

>: **Everybody Knows The Dice Are Loaded**

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UNCOMMON COMMON SENSE

For People Who Think

“EVERYBODY KNOWS THE DICE ARE LOADED” “The Poor Stay Poor & the Rich Get Rich”

IT’S THE ONLY GAME IN TOWN

Today’s situation reminds me of a time back in the 1960s when I owned a cigarette vending machine business. As I was walking into the local illegal gambling joint where I had my 2 best machines, I bumped into a man who warned me that all the games were fixed and that he had just lost all of his money. So I asked him, “If you knew that all the games were fixed, why did you play?” “It’s the only game in town” he answered.

I just got off the phone with an old friend of mine who called me from Beijing. The part of the conversation that should be of interest to you was, “Whatever you are hearing about China, be very skeptical. Prices are going up fast. There are definitely less foreigners around and I haven’t bumped into a friend in two weeks.” It certainly looks like inflation and recession to me. The economy, they tell us, is growing rapidly. Maybe it is, but as far as I can see, only in select areas. Despite the \$580 billion stimulus package, the economy is suffering badly.

It seems that governments and their touts are the same the world over: You can’t get any more factual information there than you can here.

THE STOCK MARKET IN REVIEW

After 8 weeks of a strong rally with barely a pause, stocks seem to have run into a brick wall over the last 4 weeks, as doubts about the “green shoots,” government numbers and legitimacy of the earnings reports started to set in. But in reality, all that is just BS. It’s a manipulated market and the Government and the Wall Street Bulls are running out of money.

Taking into consideration the fact the nothing ever moves in a straight line for very long, the market rally since the March low has reached, for all intent and purposes, our expected Fibonacci 38% Elliott Wave retrenchment. This rally was due primarily to the most extreme oversold sell-off in my memory and is highly speculative in nature. Almost everything has been rising in an all too uniform fashion. We all know that volume precedes price and yet, in spite of the Government’s \$ trillions pouring into Wall Street, volume is decidedly on the low side given the size and duration of this rally.

Any market that is down 150 to 250 points for most of the day and then rallies 200 points in the last half hour on NO news and LOW volume is a MANIPULATED market.

Investors have not been returning to the market in any significant numbers and so this rally is basically Wall Streeters trading among themselves, taking greater and greater risks in the process (thinking government will bail them out should they fail). They have been trying to convince the people that we have started new bull markets and that the economy will be growing at 4% by the end of the year as Obama and his Goebbles-like cohorts, Geitner and Bernanke etc. have assured us. If you believe that, I know a stripper who is offering to sell her virginity.

INFLATION/DEFLATION

It appears that no one seems to know what either Inflation or Hyperinflation is. In addition, common sense seems to have gone by the way side. Everyone now accepts that the only solution to the world’s current situation is to do more of the same as what got us into trouble in the first place, only this time they must do a lot more of it: Am I the only CRAZY one?

result immediately in rising prices. For the last 25 years, the US has been able to get away with increasing our money supply by 8% to 10% a year while the economy only grew a 3%. However, during that time, Japan, China, Korea and a host of other countries tried to fix their exchange rates to the US \$ (which the US foolishly never stopped complaining about) and just kept on buying our bonds with their trading surpluses, while our Government kept our interest rates low while manipulating our inflation rates. But that ball game is now over as our deficits and money creation have gotten completely out of hand. Naturally this has occurred just as our economy stops growing and goes barreling into recession on its way to depression. Are there no FREE MARKET CAPITALIST economists out there?

INTEREST RATES

In the meantime, while no one was looking (except us), interest rates began to spike upwards. Just take a look at any chart of US Medium or Long Term Treasuries (TLT & TBT) and it becomes plain to see that interest rates are rising in the face of Bernanke's Herculean efforts to hold them down. You can only fool all the people some of the time because they eventually do catch on.

Did you enjoy our TBT and TLT trades? We'll stick with them as there is still a long way to go. But the rise in interest rates will not be steady as there will be continuous efforts to manipulate them lower. For those of you who are new subscribers or who want to increase your positions, you can either sell 5 points out of the money 3 and 6 months Puts on the TBT and/or buy Bullish Call Spreads such as: Buy July 50 Calls and sell July 55 Calls for a \$2.50 debit. That will double your money if TBT ends up at 55 or better by the 3rd Friday in July.

Our bets against Long-term T-bonds using the TBT "our inverse T-bond ETF" is up a non-leveraged 26% this year alone.

INFLATION OR DEFLATION / RECESSION OR DEPRESSION

Why is DEPRESSION inevitable? With a President, a solid Democrat controlled Congress as well as a bi-partisan consensus believing that deficit spending is vital in fighting the RECESSION, there is absolutely no constraint on government spending. The sky is the limit with deficit spending, now approaching two trillion (with a T) plus dollars over each of the next two years alone and that's not counting healthcare reform. There are only two ways to pay for it: (1) By printing more money, which debases the currency causing inflation, and (2) By hiking taxes, which kills investment, businesses and jobs, destroys what is left of the housing market and results in a Depression. Or, as in this case, the worst of both worlds - AN INFLATIONARY DEPRESSION.

Then the question will be: When will we realize that government intervention is magnifying, not solving the problems that caused the crisis? When will we finally admit that the only solution to a Recession is to let the Recession do its thing, or the Recession turns into a Depression? When will the public's patience with Obama's remedies run out and common sense return to the forefront?

In the meantime, there are ways to protect yourself and your family from the coming INFLATIONARY DEPRESSION.

It's crucial to understand that hard times for America and the world do not necessarily have to mean hard times for you. Since the markets are always a two-way street, there is always a strategy where you can make money: Hard times also provide opportunity for the astute and courageous...

WHERE TO NOW DOW?

There is a great deal of Fiat money and credit being thrown at just about everything political, but none of it is going to "the People". As always happens, all this printed money is a rising tide lifting most commodities and stocks, but predictably at the expense of the Dollar. All this money might be better off being burned as most of it is being sucked into a black hole and therefore any short term positive affects will soon disappear, but we will still be left with the enormous debt. Will a greatly depreciated dollar bail us out? This trillion dollar pump priming has resulted in a short to perhaps intermediate-term boost in stock and commodity prices, but it will not be a permanent solution. In spite of this monetary inflation, markets will tumble after this rally reaches its over extended conclusion and will end up far lower than the starting point (March 9, 2009) of this Bear market Rally. My expectation is that the Industrials should peak between 9,400 and 9,900 sometime in the near future. Then watch out BELOW. As for right now:

I THINK WE MAY HAVE JUST REACHED A SIGNIFICANT MARKET PEAK.

Although I am expecting a 500 to 800 point correction, it's for traders only and don't forget to use trailing OPEN ORDER STOPS of no more than 10%. If you are going to play the short term down trend.

We have recently experienced the bursting of some of history's greatest bubbles: The greatest Real Estate Bubble (peaked in early 2006) and what may turn out to be the greatest bubble of all time, the Bond Bubble peaked in 2008. The Stock Market peaked in Nov. 2007 and we are now in what

will end up being the "Pollyanna" Greatest Bull Market Trap of all time (instead of what many are already calling it, A New Bull Market). We would have been much better off if we had created a 21st Century Resolution Trust Company, as Bill Seidman recommended, and taken all the Toxic Assets off the books of the Banks as was the original TARP plan (until they realized just how big the problem really was). Instead, they selectively bailed out a few "burned out" frat buddy banks and Unions.

Every new Treasury Bond issuance, with its forced monetization, is adding fuel to the runaway train of dollar destruction. We passed the point of no return long ago, and are now in the "bubble illusionary discovery process".

The U.S. dollar's latest joy ride has ended. As our government keeps upping the ante in debt issuance, the dollar, except for periodic manipulated bounces, continues its relentless downward trend relative to "real wealth" and most other currencies. The U.S. Dollar Index recently fell to \$79, down from more than \$120 in 2002. As our foreign trading partners begin to realize that their U.S. asset holdings are being diluted in value and will never recover, they will eventually stop buying our debt. Sooner rather than later, one Central Bank will try to not only reduce their buying, but actually try to sell and set off a relentless series of collapsing dollar waves as one support price after another is violated.

Real Estate Bubble...

The Housing Market Bubble peaked in early 2006. So far, the mean price depreciation has been approximately 32% and has another 20% to go just to reach 2000 valuation levels. As is the case with all extreme bubbles, over corrections are the order of the day. So, don't be surprised to see another 30% to 50% further price deterioration. Any cursory examination of past Real Estate Bubbles shows that the average sell-off lasts 10 to 12 years. So don't expect any bottom before 2016 - 2018.

Bond Bubble...

The largest and most dangerous bubble of all is much larger than the Stock Market. The day is fast approaching when major holders of U.S. debt begin to "divest" away from purchasing our ever increasing new debt issuances. Then, heaven forbid, begin selling.... The planned 2009 Federal Budget of \$3.6 trillion includes projected revenues of only \$1.85 trillion (highly optimistic) thus yielding a deficit projection of \$1.75 trillion. Many think we will easily blow by a \$2 trillion deficit!! How much longer can any responsible trading partner (China, Japan, Germany, Saudi Arabia, etc.) continue buying our debt before their citizens start asking them WHY are they exchanging real wealth for depreciating "paper"?? We're going to have to sell an astounding \$3.5 trillion in Treasuries this year (includes turnover of existing debt, coming due) in order to feed the U.S. consumption monster.

Not to worry: Treasury Secretary Geitner was dispatched to China to smooth things over. Somehow, he will work with them to develop strategies of how we can collectively spin the illusion that their U.S. dollar reserves and dollar-based assets will not be diluted in value as we march onward with our debt bubble printing machine. We need magicians rather than bankers to pull that one off! He did succeed in making them laugh though. But I am not laughing, are you? I still expect the total bond valuation losses to be more than \$22 trillion in the next 1-3 years in real (inflation adjusted) terms.... When the dollar reaches its inevitable collapse, bond prices will plummet and interest rates will soar!

Commodity Bubble...

The bursting Commodity Bubble OVER CORRECTED dropping below legitimate fundamental valuations and is now on an upward march again! I still believe we will soon experience some significant negative demand shocks for nearly all commodities (with the exception of precious metals due to their "Real Money" value) as the economy enters the next phase of its collapse. For example, a precipitous fall into economic depression could send oil prices well under \$30 per barrel: Simultaneously, expect Gold and Silver to rocket upward as there is nothing more powerful than a Thinly traded Bull Market powered by both Greed and FEAR.

The rising 10 year US Treasury Bond yield captured everyone's attention when it rose above 4%, hardly a high level. Yet enough to create some

cracks in the stock market preoccupied with baseless "Green Shoots" talk on the psychological side and by falsified bank balance sheets on the accounting side. Big time stress is finally affecting the US Treasury complex, which is at the epicenter of the credit markets. Leave it to Government, its flunky Media and Wall Street to trumpet less than expected (by whom?) bad economic statistics and a passel of miserable news on the jobs, home foreclosure and falling home prices to put a happy bullish face on the whole situation. Will it be unemployed workers, dispossessed homeowners, and insolvent households who will lead the nation on a recovery, while credit risk underwritings are much more strictly enforced? Do you enjoy a good Fairy Tale? Leave it to Wall Street to trumpet a healing process when huge market to market write downs are replaced by "Credit Value Adjustments" and then booked as profits on the Bank's books.

For those of us who can read between the lines; a powerful megaphone message is screaming loud a clear: The US Federal Reserve is being forced to continue on in its giant monetization scheme, which has dealt a powerful blow to global confidence in the US financial system generally and the US Dollar in particular. The group of 20+ bond dealers, whose job it is to make a market and sell US Government debt, are being squeezed and face a possible risk of failure. In the face of rising long-term US T Bond yields, demand is still growing. But Bond supply is growing even faster. Auction sizes used to be \$5, \$10 and sometimes \$15 billion on a given month; last week the official auction was for \$110 billion, a 10-fold increase. There are just not enough buyers to absorb all that supply. The \$300 billion monetization sounded like a big amount, but that amounts to only a two or three months supply, if the \$1800 billion in US Government deficits is to be financed. The \$1 trillion monetization MUST BE REPEATED, and even become a quarterly event in order to avoid failed auctions. Remember what happened to private equity firms stuck with their own stock and bond inventory? They went bust. That is precisely the risk to our bond dealers and to the private equity firms that fueled our last Stock Takeover Bubble.

FORCED MONETIZATION

The trend is clear: The official bond auctions will continue relentlessly, probably well over \$100 billion per month; worse, the federal deficits will be much larger than estimated, especially as interest rates steadily increase. Tax revenues are down 35% year over year and for the first time ever, April had a deficit month. However, monetization of debt only forestalls the inevitable. Meanwhile, the economic impact of this financial crisis will slowly be recognized. Watch the job losses and home foreclosures. Watch the national home prices, all of which continue to deteriorate.

You may recall that the US economic recovery that began after the 2001-2002 recession was built on an emerging housing boom in conjunction with falling interest rates and an across the board Tax Cuts. All that and a nice little war tossed in for good measure.

The cracks in the Treasury Bond Market Bubble have already begun and are rapidly getting wider. The debt downgrade of the UK Gilts should have awakened the world to a possible US Debt downgrade as well. The global reserve status of the US dollar is already coming into question and the sheer size of the US economy guarantees that the impact of a down grade will cause tsunami-like shock waves throughout the world's financial community. It is this fear that has so far kept foreign government's T bond selling in check. But for how much longer?

A rising US T-Bond yield reminds us that price is always determined by demand and supply. The rising bond supply will be continuing, not just for a month or two, but for years. Trillion dollar projected Federal deficits are expected for as far as the eye can see. And what will ever increasing interest rates do to our carrying costs and projected deficits? You can only fool all the people some of the time.

Increased rates and a huge and growing Government debt will be sucking in funds from everywhere, especially the Stock Market, and you can't have an expanding Bull Market without an ever increasing inflow of funds. The primary bond dealers responding to government pressures have the power to influence fund managers to purchase more bonds in the name of safety and are thus influencing asset allocation ratios. This is exactly the opposite of what began to occur in 1984. So naturally, the Stock Markets have begun to stall after their normal near 38% Dead Cat Bounce, powered primarily by short covering, relaxation of accounting rules, and widespread talk of early sightings of recovery. The great Black Hole of Debt has the potential for the huge US T-Bond sales to draw the entire Stock Market into its vortex.

The conclusion is simple and the FED thinks it has no choice: Refusal by the Treasury and FED to monetize would result in a painful Stock Market crash, the effects of which the public observes and understands well. But the inevitable cannot be stopped by just doing MORE of all the same failed Socialist policies that brought us to this point in the first place.

BETWEEN A ROCK AND A HARD PLACE

The US Treasury's Bonds cannot be monetized without enormously damaging the Dollar. For nearly 2 years now, my analysis has stated that even with intervention, both the US T-Bond Market and the US Dollar will eventually crash. The last couple weeks have seen both fall as 25 years of mismanagement, now morphed into GROSS Socialist mismanagement comes home to roost. The entire world is awakening to the possibility of a US Dollar whose collapse has begun. Watch the Euro as it rises back through 150 and then 160 later this summer. Even the British Pound is strengthening against the US Dollar. The commodity currencies such as the Canadian Dollar have risen from 76 cents to over 92 cents and the Australian Dollar, which started at 62 cents has already powered ahead to over 81 cents.

NOTE: DEFLATION and INFLATION are always only a monetary phenomenon and only refers to the money supply. RECESSION and DEPRESSION are not to be confused with falling prices, which can come about for many reasons. You wouldn't call the falling prices for computers a depression. Or the rising prices of food, inflation. However, helicopter Ben will try to keep us out of Depression by keeping interest rates depressed and by creating more and more Fiat money- exactly the wrong things to do.

RECESSION

a tremendous increase in excess CAPACITY brought on by excessive monetary creation, ultra low interest rates and easy credit.

GOLD AND SILVER

Bear in mind that the fallout that will come from the realization that the Bond Bubble has busted, the up coming resumption of soon to crash stock market, brought on by the realization that the \$1.3 trillion monetization MUST BE REPEATED, and probably become a quarterly event. Then, as the US Dollar staggers through critical support levels just as Gold completes its 14 to 19 month minimum time consolidation period of Gold's 84 month 1st leg of its Super Bull Market. GOLD WILL then explode to NEW HIGHS as its third wave begins AND CAPTURES GLOBAL ATTENTION. For the last few months, both Gold and Silver price levels have been resisting even minor sell-offs. Once Gold pushes above \$1050, it will blast off into the only Bull Market around as Hedge Funds and Mutual Funds, who must stay fully invested, fall all over themselves in an orgy of both greed and fear to get on board the skyrocket to golden profits. It will be a sight to behold, especially by my loyal fans that are fully invested in GOLD and Silver.

KEEP THE FAITH- do not try to trade your Gold positions. Keep on with our program of buying into weakness and wait for the break-out above \$1050, which will come any time between now and October. But since everyone is convinced about the summer doldrums for Gold, the BREAKOUT could come sooner rather than later. So be careful not to get sucked into selling your Gold positions.

Discover how to penetrate the Wall Street haze and detect significant changes before the traders and the hedge funds do by subscribing to UNCOMMON COMMON SENSE.

GOOD LUCK AND GOD BLESS

I have spent my entire career studying history and reading between the lines trying to identify new major trends that will be developing in the markets and figuring out how to profit from them. These are trends that will be happening in the near future; trends that most analysts and investors notice only long after they have already been well established and we have made the majority of the easy money.

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