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Recommended Strategies at a Glance

By FAMC Staff Economists

1. **Cash, Foreign and Domestic Currency**

The news continues to be bad for the U.S. currency unit. Our so-called “friends” and the UN – China and Russia – are in concert calling for the U.S. dollar to be ditched in favor of a “basket of currencies,” perhaps led by the Chinese yuan. China has amassed the largest foreign exchange reserves of any country in history. Expect the dollar to strengthen just prior to key meetings such as G20 etc., followed by significant volatility driven by currency manipulation of key central banks. The long-term trend for the U.S. dollar is down. The U.S. cannot continue to spend, borrow, and print billions of dollars out of thin air without drastic currency devaluation. This will translate to much higher prices for most goods and services. Hedge your dollar risk by owning a significant amount (minimum of 30-35 percent of assets) of gold and silver coins.

2. **Commodity Futures, Options:**

A weak U.S. dollar will result in higher commodity prices. We are already seeing the price inflation in fuel prices being blamed on the “summer driving season” by the controlled press, rather than on massive currency creation. As always, use these markets, not to speculate but as a hedge as a user or seller of the commodity.

3. **CD's and Money Market Accounts**

The increased FDIC insurance of \$250,000 per account expires at the end of 2009 unless it is renewed by Congress. Keep careful watch for news of renewal or non-renewal. Not extending the \$250,000 insurance limit past December 31, 2009, will signal a bold move by the Obama crowd to cause panic among depositors and several banks to fail as funds are withdrawn, thus allowing “favored” institutions to grow larger on the failure of other banks. We expect a continued fascist approach by the Obama administration in the quest to control large segments of the financial industry and the entire economy.

4. **Bonds:**

We are continually amused by brokerage firms and their “investment advisors” continuing to tout bonds as “safe” investments. States and municipalities, led by California, continue to ignore their spending problems, and seek only to borrow more to feed the insatiable appetite for growth of government. The dual risks of credit risk and inflation risk that we warned about in the last issue of *MER* continue unabated. We expect several defaults in these types of bonds. If default doesn't wipe out much of one's bond holdings, inflation will devastate the remainder, as you are paid back in depreciated dollars.

5. **Stocks and Stock Mutual Funds:**

Current rises in stock prices present selling opportunities. This current upswing in stock prices start the first part of March, and is fueled by hopeful participants that believe the lie promoted by “reassuring babble” from politicians, Federal Reserve officials, and the Wall Street crowd that “good times are about to be here again.”

The next round of credit blow-ups – specifically in commercial real estate – will mark the beginning of the end of this current upswing in the stock market. As always, never forget that earnings reflect the true value of equities.

6. **Precious Metals:**

Gold and silver, and to some extent platinum, remain buoyed by the real fears of inflation hitting the economy hard in the coming months. Platinum is such a strategic metal (used predominantly in the automobile sector) that we do not recommend holding platinum currently. If you are still holding platinum it may be a good time to take your profits in the rare white metal and place those dollars in additional gold and silver holdings.

As for gold and silver, the demand remains unprecedented with long lines for some types of silver coins in particular. The U.S. and Canadian mints were stunned by the demand for both gold and silver coins beginning in the fall of 2008 and are only now really rebounding from the exhaustion of the previous year's production. Still, supplies of some

coins remain somewhat limited, and the U.S. Mint has placed its primary dealers on allocations at times in order to accommodate the demand without leaving anyone out in the cold.

We recommend that clients protect a minimum of 30-35 percent of their total assets in precious metals in order to protect at least a third of your assets from the downturn in the value of the dollar. Since the fall of 2009, the Federal Reserve has increased the money supply, indicating they would be willing to more than triple that number by pumping new dollars into the system for the various government bailouts. The end result will be hyperinflation.

It is imperative that readers consider the precious metals simply as another currency. Really, the metals are the ultimate currency; and their values are not dependent on the whims of the printing press or political policy. Rather, they are an equal system of weights and measures. Keep in mind that every economic crisis since President Nixon closed the gold window and repudiated the Bretton Woods Agreement has been a currency crisis, with all of the paper currencies of the world floating against one another with essentially zero real value. The metals, on the other hand, have survived as a medium of economic exchange for more than 6,000 years, simply because there is just as much of it on the earth.

It is important to note that even those who may have frowned at the thought of owning precious metals a few years ago are now singing praises for this economic hedge. Further, Northwestern Mutual Life Insurance Company recently added upwards of \$400 million in gold to their portfolio to protect their company, investors, and policyholders. In general, most insurance companies have been very conservative over the years, but this takes prudence to a new level. Purchasing gold as a hedge against what they believe may be further declines in asset values of paper investment was a “first” for Northwestern in their 152-year history.

With uncertain times there is the inevitable question of how much is too much of a good thing. We recommend limiting your precious metals holdings to not much more than 55 percent of total assets, as the U.S. dollar is still the currency of choice for the time being, and you don't want to have all your eggs in one basket. Diversification is key. Contact your FAMC, Inc., staff economist or monetary consultant to discuss your needs in precious metals (800) 325-0919, ext. 7470.

7. Rare Coins:

Recently we have seen a huge increase in the price of precious metals, and that has translated to gains in the rare coins, as well. But with the large premiums charged for rare coins, many are only now finding themselves break even on a lot of the rare coins they have purchased. We have never recommended our clients holding more than 10 percent of their total precious metals portfolio in rare coins as they are just that – rare. Often the only thing more rare is a buyer when you get ready to sell them, and let's face it – in a down economy, collecting things is not always high on the list of priorities. If you are indeed a true collector of rare coins we still advise not holding more than 10 percent of your total holding in rare coins; and for those who are just looking to protect their hard-earned dollars via the precious metals, just stay away from the really rare coins altogether. If you would like an appraisal of your rare coin portfolio for the consideration of trading those coins for a greater amount of gold and silver in a more readily tradable form, contact your FAMC, Inc., monetary consultant at (800) 325-0919, ext. 7470.