

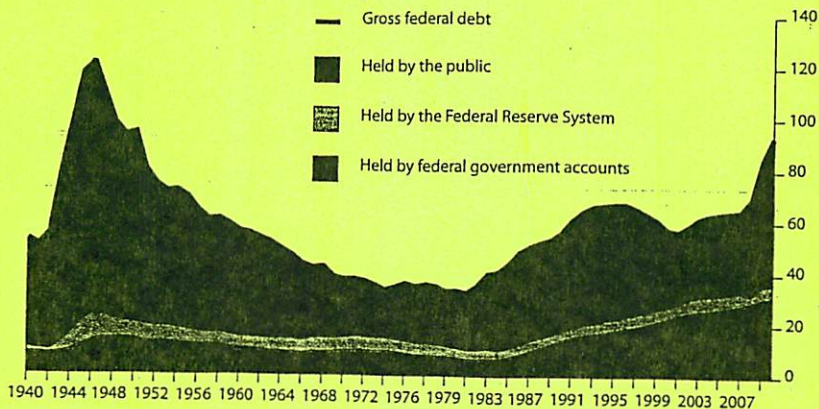
January 3, 2012

"AN AMERICAN HORROR STORY – Night of the Living Debt"

We start our story as all horror stories begin, nice light music, sunlight, a young couple completely clueless as to what is about to unfold and changes their lives forever. Some of you are old enough to remember the 1968 classic story "Night of the Living Dead" by George A. Romero. I am referencing this story to explain the horror of debt that currently plagues our lives; individuals, states and countries, virtually the world!

In our story it all starts passively, after World War II and all the returning veterans began families and the baby boom was born. The regular use of debt and health insurance began their lives in earnest during this period. Previously people paid their bills and saved their money to afford what they could. This is our calm beginning as people go from zero debt to a gradual increase in the percentage of income all the while focusing on the interest rate, not the loan balance. Our young couple starts slowly, buying a house, buying cars, furniture, time shares, student loans and using credit cards (now with reward points). All acceptable and entirely normal positions, but clueless to the danger rising. Once our monster (zombie debt) takes shape and becomes alive, it starts slow with no one noticing the growing danger. When did our debt monster become self-aware? Any piece of our lives can stand maximum debt, but it started when Nixon closed the gold window and our dollar was now backed by the full strength and credit of the Federal Reserve (see Chart 1).

Chart 1: U.S. Federal Debt
(percent of GDP, fiscal year-end)



Source: Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2012*.

We beat back the monster with Federal Reserve Paul Volker's fight against inflation in late 70's, early 80's. Enter our new Sheriff (Alan Greenspan, rookie Federal Reserve captain) who figured that debt was under control and a little more could not hurt as they can always beat back the monster. We had financial emergencies with 1984 Social Security fix, 1989 Housing collapse, 2000 Dot Coms pop, couple of wars not on the budget, and the 2006-07 housing disaster. Sheriff Greenspan decided that the best way to fight all evils was to drown it in debt by lowering interest rates (most zombies are killed by fire or

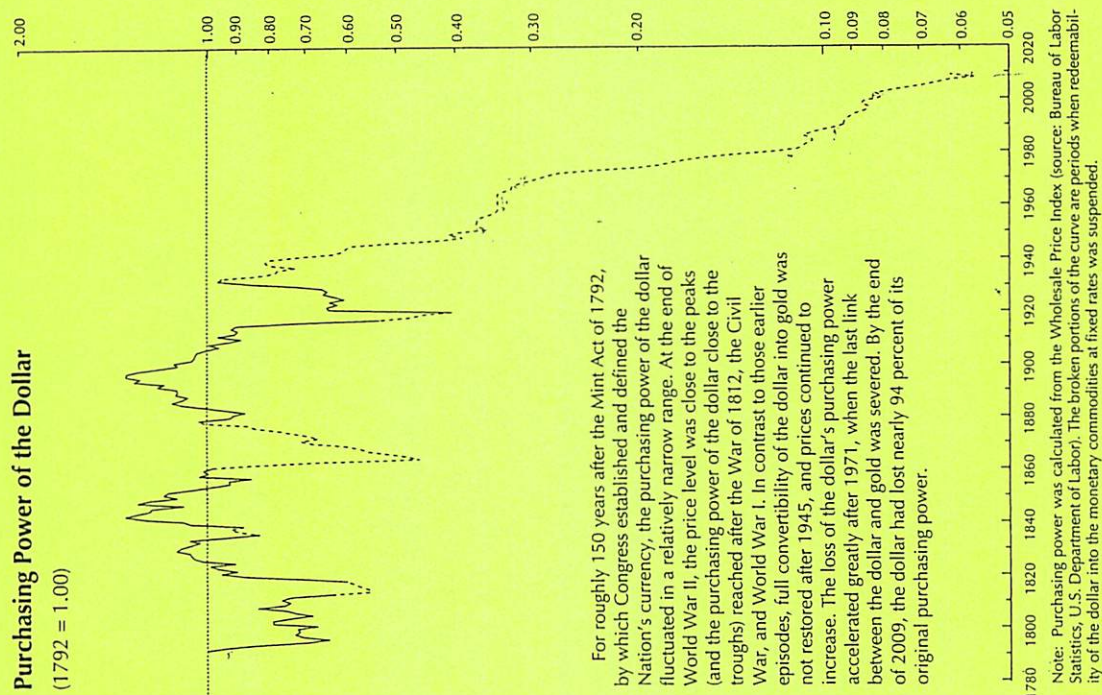
shotguns). We have not seen any inflation in many years. Unfortunately, Sheriff Greenspan was using government eyeglasses (figures that switch around to get the best advertised inflation numbers to soothe the public). We had shipped a lot of the debt monster overseas, so it would not bother us as much and the foreign investors thought we were safer than all the other locations, but only until the monster went worldwide (see Chart 2).



Now Sheriff Greenspan was getting old and the public thought he was our hero only to be labeled the goat in the end. They brought in a new Sheriff Bernanke, who swore that he was a student of the "Great Depression" and could guide us out of trouble and his solution to kill the monster was that they had not used enough debt to drown it. Not realizing, until it's too late, that they are feeding the monster that grows with debt ever stronger. Sheriff Bernanke has now told foreign countries how to handle the debt monster, so trouble abounds. We have not gotten to the end of the movie yet, as huge amounts of debt have been spent on the monster with little positive effect. We suspect that the usual cure does not work when the monster is larger than ever intended. Our government continues to encourage maximum debt to all with the lowest interest rates in history, killing our savers who could ultimately be our hero's in the story. We thought the government was keeping interest rates low for the housing market, but now suspect that it is all about the size of the debt monster that could devour our country if interest rates were allowed to rise. The world works better when things are in balance. Borrowers need to have sufficient income to borrow and savers need to receive a decent return for lending.

We thought the government was going to step up and start to handle things with the budget committee. This is where the Army and Air Force are bought in as the locals have lost control. The "Super Committee" failed in the ability to change anything. This tells us that our government has neither the means nor the will to do anything other than spend money they do not have. The debt monster wins. In the past, they were satisfied with just putting in IOU's to social security, then went off the budget with the wars, and now are printing money openly. The debt monster wins. The scary part of this is the idea that they are benefiting us by reducing the social security tax collection. They are stealing the social security money as it goes in now. Granted the only benefit of this is that we(the

public) are getting a cut of this up front, but the chances of social security surviving are very dim in its current form. There are changes coming, lots of change and mostly to the purchasing power of the dollar. Scary to have our dollar sacrificed on very bad use of debt. Look at the following chart and notice that we had some form of budget up until year 2000. We are in a free fall position now.



(sideways)

In the end of the movie, the star who has done everything right to be the lone survivor, let's down his guard and ends up being considered a zombie, a dead zombie. We are encouraging you to control your debt ; do not overbuy housing , autos, use shorter payback periods 15yr/3yr, try to make debt payments higher for shorter time periods, no credit card debt accumulation beyond \$5,000 (hold the line). There is no difference between low interest and high interest debt, it is all debt and focus on the balance due. Most people who have refinanced in the last 5 years have lost money, there loan balances have gone up and the monthly savings is lost to general expenses, no savings accumulation. Always contribute the maximum to your retirement accounts, no borrowing of this money, it is for your future! Your safe money actions in handling debt will keep you safe from the terrors of the "Night of the Living Debt"

Barry B. De Marr