

## Today's Notes:

## 1. Double Dip

**1. THE BIG DOUBLE DIP**

This past week President Obama, while on his trip to China, made the somewhat surprising statement that the US economy might be headed for a double dip recession. It was surprising to us because we would not have thought Mr. Obama would make such a forecast. When the Chief Exec makes such a statement it is very likely a prelude to the future. Normally a lower level bureaucrat (for example Christine Romer, Director of the Council of Economic Advisors) would be dispatched to leak bad news to mom and pop. Mr. Obama conditioned his double dip premonition with the suggestion that getting control of the debt could help us avoid such a catastrophe. Said the President,

*"It is important though to recognize if we keep on adding to the debt, even in the midst of this recovery, that at some point, people could lose confidence in the U.S. economy in a way that could actually lead to a double-dip recession,"*

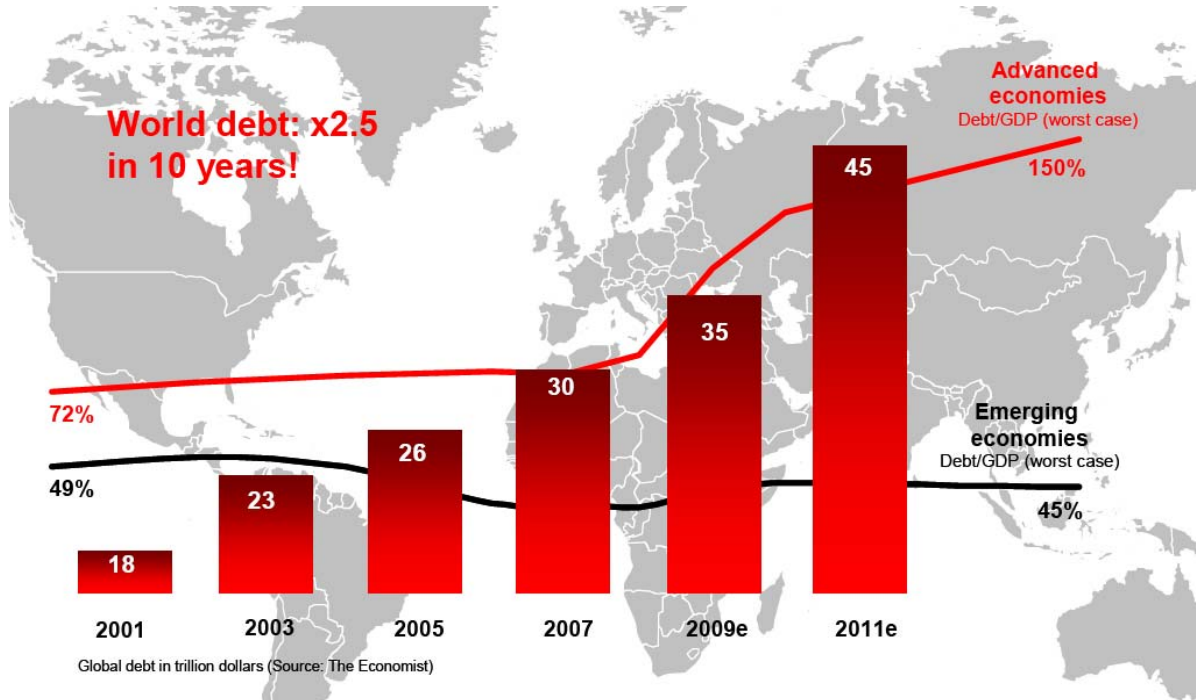
The problem we all have, even the liberal press (see Washington Post Nov. 18, 2009, *Obama Warns of Double Dip Recession*) is that there is some doubt growing in his ability to suppress this deepest economic downturn since the Great Depression. The president said that his administration is considering tax cuts and more fiscal spending to counteract the 10.2% level of U3 unemployment.

We predict increasing unemployment pressure on the president and his economic team in the future. Following his statement Mr. Obama seemed to recant his view of more fiscal spending. He said that more government spending or tax cuts could also lead to a loss of confidence in the US. Losing "confidence in the US economy" is synonymous with losing confidence in the US dollar. That is most clearly happening as I write. Even yesterday when the US currency "strengthened" relative all its fiat cousins, gold came back very strongly to close up on the day. This is a sign that gold is morphing into new money. This AM once again in spite of a much stronger dollar gold is holding it sown quite nicely, trading down less than 1/2%.

The reality is that the "too-big-to-fail" economy is indeed, failing. This is particularly true in the weakness of the current jobless recovery. The Federal Reserve and the Treasury were the lifeline for Goldman Sachs and Wall Street's chosen survivors. There is however no higher power to save the US economy. Harvard's Professor Niall Ferguson (October 29<sup>th</sup>, Bloomberg Interview) suggests a 500 year "tipping point" for the US economy may have been reached. It is evident that our president is preparing us for the big double dip.

Here's the real issue that's difficult to understand. While President Obama talks about the growing debt load and a potential loss of confidence, Congress is piling up the debt load and increasing taxes – partially encouraged by the White House. Fred Bergsten suggests that

the US net debt, based on current spending plans and CBO forecasts, will top \$50 trillion by 2030 – necessitating a \$2.5 trillion annual carry charge – clear unsustainable. Here’s Societe Generale’s forecast (using Economist data) for the global debt load in today’s research report. This is their worst case debt scenario. According to the French bank it is accompanied by a US dollar collapse and a worldwide economic meltdown within the next two years.



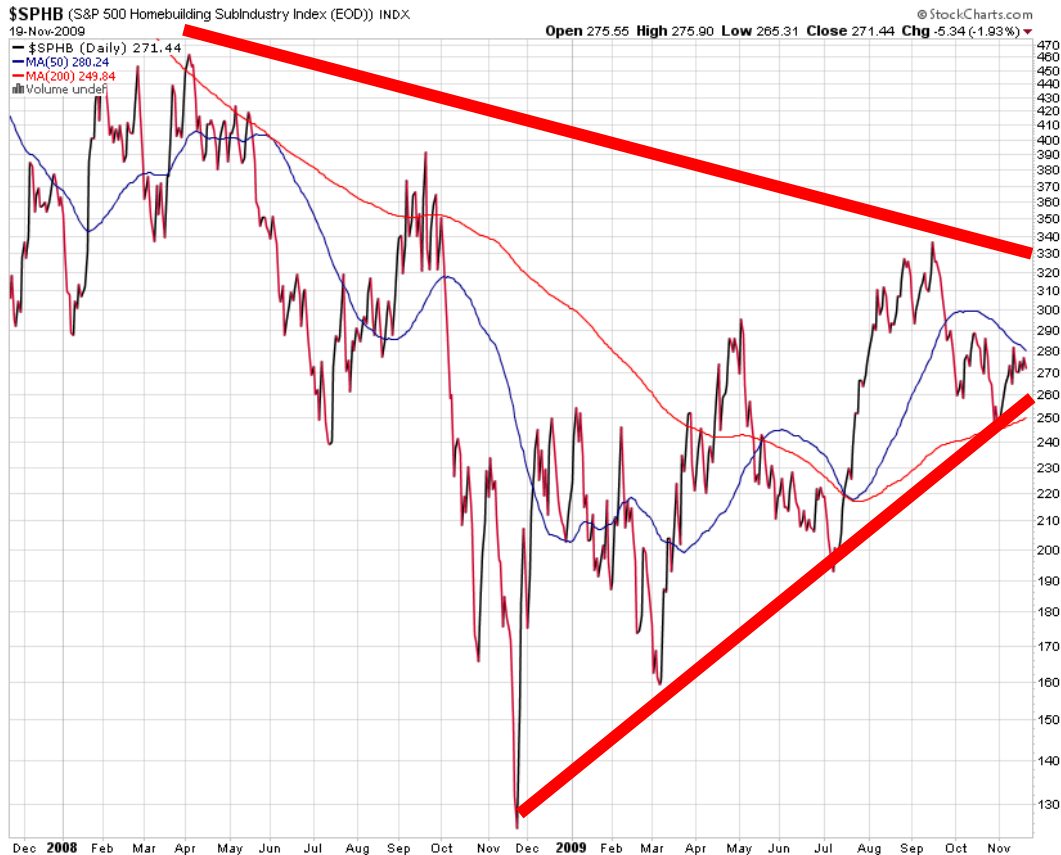
The US electorate must now be confused by the fiscal policies and many spending programs emanating from Washington under these circumstances. Will it be less stimulus and tax cutting to reduce the debt load? Given the current health care debate (and pending Senate bill) will taxes of all sorts be increased? Most observers feel that the health care bill will increase deficits. This health care bill really costs \$1.7 trillion not \$850 billion. Half of it is passed on to the States. If this is the case perhaps the Soc Gen worst case debt scenario depicted graphically above is indeed a serious risk.

The New York Times reports this AM, that the real estate delinquency and foreclosure problem is back – in force. The Times reports that 10% of all US homeowners are behind at least one mortgage payment. That amounts to 5 million homes. D. R Horton missed earnings by 10 cents this AM. The CEO says the housing industry is still “very challenging.”

Wrap the combined joint feedback effects of unemployment with housing misery, couple that with the president’s tendency to finance another fiscal program and congressional tendency to raise taxes and a deep double dip looks entirely possible – even likely. The Times reports,

***“The combined percentage of those in foreclosure as well as delinquent homeowners is 14.41 percent, or about one in seven mortgage holders. Mortgages with problems are concentrated in four states: California, Florida, Arizona and Nevada. One in four people with mortgages in Florida is behind in payments.”***

The S&P Homebuilders index is also reaching its tipping point. Given these huge volumes of debt, it does seem that an ominous economic future is in store. Please sell dollars and buy gold, silver and other hard commodities. Discovery Investing is one way to attack this problem. Please consider it for your own preservation and that of your family and causes.



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