

Depression Not a Recession

In April, Bloomberg News reported 60% of Americans are expecting a recession within the year. Unfortunately, they should be expecting much worse. A depression, not a recession, is more likely in the offing.

In March 2000 when the dot.com bubble burst, it was the largest collapse of a stock market bubble in history. The collapse of a stock market bubble in 1929 had resulted in the Great Depression. When the 2000 dot.com bubble burst—an even larger bubble—the US government was afraid another depression would result.

To prevent it, in 2001 the US government flooded the economy with money. The government lowered US interest rates to 1%, and normally tight-fisted bankers gave away over \$1 trillion without even requiring proof of income.

Real estate prices skyrocketed and the stock markets recovered. But, in so doing, the US had inadvertently created an even bigger bubble—a bubble that has now burst.

The US Real Estate Bubble Is the Biggest Bubble In History

This is what Americans should be worrying about. The collapse of a bubble even larger than the 1929 or 2000 stock market bubbles will have catastrophic consequences; sending the US and perhaps the entire world into another Great Depression. A deflationary depression, not inflation or a recession, is the real threat to the US economy.

Americans will be lucky if a recession is all that happens. A recession would be a godsend, a momentary tightening of the belt; not the collapse of the entire US economy where real estate falls 60-80% and stocks fall even farther.

During the Great Depression, the stock market lost 90% of its value. Twenty-four years after the crash, the US stock market was still down 75%. Deflationary collapses are long and protracted and it should not be expected that the coming depression would be otherwise—in fact, it will probably be even worse.

The Collapse of the Real Estate Bubble Will Cause The US Economy To Deflate And The US Dollar To Drop

Today, the world's money markets are betting on a falling US dollar. In fact, US Vice-President Dick Cheney is betting on it too. In May 2006, Kiplinger Magazine reported that up to 25% of the Vice-President's assets (\$10-\$25 million) are invested in a fund that profits when the US dollar falls.

Americans have no idea the trouble they are in. Afraid of a recession, they don't know a deflationary depression is the real danger. Told that China is manipulating its currency to the disadvantage of the US, Americans are unaware China has accumulated over \$1

trillion in excess US dollars and stands to lose \$250 billion to \$500 billion when the US dollar falls.

Up until recently, China and Japan have been recycling their excess US dollars by investing in US Treasuries. This recycling is the only reason the US economy is still afloat.

Because the US, the world's biggest debtor, borrows over \$1 trillion a year, should China and Japan decide to invest their dollars elsewhere, the US economy would immediately sink, US interest rates would skyrocket and toaster ovens at WalMart would cost \$78 instead of \$39.

In 2006, a global investment firm quietly advised its clients "while there is money still to be made, be sure to dance close to the door". In April 2007, the party is still going on but it's now about to end.

On April 3, 2007, Bloomberg News reported that the world's best performing investment trust, Blue Planet's Worldwide Financials fund, sold most of its stock portfolio predicting that a sharp correction in global stock markets is about to occur.

"It is time to get out of the market and I don't think it would be unreasonable to expect the market to fall by more than 20 per cent in a very short space of time."

Ken Murray, founder and chief executive of Blue Planet Investment Management

But most Americans aren't aware of this danger. Americans aren't aware the party is winding down and about to end, that global investment bankers are eyeing the exits as they cash in their winnings. Most Americans are only worried that a recession might happen. If so, they will not survive the crisis.

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