



and a hard place. If they keep lowering interest rates, then they exacerbate the inflation mess, but if they don't, then there may be a recession.

The rule of thumb for a recession is two negative quarters of GDP. We have not had one so far. This is what the fed is trying to avoid.

The worst case scenario is stagflation: a recession coupled with super high inflation. This is what happened in the late 1970's and early 1980's and this is what we want to avoid at all costs.

In 1979 inflation was running over 13% a year! The prime rate (the interest rate that commercial banks charge their most credit-worthy customers) was up to 21.5% in 1980, and unemployment got up to 10.7% in 1982!

As I write this, the prime rate is 5.25% and the unemployment rate is at 5.1%. I already told you about inflation.

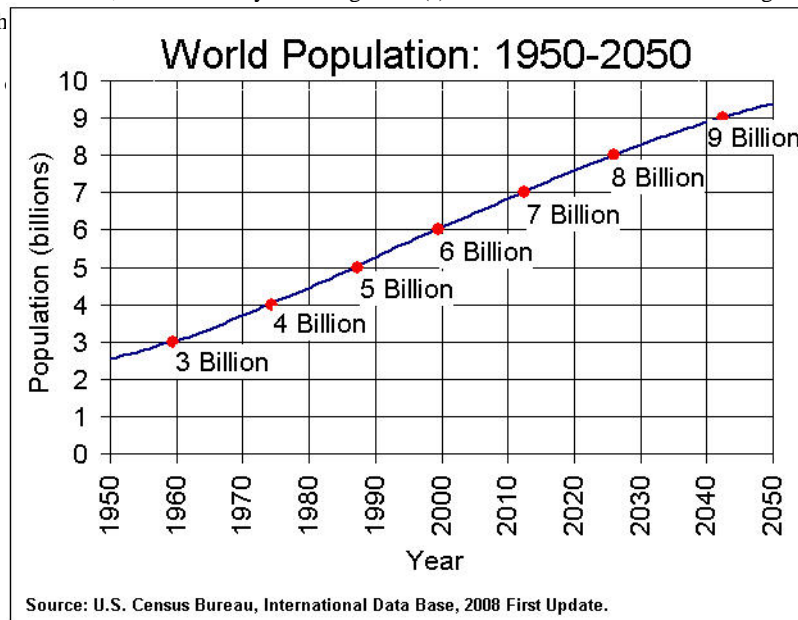
### Thomas Malthus (1766-1835)

He was the author of an essay on the Principles of Population. In 1798, he postulated that any temporary or local improvement in living conditions would increase population faster than the food supply. He also theorized that disasters, such as war and pestilence, which check population growth were inescapable features of human society.

Many academics believed, and still believe, that the fallacy in his argument(s) was that he didn't take technological gains into account when he postulated his theory. Even with technology is.

### We are seeing inflation spiral

1. Increase in the population



2. Increase in the economic prowess of much of that population (e.g. China & India). More people are entering the middle class and can buy more (and better) goods and services.
3. Energy changes. For example: switching over to Ethanol increases food prices.
4. Speculators. There are, of course, speculators seeking to profit from this.

### In closing...

The \$168 billion dollar economic-stimulus package started to go out to people last week. We probably won't start to see any real effect until the later part of this year. The fed rate cuts will also begin to take effect soon.

For the short term, we may not have a super hard landing in this recession. However in the long term, there must be significant changes with the

with the way business is done. Or else future generations will just read about the U.S.A. in their history books.

**Until the next time folks...**

**P.S. As always, feel free to send your love/hate mail.**



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