synthetic CDO works. Let's say I bet 10 million on a blank check.

Richard: Ten million because this hand is meant to represent a single mortgage fund. Okay Selena has a pretty good hand here showing eighteen, dealer showing seven, that's a really good hand for Selena. Good odds, in fact the chances of winning this hand are 87%.

Selena: So my odds are good. I'm on a winning streak. Everyone in this place wants to get in on the act, okay, how can I lose right?

Richard: Now this is a classic error. In basketball, it's called the hot hand foul. The player makes a bunch of shots in a row, people are sure he is going to make the next one. People think whatever is happening now, it's going to continue to happen into the future. During the real estate boom, markups were going up and up, and people thought they would never go down.

Selena: So people who are watching and think that I won't lose, will make a side bet. Now this is the first synthetic CDO.

First person in the crowd: I love Selena Gomez. I bet you 50 million she wins. I give you 3 to 1 odds.

Second person in the crowd: 3 to 1 odds? Okay, I'll take that bet.

Richard: Now, somebody else will want to make a bet on the outcome of their bet. That would lead you to synthetic CDO no. 2.

Third person in the crowd: Hey, I bet you 200 million that lady in the glasses wins that bet.

Fourth person in the crowd: She probably will win. So I want a great payoff.

Third person in the crowd: About 2 to 1.

Fourth person in the crowd: Deal!

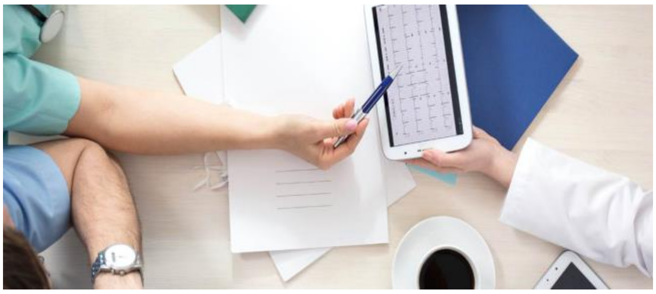
Selena: And this will go on and on. More and more synthetic CDOs.

Richard: And we can transform an original $10 million investment into billions of dollars.

Fifth person in the crowd: You okay?

Sixth person in the crowd: No. I actually feel pretty sick.

What they were just explaining is called a derivative. Derivatives are a fancy name for a financial instrument that banks used to make money with. We used to think that this was a sound part of banking in terms of ensuring risk. In other words, like an insurance company would lay off its exposure. They sell you an insurance policy and then they sell of that risk to other insurers, hedging their bets. That's what we thought a derivative was like. But after studying it we realized that it's nothing more than what you see there: a casino bet. And as you can see one single bet can be expanded and expanded and expanded by betting on those other bets to and can end up totaling into the billions.



The new formula for banking has nothing to do with the history of banking which was based on good credit, good assets, sizable down payment. That's the old way. The new formula is making money through derivatives. This is the chart of Derivative Exposure currently of the main banks in the United States:

These are enormous amounts of money and even more importantly, loot at the percentage this represents of their total assets. This is the same as you having a million dollars in assets and deciding you're going to go to a casino and bet a billion dollars or a thousand times your assets. However the big banks are betting up to 34000 times their assets. This is such a large exposure, that if something went wrong it could actually take down the US government.

Look what's happened since 2008. Did we learn our lesson? Did we go more conservative? NO! The government slapped the bank's hand and said no more of these derivatives. So the banks got even more creative and as a result derivative exposure has gone up a whopping 300% to $600 trillion. That's an astronomical sum. The derivative exposure of the banks has been growing because banks have figured out how to get around the law. That's why we say bankers are like career criminals. They just hire lawyers to figure out a way around the law and do it anyway.

To put these numbers into perspective, $600 trillion is 29 times the entire Gross Domestic Product of the United States. This is no longer a number that the government can even deal with. We're talking about something will bankrupt the U.S.

This has been a rude awakening for us to study this and realize how big the numbers are. As we have been studying this it's been giving us goosebumps thinking about how shocking the numbers are, realizing that this has gone up and it is now 300% bigger than what it was in 2008, when everything blew out. How much longer can this go on before we have another blow out? It's inevitable. The banks now are so big that the government is faced with an enormous problem of what to do. To conclude, what happened when the banks got caught with their hands in the cookie jar in the last blow out? What did the government do? Here is another excerpt from The Big Short:

Vinnie: But at least we're going to see some of them go to jail. Right? I mean, they're going to have to break up the banks. I mean, the party's over.

Mark: I don't know. I don't know, Vinnie. I have a feeling that in a few years people are going to be doing what they always do when the economy tanks. They will be blaming immigrants and poor people.

Jared: But Mark was wrong. In the years that followed, hundreds of bankers and rating agencies executives went to jail. The SEC was completely overhauled. And Congress had no choice but to break up the big banks and regulate the mortgage and derivative industries.

Just kidding.

The banks took the money the American people gave them and they used it to pay themselves huge bonuses and lobby Congress to kill big reform. Then they blamed immigrants and poor people. And this time, even teachers. When all was said and done, only one single banker went to jail. This poor schmuck. Kareem Serageldin from Credit Suisse. He hid a few billion in mortgage bond losses, something most of the big banks did on a good day during the crisis.

Derivatives Holdings Exposure by Major Banks

BANK	DERIVATIVES IN BILLIONS	ASSETS IN BILLIONS	PERCENT OF ASSETS
JPMorgan Chase	$79,941	$1,663	4,807%
Goldman Sachs	$40,772	$119	34,262%
Bank of America	$39,064	$1,450	2,694%
Citibank	$31,943	$1,165	2,742%
Wells Fargo	$5,111	$1,100	465%
HSBC	$3,152	$158	1,995%
Bank of NY Mellon	$1,271	$162	785%
State Street Bank	$539	$150	359%
Sun Trust Bank	$295	$170	174%
National City Bank	$178	$141	126%
Northern Trust	$153	$62	247%
PNC Bank	$138	$136	101%
Keybank	$116	$95	122%

As the video said, in just a few years, they will be back at the same thing, only with a different angle, different way around. They'll put a smiley face on the whole situation and say, that situation will all be straightened out and work through and everybody's now safe again. But when you actually look at the true numbers, you see what's really going on. You can't hide it. The situation now is worse than it was in 2008.

What's going to cause the next bubble to rupture? We don't know. All we know is next time around, the exposure will be so great that it'll strain the U.S. capability of being able to bail it out.

WRC: THREE LETTERS THAT WILL CHANGE YOUR WORLD

Spark 4 - The Loss of the Dollar's World Reserve Currency Status: Can We Survive It?

On the left side of this photo you can see one of the thousands of banks that collapsed in the Panic of 1929; on the right, is a reminder that this could happen today.

In the three previous chapters we discussed the different sparks that could unite, and could ignite a worldwide financial situation. So here's just a quick recap:

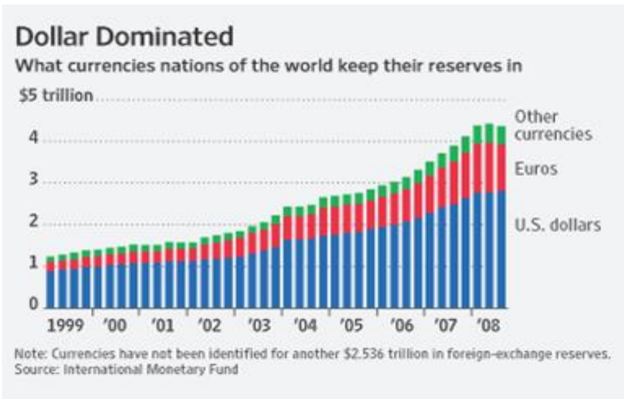
- The Fed has declared that gold is not money - although we know that is not the truth.
- The world debt is $303 trillion. That's 356%, more than triple the world's GDP (all of the world economic output, based on goods and services produced).
- The world is a tinderbox, financially. One spark and the whole world can go down in flames.
- The three sparks that we discussed in the previous three chapters are: The Cost of Borrowing Money, The Entitlement Crisis and the Collapse of Big Banking.

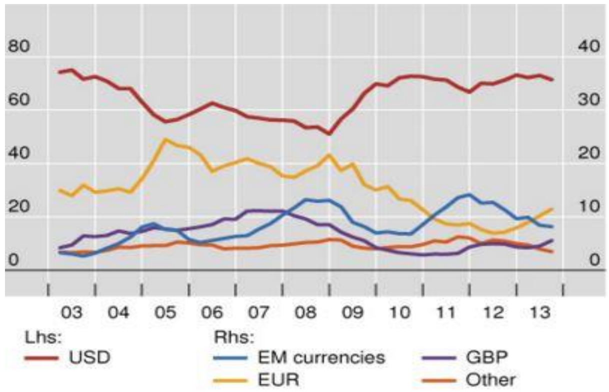
This chapter will discuss the World Reserve Currency (WRC). Before we proceed, we'd like to talk about a few factors that impact our economy right now:

- High unemployment and higher underemployment. It's much higher than the government reports. We're sure everyone knows that.
- Foreclosures and weaknesses in housing prices. Housing is strengthening in some parts of the country but most areas that is not the case.
- The National Debt Crisis and a looming Global Debt Crisis. When you see GDC, that means Global Debt Crisis.
- Congress' inability to reduce the debt by dealing with entitlements. Instead of dealing with the debt, they are increasing the debt.
- Inability of businesses to plan for the future. This is one of the hardest things because there are so many mixed signals coming out of Washington. As business owners we know how this works. You can't plan if you don't know what your tax is going to be, or what new regulations the government is going to hit you with.
- The nuclear ambitions of North Korea and China are also weighing on our economy.
- The Contagion Crisis is spreading across the Middle East,
- And finally, the subject of this chapter, what many, many people in this country – top level businessmen - are concerned about: The loss of the U.S. Dollar's status as the World Reserve Currency.

Who decides what the World Reserve Currency is? Is it the International Monetary Fund? Is it the World Bank? The United Nations, the European Central Bank or the Federal Reserve System? The answer is: none of the above.


So here's the good news and the bad news as far as the U.S. as the World Reserve Currency. Today, the good news is that the Dollar is still the World Reserve Currency. You see that from both these charts. The blue bars on the left chart show the number of Dollars in the world's central banks that are in U.S. Dollars; the red represents the amount of Euros; and the green is other currencies, including all the minor countries and gold.





The right chart shows basically the same information in a different graphical format. The Dollar is still the top line. That's the good news.

The bad news is that soon the Federal Reserve notes will be worthless. And the picture is going start to be bad for us as far as WRC.

"U.S. Dollar's days are numbered." We have found these, or similar, words in a large number of articles. Experts on international economics are in agreement that the U.S. Dollar's days in the sun as a primary reserve currency are numbered. Most say it will lose this status in less than a decade; some say in as little as five years. So how did we get here?

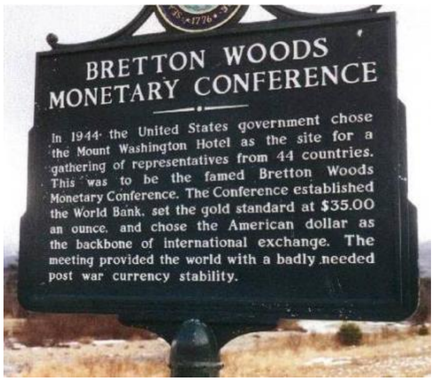
The British Pound Sterling has held sway as the World Reserve Currency since 1821. That was when Great Britain reinstated the gold standard after the Napoleonic wars. Countries using the gold standard agreed to make the value of their currency equal to a fixed amount of gold. This was a steady, dependable system that worked quite well.

As in most things financial, when one loses, another gains. The Pound's loss was the Dollar's gain. The Dollar gained a lot of prestige when the U.K. was forced off the gold standard in 1919. This caused large losses for international merchants who had their British bank accounts full of Pounds. By the time the U.K. went back to the gold standard in 1925, it was too late. The damage had been done and the Dollar had become the world's leading currency.

Here’s a little historical background. By the end of World War II, the U.S. controlled two thirds of the world’s gold. How did that happen? That surely wasn’t the situation before WWII. The fact is we entered the war late. Our allies had been at war for several years before we joined them. So we sold the Allies most their war materials, ammunition, tanks and so on. And we weren’t accepting currency for these materials, because frankly we didn’t know if they would be around when the war ended. We only accepted gold. That is how a country with only 5% of the world’s population ended up owning 67% of the world’s gold.

Then, as the war ended 44 nations attended the Bretton Woods conference – a meeting that changed the financial landscape of the entire world. 730 representatives of these 44 nations met in July, 1944 at the Bretton Woods, New Hampshire hotel and conference center. There they worked for several weeks and decided the economic future of the world. They established an international framework for financial stability. What were the results?

The International Bank for Reconstruction and Development was established. It’s now known as the World Bank. The International Monetary Fund (IMF) was also established. Both of these were - and are - controlled by the U.S. We are losing some of our influence as the years have gone by but basically these were originally subsidiaries of the U.S. government. This was because we funded the lion’s share of both organizations we maintained tight control of them for decades. Interestingly they are based in Washington, DC – our political center. But they operate from New York, which became the world financial center after London lost its power at Bretton Woods. They are basically creatures of United States government. The world price of gold was set at $35 at the conference, which put the U.S. Dollar in place as the supreme currency of the world, or what we know as World Reserve Currency.



There was some dismay over this. A senior official at the Bank of England described Bretton Woods as “the greatest blow to Britain next to the War”, largely because it underlined the way financial power had shifted away from the U.K. to the U.S. And there was outright disagreement. The Soviet representatives attended the conference but later refused to ratify the final agreements. They said that the institutions that had been created, the World Bank and the IMF, were, and would continue to be, branches of Wall Street. And they weren’t wrong. As we said, to this day, the U.S. has significant control over both these institutions.

Then there was something that’s called the Nixon Shock. Nixon actually ended the Bretton Woods Agreement – a multi-lateral Treaty - unilaterally on August 15, 1971. Remember there were 44 nations that signed on to this agreement – but Nixon abolished the treaty on his own. Richard Nixon make this announcement. Here is a partial transcript:

“The third indispensable element in building the new prosperity is closely related to creating new jobs and holding inflation. We must protect the position of the American Dollar as a pillar of monetary stability around the world. In the past seven years, it has been an average of one international monetary crisis every year. Now who gains from these crises? Not the working man, not the investor, not the real producers of wealth. The gainers are the international money speculators. Because they thrive on crises, they help to create them. In recent weeks the speculators have been raging an all-out war on the American Dollar. The strength of a nation’s currency is based on the strength of that nation’s economy. And the American economy is by far the strongest in the world.

“Accordingly, I have directed the Secretary of the Treasury to take the action necessary to defend the Dollar against the speculators. I have directed Secretary Connally to suspend temporarily the convertibility of the Dollar into gold or other reserve assets except in amounts and under conditions determined to be in the interest on monetary stability, and in the best interest of the United States.”

For what it’s worth, we believe he took the right action. Even though he angered the other 43 nations who were party to the Treaty, he did so to protect the U.S. Other nations – primarily European nations, and France in particular – were shipping pallets of U.S. Dollars here and depleting most of our gold reserves. Putting the U.S. and its interests first, protecting our nation – that’s the primary job of our president. Globalization, as practiced by our current president is not.

What did Nixon mean when he spoke about the “all-out assault on the U.S. Dollar”? It wasn’t just currency speculators - European countries which had large stockpiles of U.S. Dollars were redeeming them for gold at a government fixed price of $35. The problem was that the real price of gold in the international market was double that. They were redeeming Dollars and doubling their money.

Two things were very wrong with this picture. First, U.S. citizens were not allowed to convert their Dollars to gold. That is why we say that the Gold Standard ended in 1933, not in 1971. Second, the government had arbitrarily fixed the price of gold – and thus the price at which other nations could purchase it – at $35. This is what happens when governments meddle where they shouldn’t. Even though the world price of gold had risen to $70, the U.S. price was $35 – because the foolish government said so!

So the Dollar was the dominant world currency, and particularly so after Nixon protected it by doing what he did. But now we’re seeing the end of the Dollar dominance.

And everybody agrees. People as far right as the late Rush Limbaugh to the mainstream media like CNBC agree that the Dollar is losing its strength and its dominance over the world economy. There has been a steady stream of increasingly negative economic news regarding the Dollar and the U.S. economy in recent months.

So how does the U.S. dominate financially? In four ways: (1) As the World Reserve Currency; (2) Through control of world trade; (3) Through international banking; and (4) Through something called Petro Dollars.

RESERVE CURRENCY. Let's begin with understanding the term "Reserve Currency". We're not talking about World Reserve Currency yet. We are defining a reserve currency - also known as an Anchor Currency.

A reserve currency is a currency that is considered to be stable and reliable, and is therefore held by governments or institutions as part of their foreign exchange reserves. You saw earlier that the Euro is huge. You'll see in a little while other currencies that are reserve currencies. The reason governments hold reserves of these currencies is to facilitate international trade, purchase commodities and borrow at favorable rates.

Now here is the key. What is a World Reserve Currency? A World Reserve Currency – which to save time, we will refer to as WRC – is the one that is the dominant reserve currency in the world. Currently, the U.S. Dollar (USD) has that status. So how does having the USD as the World Reserve Currency facilitate trade, just not for us, for the whole world?

CONTROL OF TRADE. Countries that do business with U.S. expect that the Dollar will be the currency used. Countries that do business with each other directly usually price their goods in the U.S. Dollar because it's widely accepted and it's simple. Most central banks have the majority of the reserves in U.S. Dollars - better than 60%, and in some cases 70%. Most Americans do not realize that virtually the entire world has done business with each other in U.S. Dollars until recently. That's changing now.

PETRO DOLLARS. The reason the USD is called the Petro Dollar is that - again, until recently - all oil purchased was purchased in U.S. Dollars. Georgetown University, in a paper on their website described: "Petro Dollars may be defined as the U.S. Dollar earned from the sale of oil, or they may simply be defined as oil revenues denominated in U.S. Dollars. In any case, the U.S. Dollar is involved in the trade."

Since Petro Dollars are by definition denominated in U.S. Dollars, the purchasing power is dependent on the U.S. inflation rate and the rate at which the U.S. Dollar is exchanged. We've dominated the oil trade, even though so much of it has come from the Middle East, because it was traded in Dollars. That, too, is changing.

INTERNATIONAL BANKING. Until recently, all international wires had to be cleared through the World Bank in New York. This gave the U.S. tremendous power and leverage. But on Christmas Day, 2015, the Asian Infrastructure Investment Bank (AIIB) broke this monopoly. It is also challenging the World Bank in the arena of international lending. All major nations of the world, except Japan and the U.S., are members of the bank, which was instigated by the premier of China and which is based in Beijing, China.

Next we're going to do a quick history of the World Reserve Currency. The first time money is mentioned in the Bible is in the Book of Genesis, where God said that gold is "good". We believe that God gave the world gold to be the foundation of economic systems that would be solid, stable and not subject to manipulation. No inflation, no deflation, no monetary crises. Countries that have had the gold standard as their monetary standard have had solid, dependable, stable economies. Countries that have gone to a paper (fiat) currency backed by nothing have crashed and burned.

The first recognized World Reserve Currency was gold. Egypt had huge gold reserves. At one point it was the wealthiest nation on earth because gold had become recognized as the international standard of exchange.

FIGURE B3.1.1 Historical Timeline of Dominant International Currencies

Source: Classical Numismatic Group, Inc., http://www.engcoms.com.

From 1500 BC to the first century, Roman coinage was the international standard of exchange. Their main coin was a gold coin called the Aureus. Rome pretty much ran the then-known world, and the Roman gold coinage dominated. If you look at the timeline in this graphic, you'll see that after Rome various different nations held sway. These include Byzantium (the Byzantine Empire); Florence, Italy; The Netherlands, and the Spanish Empire. Then for hundreds of years, we had the British Pound. Remember, at this point it was the Pound Sterling which was a gold sovereign which was equal to 16 ounces of sterling; that's why it's called the Pound Sterling.

The most important thing to remember is that from the 1st to the 20th century, the money was gold and silver. And then, from the 20th century on, it was paper money, first the paper Pound and then the USD. For a time the Dollar and the Pound coexisted as the primary currencies. However since the 1920's it's been the Dollar. In the 1930's two currencies, the Franc and the British Pound had a little come back. In the 1980's the Japanese Yen and the German Deutsche Mark had a brief major role. Primarily for over a century the Dollar has been in the top position.

The reason the British currency dominated the world for over 200 years was because Great Britain was the largest empire in world history. The famous saying is, "The sun never set on the British Empire". Great Britain dominated world economics and politics because of the strength of the Pound.

Following World War II, the Dollar became the World Reserve Currency, as mentioned earlier. This was by agreement. No organization, no international body, nor any nation has the authority to make a currency the World Reserve Currency. It was by consensus at Bretton Woods that 44 leading nations, primarily Allied nations, decided to make the Dollar the World Reserve Currency. This was because we had most of the gold. But ironically, by that time the Dollar wasn't really U.S. Dollar (which, as mandated by the Constitution, was actually backed by physical gold). By that time, the Dollar had become the Federal Reserve note – backed by nothing except "The full faith and credit of the U.S. government". Voltaire said, "All paper currencies return to their intrinsic value – nothing." He was certainly right about that.

Every paper currency that has ever existed has eventually failed, and the Federal Reserve notes will be no exception. The average lifespan has been 37 years. Currently there is an international movement, led by countries like China, Russia and the Arab states, to form an independent gold-backed currency to replace the U.S. Dollar as the World Reserve Currency.

Another economic bloc is the BRICS nations. This is a meeting of the BRICS nations in Brazil in 2014. These nations are Brazil, Russia, India, China. It used to be called the BRIC group, but then they added South Africa. These five emerging nations have been in serious negotiations to create a trading currency that they would use among themselves, much like the Euro was used for its first ten years. (During this time the Euro wasn't actually a circulating currency. It was a journal currency that the nations in the Euro Zone, used to move funds back and forth, bypassing the U.S. Dollar.

Russia, India and China have been waiting for this. They had already agreed to bypass the Dollar and have already done so. They've negotiated trades between themselves and are using each other's currencies. But China seems to be the ringleader in this movement towards a world currency. A few years ago they suggested using SDR's (Special Drawing Rights), which are calculated from a basket of the U.S. Dollar, the Euro, the Japanese Yen and the British Pound as an actual currency. These SDRs are currently used not as money but as an exchange mechanism between nations and central banks for international payments. At other times, the Chinese minister of Finance has suggested using a gold backed currency as the World Reserve Currency.

Why would China want to use SDRs to price goods, since the U.S. Dollar is the primary currency in the SDR? That would give benefits to the U.S. Obviously it's to their advantage to price goods in the Yuan or in an international currency that they can influence or possibly even control.

You have to look at China the way history looks at China. We tend to think short-term in this country; for us, long-term is five years. The Chinese look at long-term as a thousand years. They have a much different perspective than we do. They are an ancient culture. We are a young, upstart country. Their short-term goal is to undermine U.S. Dollar dominance. They can't become dominant unless they undermine us. Their long-term goal is for their currency to become the World Reserve Currency. But first they have to become a reserve currency and they succeeded in that – in a minor way - when the IMF added them to the SDR basket of currencies. Even though China didn't meet the requirements to qualify, they bullied the international community into admitting them. If they can't become the World Reserve Currency, they'll be happy to see a gold-backed world currency because China owns huge gold reserves.

How did China outpace every nation in the two major measures of gold? Patience and hard work. South Africa used to be the biggest producer of gold. In 2007 China took that place. India used to be the biggest net importer of gold. In 2014 China took that place, as well.

China has been working its gold plan, as outlined by Song Xin in August, 2016: "For China, gold's strategic mission lies in the support of renminbi internationalization, and so let China become a world economic power and make sure that the China Dream is realized. Gold forms the very material basis for modern fiat currencies. Gold is the world's only monetary asset that has no counter party risk. That is why, in order for gold to fulfill its destined mission, we must raise our gold holdings a great deal, and do so with a solid plan. Step one should take us to the 4,000 tonnes mark, more than Germany, and we will become number two in the world; next, we should increase step by step towards 8,500 tonnes, more than the U.S."

China also has a long-term currency plan, which is outlined below. By the way this is, this is not a plan somebody else made up. This comes right from the Hong Kong Trade Development Council – they're again looking forward.

Chart 1: Beijing's road-map for CNY internationalization

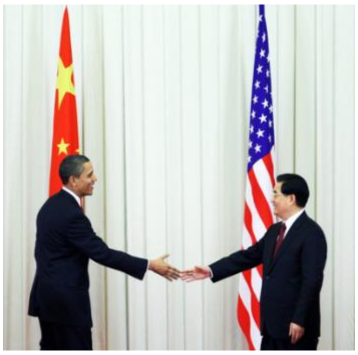
Source: Hong Kong Trade Development Council

Stage 1: Price and settle international trades in the CNY (the Forex abbreviation for the Yuan, also known as Renminbi).

Stage 2: Get the world to accept their currency as an investment vehicle.

Stage 3: Become an international reserve currency.

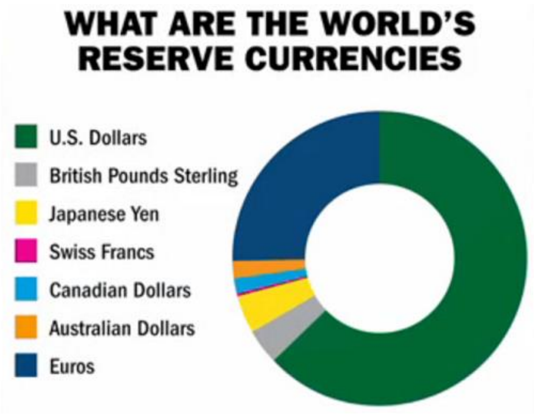
They're doing very well in all three of these areas.



Traditionally central bank reserves looked like this: 90% U.S. Dollars, 10% all others. Even our enemies, nations like Russia, held USD in their central banks during the Cold War. Today China still considers us their biggest enemy. Yet it holds over a Trillion Dollars in U.S. debt and an unknown quantity of U.S. currency. Everyone used to want USD.

In the last two decades, there has been a major shift in central bank reserves. Just a little under two-thirds of the currency reserves are in U.S. Dollars. The Euro has gone from a very small share to 20%; 5% is in the British Pound; 4% in the Japanese Yen; and 7% in gold and other currencies.

Here's the key point. If you look at this chart, you see that the major players are the U.S. Dollar, the Euro, the British Pound Sterling and the Japanese Yen. The Swiss Francs, the Canadian Dollars and the Australian Dollars all are in that 7% group of "other" currencies. But you'll notice that China isn't even on the list of the "others". There are some tiny amounts of Chinese currency being held but they're not a player in this arena. However, they are a big winner in another arena.

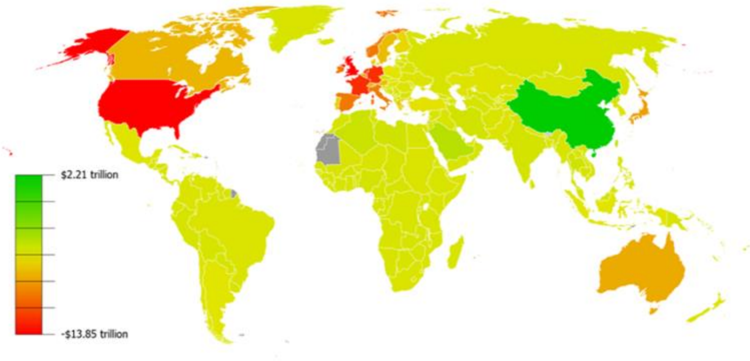


We need to look at this from the other side. We normally look at what currencies are being held by the central banks as part of their reserves. Now let's look at reserves in another way. What countries hold the most U.S. Dollars in reserves? China is by far the winner in this category. They hold 3,200,000 million U.S. Dollars. And look where the United States is, down at number 18 – in ownership of our own currency!

	Nation	Reserves		Nation	Reserves
1	China	3,200,000	11	Germany	193,716
2	Japan	1,248,107	12	Mexico	178,408
3	Switzerland	604,911	13	Thailand	175,073
4	Saudi Arabia	592,658	14	United Kingdom	159,349
5	Taiwan	425,978	15	Algeria	155,700
6	Russia	386,900	16	France	138,588
7	S. Korea	365,760	17	Italy	134,460
8	India	359,917	18	United States	118,609
9	Brazil	358,689	19	Turkey	111,357
10	Singapore	244,013	20	Indonesia	104,555

Here are some important trends that can be gleaned from this chart: 5 of the top 10 nations in terms of U.S. Dollar holdings are Asian. That has never been the case in the past. China's U.S. Dollar reserves are almost equal of the next 5 largest nations. If the Euro Zone nations which are listed separately were considered as one, they would be the third largest. But note this: 17 nations, including tiny Algeria and backwards Thailand, have larger reserves of U.S. Dollars than the U.S. does! What does that say about our government's confidence in our own money?

Now consider this map from the CIA Fact Book that shows national reserves. Red is not good – red countries are deeply in debt. If you look at the bottom of the legend, red indicates an average negative $13.85 trillion. Green indicates average positive reserves of $2.21 Trillion. These are the national reserves of currencies including gold, minus the total external and internal public and private debt.



Look at the United States and most of Europe. We're in the red. We're behind; our debts are much greater than our total assets. Canada and Australia are orange, which is better. Russia, South America and most of Africa are yellow, which means even less debt. And China is a green nation, the only nation that's really doing well.

The big question is, why haven't we had hyperinflation in the U.S. yet? Other nations that have had the huge amount debt that we have typically experience hyperinflation in fairly short order. A few of the better-known incidents of hyperinflation include Germany, France, Argentina, Hungary and Zimbabwe. 10% of modern nations have had hyperinflation, and they were not in as bad a condition as we are concerning debt. The fact that the U.S. Dollar is the World Reserve Currency is the only reason we've been able to avoid hyperinflation so far. Our WRC status is all that has been propping up the U.S. economy. But unfortunately that status is doomed. And when it ends many of the perks of being the WRC will end, as well.

It has been said that China is more than happy to sell, sell us the rope to hang ourselves with. Our balance of trade with China is, is just unforgivable. It should have never been allowed to get like that. China is now selling U.S. Dollars, which is devaluing the Dollar more. Remember when a lot of people want to sell something, the price goes down. And they are using it to buy tons of gold with.

Even China a few years ago ridiculed the United States for having a weak currency because of so much debt. Now he thinks, he said, "I think you could see a 25% reduction in the standard of living in this country if the Dollar was no longer the WRC. That's how valuable it is."

Billionaire Warren Buffett told CNBC that the Dollar will become "less important as America's dominance of the world's economic system diminishes."

Ray Dalio, another multibillionaire, said, "It's inevitable that the Dollar's role as the world's currency will diminish from a dominant world currency to one of a few."

I think they are absolutely right on it. So, what's in our future? Is it going to be the status quo? Very doubtful. Will another national currency such as China's take our place? I personally don't think so. Is a basket of currencies in our future? I think that is most likely. One of the problems that other people see about the U.S. Dollar being the World Reserve Currency is that they have no control over our economy or inflation, deflation, recession and so on. As the old saying goes, when the U.S. gets a cold, we make all the other currencies sick. The idea is that a basket of leading currencies, averaged together, would take some of the volatility or risk out of global trading.

Most people when they look at history, look at the U.S. as being the dominant world power and prior to that for a couple of decades, Great Britain. They forget that China was actually the dominant world power for 18 of the last 20 centuries. And it does lust to be in that position again.

They are doing the smart things. The U.S. has been depleting our reserves while China is increasing theirs. They are buying gold by the ton. They have now taken over South Africa as being the largest producer of gold and they have taken India's place as the largest importer of gold. So they are both producing huge, massive amounts and importing massive amounts. And they are using this massive economic power to build up their nuclear weapons and their long-term missile delivery capability. Their goal is to have a missile that reaches the United States.

Two things make a nation strong: a strong military and a strong currency. So it's obviously not in our best interest to have an international currency. That's one more step towards a one world government.