Structural Distortions from 2008-2018 & Future Outlook

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By www.chuckcoppes.com

"The whole banking system is screwed-up and unstable. It's a gigantic accident waiting to happen…The whole financial system is on the ragged edge of a collapse at this point".

- **Doug Casey, Casey Research**

"There is no means of avoiding a final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner…or later as a final and total catastrophe of the currency system involved."

- **Ludwig von Mises, Austrian Economist**

"If command and control economies worked, we'd all be speaking Russian."

- **Kyle Bass, Hayman Capital Management**

"Government is the great fiction, through which everybody endeavors to live at the expense of everybody else."

- **Frédéric Bastiat, (1801 – 1850)**

"Capital will always go where it is welcome, and stay where its well treated."

- **- Walter Wriston, CitiGroup President (1919 – 2005)**

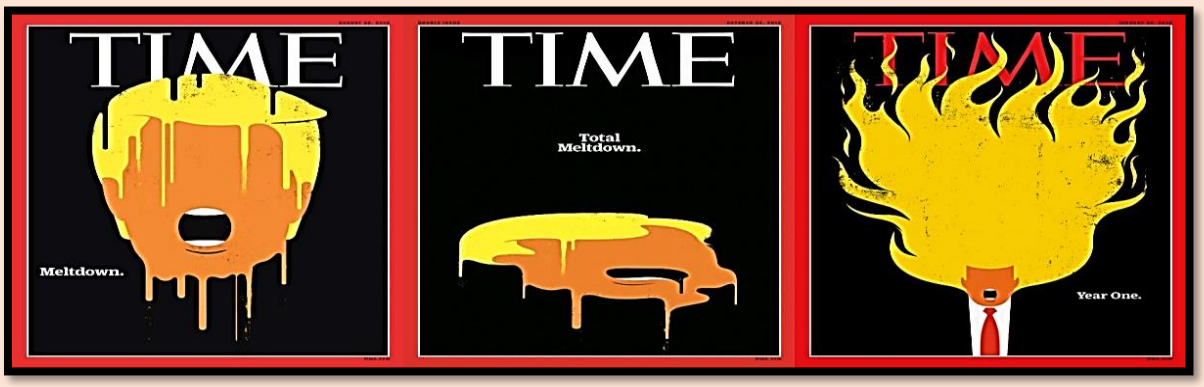
"The farther backward you can look, the farther forward you can see."

- Winston Churchill (1874 – 1965)

New Year's Greetings to All,

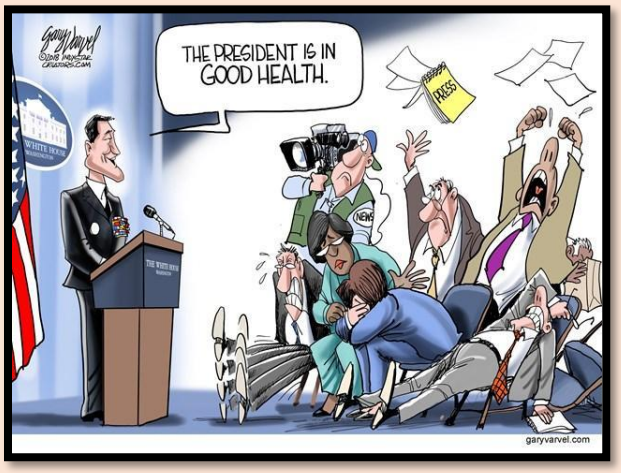
Yes, another year has literally flown by, and here we are *ten years* after the **Financial Crisis of 2008**. The general theme of this newsletter, and for this entire year, is that we are very long in the current **credit expansion** that has caused massive ***structural economic and fiscal distortions***. Distortions that will inflict permanent damage upon portfolios, pensions, protection of principal, profits, price discovery and promises that have been made to retail investors for the past ten years. As you have heard me often say, we are on an **unsustainable path** in every possible metric – demographics and entitlements, public and private debt, stock and bond bubbles, money velocity and savings rate and so much more. How will all of this end? This is our basic concern and it will be addressed in this **future outlook**. But first, we must consider the most recent attacks upon **President Donald Trump**, and thus, the attack upon all of the "deplorables" who supported an "imperfect" disrupter of the **Establishment Status Quo.**

Liberal Hysteria & *Media Meltdown* in the US



The above depictions are from the cover of *Time Magazine*, and designed by Cuban **Edel Rodriguez**. And according to **Wikipedia**, "**Socialist propaganda** and western advertising, island culture and contemporary city life, are all aspects of his life that inform his work." That sounds fairly objective and artistic doesn't it? I suggest that **comrade Rodriguez** be deported back to his socialist paradise in **Cuba**, and preferably to **Venezuela**, the socialist murder capital of the world. And good luck on that one…

The Leftist-Liberal Media Complex is also known as **The Fourth Estate**, and I invite you to investigate this link that describes the "news media" as a fourth branch of government that serves as a socialist propaganda political machine in the **US**. According to the Leftist **Pew Research Center** they admit that media bias in the **US** is the "worst in the world" at THIS LINK. I think this award should go to the Communist News Network (**CNN**). The latest *Time Magazine* cover by **comrade Rodriguez** depicts Trump's hair on fire, and this is a reference to the sloppy work done by fellow socialist **Michael Wolff** and his book *Fire and Fury: Inside the Trump Whitehouse*. According to THIS LINK the media is at war with Trump, and all research indicates that **90%** of the media coverage is against **Trump.** In contrast we might note the fact that the fawning Leftist media adored **Obama** and the **Donkey Party** for the previous long-suffering eight years. And now comes the liberal hysteria that Trump, is well, mentally unfit to be the president of the **US.** It turns out that after a routine check-up **The Donald** is in great shape and mentally sharp. The mainstream media responded with a mental breakdown of their own.



Unlike presidents in the past, **Trump** has *not* been respectful and patient with the biased liberal media, and he has called them out for all the world to see. While it has been fun to witness the **media meltdown**, it has also become extremely tedious and *wearisome* to even watch the **MSM** news anymore.

So how has Trump done in his first year? Many are disappointed that his **Justice Dept**. has not gone after his many enemies. Why not? Deficit spending continues, the **FISA Court** (702) was renewed to spy on Americans, he tried to order **Apple** to compromise iPhone privacy and more recently called for Wolff's book to be banned, and a few other **Constitutional** issues. We commend him for pulling out of trade deals, environmental accords, appointing good people to the court, recognizing **Israel's** capital as **Jerusalem** and fighting the media and swamp creatures. You will notice that I do not credit him, or his policies, for the rising stock market. More in this in a moment. His only legislative achievement has been changes in the **IRS** code to provide modest tax cuts for corporations and individuals. Some have hailed this as the biggest "reform" since **Reagan** in **1986**. This is hyperbole. That bill basically raised taxes on corporations and reduced taxes on individuals. This new bill – **Tax Cuts and Jobs Act** – will do very little to change anything, and reduces tax revenue by **$1.5 trillion** that will have to be added to the national debt that is expected to grow by **$1 trillion** a year for the next decade. In other words, a little tax break to hopefully stimulate things *and worry about the debt later*. Am I being too cynical? **No.** By reducing corporate tax from 35% to 21% he is trying to entice multinational corporations to repatriate cash reserves (estimated at $1.4 trillion) back to the **US**. The theory is that corps will bite the carrot and invest all that cash into **jobs**. As noted in my last newsletter, when they did this incentive in **2004,** *94 cents of every dollar* went into stock buybacks (for bonuses), dividends and mergers (that actually resulted in *job losses!*). Politicians are not economists (except for **Ron Paul**). But this raises an important question. Why do corporations park so much cash offshore? This is known as the **Wriston Law**, named after **Citigroup CEO Walter Wriston**, who observed that, ""Capital will always go where it is welcome, and stay where its well treated." Corporate profits are not treated well in America. The government sees you as a milk cow and eventually a **beef cow**! Both parties are to blame for this. In the meantime, **Trump**, in his humble manner, is taking *ALL* of the credit for phony "wealth creation" caused by the largest speculative stock market bubble caused by the **Fed** since **2008**. Here is the latest:

TRUMP TWITTER ACCOUNT:

Beautiful weather all over our great country, a perfect day for all Women to March. Get out there now to celebrate the historic milestones and unprecedented economic success and wealth creation that has taken place over the last 12 months. Lowest female unemployment in 18 years!

11:51 AM - Jan 20, 2018

Is this a wise thing to do? Me thinks not. Because when this baby bursts – *he will own it!* And the Dems will pounce on him faster than Hillary taking cash under the table. In the **following clip**, **John Rubio** (co-author, *The Money Bubble*) asks, **should presidents try to act like they are economists?**

John Rubio: We Have Reached the Tipping Point (38 Mins)

The Fed sets fiscal and monetary policy, not the President. It is the **Fed** that creates the boom/bust cycle, and the **Fed** (mostly Democrat) is not trying to help Trump. As **Rubio** says, the **Fed** is trapped in a debt-based monetary system that must always create monetary inflation that inflates asset prices. The national debt is structural with **88% fixed mandatory spending** that will only get worse with the babyboomer demographics. More on that later. **Rubio** goes on to state that we are in worse shape than **2008**, and the *Mother of all Crisis* is coming that will wipe out pensioners and investors. His only advice is to be patient and hedge yourself in **silver and gold**. In the following interview with **Gerald Celente** of the *Trends Journal* with **Ron Paul**, Celente talks future trends in the next year:

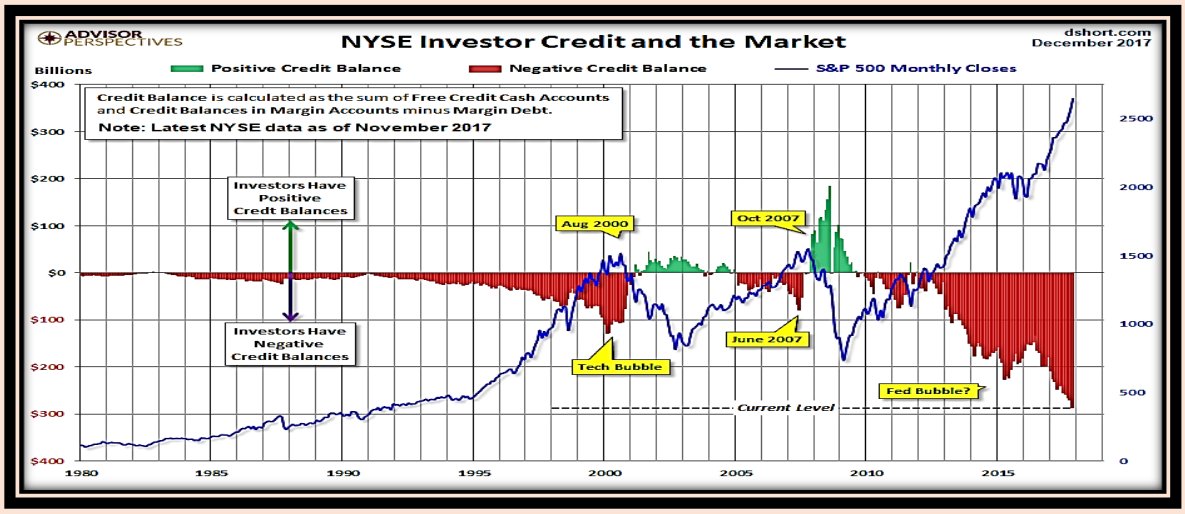
Gerald Celente: What to Expect in 2018

In this 28-min clip he talks about crony capitalism, how the **Bush** tax cuts in **2004** did nothing (as I mentioned earlier), wages will continue to be **flat,** credit card debt will continue, the **Fed** is trapped and concerns about **Trump** being a neocon with neocon generals surrounding him, etc. **Kellyanne Conway** has been a career pollster supporting neocon Republicans since **1995** and is a present counselor to Trump. In her frequent appearances on **FOX TV** she cites the **stock market** as Trump's greatest achievement.

Peter Schiff: Donald Trump is Gonna be the Fall Guy

Is the super-inflated stock market and bubble economy Trump's greatest achievement? Hardly. In this 15-min interview with **Alex Jones** (who appears to be an economically-challenged supporter of **Trump** making all things great again), **Schiff** blows away **Fed** policy, figures and stats to postpone a financial reckoning day. In his trademark logical manner, **Schiff** warns that a crash is coming, and the **Fed** will have no choice but to abandon any interest rate hikes and will revert to **QE4** to reflate the economy. The **chart below** indicates the amount of **margin** (borrowed money) to gamble in the Wall Street casino. The current amount is *three times* the Dot.com Bubble, and *four times* the **2008** Sub-Prime Bubble! In other words, we are repeating the same mistake all over again in **2018…..*in spades!***

How to *Postpone* a Financial Reckoning Day



"All the market indicators right now look very similar to what we saw before the Lehman crisis, but the lesson has somehow been forgotten." **- William White, Ex-Chief Economist, BIS, Jan. 22, 2018**

The comment above by economist **William White** *reinforces the fact* that nothing has been fixed, solved or mitigated since **2008**. In other words, the banksters are trapped and they know it. The above margin debt (borrowed money to gamble in the Wall Street casino) is **$600 billion**, and growing. This is what **Alan Greenspan** called irrational exuberance back in the day. Did the experts see a financial crisis coming back in **2008? Nope, and below are some of their comments for your consideration:**

"We believe the effect of the troubles in the subprime sector on the broader housing market will likely be limited, and we do not expect significant spillovers from the subprime market to the rest of the economy or to the financial system." – **Ben Bernanke, Fed Chair, May 2007**

"Clearly, many of us at the Fed, including me, underestimated the extent of the housing bubble and the risks it posed." - **Ben Bernanke, Fed Chair, 2008**

"Failures of foresight were primarily failures of imagination … our visions of darkness still weren't dark enough." - **Timothy Geithner, NY Fed, 2008**

"We believed the problem was largely confined to subprime loans. … (then) the problems were coming far more quickly." - **Hank Paulson, Treasury Dept. 2008**

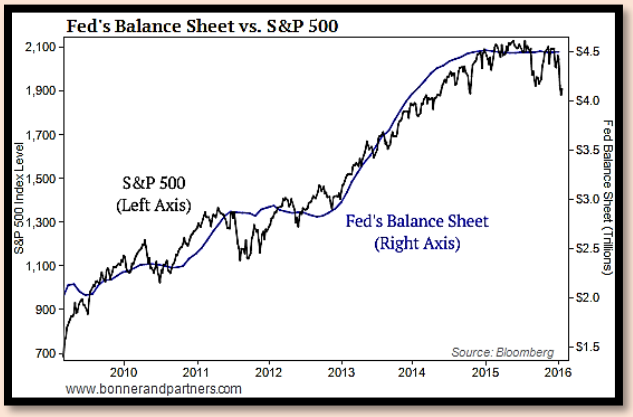
"My focus had been kitchen-table economic issues like jobs and inflation. I assumed any major credit troubles would have been flagged by the regulators or rating agencies. … We were blindsided by a financial crisis that had been more than a decade in the making." - **President G. W. Bush, 2008**

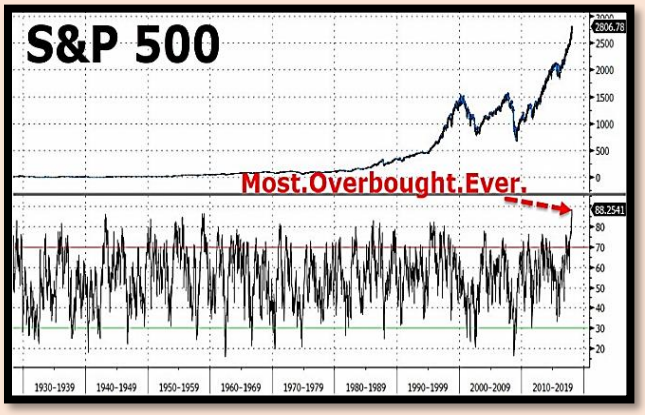
You can access more pathetic quotes at THIS LINK, but you get the idea. Politicians are not economists. And most economists are clueless. This is most reassuring isn't it? **David Einhorn** of **Greenlight Capital** hedge fund recently made this comment looking back at the **Financial Crisis in 2008** and says that these structural distortions have been swept under the rug and we are "susceptible" to another repeat of **2008** in **2018** at the soonest. These kind of comments **do not** inspire **confidence**:

"If you look at all the obvious problems from the financial crisis, we really kind of solved none of them. And we went on a different way, and we basically, went the bailout route. And said we are going to create a whole lot of moral hazard, and we're going to sweep as much of this stuff as in the rough ***under the rug*** *as we can, and we are going to move on as quickly as we can. And so, that solved some things in some ways, but I think it is left the basic structure, more or less, as it was. And I think that it is susceptible to the same type of events or series of events* ***sometime in the future****."* - **David Einhorn**

The future that Einhorn is referring to is directly ahead. People's **visions of darkness** are still not dark enough. **Moral hazard** is everywhere, and I provide one more comment from the folks at the **Mises Institute** that neatly sums up the **massive systemic risks** that have been engineered by the global central banksters in their desperate attempt to avoid the **financial reckoning day** that I lecture about:

"Thanks to almost a decade of unprecedented market interventions by global central banks (which have collectively acquired assets totaling over $20 trillion), everywhere you look there is repression of yields, repression of market volatility*, and their side effects of exploding asset valuations (to heights not seen since shortly before past historic crashes), financial-engineered debt, leverage, stock-buybacks, cryptocurrency-insanity, "short volatility" and all manner of reckless yield-chasing investment schemes.* ***This is an age of massive artificial economic imbalances and systemic risks"***

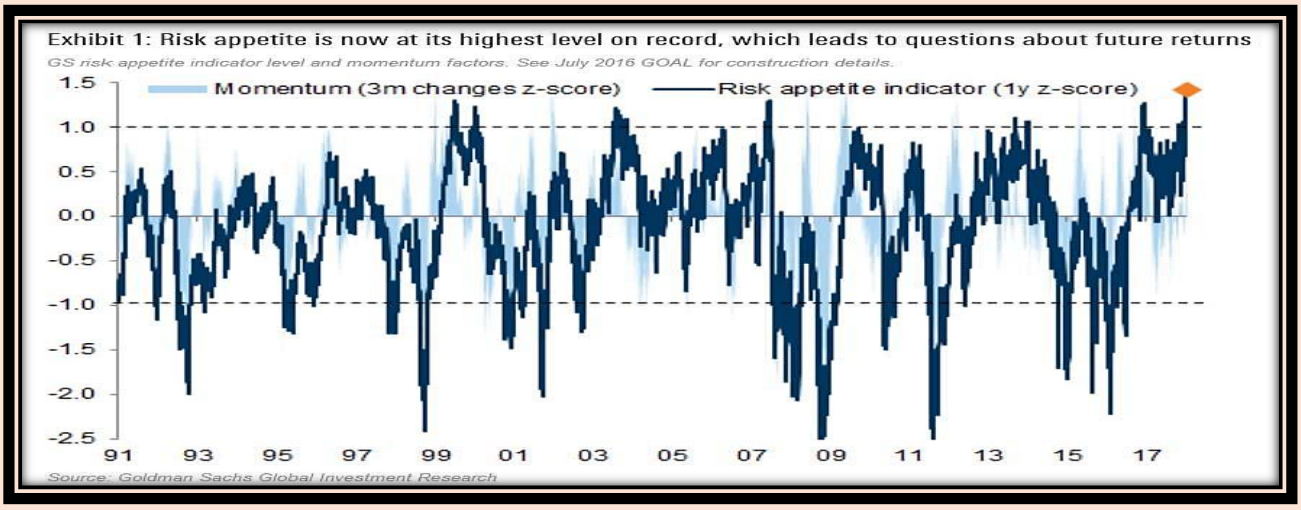




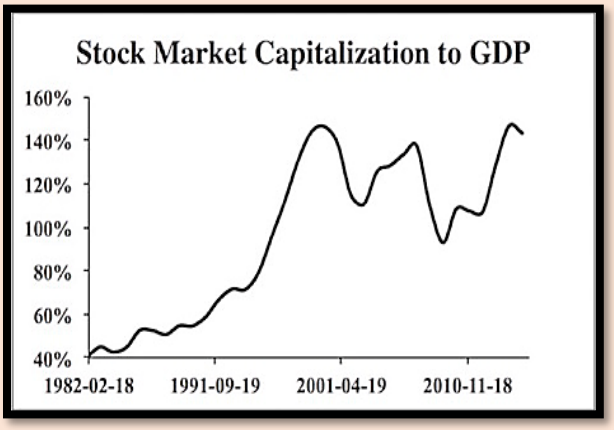
"The whole banking system is screwed-up and unstable. It's a gigantic accident waiting to happen…<u>The whole financial system is on the ragged edge of a collapse at this point</u>".

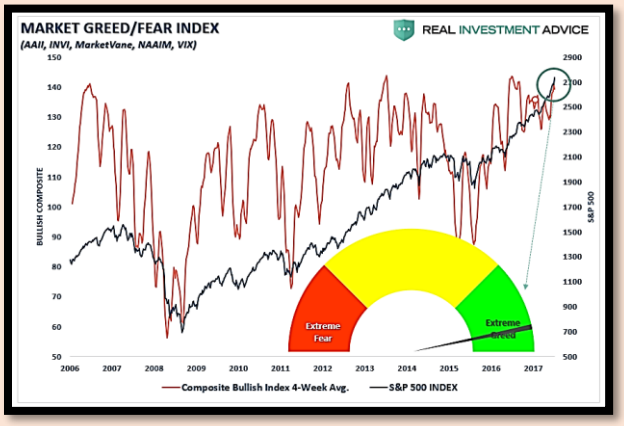
- **Doug Casey, Casey Research**

<u>This quote by Doug Casey is stating the obvious, and these charts prove it</u>. On the **left chart** we have the trend line "of unprecedented market interventions by global central banks," and in this case, the **Fed** pumping up the broad **S&P 500 Stock Index** (and **Dow Index** of course). Is this a normal trend line or rational market based on market fundamentals and normal **P/E** ratios? Only if you are **Alice living in Wonderland.** *ALL* stock indexes in the US, and now even global, are the *MOST* overbought in history! In economic circles this is called the "greater fool theory" of investment malinvestment. In other words, trees don't grow to the sky, pigs can't fly and the "wealth effect" will evaporate faster than it was created by the **structural distortions from 2008 to 2018**. More at **<u>THIS LINK</u>**.

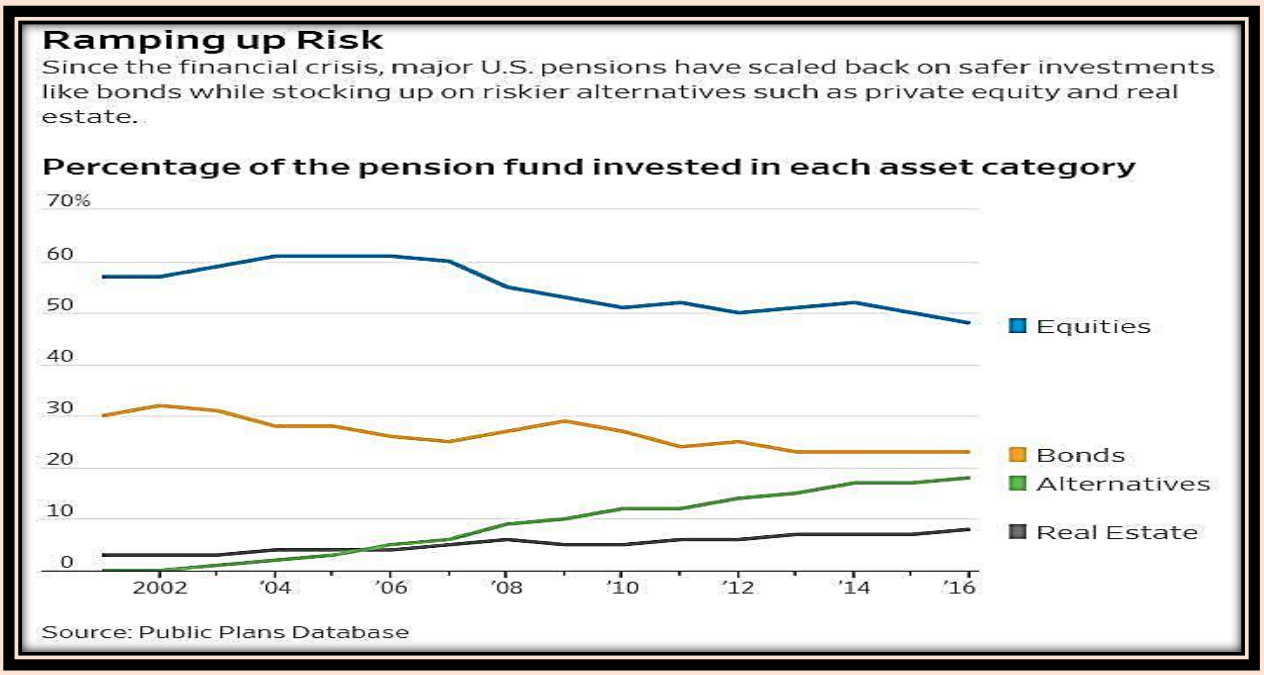


<u>As you can see from this chart above, "risk appetite" is now at its highest level on record</u>. And, don't you love that delicious and juicy term <u>risk appetite</u>? It just sounds so succulent, in a lusty sort of way. So, is all of this irrational exuberance, moral hazard and systemic risk warranted? Yes, indeed it is, according to the latest **Investor's Intelligence** survey, bullishness is now **66.7%,** which is precisely the level before the infamous **Black Monday crash in late 1987**. I have never heard of the Investor's Intelligence survey, but it sounds like an oxymoron. How irrational and reckless is the casino on Wall Street these days? According to **Morgan Stanley** and **TD Ameritrade** client <u>cash levels to assets</u> is the lowest on record and equity mutual funds are less than **3%**. What does this mean? Investors are not being cautious and throwing everything into equities. This is a crowded trade that is going to end badly, and the primary fault can be laid at **Fed** policy to *over stimulate* the economy for the past **110 months**.

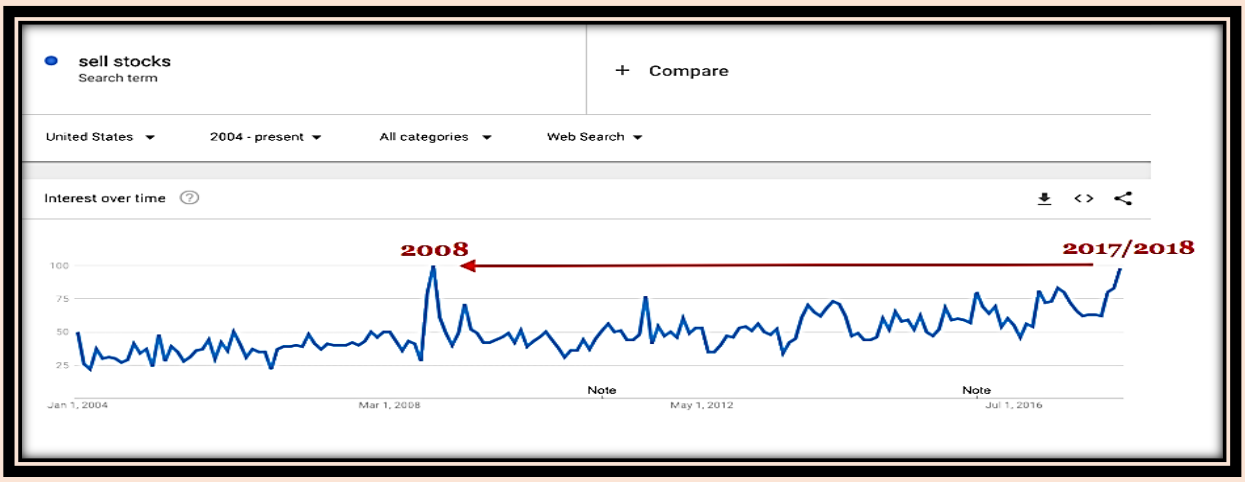




The chart on the left indicates how stock market capitalization has increased from **2008 to 2018**, and this is a result of easy credit and loose fiscal policy. This indicates extreme leverage that was very similar to the collapse in **2008**. As **Professor White** said above, market indicators are similar to that period, but that experience "has somehow been forgotten." Today people are complacent and this is indicated in the **CNN Money Fear & Greed Index** that has shifted from fear to ***extreme greed*** as **seen above**. The **Yardeni Bull/Bear Ratio** is also the highest ratio in over **30** years. THIS LINK further illustrates how investors are "passively" investing in the same way that **pension funds** have plowed into the stock market in order to chase yield. These are behaviors that suggest a market peak and blow off. In the case of **public and private pensions** they are heavily weighted in **equities** since there is little yield to be found in the **bond market** where pensions have traditionally placed institutional funds **as seen here**:

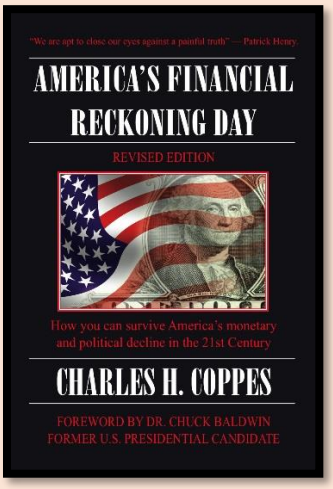


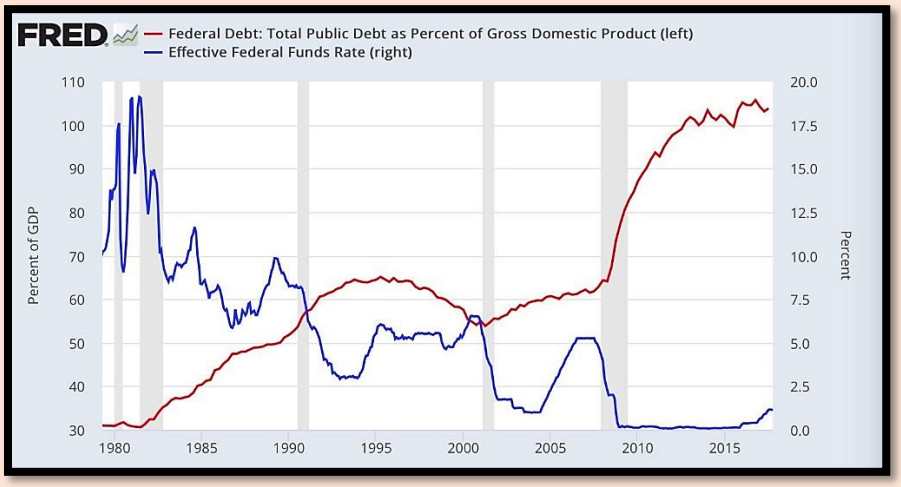
I remember reading that the **Fed**, under **Yellen**, *will not allow* the **stock market** to go down because it will *wipe out* too many pensions funds in all **50** states. In other words, this crowded trade is too big to fail, but it is inevitable that something worse than **2008** is coming, and this is a **structural distortion** in the marketplace! **Yellen** even had *the arrogance* to say that there will not be a **financial crisis** in her lifetime (but she is rather old you know…). There is currently **$6 trillion** in private pensions and **$5 trillion** in public pensions that will be ***fully exposed*** to the next market downturn. **Very scary.**



Google search trend for "sell stocks" is the highest since 2008! That's right folks. In a classic case of *cognitive dissonance* it would appear that retail investors (at least computer savvy retail investors) are somewhat aware of a market peak, and clicking online for some perspective, *but it is still risk on!* This **recent chart** takes us right back to **2008** when it started becoming obvious that the irrational exuberance of that era was becoming a concern to people. But until it happens, let the party continue, enjoy the **artificial wealth effect** and invest according to "the greater fool theory" that you will always be able to sell your historically overvalued assets to an ***even greater fool*** chasing yield and tipping the **greed index**.

Growth of US *Debt to GDP* from 2008 - 2018

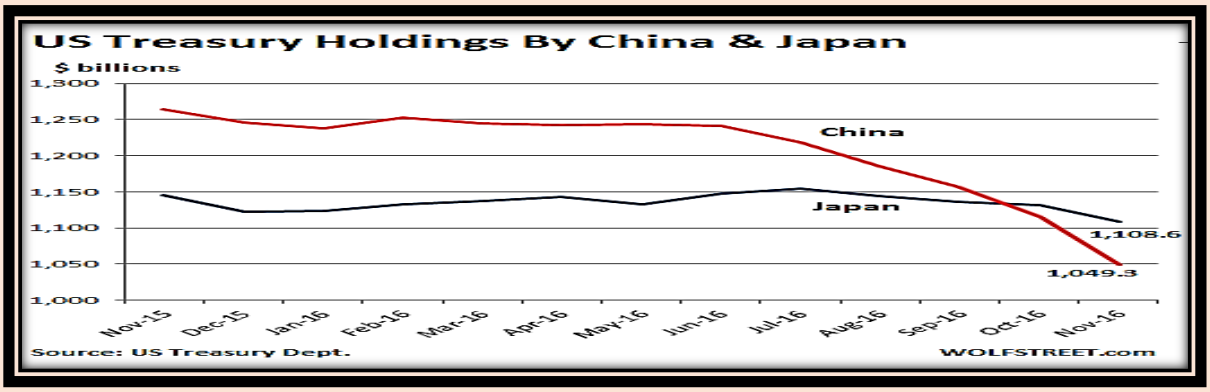




"It is well enough that people of the nation do not understand our banking and monetary system, for if they did, I believe there would be a revolution before tomorrow morning." - **Henry Ford**

In my book, I cover the history of central banking and the monetary mischief that they create. It would appear that old **Henry** knew something of this back in his day. The **above chart** reveals the latest episode of monetary mischief since **2008**. That **red line** going up is **QE experiments** (adding to our national debt) and the **blue line** is **interest rates** forced to what they call *the zero bound* (that is killing savers, pensioners and retirees). Here is a **structural distortion** from **2008 to 2018** that will have hell to pay. Notice also in **this chart** that these red/blue lines crossed when the **Dot.com Bubble** burst in **2000**. I wonder what this chart will look like in about **6-12 months**? Some are warning that rising interest rates (blue line) will create **QE4** (as Schiff predicts), and **QT** will collapse the entire system.

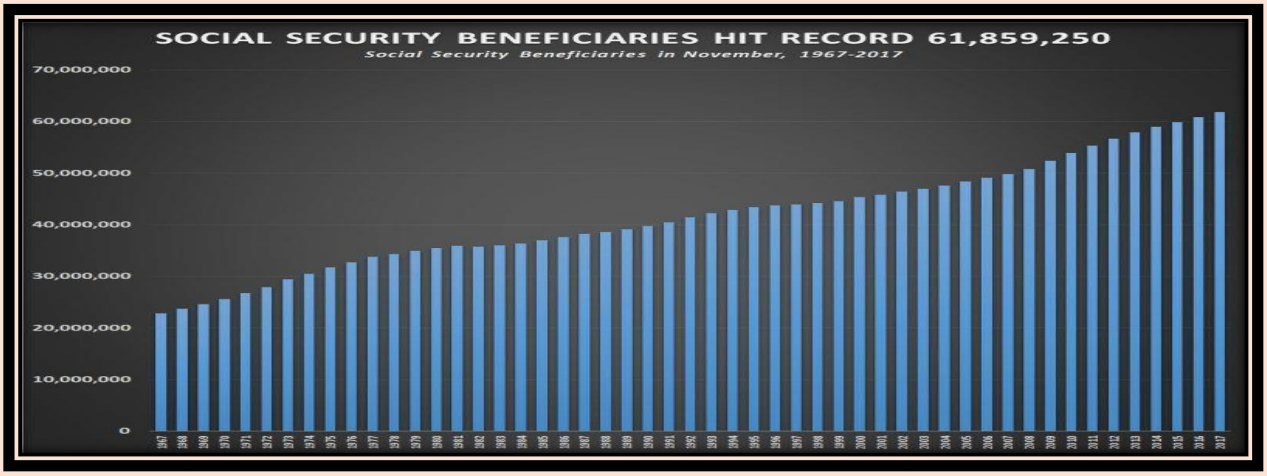
What is QT? This is a reference to the **Fed** to *reverse* Quantitative Easing since **March of 2009**. The *opposite* is **Quantitative Tightening (QT)**. Since **2008**, the Fed has bought **$4.5 trillion** in debt (mostly US bonds), and has promised that they will sell these into the open market at the rate of **$50-60 billion** per month. So far, *they are reneging on this* (but you are not supposed to know or care). But **David Stockman** does know and care. In fact, **he documents** that the global central banksters have collectively bought their own sovereign debt to the tune of **$22 trillion** dollars. His conclusion? "As the **$22 trillion** footings of the global central bank cartel begins to shrink, **the entire developed world will be facing a long-deferred day of reckoning.**" That sounds like a good book title, and I will comment later.



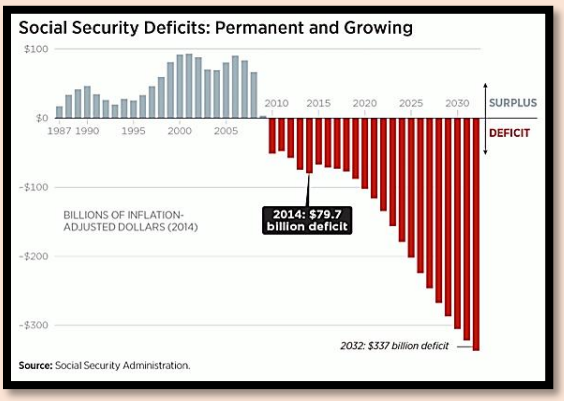
Is America facing a financial reckoning day? I am pretty certain of it, and **Trump** is *very late* on the scene to change this outcome. As **Doug Casey** says, "the whole financial system is on the ragged edge of a collapse at this point." Want some evidence of this fact? Just look at **the above chart. China** (our creditor/banker) is *dumping* **US Treasuries** on a steady basis, and more recently, on **January 16th**, the **Dagong Credit Rating Agency** *downgraded US Bonds* from **AA- to BBB+,** and this was a reaction to Trump's tax cuts, because it only kicks the can down the road. They did this because the bankruptcy and "insolvency" of the **US** will "become the detonator of the next financial crisis." **Full text is below:**

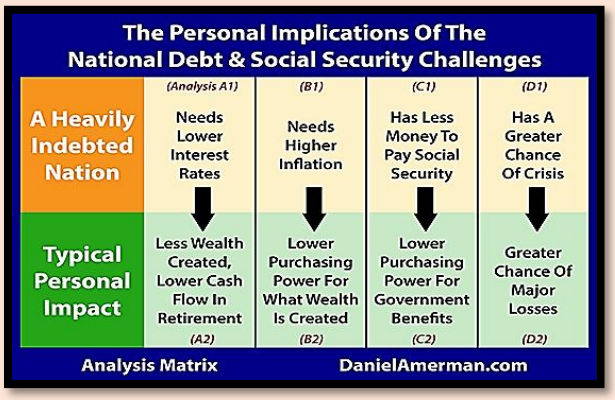
Full Text: Dagong Global Credit Rating Company, Ltd.

Folks, this is serious stuff. Zerohedge picked up this story first. Have you heard about this in the media? Not a word. Even Moody's in **NY** joined with the Chinese! Why did the **Chicoms** do this? Again, it was a reference to our unsustainable debt and resorting to "debt monetization" by the **Fed**. And this was a direct reference to our debt-based economy related to our unfunded liabilities of ***$220 trillion*** or so. As you can see in this **chart below**, the **babyboom generation** is going to break the system.

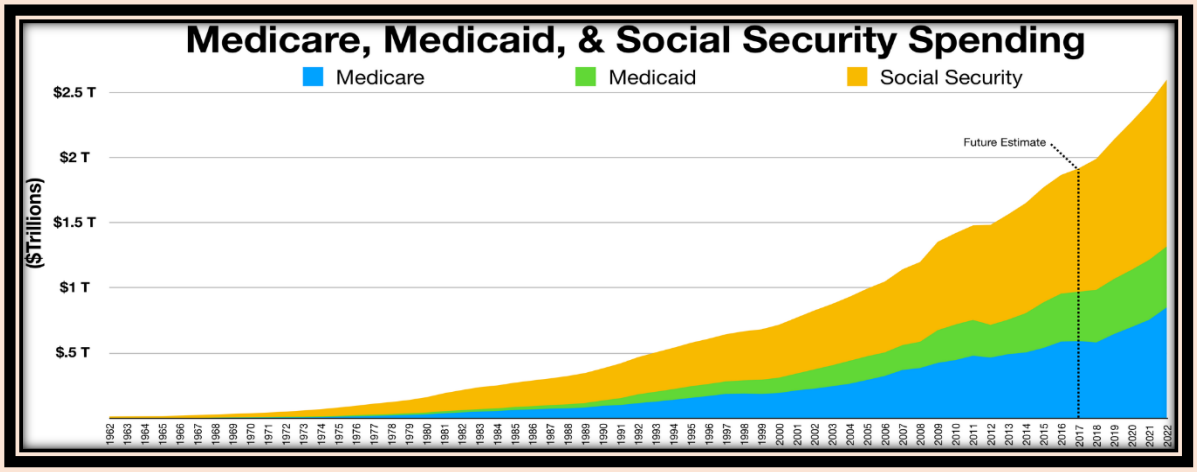


<u>I am a babyboomer, and I have just started receiving Social Security income this year</u>. I waited until my full benefit at **66**. *Benefit?* Wait, didn't I send money to the government to act as my fiduciary agent? You have to love government doublespeak. Sort of how they refer to "tax refunds" as a gracious gesture or savings plan. As I note in my book, ***10,000* babyboomers** are retiring *every day* for the next **18 years**. Ponder that. We currently have **62** million enrolled, and as you can see in **this chart on the left**, the system starting going into the red in **2008**. I know for a fact that the **2008** Financial Crisis motivated lots of babyboomers to start collecting Social Security early. This too is unsustainable.





According to <u>THIS LINK</u>, liabilities are growing at **9.6%** a year and **GDP** growth is struggling around **3%** or less. Further, almost **40%** of retirees depend on Social Security for **90%** of their needs. Even worse, as seen **on the right**, it is official central bank policy to keep interest rates low and purposely create inflation that guarantees loss of purchasing power and eventually a crisis. <u>This study</u> reveals how the government has stolen all of the **FICA** funds **($6** trillion in intragovernment debt) and is basically running a **Ponzi Scheme**. We can expect retirement being pushed to **70** along with "means testing."



<u>Medicare and Medicare are going Bust</u>. The line in **this chart** indicates where we are today, and this is yet another unsustainable figure. Both Medicare and Medicaid were created in **1965** as part of the modern Welfare State. As **Bastiat** said **175** years ago, "Government is the great fiction, through which everybody endeavors to live at the expense of everybody else." In addition, as I mentioned earlier (p. 7) **public/private pensions** are gambling in the Wall Street casino ($11 trillion), and state employees have been gaming the system as in **Illinois**. As noted <u>HERE</u> government workers in **Illinois** earn **60%** more than in the private sector**.** **<u>Calpers</u>** in **California** is extremely leveraged with massive underfunding and exposure to Wall Street. In California (and Illinois) they keep raising taxes, and now they are faced with slashing pension fund benefits for the first time along with other states. You are not hearing about this.

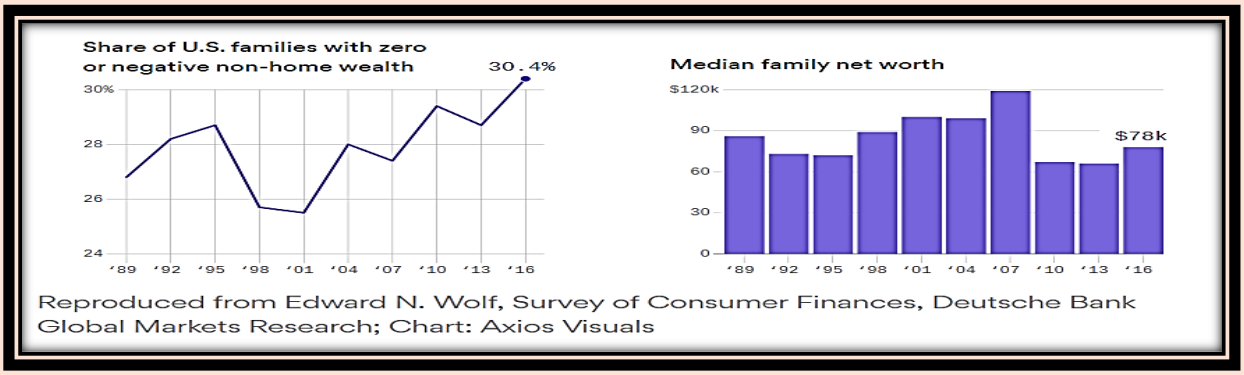
Future Outlook: *Optimism or Pessimism?*

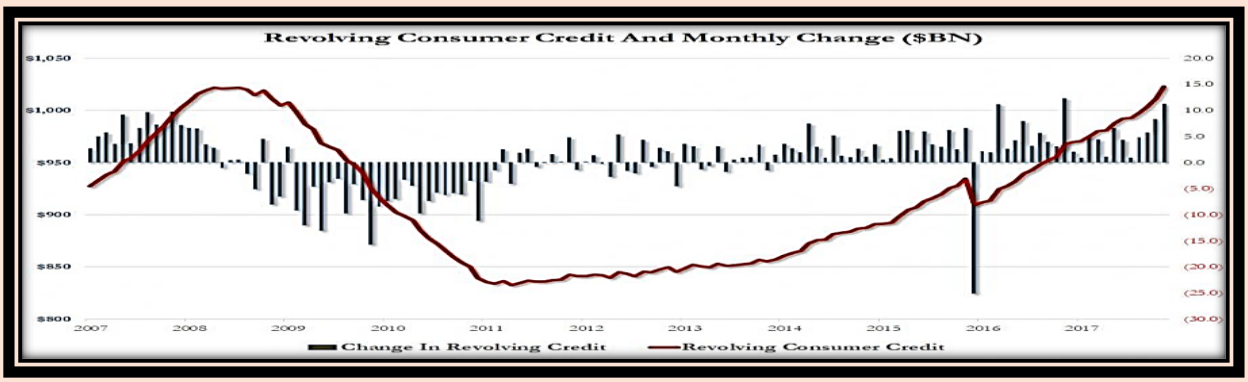
"Prediction is very difficult, especially if it's about the future." **- Physicist Niels Bohr**

It is common for newsletter writers to make predictions (so they can brag how right they were and sell more newsletters). As I said, I am certain of a coming financial reckoning day coming. I agree with *Ian Bremmer* of the **Eurasia Group** that "if we had to pick one year for a big unexpected crisis—the geopolitical equivalent of the **2008** financial meltdown—it feels like **2018**." **This view** is shared by **Charles Hugh Smith** based on market distortions and central bank interventions as stated below:

"Central banks are now trapped*. If they raise rates to provide low-risk, high-yield returns to institutional owners, they will stifle the "recovery" and the asset bubbles that are dependent on* ***unlimited liquidity*** *and super-low interest rates.* ***But if they keep yields low****, the only way institutional investors can earn the gains they need to survive is to pile into risk assets and hope the current bubbles will loft higher.* ***This traps the central banks in a strategy of pushing risk assets****—already at nose-bleed valuations—ever higher,* ***as any decline would crush the value of the collateral underpinning the titanic mountain of debt the system has created in the past eight years*** *and hand institutional owners losses rather than gains."*

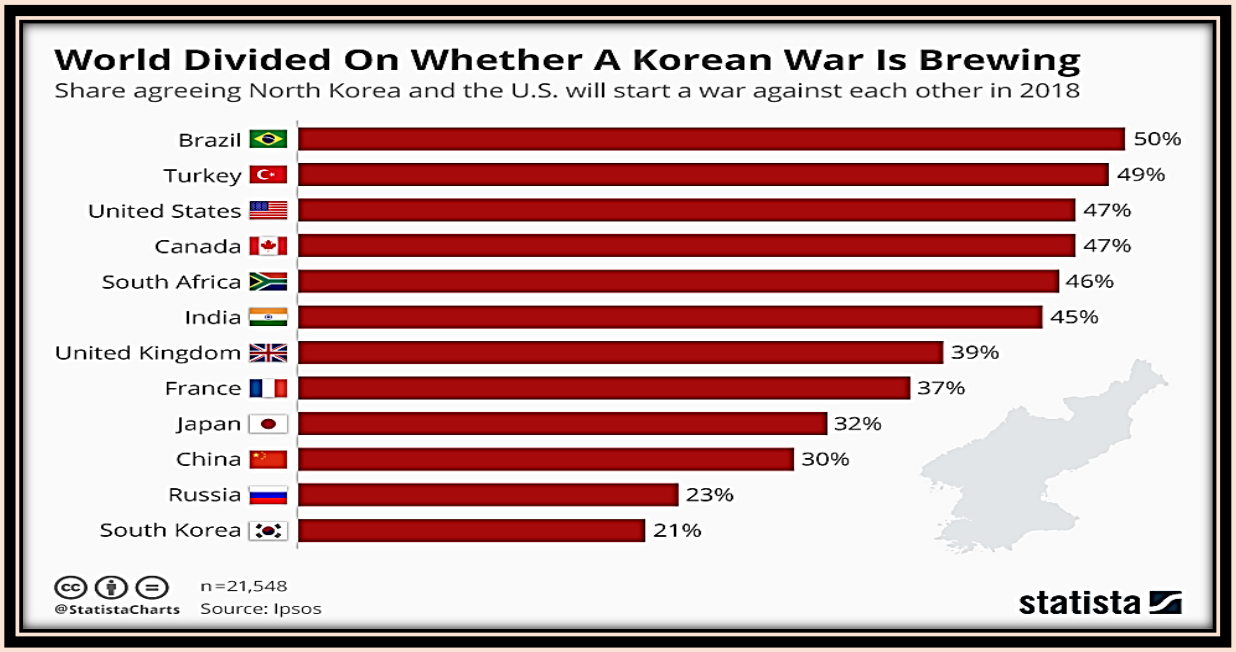
The so-called **economic recovery** has not shown up for most Americans (except for an inflated wealth effect). **Wages** have been flat along with net worth. There are **minimal savings** and most are living from paycheck to paycheck and revolving credit. As noted in the **chart below**, the boost in **retail sales** at **Christmas** was due to consumers going *further into credit card debt* as reported by **Mastercard.**





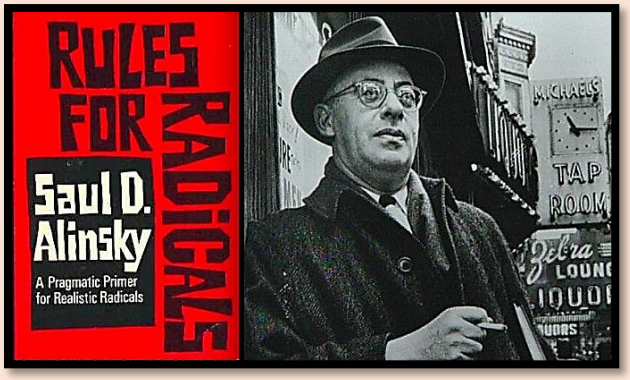
So much for the narrative that consumers are flush with cash and savings. I predict this trend will continue. According to the **World Bank**, "global growth is expected to **peak and decline** going forward due to slow productivity, weak investment and aging workforces worldwide." This can also be seen in the **Baltic Dry Index** that measures **global ocean shipping activity** for consumer goods.

When it comes to geopolitical tensions we can also expect that **North Korea** will continue to be in the news. The world is **fairly divided** on the existential threat of a nuclear attack upon the **US** mainland.



As seen above, South Koreans seem the least concerned about a nuclear **North Korea** on their border. They have been hearing this for over **50** years and discount the risk. There is no way to accurately predict how things will go on the peninsula, but they do have the **US** in their crosshairs with the new **Hwasong-15 class ICBMs**, as noted HERE. **Pat Buchanan** asks if it is really worth it to be the global policeman and maintain **US Imperialism** with **800** bases in **132** countries? Can we even afford this? I think not. China and Russia would both like to see this, and we can expect more challenges to the **US** dollar as the reserve currency of the world. Keep you eye on the new crude oil exchange in **China** to price oil in yuan and convertibility to gold – a direct threat to the **US-based petrodollar system**.

There is an old saying that you don't want to be an optimist or a pessimist, *but a realist*. This applies to predicting a **future outlook**. Realistically, it is impossible for the **US** to grow itself out of the fiscal hole that we are in, and this is also true for the entire world. According to the **McKinsey Global Institute** global debt has increased from **$167** trillion to **$233** trillion since **2008**, and global debt to **GDP** is now ***327%!*** Studies like **Reinhart-Rogoff** demonstrate that anything over **90%** debt to **GDP** spells economic doom. What is a likely scenario going forward? **In my book** I present a prophetic scenario based on **Biblical** prophecy. A global monetary reset will involve a debt jubilee that will reprice gold to **$10-20,000/oz**. and enhance the **Euro** over the **US** dollar in the **IMF** Special Drawing Right (**SDR**). A **Middle East** war is inevitable that will feature **Iran** (Persia) and most Muslims against **Israel** (Ez. 38). A charismatic leader will rise in the **EU** who will secure a "peace treaty" and allow **Israel** to rebuild their **Third Temple** in **Jerusalem** (Dan. 9:27, Zech. 12:3, Rev. 11). This new leader in the **EU** will be the **Antichrist** allied with the **Roman Catholic** church and will impose a positive biometric **ID** system that will require a government **RFID** chip implant to buy or sell, referred to as **666** in Rev. 13:11-18. In the **US, HR4760** has just been passed to create a national **ID** card. **Jesus** also said that an increase in wars, famine and **earthquakes** will occur (Mt. 24:4-8). Last year the **Geological Society of America** predicted that "there is going to be an increase in numbers of intense earthquakes next year." In this overall scenario we do not find the **US** playing a prominent role in **Biblical** eschatology. **Why is this?** I think it is directly related to everything I have stated already in this newsletter, and all of this unsustainability will result in what **von Mises** predicts is "…a final and total catastrophe of the currency system involved." This is what a **reckoning day** looks like, and you can read all of this in my book.



"The inherent vice of capitalism is the unequal sharing of blessings; the inherent virtue of socialism is the equal sharing of miseries." - **Winston Churchill**

In addition to our fiscal, economic and monetary issues we also have the **dramatic moral decline** in our nation that is being manifested in our **culture wars**. The **Bible** says, "Do not be deceived, **God** is not mocked, for whatever a man **sows**, this he will also reap" (Gal. 6:7). The **Woodstock generation** has sown the seeds of **Leftist** ideology, moral relativism, atheism and degeneracy and now we are **reaping** a **new demographic** that is sinking into a progressive hell on earth. I often remind people that we are not living in Norman Rockwell's America, and we can not be "great" in any meaningful way with this kind of electorate. A recent **Harvard** study reveals that **Millennials** vote **2:1** for the **Democratic Party** and embrace a **Socialist** ideology. **Saul Alinsky** (Hillary's mentor) inspired a generation of social justice warriors and this pervasive **Group Think** prevails in academia among the youthful snowflakes. As seen in this recent video clip there is no reasoning with these koolaid-drinkers (raw language). **Alinsky** said his radicals should keep people *mad and angry*. I found this commentary by **FEE** rather convincing that **Leftist** ideology is *rooted* in **personal failure and unhappiness** that wants to blame "society" for their perceived grievances – check it out. On a more humorous note, you have to watch this short clip that features a **Millennial** in *a job interview*. Pretty pathetic, but an accurate look at this new demographic.

Steady Growth of an *American Police State*

"All tyranny needs to gain a foothold is for people of good conscience to remain silent."
~ Thomas Jefferson

One of my greatest concerns, if not greatest, is the institutionalized Deep State in the US. The future outlook is a gradual degradation of our civil liberties and freedom that began in the **post-9/11** era. What is the **Deep State**? Primarily all **16** intelligence agencies in the **US**, but *specifically* the **CIA, FBI and NSA**. Earlier this month the House reauthorized **FISA, Section 702** that allows for surveillance on foreign threats, but this is *the same ruling* that the **Deep State** uses against Americans. **John Whitehead** has been repeatedly warning us about these abuses (his **book above** and others), and recently made this comment, "Our freedoms—especially the **Fourth Amendment**—continue to be torn asunder by the prevailing view among government bureaucrats that they have the right to search, seize, strip, scan, spy on, probe, pat down, taser, and arrest *any* individual at *any* time and for the *slightest* provocation." For some perspective on how bad things are getting **listen to this interview** with attorney **John Whitehead**:

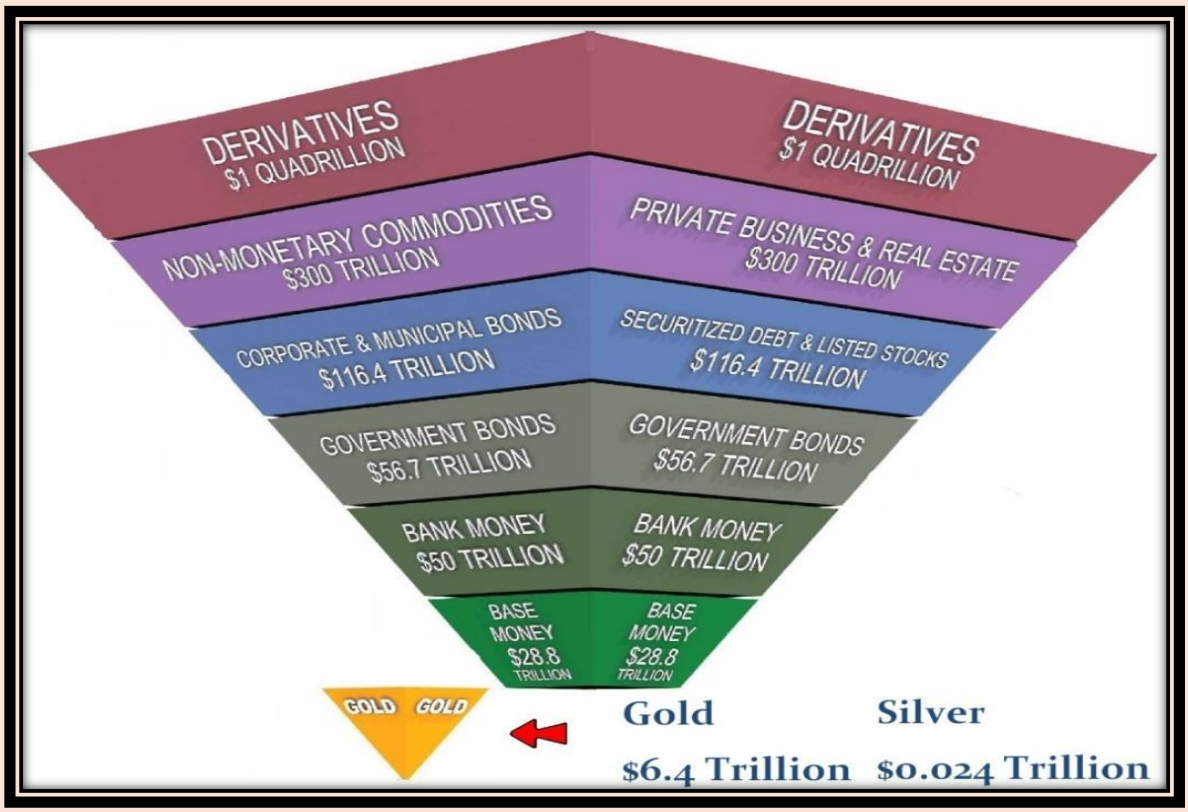
Is America a Police State? Here is the Evidence

He says we need to ***quit exalting*** the military and militarization of law enforcement! This is happening because people are ignorant of the **Constitution, Bill of Rights** and so on. He notes how **Germany** had "community policing" in the **1930s**. In other words, people are encouraged to snitch on their neighbors (see something, say something). He warns that if you are **outspoken** (like me and others) you will become a target by the **Deep State**. Mention is also made of **FEMA** detention centers and so on. Is this the kind of country we want? One way that **Trump** is pushing back is an **EO** he signed in December on **"Serious Human Rights Abuse or Corruption"** that would freeze assets of abusers. But this goes *much further* and is aimed at those "involved in **human trafficking, pedophilia** and systemic corruption all over the planet." Read more at THIS LINK. **Kevin Shipp, ex-CIA** officer was recently interviewed with **Greg Hunter** and says that this could expose **sexual perverts** in very high places.

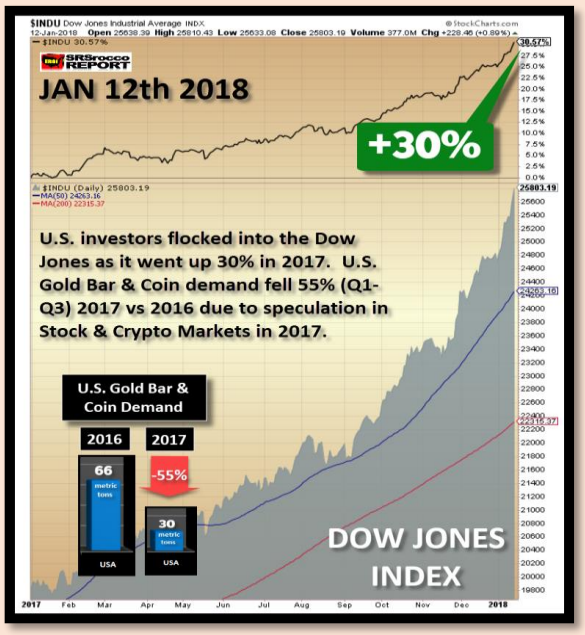
Greg Hunter: Trump Declares War on the Deep State

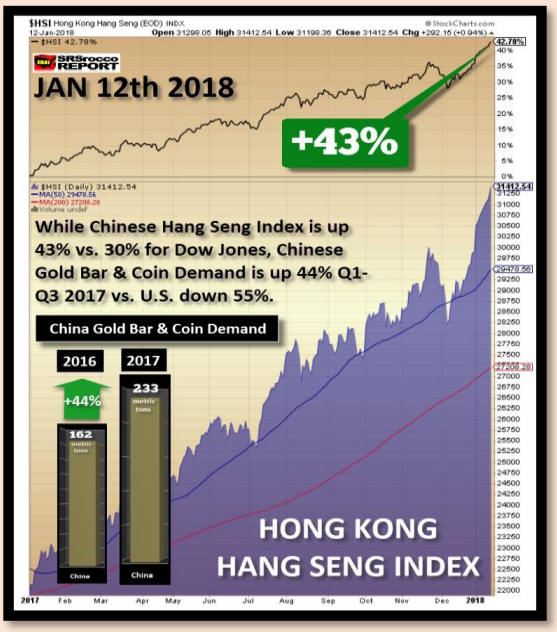
We will be watching this development, and don't be surprised if media/celebrity sex scandals start to get a higher profile. Finally, if you want an in-depth overview of the **Deep State** I invite you to CLICK HERE for full details on how bad things have gotten. The information is out there – *people just aren't paying attention.* **John Whitehead** asks a very provocative question: "What if **Jesus**, instead of being born into the **Roman police state**, had been born and raised in the **American police state**?" This is a **very revealing essay** and worth your time to consider**.** **Jesus** said to His followers, "If they persecute **Me** they will also persecute you" (Jn. 15:18-21). This is a battle between good and evil.

Future Outlook: *Risk Appetite vs Precious Metals*

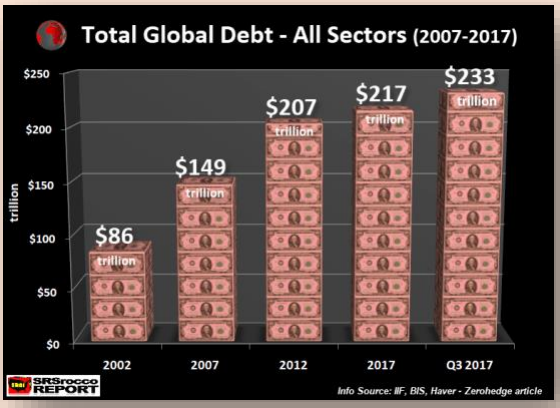


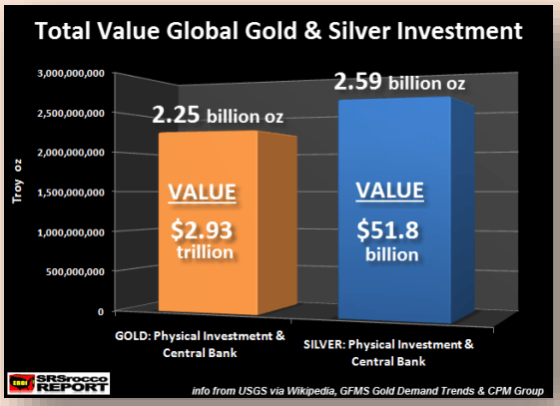
<u>This inverted pyramid represents $1.6 quadrillion in global assets</u>. At the very bottom is the market cap for **gold and silver** – and they don't call it *precious* for nothing! So, what happens when the *appetite for risk* rushes into **gold and silver**? I will answer in a moment. It is interesting that while stocks are up in the **US** and **Hong Kong**, gold demand *dropped* in the **US**, but gold demand *is up* in **China** as seen in **these charts below**. Why is this? This reveals **<u>a mindset</u>** that is totally lacking in the **West**.





The Chinese are the largest producers and importers of gold in the world. The Chinese people are hedging themselves in the historic safety and store of value found in **real money**. As noted earlier (p. 13), global debt is now **$233 trillion** (as **seen below**), and this has also created an *artificial wealth effect*. At the same time gold and silver investment is **$3 trillion** and **$52 billion** respectively (**right**). This is a tiny amount, and with less than **$7 trillion** available to invest in **gold and silver** as seen in the **inverted pyramid above**, this can only mean higher prices, or ***genuine price discovery* for gold and silver.**



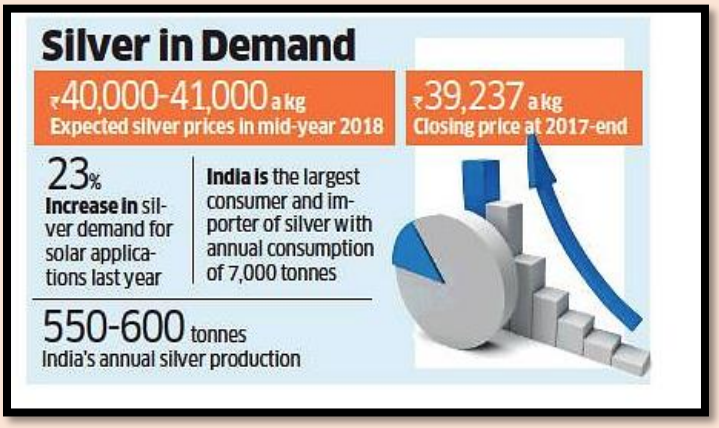


As I mentioned earlier (p. 9), **China has downgraded US Treasuries** because they know that all of that debt is going to either default or be seriously discounted. In a recent post, **Jim Rickards** says a new **gold bull market** has begun this year, and below are **his concluding remarks:**

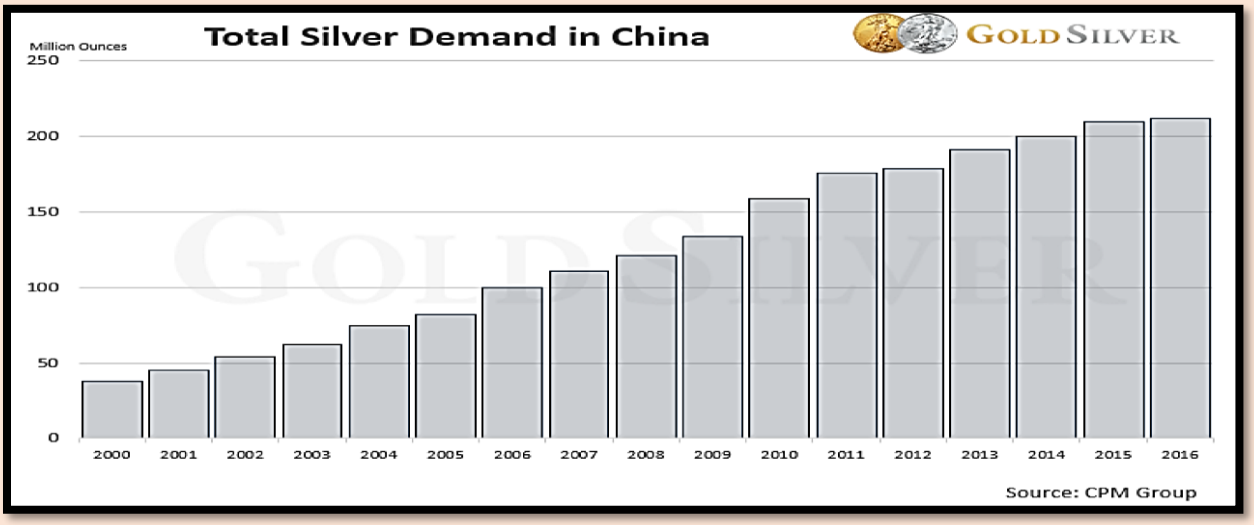
*"**Russia, China, Iran and Turkey**, what I call the "Axis of Gold," continue to buy gold overtly and covertly in prodigious quantities. The western gold powers such as France, Italy, Switzerland, Germany and the IMF have not sold an ounce of gold since 2010. The U.S. has barely sold an ounce of gold since 1980. **On a worldwide basis, demand is up and supply is down, and that can only mean one thing in the long run — higher prices. This combination of fundamental, technical and geopolitical factors is converging in 2018 in a way we have not seen since the late 1970s. The new bull market in gold will be even more powerful than the 1971–1980 bull market and the 1999–2011 bull market**."*

Here you are looking at the first look at Russia's gold and silver vault – more pics HERE. **Russia** has declared that they have as much gold as **China** (1,800 tons), but we know that **China** has closer to ***20,000 tons*** or more! Both **Russia and China** (and smart investors) are simply biding their time.

Peter Cooper reports from the United Arab Emirates (UAE) and is also bullish for metals in 2018. In his latest piece he notes structural distortions in the world, geopolitical risk and market overvaluations that will cause **gold and silver** to do what **cryptocurrencies** have done lately. He is not alone in that view as also noted HERE. Despite lower demand in the **US** the outlook for **gold and silver** could not be more positive. As covered in THIS article, **Jim Rickards** sees gold going to **$10,000/oz**. in the next crisis. This will represent a huge ***wealth transfer***, and he also sees **silver** outperforming when financial bubbles burst and **the greed index** shifts to *fear* and the **Fed** launches **QE4**. "Technically, **silver** is ripe for a major breakout to the upside in **2018**. The CFTC figures Managed Money positions show that **COMEX** silver has been in a net short for three straight weeks since 12th December." **Read the full text HERE**. **COMEX** is the paper futures market where **silver** is manipulated (primarily by **JP Morgan**), and the current silver/gold ratio is **78:1**. A normal ratio is closer to **30:1** or **20:1** or **16:1** in history. More on this in a moment. In past newsletters I have shown that gold and silver has reached peak production in **2015**, while demand is still increasing. What makes **silver** an ideal asset to own is that unlike gold, **silver** is an industrial metal. Annually, **55%** is used in industry, **35%** in jewelry and ***only 10%*** for investment! **India** is a major consumer of **silver** and demand has soared in recent years. Why is this? **The Indian government** has placed a **tariff** on gold imports (to curb their trade deficit), and now the people are importing as much **silver** as they get their hands on as seen in **this chart below**:



This is bullish for silver, and **China** is also importing more **silver** each year. There has been a **68%** increase in their imports in year-over-year statistics. What do these countries know that is lacking in the **West?** Again, it is a mindset that recognizes **value** and the need to **protect wealth** in uncertain times.



So, this begs the question, if the fundamentals for silver are strong why is it trading so low? The answer is fairly simple, but the *real reason* is extremely bullish for the **white metal**. All markets today are **rigged** by the banksters, but this is especially true in the metals space. COMEX was formed in late **1974** to trade gold/silver paper futures to "cap" the price in conformity to the London Gold Fix (same for silver). **Gold and silver** is like ***kryptonite*** to the world of fiat-fractional-reserve-banking. They must *suppress* it in a criminal manner, and nobody has exposed this fraud more than silver analyst **Ted Butler**. There have been around eight commercial banks naked shorting silver at *CRIMEX*, but **JP Morgan Chase** is the largest entity. As Butler has shown, **JP Morgan Chase** had *no silver* in **2008** when they acquired the failed bank **Bear Stearns** (and their naked silver short position). Their physical hoard has now grown to almost ***700 million ounces of silver!*** Why are they doing this? In his latest article, **Butler** says they are playing both sides of the trade to make **billions** on the upside. **Here is a quote below:**

"In addition to being ***the biggest physical silver accumulator in history****, JPMorgan has simultaneously been the largest short seller in COMEX silver futures for the entire time since it acquired* ***Bear Stearns*** *in early 2008. JPMorgan has pulled off something that couldn't possibly be replicated not just in silver but in any other world commodity. Never again will any one entity be able to accumulate 45% of the world's supply of a commodity.* ***JPMorgan's accumulation is more bullish for silver than any other single consideration by a factor of 1,000."***

You can read the full text HERE, and I encourage you to do this. It is entitled "*The Last Great Silver Buy*." And by that he means that this is your **last chance** to get **silver** on the cheap. If you have **silver**, you need to be **patient** and **stay the course**. I know it is frustrating, but time, fundamentals and bankster desperation is on our side…maybe **2018**. **Ted concludes**, "Given the clear evidence of the historic and epic accumulation by JPMorgan of physical silver in amounts so massive it's near impossible to rule out an upside **price surprise** at any moment." In this interview**, Flekenstein** says **silver** is going to *go wild*:

Bill Flekenstein: Silver Will Go Wild (11 Minutes)

He makes this comment at the end of this interview, and he relates this to *the small market cap* of **silver** (as seen in our pyramid) when *trillions* try to get into the tiny silver market! A recent blog has suggested that the "$25-$26 target zone is likely to turn out to be little more than a pitstop on the road to the **$35** area." He cites many other reasons similar to Rickards, Schiff, Butler and all that I have shared. If we had a **16:1** ratio today on **silver/gold** we would already be at **$84/oz. silver! Silver** is the most under-valued monetary asset in history. Here is another article entitled "*Why We Could See* ***$250 Silver***," and this is based on a **20:1** ratio to gold at **$5,000/oz.** But why stop there? In another commentary by Swiss money manger **Egon von Greyerz**, he is calling for a silver price of $**667/oz**. based on a **15:1** ratio to the **$10,000/oz. gold price** that we keep hearing about….and you can be *damn sure* that the criminal banksters at **JP Morgan Chase** know this very well. Do you? I study this market almost ten hours every day and have **98%** of my net worth in **silver.** If you would like to discuss my reasons why, acquire **silver** on the cheap, or transfer a qualified retirement plan into a **Silver IRA Account** let me know.

Summary & Conclusion. This has been another important report and times are getting more urgent. The arrival of **Trump** in **2016** has not changed a single thing with regard to the massive structural economic and fiscal distortions from **2008** that concern the **McKinsey Global Institute** and metrics that I have shared this month. The only changes are for *the worse* – more market speculation, more risk, more debt, more denial and *more postponement* of a **financial reckoning day.** In summary, **Trump** has foolishly taken *full ownership* of the **largest stock market bubble** in all of recorded history, and like I said, he will own this calamity when it happens on his watch. The market is being driven by **Fed** policy to boost earnings and elevate pension funds (p. 7). We have not seen stock **P/E ratios** this high since **1929**, and **Group Think** has taken over the marketplace. The banksters are finally trapped, and in her new book, *Collusion: How Central Bankers Rigged the World*, **Naomi Prins** says, "During the past decade, the helium that inflated asset bubbles and fortified the global banking system was central bank **collusion**. At some point the financial dam is destined to break – it has to, and it will." The central planners have conspired from **2008 to 2018**, and **Kyle Bass** adds, "If command and control economies worked, we'd all be speaking Russian." *Confidence* is the only thing holding things together.

Concluding, we are living in prophetic times that indicates a lesser role for the **US** on the world stage. The demographics of the **babyboomers** will be enough to break the financial dam. **Trustees** say the system will be broke by **2029**, if not sooner. The younger demographic is not inspiring, and the growth of the **American police state** seems to be coordinated for a collapse of the social order. **Philip Giraldi** with the **Strategic Culture Foundation** warns, "something like a **civil war** is coming…the next few years will see a major conflict that will determine what kind of country the **US** will be." These are the times we are living. We need to be prepared mentally, spiritually and **financially.** At some point the American "mindset" will shift to *reality*, and what the cryptocurrencies are doing today **gold and silver** will do tomorrow. In my **next newsletter** I will address the fascinating symbolism of **The Wizard of OZ**, and here is a peek at this historical metaphor. With this in mind, I will be skipping a **February** newsletter due to my book revision project for **2018**, tax issues, ski season and so on. I am still offering my **book for free**. If you want a **copy**, or one to share, give me **your address** and I will be glad to send along. Finally, our dear **Lord** was killed by the **Roman police state**, but **His** victory is assured, and why we pray, "Thy kingdom come, Thy will be done on earth as it is in heaven" (Mt. 6:10). We are living in uncertain times, but **God** is in control as we trust in **Him**. Amen.

Until Next Time, Your Messenger from Pinetop

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