

TurboTax Tim - Throwing Good Money Chasing Bad

Dear Friends,

TurboTax Tim Geithner unveiled Treasury's new bank bailout plan at 11:00 am today.

The markets gave the plan the ole' Bronx cheer and promptly:

- Stocks declined sharply,
- US Dollar moved higher,
- Treasury bonds rallied up, and
- Gold soared upwards.

My thoughts:

- The Trillions of dollars being spent on so-called stimulus and bank bailout plans – to me, is simply a band aid – as I have written numerous times before **you must focus on debt reduction – via restructuring or bankruptcy – for homeowners, banks, businesses, and government**
 - It's so logical and simple – if you have a lot of debt and it is crushing you – getting a “loan” from your rich uncle does not cure your problem – it merely postpones it.
 - GM is a poster child to the problem – their crushing debt load is at the heart of the problem -- until the GM debt is restructured, GM will continue to experience difficulties.
- **Look at TARP 1 – a report was just released that showed that the government lost \$78 billion already on the \$257 billion they spent – and Hank Paulson told us “we would not lose money.”**
- The big banks are too-big-to-fail which means you have to make the tough decision and fire management, sell off via public auction the bad assets, and break them up – politically that seems impossible.
 - Unfortunately the government advisors who created the problem are now called upon to solve the problem – does that make any sense?
- **You should not depend on the government to solve these problems – you must be your own central bank.**

Investments – now:

- Keep the defensive team on the field
 - Keep a very light or no exposure to stocks
 - Consider shorting stocks – since I believe we have a risk of further -20% decline from today's levels
- Maintain a focus on government guaranteed income vehicles
 - Hedge the longer term government bonds with a short position (which goes up in value as interest rates rise)

- Treasury rates have moved up recently (bond prices declined), but today interest rates have corrected back down, as the Fed has threatened to buy Treasuries

Investments - future:

- The massive government spending will add trillions to our deficit, or the Fed may monetize that debt, either of which may result in:
 - A downgrade in the AAA rating for US Government debt,
 - Hyperinflation, or perhaps runaway inflation,
 - Higher interest rates – a higher interest rate may have to be paid on so much more debt – remember the US is not the only country adding debt – who is going to buy all of the new issues of global government debt?
 - US Dollar devaluation – a global competitive currency devaluation has already started as global governments are trying to export their way to prosperity,
 - Rapid rise in commodity prices – most commodities have low inventories. Should demand return, commodity prices could easily soar,
 - Higher taxes – to pay for the extra government debt

The Trend is your Friend:

- Rather than make predictions – that commodities will soar, the dollar will devalue, interest rates will skyrocket – and then invest according to these predictions – I believe it is better to invest with the trends. I believe we don't have to be that smart to predict – in fact, **investing via forecasts has proven to be detrimental to your wealth.**
- Right now the US Government is doing everything possible to keep interest rates low – buying (or threatening to buy) US Treasuries and all kinds of other debt (mortgages, student loans, auto loans, etc). That should keep rates down (for now), albeit artificially.

Warmest Regards,

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