# MONETARY & ECONOMIC REVIEW

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# Recommended Strategies at a Glance

By FAMC Staff Economists

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

We have seen central bank coordination very aggressively prop up the U.S. dollar. Dollar weakness had propelled gold prices to all-time highs. China confirmed they were buying gold in an "orderly" manner, so as to not rapidly move up the price of gold. China has lost confidence in the dollar, according to Cheng Sinwei, who serves as the de facto Chinese economic ambassador. Cheng stated that China was going to shift to a partial gold standard. This is how China is hedging for currency depreciation of their vast U.S. dollar holdings. We do not recommend holding foreign currencies such as the euro, yen, or pound, as the socialist-led governments of each of these countries will provide no extraordinary strength for those currencies. Expect more massive central bank intervention on a regular basis, in order to sustain some confidence in paper currencies.

All paper currencies are like boats on the ocean of the world economy and they (currencies) are all sinking … some are just sinking faster than others. The U.S. Congress is raising the debt ceiling by $2 trillion and the Federal Reserve will have to monetize (print) the debt. The massive increase in money supply can only further weaken the U.S. dollar. Most people's greatest financial risk is currency depreciation.

2. **Commodity, Futures Options:**

As we have mentioned in this column for several years now, the best use of commodity futures are for price discovery or risk transfer. Many are concerned about their stock and mutual fund holdings and how to avoid the downside risk where they would lose their gains in the stocks and stock mutual funds. The futures specialists from Investment Trading Services explain the workings of stock index futures contracts as a vehicle to hedge holdings you may not control, such as funds in variable annuities, pension plans, 401-K plans, and trusts. See the article in this edition under "Financial Insights."

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

Congress extended the $250,000 limit of FDIC insurance that was set to expire at the end of 2009. The new legislation extends the $250,000 of FDIC coverage until December 31, 2013. Avoid long-term CDs over $100,000 that mature after December 31, 2013. We recommend CDs to be invested with stronger banks and maturing in 12 months or less. Due to numerous bank failures, the FDIC insurance fund has a negative balance. The FDIC has borrowing authority from the U.S. Treasury of up to $500 billion. Even this amount will cover only a fraction of their $4.8 trillion liability of deposits in FDIC insured banks. *MER* readers may call an FAMC economist for a free bank analysis: 1-800-325-0919, Ext. 7470.

4. **Bonds:**

We are seeing several media reports that, in response to zero-yielding T-bills and other low yielding debt instruments, investors are flocking in great numbers to higher yielding, high-risk junk bonds and notes. Investors are being led or pushed into these risky debt instruments by unscrupulous or ignorant brokers and financial advisers. Many are complicit in their own mal-investment, due to their need for income. In this economic climate, one has to be more concerned by return of assets rather than return on assets. Any newly issued debt instrument yielding above 6 percent has attached a greater likelihood of default. Your yield is commensurate with your risk. We recently saw one company, which was saddled with $300 million of bank debt they could not pay, issue 6-year second-lien, senior-secured notes yielding 9.625 percent just to pay off the banks. Remember, if their credit risk were good, the banks would have kept their loans. Unsuspecting buyers of these notes, along with billions of dollars of similar debt instruments, are being led to the financial slaughterhouse.

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

Get ready for a big sell-off in stocks. The stock market and mutual funds ("stock soup") are being driven higher by investors jumping into the market out of fear of being left behind by the market. Even mutual fund managers have the

same mentality, as evidenced by their being fully invested in the market and holding cash of only 3.7 percent as a percentage of assets. The current cash position of mutual funds is only slightly above the record low cash positive of only 3.4 percent of assets hit in July 2007. The market (NASDAQ) peaked just three months later on October 31, 2007. The continued downturn in U.S. economic activity will not bode well for earnings. The downside risk in stocks far outweighs their upside potential.

6. **Precious Metals:**

The precious metals complex has continued to do what it does best, and that is serve as a hedge against inflation and as a safe place for one's hard-earned assets. While gold has backed off slightly from historical highs, it remains in such high demand as to prompt one mining group to announce they were having trouble finding new deposits of the yellow metal. Additionally the flight from the U.S. dollar as the primary reserve currency amongst many of the large developing nations has added to the spike in the price with India alone purchasing in excess of $6.7 billion in gold for their central bank reserves.

Some wonder why, then, have metals prices dipped? This can be attributed largely to momentary up ticks in the value of the dollar against other currencies globally, and is it likely to be short-lived, since nothing has changed substantially in this challenging economic environment. Nations are continuing to expand debt loads at near exponential levels, with the U.S. Congress raising the debt ceiling by another $2 trillion! This kind of monetary and credit expansion can only serve to exacerbate the long-term problem of inflation and a further collapse in the value of the dollar. Keep in mind that we have yet to fully experience the effects of inflation from the first bailouts; but the president of the Federal Reserve Bank of Philadelphia noted we anticipate a rapid rise in inflation. His predictions were a doubling of current inflation by 2011. We anticipate that may be on the low end of the rise in the rate in inflation. His predictions were a doubling of current inflation by 2011. We anticipate that may be on the low end of the rise in the rate of inflation. This, too, is anticipated to push folks out of typically safe investments such as CDs and Money Market funds as they seek to at least maintain against inflation while rates for typical bank accounts is languishing at very near zero percent return. In turn, we believe this will further the demand for previous metals.

We still are hesitant to recommend a return to platinum, as it is unknown when demand for the auto sector (which accounts for over 55 percent of platinum consumption annually) will return. Further, the global meetings on climate may further erode the gas-powered vehicle sales by mandate, and this potentially can keep platinum prices steady to lower. For now, we continue to recommend that clients protect at least 35 percent to 55 percent of total assets via the physical precious metals. We would recommend a mix of silver and gold for your portfolio, based on total holdings. For additional information, please contact your FAMC staff economist or monetary consultant at 800-325-0919. We anticipate the continued demand will make supply delays a lingering issue. We advise you act as soon as possible to secure your position in the metals, as the delays are likely to get longer.

7. **Rare Coins:**

The latest push in "rare" coins that we find completely unnecessary is the marketing of semi-numismatic silver coins. A lot of coin jockeys have begun pushing older silver coins such as the Peace Dollar and Morgan dollar coins. It is important to note that while there is nothing wrong with these coins, they have less silver content in each coin, compared with the newly minted American Silver Eagle or Canadian Silver Maple Leaf coins. The Morgan and Peace Dollars contain .7725 ounces of silver, whereas the Eagle and Maple Leaf are one full ounce of silver. Additionally, the Morgan and Peace dollars have been running almost 35 to 45 percent more per coin. So essentially, you end up paying 40 percent more for nearly 23 percent less silver in these coins. Also, be careful of coin salesman pushing rare coins in the silver as they have often done in gold. Commissions are high in this type of coins, and you end up paying a lot more for a lot less gold than you would in a more usable form of the metal. When in doubt, feel free to get a second opinion from your FAMC monetary consultant.

Finally, do not be taken by the latest "mint" deals from some obscure mint. Always be cautious of ads putting a "limit" on the number of coins you can purchase at a certain price. Almost always, these are being used as loss leaders to get you in the door and then you are almost assured of being pestered by coin salesman daily until they make it up on some other coin sale to you. Again, for additional information, contact FAMC, Inc., at 800-325-0919.