

## **The Sky Is Falling—Up!**

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There are some who believe the sky is falling; that the world as we know it is coming to an end, society is doomed and everyone should stock up on food, water and AK-47 ammunition.

Well, these certainly are not the best of times, but we are a long way off from judgment day. Not even close. Not even shoutin' distance. The world did not end at 6:00 pm May 21<sup>st</sup>, 2011. And despite the slowdown in the economy, high unemployment, war, political turmoil and national economic failures abroad, there is hope for those of us who see reality with a clear eye. What we see are the natural ebbs and flows of economic systems--booms and busts in the business cycle that have characterized economies since the dawn of society.

So what's the big deal today? What's so different today than, say, the recessions of the 1980's or maybe the 1970's? Well, for one thing, the numbers are much bigger. The sheer scales of today's global economies are difficult to compare to those of even twenty years ago. Twenty years ago, a Billion was a big number. Today, we speak in Trillions. Hence the updated Dirksen quote "... a Trillion here, a Trillion there. Pretty soon people will be talking about real money."

And that's just what US Treasury Secretary Timothy Geithner is talking about. He says that if Congress does not raise the debt ceiling by \$2 Trillion to \$16.3 Trillion, the world as we know it will end. The US will default on its debt. The bond market will tank. The stock market will collapse. And the Dollar will cease to exist and means of exchange. Compared to coming decline of the US economy, the Great Depression will seem like just a walk in the park.

This is the same Secretary Geithner who last month said, without a hike in the debt ceiling, the economic world would end on May 2<sup>nd</sup>. Then July 22. Now it looks like the date is definitely August 2<sup>nd</sup>.

The Secretary may have had a few accounting tricks up his sleeve. But he is running out of excuses. The credit rating agencies are on to him. Pretty soon the gig will be up.

So here's the question before us: Will raising the US debt ceiling solve our economic problems? The answer is clear to those who believe in fiscal stimuli and government spending in general. They say, "Yes, and let's get on with it already." Others believe raising the Federal debt limit is tantamount to giving drugs to a drug addict in hopes he will quit using. Congress will spend to the legal limit (and maybe a bit more), whatever the legal limit may be.

Today, the Federal debt of \$14.3 Trillion exceeds the Gross Domestic Product. According to the Congressional Budget Office, the federal debt will be \$18.2 Trillion by 2016 at current borrowing rates. So raising the current limit by \$2 Trillion to \$16.3 Trillion would only delay judgment day a few years.

The Keynesian solution is to tax more to spend more. More government spending, it is thought, will expand the economy and create prosperity for all. The US has been following that path for two and one-half years, now, along with monetary stimulus known as Quantitative Easing 2 (QE2). Together, QE2 and federal fiscal stimulus spending have exceeded \$2.1 Trillion in an effort to revive the US economy and create jobs. So far, according to the Bureau of Labor Statistics these measures have created 700,000 jobs. Meanwhile, 24 million US citizens who want to work are unemployed or underemployed, and economic growth has slowed to 1.8%.

Last month, Standard & Poor downgraded the economic outlook for the US to negative. It's hard to imagine we could arrive at such a dire crossroad. Is the United States no better at controlling its economic future than, say Greece? And if the end is near, what should I do to protect myself from certain economic disaster.

Well, I could build a fallout shelter and stock up with food and ammunition. But that would not preserve my wealth.

The stock market offers no protection. We have seen stocks crash for far less serious reasons than a US debt default. Some say stocks are booming. But measured in hard currency, such as the Swiss franc, S&P 500 stocks have risen by just 8.4% since Aug. 27, 2010, the day the Fed announced QE2. Measured in gold, the S&P 500 is up just 4.5%.

Some professional bond speculators are shorting US treasuries--too risky for my money.

Real estate? Not the place to be either. Real estate is still in free fall. Today's S&P/Case-Shiller report shows housing prices dropped 3.6% from last year, a double-dip in the housing recession.

But there is an asset that I can own that acts like a personal life ring--gold. Gold is a store of value that recognized around the world as the ultimate hedge in uncertain economic times. Gold continues to gain value against the declining US Dollar. We can see from the chart below, the US Dollar has declined in value. The price of gold, on the other hand continues to climb in value. Gold is the asset for me. Its value goes up even though the sky is falling.



Investors from around the world benefit from timely market analysis on gold and silver and portfolio recommendations contained in *The Gold Speculator* investment newsletter, which is based on the principles of free markets, private property, sound money and Austrian School economics.

The question for you to consider is how are you going to protect yourself from the vagaries of the fiat money and growing inflation? We publish *The Gold Speculator* to help people make better decisions about their money. Our Model Conservative Portfolio gained 66.7% in 2010, and 55% for 1Q2011. Subscribe at our web site [www.thegoldspeculatorllc.com](http://www.thegoldspeculatorllc.com) with credit card or PayPal (\$300/yr) or by sending your check for \$290 (\$10 cash discount) The Gold Speculator, 614 Nashua St. #142 Milford, NH 03055