

The Great American Dream

NIGHTMARE

Two Homes, Three Cars and A
Harvard Education for Johnny and
Lucy

Lies Damned Lies and Statistics

Foreclosures: Gone Prime

(November 2008 thru February 2009)

More than 473,000 prime mortgages were delinquent 90 days, in foreclosure or where the lender repossessed the home.

The total exceeded 1.5 million prime loans worth more than \$224 billion.

Source: Analysis of data provided by First American CoreLogic. New York Times, *Job Losses Push Safer Mortgages to Foreclosure*, May 25, 2009

Total Foreclosures

November 2008 through February 2009

- Subprime mortgages in the 3 categories increased < 14,000, reaching 1.65 million.
- Troubled Alt-A loans — given to people with slightly tainted credit — rose 159,000, to 836,000.
- A total of 4 million loans (\$717 billion) were in the 3 distressed categories in February 2009
- 60 % more, in \$ terms, than a year earlier.

Problems Grow for Prime Borrowers

Foreclosures for prime mortgages — those given to the most creditworthy borrowers — have surged recently, particularly in densely populated states.

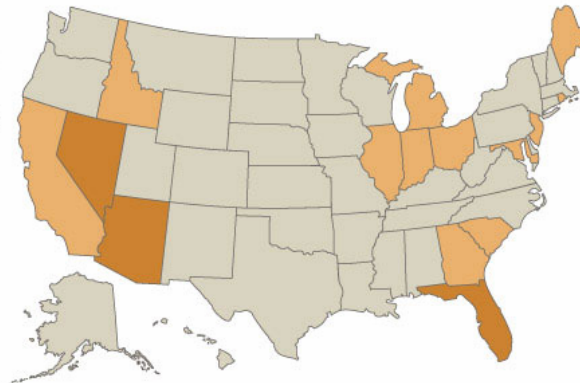
Prime mortgage foreclosure rates

March 2009

0.3% 1.0 2.0 5.0

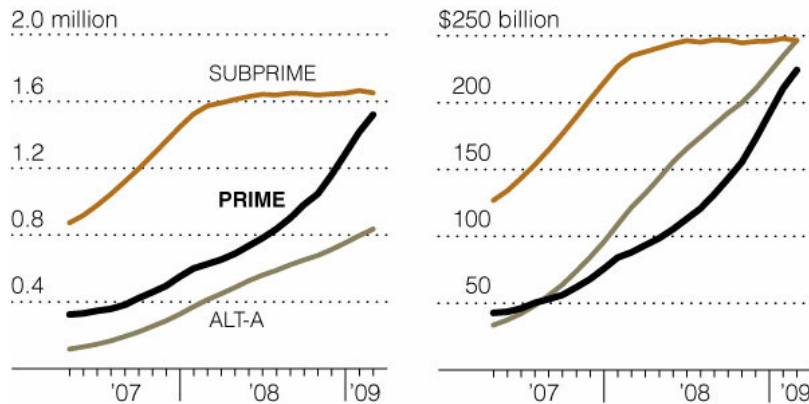


U.S.
1.4%



Florida	5.0%	Ohio	1.5%	Maine	1.1%
Nevada	3.3	Indiana	1.5	Rhode Island	1.1
Arizona	2.1	Illinois	1.4	Idaho	1.1
California	1.8	Michigan	1.2	Maryland	1.1
New Jersey	1.6	Georgia	1.1	South Carolina	1.0

Loans past due at least 90 days, in foreclosure or real estate owned*



*Real estate owned loans are those that have deteriorated to the point that the bank has taken control of the house.

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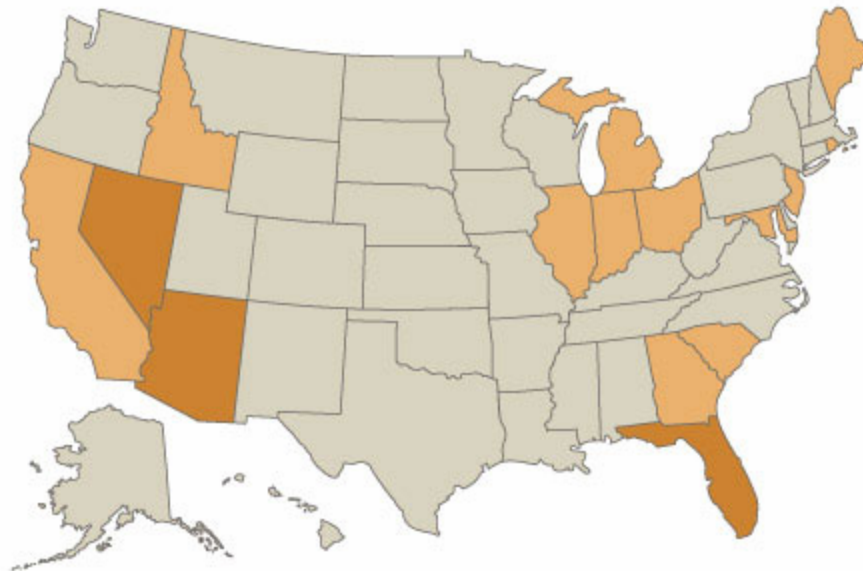
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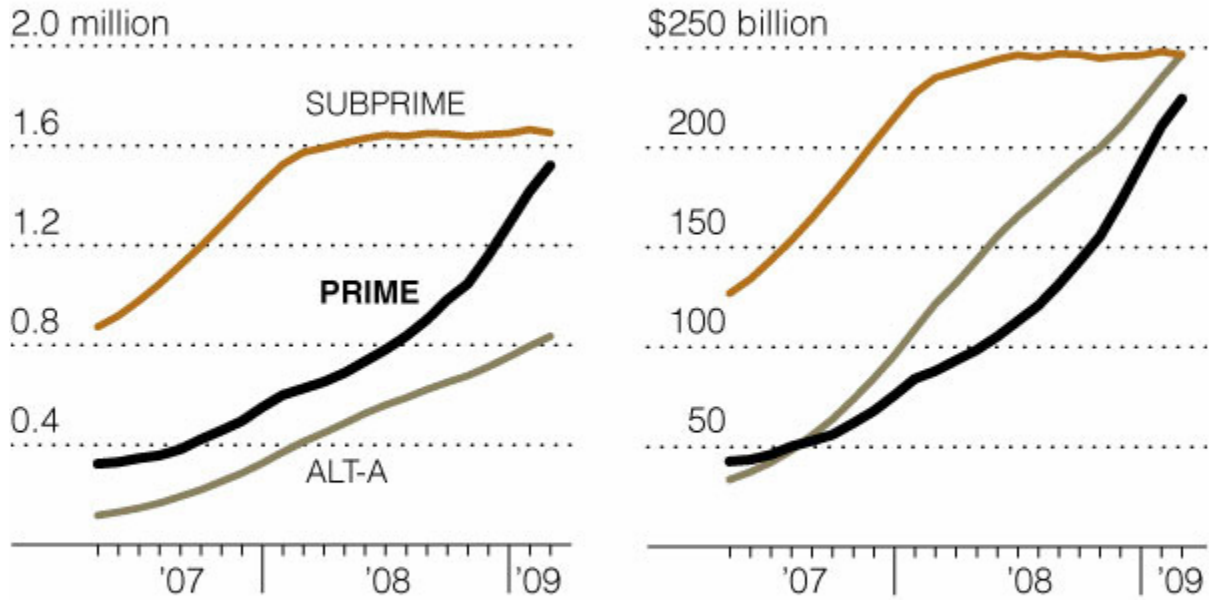


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Source: First American CoreLogic

THE NEW YORK TIMES

The Costs To The Banking System

- Each foreclosure costs lenders \$50,000.
- An additional two million foreclosures could mean \$100 billion in lender losses.

Source: The Federal Reserve Bank of Chicago, 2006 and NYT

Loan Performance Among the Country's Largest CBSAs

1.	Riverside-San Bernardino-Ontario, CA	-29.34
2.	Miami-Miami Beach-Kendall, FL	-28.88
3.	Las Vegas-Paradise, NV	-27.45
4.	Oakland-Fremont-Hayward, CA	-27.05
5.	Cape Coral-Fort Myers, FL	-26.37
6.	Fort Lauderdale-Pompano Beach-Deerfield Beach, FL	-24.43
7.	Phoenix-Mesa-Scottsdale, AZ	-23.89
8.	Los Angeles-Long Beach-Glendale, CA	-23.40
9.	Orlando-Kissimmee, FL	-22.20
10.	Tampa-St. Petersburg-Clearwater, FL	-19.66
11.	Chicago-Naperville-Joliet, IL	-17.47
12.	San Diego-Carlsbad-San Marcos, CA	-17.37
13.	Washington-Arlington-Alexandria, DC-VA-MD- WV	-15.53
14.	San Francisco-San Mateo-Redwood City, CA	-13.86
15.	Seattle-Bellevue-Everett, WA	-13.60
16.	Portland-Vancouver-Beaverton, OR-WA	-12.51
17.	Boston-Quincy, MA	-10.90
18.	New York-White Plains-Wayne, NY-N	-10.61
19.	Edison-New Brunswick, NJ	-10.35
20.	Minneapolis-St. Paul-Bloomington, MN-WI	-10.26
21.	Honolulu, HI	- 9.07
22.	Atlanta-Sandy Springs-Marietta, GA	- 8.58
23.	St. Louis, MO-IL	- 8.47
24.	Detroit-Livonia-Dearborn, MI	- 6.82
25.	Cleveland-Elyria-Mentor, OH	- 6.75
26.	Philadelphia, PA	-4.43
27.	Charlotte-Gastonia-Concord, NC-SC	-4.19
28.	Salt Lake City, UT	-2.73
29.	Raleigh-Cary, NC	-1.34
30.	Denver-Aurora-Broomfield, CO	-0.78
31.	San Antonio, TX	-0.64
32.	Dallas-Plano-Irving, TX	0.92
33.	Austin-Round Rock, TX	2.27
34.	Houston-Sugar Land-Baytown, TX	3.02

Source: First American CoreLogic, Loan Performance HPI, Single-Family Detached as of March, 2009

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High End Housing Starts to Go Bad

Delinquencies remain low in the nation's high-end neighborhoods,

but

mortgages are going bad at a faster clip in many affluent neighborhoods.

Job losses, a lack of financing, and resetting mortgages: the perfect storm for those that were immune to the housing downturn.

“The real story was the geographic dispersion of home price declines, i.e. the problems are no longer confined to a handful of ‘Sand States’. ”

Mark Fleming, Chief Economist for First American CoreLogic.

“HOME PRICE DECLINES SPREAD TO FORMERLY STABLE MARKETS,”

The Wall Street Journal May 27, 2009

The Impact of the US Debt Binge

Stanford University's John Taylor, FT May 28, 2009

The Dream Turns to Nightmare

"I believe the risk posed by this debt is systemic and could do more damage to the economy than the recent financial crisis. ...

The deficit in 2019 is expected by the CBO to be \$1,200 billion. ... a permanent 60% across-the-board tax increase is required to balance the budget.

How else can debt service payments be brought down as a share of GDP?

"Inflation will do it. ... To bring the debt-to-GDP ratio down to the same level as at the end of 2008 would take a doubling of prices.

That 100 % increase would make nominal GDP twice as high and thus cut the debt-to-GDP ratio in half, back to 41% from 82%.

That increase in the price level means ~10% inflation for 10 years."

The Boomers Come Due

This domino could be the most devastating.

Closely linked to this concept of a pension time bomb is the baby boomer phenomenon.

An estimated 77 million Americans (the oldest of them is now 64) are the largest demographic wave in U.S. history.

The Pension Shortfall

America's 100 largest companies were behind by \$217 billion through 2008, with just 79% of the money required for their pensions. versus an \$86 billion surplus at the end of 2007

**Source: Consulting Firm Watson Wyatt.
May 2009**

US Home Ownership

- Expanded rapidly from 1994 to 2004 but has declined since then. 69.0% of all households owned homes in 2004 compared with 64.0% in 1994. homeownership fell each year after 2004 to 67.8% in 2008.
- Increased more quickly among Hispanics and for a longer time than homeownership overall. The Latino rate peaked at 49.8% in 2006, compared with 42.1% in 1995. It fell to 48.9% in 2008.
- Black householders raised their homeownership rate from 41.9% in 1995 to 49.4% in 2004. By 2008, the black homeownership rate had decreased to 47.5%.
- Immigrant less likely to be homeowners than native-born. Their losses in recent years were relatively modest. Homeownership among immigrant householders increased from 46.5% in 1995 to 53.3% in 2006. Fell to 52.9% in 2008.
- Among native-born householders, the homeownership rate increased from 66.1% in 1995 to 71.5% in 2004, peaking two years earlier than for immigrants. The native-born homeownership rate in 2008 was 70.0%.
- Foreign-born Latinos have not experienced a reversal in homeownership. Their homeownership rate increased from 36.9% in 1995 to 44.7% in 2007 and was unchanged through the first half of 2008.
- Native-born Hispanics raised their homeownership rate sharply, from 47.2% in 1995 to 56.2% in 2005. But they also experienced a sharp turnabout, as their homeownership rate dropped to 53.6% in 2008.

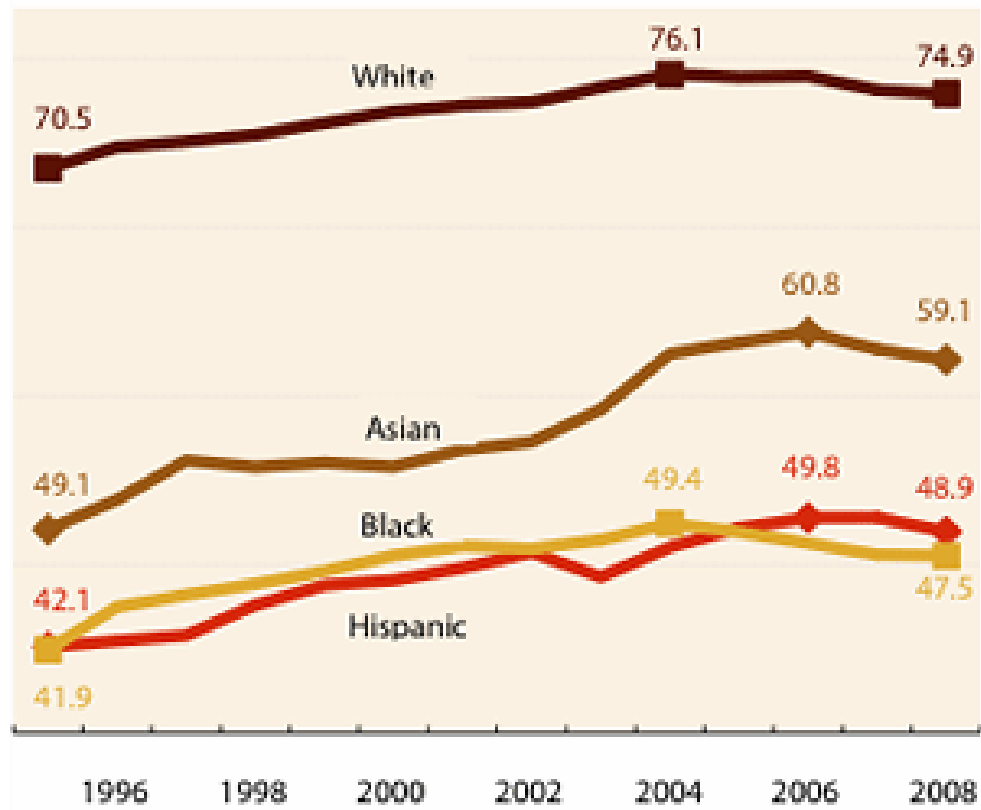
Home Lending

- A precipitous drop in the number of loan applications for home purchases from 2006 to 2007 by 25.2%, and an accompanying drop of 25.0% in the number of loans originated. The vast majority reflects a drop in market activity.
- Loan applications for home purchases by Hispanics fell 38.2% from 2006 to 2007. Applications from blacks decreased 34.4% during the same period, and the number of white applicants decreased 18.9%.
- Among Hispanics, loan applications from the highest income group decreased at a faster rate (41.0%) from 2006 to 2007 than did applications from the lowest income group (23.8%).
- The median loan to Hispanics in 2007 was \$197,000, higher than for blacks (\$168,000) and whites (\$180,000). When compared with others with similar incomes, blacks also borrow more than whites.
- Loan-to-income ratios are higher for Hispanic and black households than for whites. The gap between minorities and whites is greater among high-income households.
- 14.2% of overall home purchase loans in 2007 were higher-priced loans. 27.6% of loans issued to Hispanics and 33.5% of loans issued to blacks in 2007 were higher-priced. Only 10.5% of loans to whites were higher-priced.
- High-income Hispanics and blacks are as likely as low-income Hispanics and blacks to receive a higher-priced loan. That is not the case for high-income whites who are half as likely as low-income whites to receive a higher-priced loan.

Foreclosures 2006 -2008

- The national foreclosure rate tripled, increasing from 0.6% to 1.8%.
- The foreclosure rate was $\geq 5\%$ in 33 of the nation's 3,141 counties. California had 12 and Florida 10. Virginia and Nevada three counties.
- The highest foreclosure rate was 12.0% in Florida's Lee County, including Fort Myers and Cape Coral.
- The typical county had a foreclosure rate of 0.6% in 2008. That is the simple average of foreclosure rates across 3,141 counties. The foreclosure rate was less than 0.6% in 2,164 counties.
- The vast majority of counties in several states that are either traditional immigration destinations or notable new areas of settlement have foreclosure rates that are higher than in the typical county -- 157 of 178. These are in California, Arizona, Nevada, Florida and New Jersey.
- Higher shares of immigrants in county populations are associated with higher foreclosure rates.
- Higher foreclosure rates across counties are also associated with higher unemployment levels, home-price depreciation or slower appreciation, home prices that are high relative to income levels and higher proportions of higher-price mortgage loans to Hispanic and black homeowners.

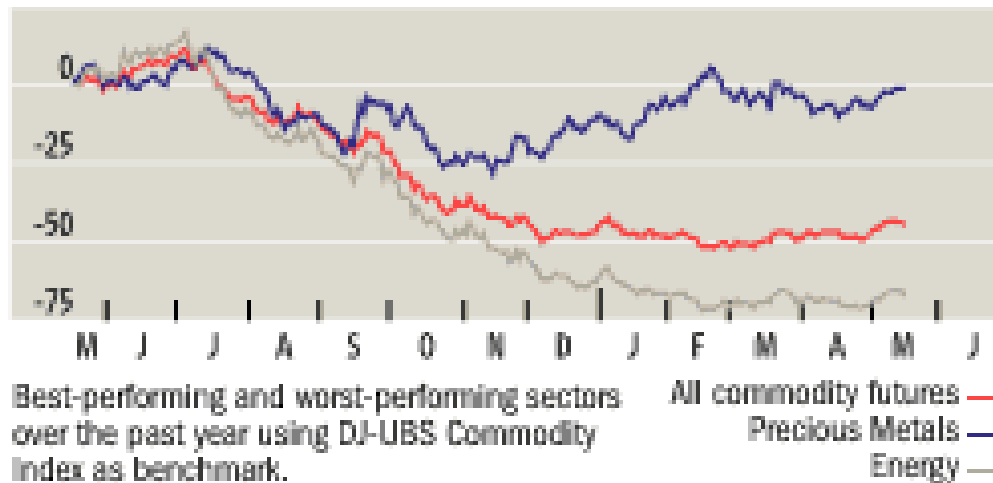
Homeownership Rates, by Race & Ethnicity, 1995-2008 (%)



Source: Pew Hispanic Center

DJ-UBS Commodity Indices

Commodities showing a bottom in May 2009



Precious Metals 

All Commodities 

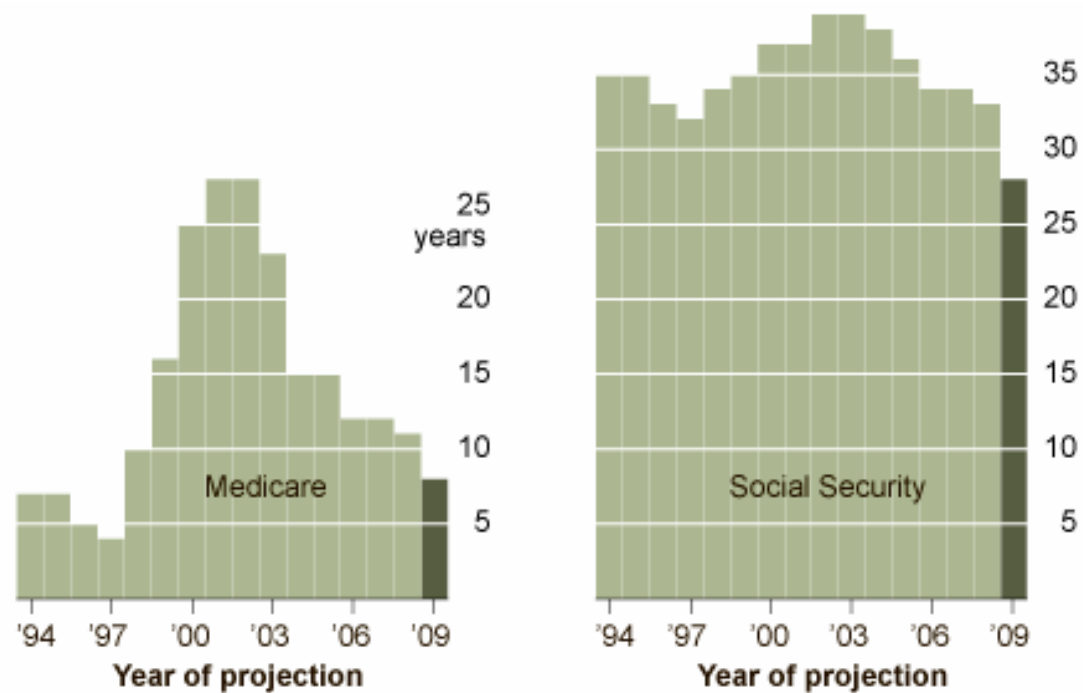
Energy Commodities 

The FDR Legacy

Dwindling Assets

The projected number of years that the Medicare and Social Security trust funds would remain solvent.

Sources: Treasury Department; Health and Human Services Department



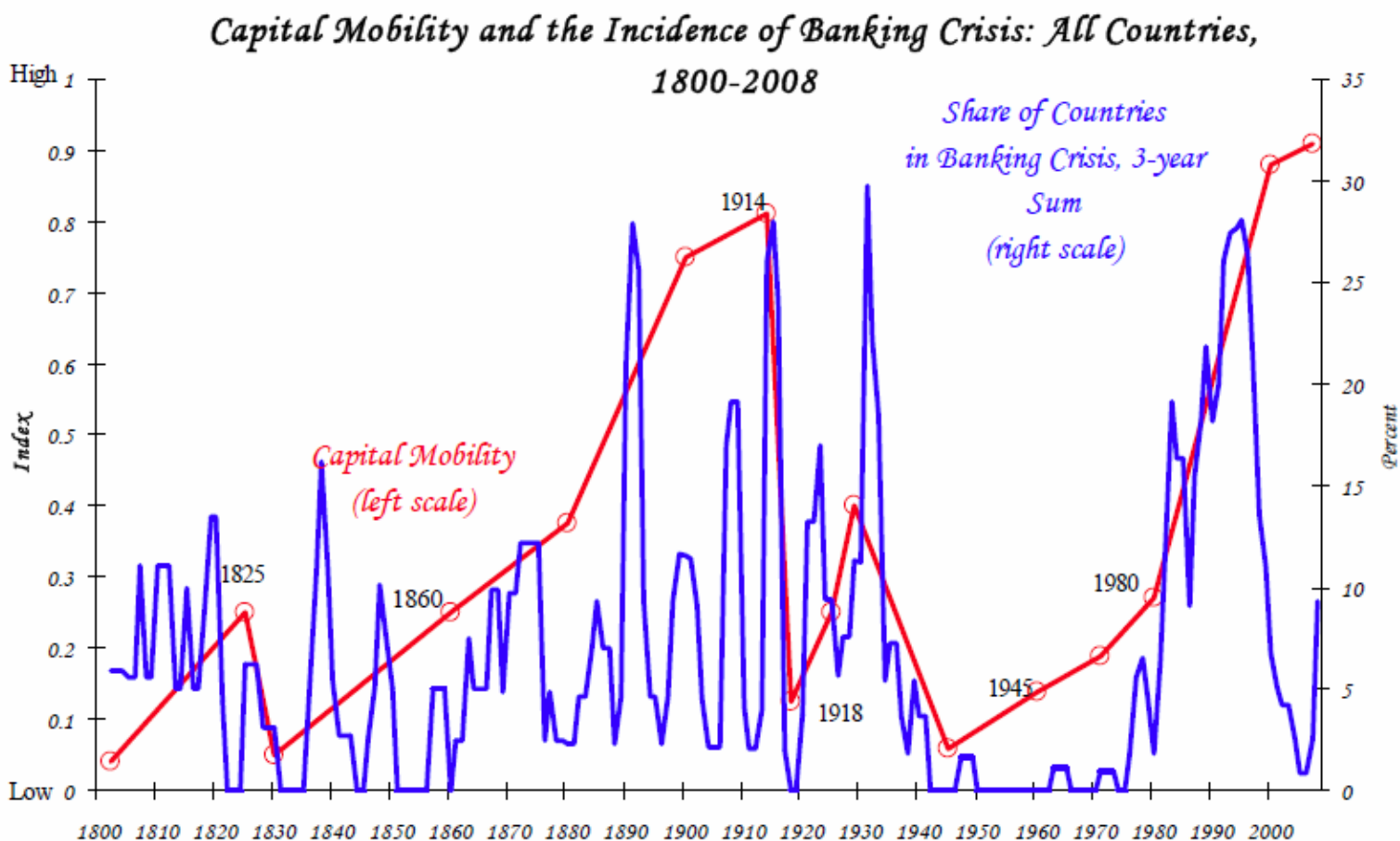
The Proposed Obama Legacy: The Great Wealth Transfer?

- The New **Intrusiveness** – The Czars- cars, banks, the environment. Executive Compensation, market regulation.

\$1.2 Trillion Deficit through 2019. Taxes and Inflation? The Great Wea

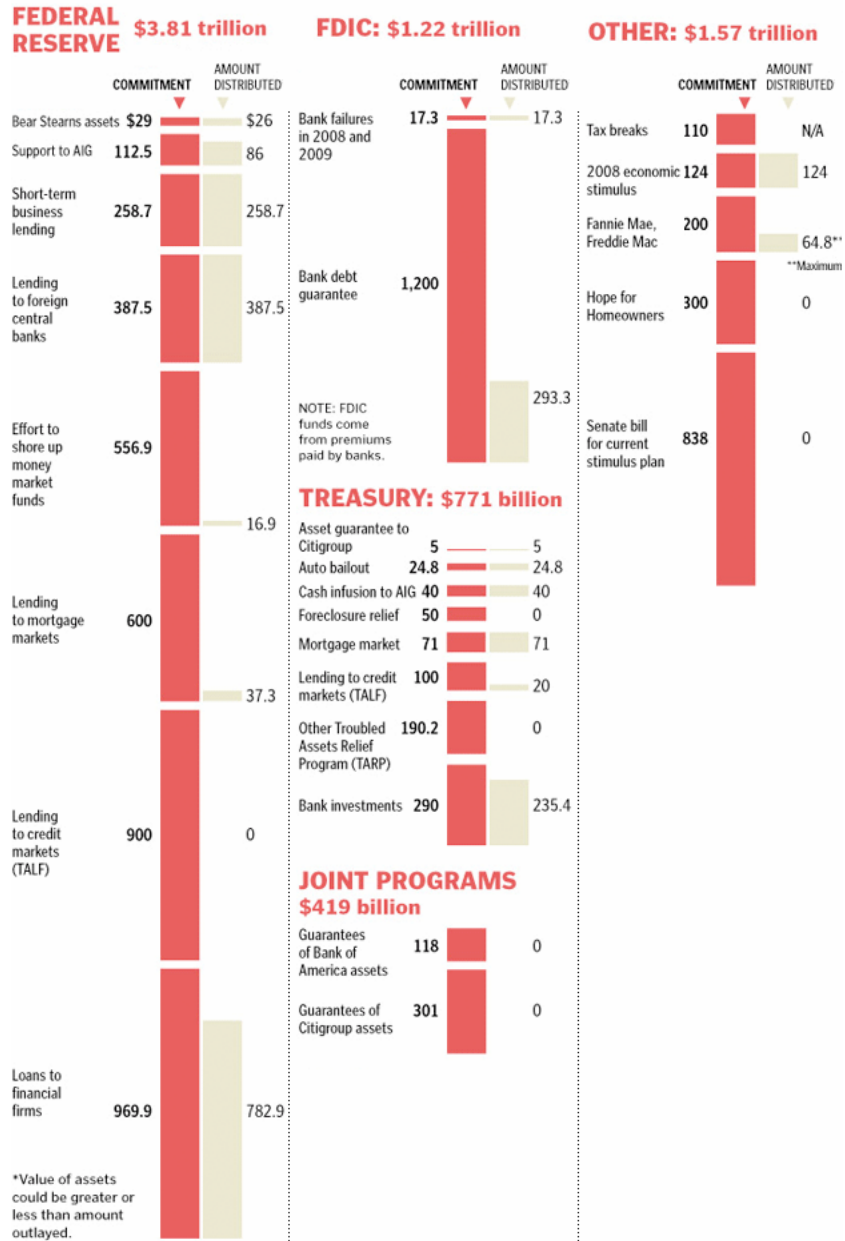
- Middle East Peace – reconciliation with Islam? US subservience to the G20.
- End of Extractive Industries. Environmentalists set policy.
- Alternative Energy and 5 Million “**Green**” Jobs.
- Universal Health care.
- US protectionism WRT Canadian Trade restrictions in the Budget.
- Democracy, Federalism, Statism or Socialism?

Rogoff: Capital Mobility and Banking Crises (This Time It's Different)



\$7 Trillion Committed;

\$2.8 Trillion Allocated

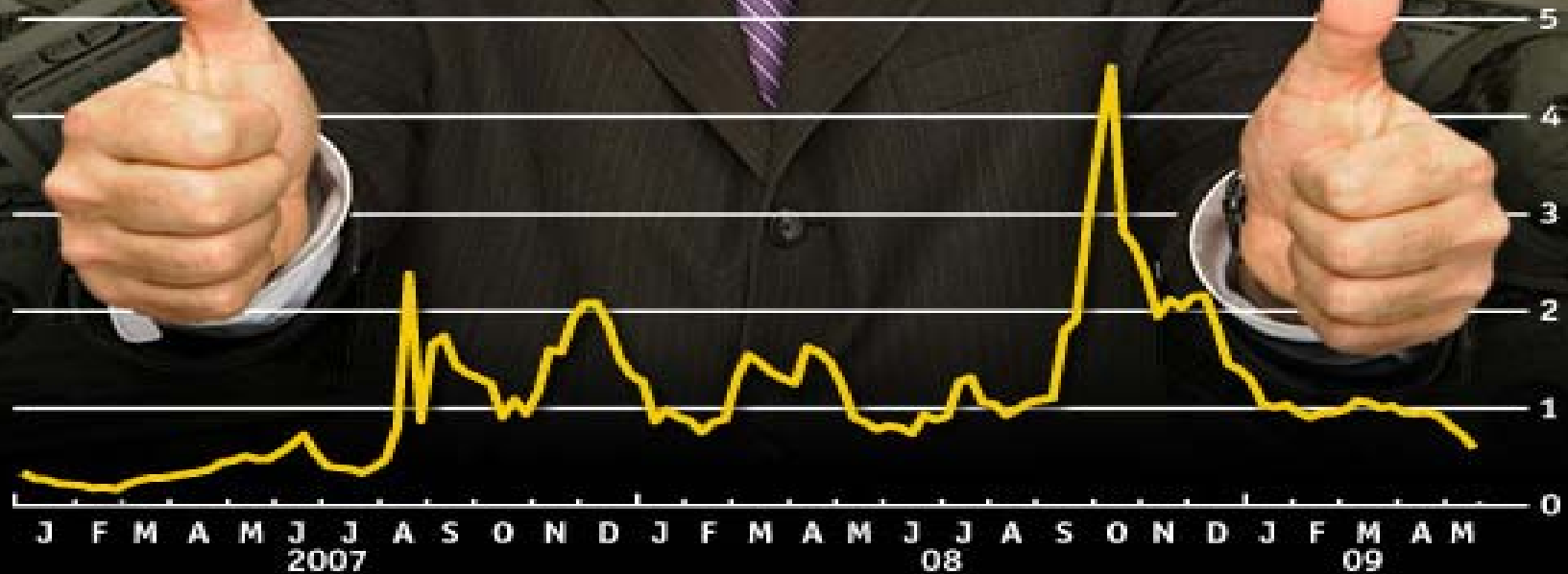


The Growing Issue of States Rights

- Rescinding the Mining Law of 1872 and Wilderness Act of 1983.
 - Pervasive Influence of the Greens in Washington.
 - Washington's Intrusive, and Increasing desire to control.
(Never Let a Good crisis go to Waste)
 - Taxation, Intrusion, Statism, Socialism.
 - State's autonomy - perception of decline in QOL and freedom.
- and
- Increasing mistrust of Washington's Solons, Banking system and Wall Street.

Ted spread

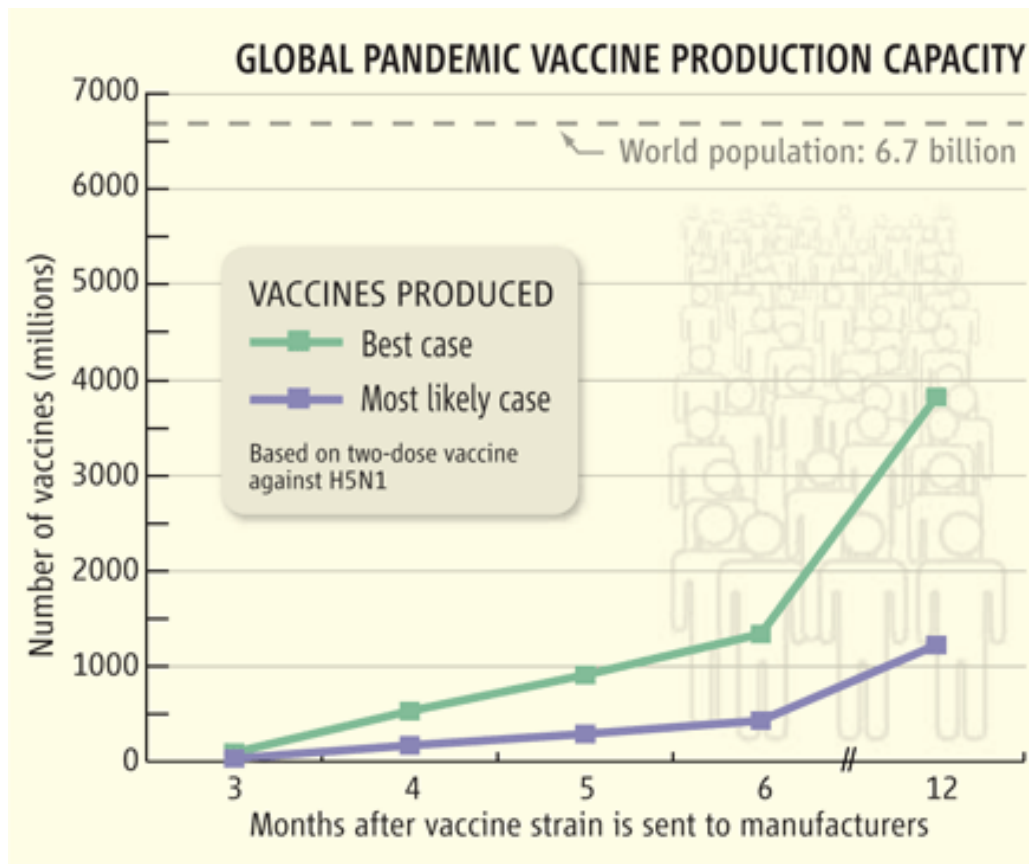
Difference between yield on 3-month \$ Libor* and 3-month Treasury bills, percentage points



Source: Thomson Datastream

* London interbank offered rate

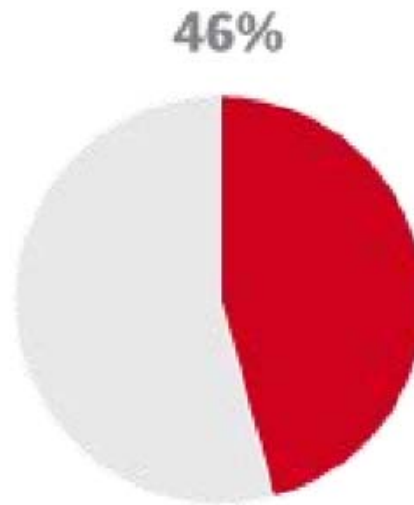
The Perfect Storm



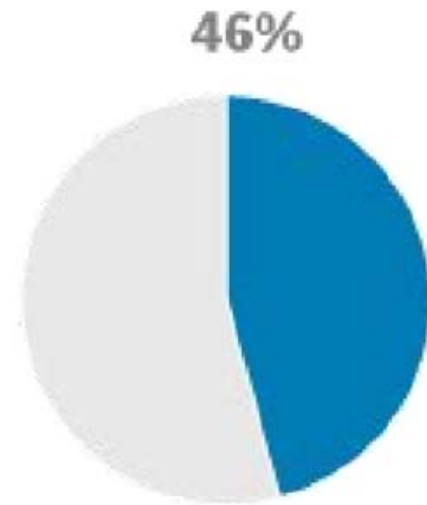
The Great White North: A Study in Contrast

Canada has had higher individual income taxes than the United States, particularly in the top brackets. However, if current tax cuts expire at the end of 2010 as scheduled, the top U.S. federal-state tax rate will average 46 percent — the same as in Canada. Also, Canada's federal capital gains tax rate is lower than the one U.S. investors pay.

Top personal tax rates



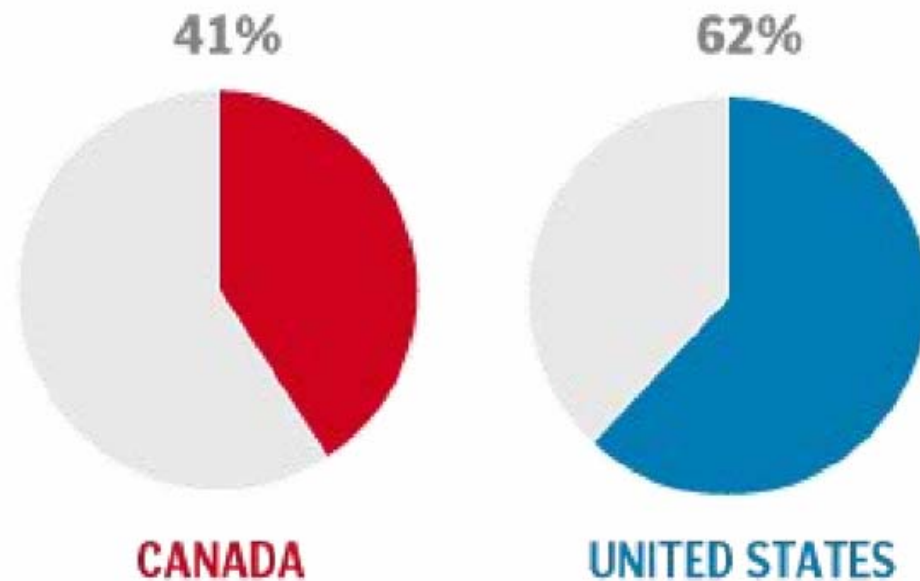
CANADA
(Current)



UNITED STATES
(2011)

While the U.S. government grew more centralized in recent decades, Canada's federal government ceded power. President Bush's education policies increased federal control over American schools; in Canada, K-12 education is left to the provinces.

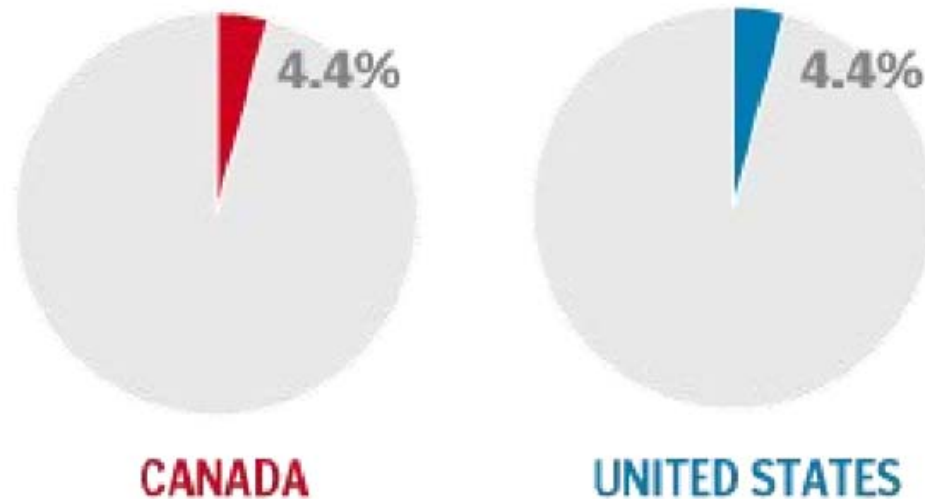
Federal share of total government spending (2008)



Canada's Pension Plan is fully Solvent

While Canada and the United States spend the same percentage of their GDP on retirement benefits, the U.S. program has a large unfunded liability that policymakers have done little to fix. Canada began putting aside money in the 1990s to pre-fund future benefits, just as private pension plans do. The Canada Pension Plan is now fully solvent.

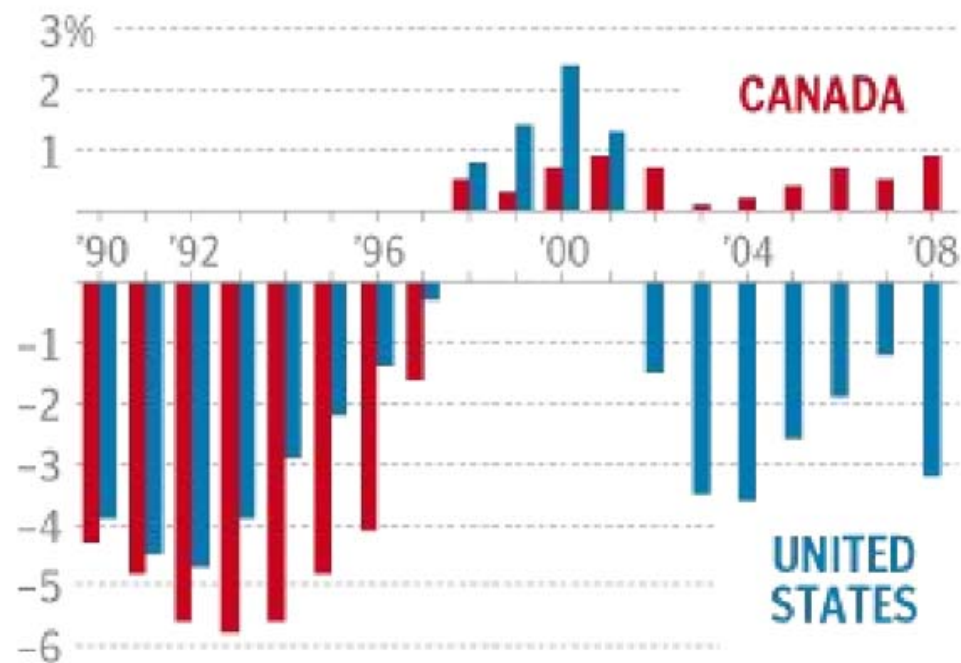
Social Security benefits as a percentage of GDP (2008)



NOTE: Canada has two government-run retirement systems. The figure above includes both the Canada Pension Plan and the Old Age Security Program.

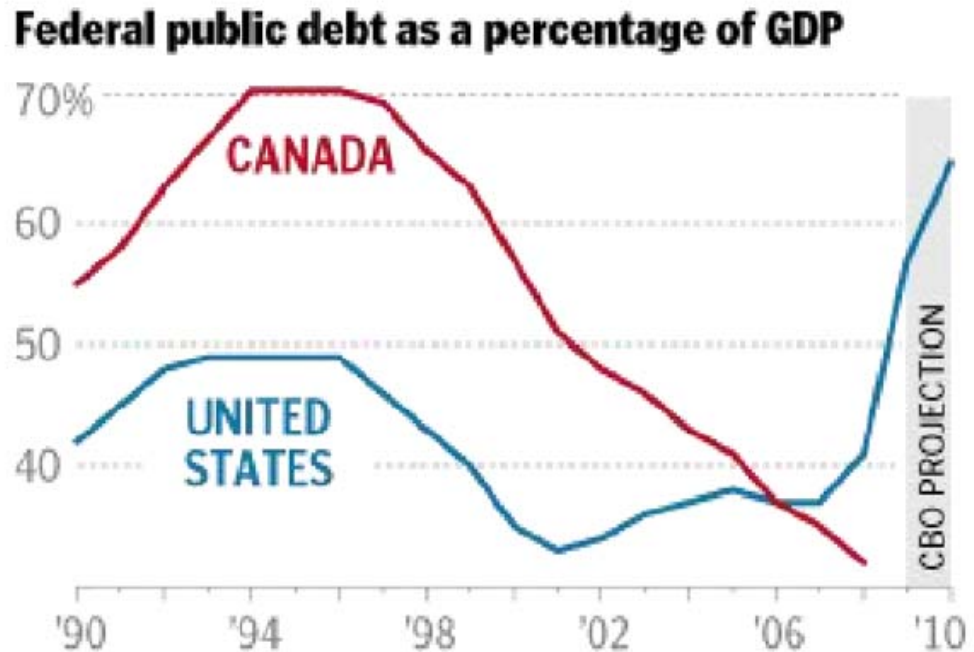
Canada has balanced its budget every year since 1998 — not by raising taxes, but by cutting spending. The United States balanced its budget for four years in the late 1990s, but now deficits are so large that it's difficult to imagine that ever happening again.

Surpluses and deficits as a percentage of GDP



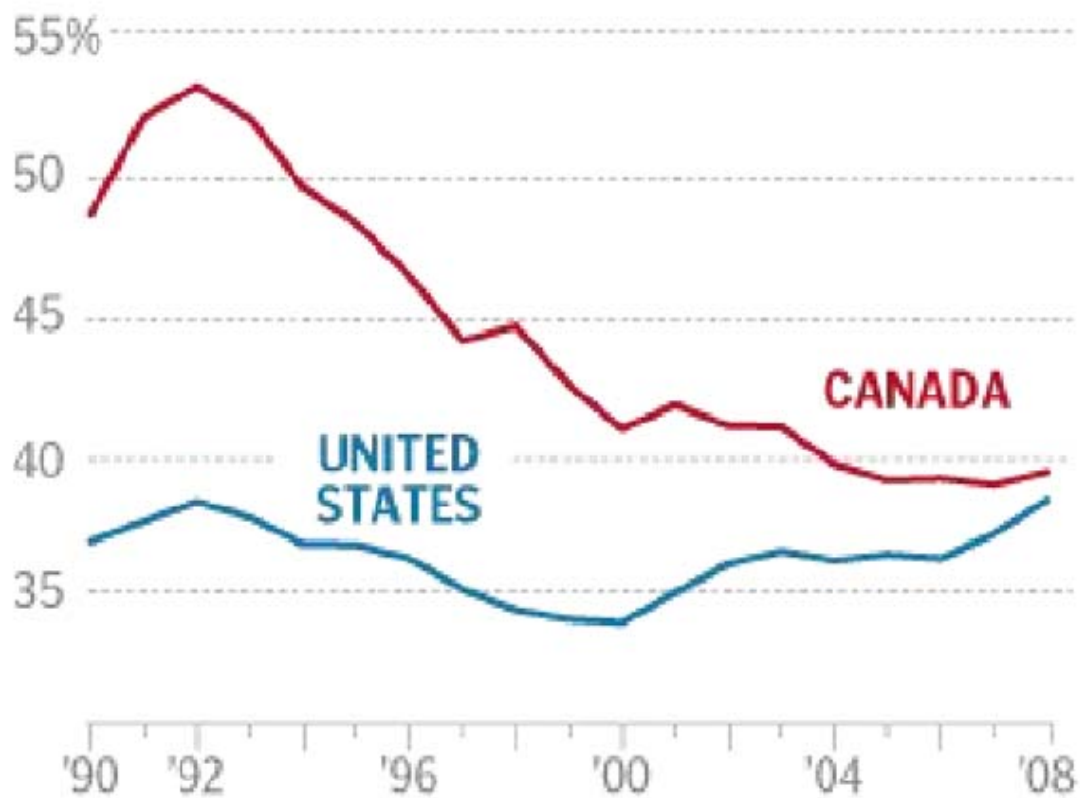
The Grisly Impact of Debt on Society

The Canadian government cut its debt from 71 percent of GDP in 1995 to 32 percent in 2008. Under President Obama's budget plan, U.S. federal public debt will jump from 41 percent of GDP in 2008 to more than 60 percent next year.



Spending by all levels of the Canadian government peaked at 53 percent of the country's GDP in the early 1990s, then plunged to 40 percent in 2008. U.S. government spending has risen, reaching 39 percent of GDP in 2008. And with the stimulus package, that number is likely to jump even higher.

Government spending as a percentage of GDP



The Great White North

- Population – The New Melting Pot (Asia and the BRICS and disaffected Americans).
- Capital Markets. (Clean)
- Banking. (Solvent and Small no CDS toxins)
- Health Care. (Universal and Solvent)

Canada:

- R&D Infrastructure. (Extremely Strong)
- Resources / Resource Policy. (World Class)
- Geographical Size (Big). Geopolitical Influence (Increasing), Demographics (Stable).
- Political Orientation / Proximity. (Center Right)

Canada's Dominion Comes of Age:

Learning how to Create Together.

- Alberta: Agriculture and Energy, QOL.
- BC: Lifestyle, precious metals, moly, window on Asia.
- Ontario: 51% Nuclear, The Shield.
- Saskatchewan: The Dominion's Budding Star on the Global Scene. Green Energy, Ag., Sedimentary and Shield and Biotech.
- Northwest Territories: Diamonds / Rare Earth Elements.
- Nunavut: Diamonds, Iron Ore.
- Quebec: A Favorable Jurisdiction. Hydro, Water, Mining

- Three Possible Outcomes: Inflation / Deflation / Return to Like-It-Was.
- We are on the cusp but have not moved decisively one way or the other.
- The only certainty is that we will return to a new world (Not Like-It-Was) – dream or nightmare?

Gold's Answer to the Great American Nightmare

