



MONETARY & ECONOMIC REVIEW

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Recommended Strategies at a Glance

By FAMC Staff Economists

1. Cash, Foreign and Domestic Currency:

All currencies are like boats on the “ocean” of the economy, and ALL are sinking...some just happen to be sinking faster than others. The debt bubble, resulting largely from “creative” real estate financing, is about to burst. In order to prevent a worldwide economic collapse, central banks, led by the Federal Reserve and European Central Bank, pumped over \$400 billion of liquidity (newly created money) into the banking system in one week. This means your holdings of dollar assets just got devalued. No one is certain how all this will shake out, so it is best to move half your cash, including money market funds and savings, to gold and silver coins – the only monetary asset that is not someone else’s liability. Gold and silver is real money; anything else (paper money) is credit money. Those who get the new money first or know about the new money first, profit ahead of those who get it last or know about it last. *MER* readers know about it first.

2. Commodity Futures, Options:

Due to the expected increase in volatility resulting from the fallout of the sub-prime mortgage debacle, we advise you to use these vehicles only for hedging. They should be used only for 1) price discovery or 2) risk transfer for a user or producer of a commodity. These ARE NOT investment vehicles.

3. Certificates of Deposit/Money Market Accounts:

Again, our recommendation is to not extend your CD’s maturity past 12 months and do not expose yourself to risk above the FDIC insured limit at any one bank. Further, know the financial health of your bank. *MER* readers may call an FAMC staff economist or consultant for free bank and insurance company analysis (1-800-325-0919).

In reference to money market accounts at brokerage firms, we do not make the following recommendation lightly. In view of the lack of transparency of brokerage firms and their exposure to derivative instruments and hedge fund activities (see cover story), we strongly urge you to reduce most of your exposure to money market accounts at all brokerage firms. You may want to leave a small amount to just keep the account open. These funds should be placed in money market accounts at stronger banks. Again, limit your exposure to the \$100,000 FDIC rules. Further, make sure you have check writing privileges on these accounts. We believe it is possible, due to the market volatility, that these money funds will fall below the traditional \$1.00 per share pricing. *MER* readers may call an FAMC staff economist or consultant for specific information (1-800-325-0919).

4. Bonds:

We have said many times before: Due to inflammation and the inverse relationship between interest rates and bond prices, bonds are virtually “guaranteed certificates of confiscation.” Reacting to the credit crisis brought on by the real estate mortgage debacle, the Federal Reserve is creating massive amounts of “new” money. This means inflation is already in the “pipeline.” Therefore, when price inflation manifests itself, the Federal Reserve will more than likely raise interest rates to bolster the dollar. You get the “double whammy”: 1) loss of purchasing power due to inflation, and 2) bond prices (value) decline due to the higher interest rates.

Increased scrutiny of the quality of the debt may make bonds less liquid, absent huge price declines. Take advantage of this current window of opportunity to sell any long or intermediate term bonds remaining in your asset holdings. Unfortunately, because of a lack of understanding, many financial advisers are moving unsuspecting clients into bonds. Avoid that pitfall. Corporate bond yields may soon rise 200 basis points above government bonds. Those corporate issues will substantially decline in value.

5. Stocks:

I can’t think of a single stock or even sector of stocks that I would recommend at this time. Future earnings prospects are dim, in light of the economic debacle on the horizon. The upside potential of stocks and mutual funds (stock

soup) is far outweighed by the downside risk. Unload remaining stock and fund holdings as the Federal Reserve pumps massive amounts of cash into the banking system. This will cause a temporary run-up in stocks.

6. Precious Metals:

What can we say about precious metals except they are doing what they earned wealth and buying power from inflation and currency devaluation. The U.S. Dollar continues to flounder against the other major world currencies as the Federal Reserve seems intent on cutting rates and printing more and more of the paper currency. The Fed policy has actually hurt the status of the dollar and as a result several nations are beginning to accelerate their dumping of dollars only exacerbate the plight of the dollar. This is where the precious metals really shine as the only form of real money and, of course, act as economic insurance. As the currencies slide the metals hold their buying power.

We have noted it before but gold and silver are the ultimate medium of exchange. One need only look at the fact central banks trade amongst themselves in gold. Further, every major economic crisis since Nixon closed the gold window in the early 1970's has been a currency crisis and each time those holding affected nations were able to continue life as normal while the rest were stuck with worthless paper.

Make sure you are holding a minimum of 35 percent of total assets in the precious metals and consider moving that figure to as high as 55 percent as the future for the U.S. dollar looks bleak at the point in time.

Stay away from rare coins (MS-63 and higher) as the only thing more rare than these types of coins will be a buyer when things get tough in the economy. Sure they are gold and gold will spend, but why pay such a premium when ultimately it will be the gold content you will be trading, not the rarity of the condition of the coin. That said we do recommend your gold holdings be in the semi-numismatic coins that have just enough collectability to be considered exempt from confiscation without paying the ridiculous premiums on the "rare" coins being pushed by coin jockeys and high pressure sales calls. Contact an FAMC staff economist or monetary consultant to discuss your metals holdings in detail or to learn how you can acquire metals for your portfolio by calling (800) 325-0919.