SECTION I

TIME OF THE VULTURE

Topic 1

In times of expansion, it is to the hare the prizes go. Quick, risk taking, and bold, his qualities are exactly suited to the times. In periods of contraction, the tortoise is favored. Slow and conservative, quick only to retract his vulnerable head and neck, his is the wisest bet when the slow and sure is preferable to the quick and easy.

Every so often, however, there comes a time when neither the hare nor the tortoise is the victor. This is when both the bear and the bull have been vanquished, when the pastures upon which the bull once grazed are long gone and the bear's lair itself lies buried deep beneath the rubble of economic collapse.

This is the time of the vulture, for the vulture feeds neither upon the pastures of the bull nor the stored up wealth of the bear. The vulture feeds instead upon the blind ignorance and denial of the ostrich. The time of the vulture is at hand.

The Time of the Vulture is not just a story. It is a story whose time has come. And if you understand why the story is true, you will be able to protect yourself and profit in the chaotic days ahead. If you do not, you will play the ostrich in a story that will soon affect us all, rich and poor, bull and bear, ostrich and vulture alike.

When investing, people do not choose to be bulls or bears. Being risk taking or risk adverse is often due to personality. But people do choose to be ostriches, especially in times of change. This is because denial of change—the refuge of the ostrich—gives all of us a sense of security. Though the security is as false as the comfort it offers, unfortunately many, if not most of us, will choose to be ostriches in the days ahead.

WHO WILL BE THE OSTRICHES?

- Those who resist change, insisting that what was true yesterday will be true tomorrow.

- Those who do not understand that we are in the midst of the mother of all paradigm shifts, a shift so fundamental the world of tomorrow will bear little resemblance to the world of today.

- Those who have been so financially successful in the current paradigm, they will not realize the world has changed until too late.

The line separating investment and speculation, which is never bright and clear, becomes blurred still further when most market participants have recently enjoyed triumphs. Nothing sedates rationality like large doses of effortless money. After a heady experience of that kind, normally sensible people drift into behavior akin to that of Cinderella at the ball. They know that overstaying the festivities - that is, continuing to speculate in companies that have gigantic valuations relative to the cash they are likely to generate in the future - will eventually bring on pumpkins and mice. But they nevertheless hate to miss a single minute of what is one helluva party. Therefore, the giddy participants all plan to leave just seconds before midnight. There's a problem, though: They are dancing in a room in which the clocks have no hands.

- Warren Buffet, Berkshire Hathaway 2000 Annual Report

UNDERSTANDING TODAY'S COMPLEX FINANCIAL MARKETS

If you can understand your local real estate market you can understand what is happening to global financial markets. Although mortgages and multiple listings have little in common with derivative swaps and tranches, what collapsed US real estate markets also collapsed global financial markets. Prices of both local real estate and global financial markets collapsed because of rising interest rates.

FALLING AND RISING INTEREST RATES AND GLOBAL BUBBLES

The US housing boom (2002-2005) was created by low interest rates. The reasons for the low interest rates are as misunderstood as are the reasons for our current crisis.

The Lord giveth and the Lord taketh away. Well, regarding home purchases from 2002-2005, the Lord did give, in the form of low interest rates; however, from 2005-2007, the Lord then took back the low interest rates.

This is why interest rates were lowered in 2002-2005:

After the collapse of the dot.com bubble in 2000, a policy of easy credit was instituted by the US Federal Reserve to keep the US from slipping into a deflationary (low demand) cycle as happened after the 1929 stock market crash. That deflationary cycle became known as the Great Depression.

The Fed was also aware that the more recent 1989 crash of the Japanese stock market had plunged Japan into its own deflationary cycle. When the dot.com stock bubble burst in March of 2000, deflation in the US (the world's largest economy), in addition to a still continuing deflation in Japan (the world's 2nd largest economy), was far too dangerous to allow.

A simultaneous deflation in both the US and Japan would inevitably spread to the rest of the world and cause another depression. The solution chosen by the US and the Japanese Central Banks was to flood their economies with easy credit. Central Bank interest rates in the US were cut to 1 % and Japanese rates were already slashed at 0 % -- in reality a negative interest rate because of constant inflationary monetary growth.

This flood of easy credit temporarily had the desired effect; and the US, reinvigorated by this flood of cheap credit, managed to stay afloat thanks to a housing boom and a new bubble set in motion by the low 1 % interest rates.

Japan's descent into its 15-year deflationary cycle was also slowed. There, the flood of Japanese yen reinvigorated not only its moribund banking system, but, more importantly, inadvertently fueled a worldwide boom in financial markets.

With 0 % interest rates in Japan, it was believed only a fool could not make money investing at that rate (and no investment banker has ever believed him/herself to be a fool). From these 0 % interest rates a heretofore unknown monetary phenomenon known as the Japanese yen carry-trade became the primary engine of worldwide financial speculation.

Borrowing Japanese yen cheap and investing in anything that promised higher returns became the game of choice for the world financial community, producing hundreds of billions of dollars in profits for investment banks and speculators from 2002-2007.

By April 2006, the flood of easy credit had driven prices in all markets (housing, stocks, bonds, commodities, derivatives, etc.) to multi-year highs. But in 2005, central banks began raising interest rates to contain inflationary pressures set in motion by their previously low rates.

With interest rates rising, in May 2006 the US stock market began to falter with the Dow suffering multi-100 plus losses and emerging markets took the biggest hit of all, losing an estimated $5 billion of value in a week.

From mid-May to mid-June '06, the total loss for world stock markets was $2 trillion. The financial bubble created by low interest rates had peaked. The central bank policy of easy credit ended in 2005 and the higher interest rates began to deflate the bubbles that low interest rates had created.

Easy credit not only led to higher asset prices but also to higher prices in general, i.e. inflation; and to combat inflation, the only weapon of Central Banks is to raise interest rates. This is where local real estate markets and global financial markets had the same problem.

Because their purchases and profits were both based on the availability of low interest loans, home buyers and investment bankers were equally vulnerable to the rise of interest rates in 2005. Prices always depend on buyers and when buyers depend on credit and credit becomes dear, prices collapse.

When I first wrote my analysis of the US and global economy in 2006/2007, it was not known what central bankers would then do to combat rising prices. The central banks knew their low interest rates had ignited inflationary pressures and the usual response would be to raise rates. But they also knew that the economies could collapse if interest rates were raised too far too fast.

Twenty-five years ago, in a like time of economic insecurity, the US Central Bank had raised interest rates from 8 % to 21.5 % to bring inflation under control. At the time, I had a $400,000 bank line of credit and dealt in a luxury item, fine hand-knotted Chinese carpets.

When interest rates skyrocketed, suddenly wall to wall carpeting and linoleum flooring didn't look so bad. I and many others went out of business and inflation was brought under control. Today, the environment is very different.

Now, public, private, and business indebtedness is at an all-time high. The Reagan years ushered in a mentality of borrow now, make payments forever, and never pay anything off. The prevailing mantra has become refinance, refinance, refinance. This became true for governments, families, and businesses.

If interest rates were raised as they were in the past, the economic carnage would now be far greater. And if interest rates were not raised, inflation could turn virulent and the flow of foreign moneys upon which the US depends could abruptly halt.

We now know in 2012 what was not known in 2007, whether central banks would raise interest rates to combat inflation or would lower rates to keep the global economy afloat. The subsequent credit contraction and collapse of investment banks in 2007/2008 intervened to force central banks to again lower interest rates, hoping to prevent a deflationary collapse that could usher in another Great

Depression.

Now in 2012, the collapse of real estate, stocks and commodities has wiped out trillions of dollars of wealth and it is deflationary, not inflationary, pressures that threaten central bankers. A deflationary collapse today, however, will be more painful than even the Great Depression because today debt levels are far higher than in the 1930s.

This deflationary collapse will not be another cyclical correction. This deflationary collapse will be an omega event, a one-time event of unprecedented proportions that will alter the global economic, political, and social landscape—and, to understand why this will be, you must first understand what happened to the US dollar after 1950.

2012 UPDATE: Today's excessive money printing combined with historically low interest rates will eventually debase all currencies. Central bankers are hoping before this happens, economies will recover. They won't.

THE WORLD THAT ONCE WAS IS NO LONGER

Topic 2

History is the story of change. We have all changed. We are not what we once were though part of us still believes we are. So it is with the US and US dollar. It too is not what it once was, though many of us still believe it is. For years, the US was the wealthiest nation in the world and the US dollar was the symbol of financial stability and security. And so it was.

In 1950 the US was the world's only creditor nation; it was the world's bank and the US dollar was the world's reserve currency. Fifty-six years later, a sea change in the fortunes of the US and the US dollar has occurred. But most Americans do not understand the magnitude and significance of this change. Soon, they will.

To understand what has happened, you will first need a short history lesson. Understanding what happened to the US dollar is no more complicated than understanding interest rates. The lesson as to what happened to the US dollar, however, is much more consequential.

History can be boring when it's not relevant. However, this time it's different. Whether you know it or not, the history of the US dollar is very relevant; for what has happened to the US dollar will soon impact you in same way Hurricane Katrina impacted the residents of New Orleans.

THE RECENT HISTORY OF THE US DOLLAR

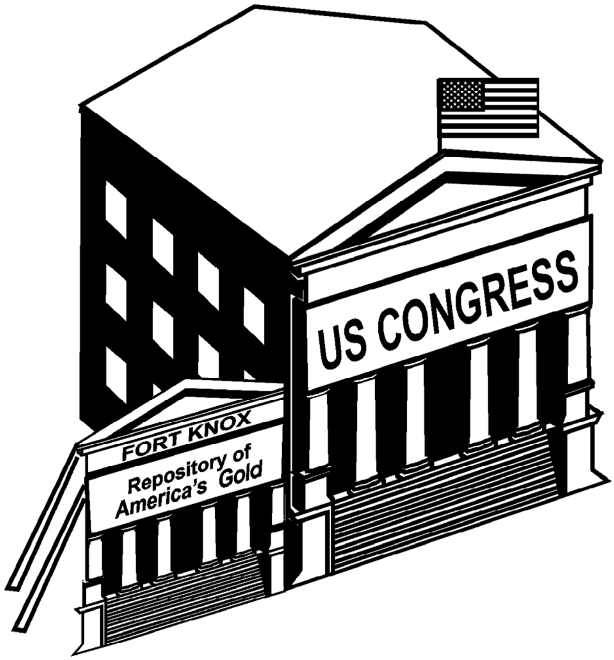
In 1949, the US dollar was the strongest currency in the world. Fully backed by gold and convertible at $35 per ounce, the US dollar functioned as the world's reserve currency. At the time, the US owned 21,775 metric tons of gold, 75 % of the world's monetary gold, the largest tonnage and largest percentage ever held by any one nation in history.

That was when every American school child knew about Fort Knox and the gold that was stored there. But today's school children aren't told about Fort Knox. This is not because America's teachers are failing to teach school children about America's wealth. It's because the vast majority of that gold is gone, sold to pay down America's debts; and, the gold that remains is there only because in 1971 the US refused to pay the rest of the gold it owed.

HISTORY IS NOT JUST WHAT YOU KNOW HISTORY ALSO INCLUDES WHAT YOU DON'T KNOW

Although the US owned 21,775 metric tons of gold in 1949, by 1970, the US had only 7,200 tons left [estimated as no actual figures available]. And with only 7,200 tons, the US still owed 38,879 tons, a negative net 31,679 tons.

In only 21 years, the US went from owning 21,775 tons of gold to owing 31,679 tons, an outflow of 53,454 metric tons of the most precious metal on earth. How much gold does the US now actually have? No one knows because since 1954 the US has refused to allow a public physical audit of its gold.



Fort Knox

I know your next question:

WHERE DID ALL THE GOLD GO?

The answer:

AMERICA'S GOLD PAID FOR TWENTY-ONE YEARS OF U.S. OVERSEAS MILITARY EXPENDITURES, TWO U.S. OVERSEAS WARS, AND TO FUND TWENTY ONE YEARS OF U.S. OVERSEAS CORPORATE EXPANSION.

The decline of great powers is caused by simple economic over extension.
- Paul Kennedy The Rise and Fall of the Great Powers

It should be noted that prior to the US reneging on its international monetary obligations in 1971, gold transfers between nations were determined solely by international currency flows. Prior to 1971, if a country bought more goods than it sold, it would transfer gold bullion or the equivalent in US dollars ($35 per ounce of gold) to other countries. If a country exported more than it imported, it would instead receive gold or its equivalent in US dollars.

Because the US, then the most advanced industrial power in the world, had a positive trade balance between 1949 and 1970, US gold supplies should have increased. The fact that US gold reserves instead disappeared is evidence of the vast amounts of money the US military and US corporations spent abroad during that time.

From 1949 to 1970, maintaining a worldwide military presence, fighting wars in Korea and Vietnam, and underwriting US corporate overseas expansion completely drained the US Treasury of its gold. During this period, the US spent more than twice the amount of gold it actually possessed.

A ROAD NOT TAKEN

This disappearance of America’s gold went unnoticed by Americans. This fact points out a deeply denied truth about our nation—that our collective awareness is not as free as we wish to believe.

Our collective awareness, in fact, is managed by those in government who wish us to see what they would have us see and to believe what they would have us believe. Crowd control, not the dissemination of much needed truths to a democratic electorate, is the policy of the US government.

Something as important as the disappearance of America’s patrimony, its wealth, its collective storehouse of value, its gold, should have been noticed. If a large bank heist occurs, this makes the news. When the stock market falls, it makes the news. But when America’s wealth, its gold, is gone and spent, there’s nothing about in the news.

AMERICA DIDN’T NOTICE BECAUSE AMERICANS WEREN’T TOLD

Well, that’s not quite true. Americans were warned and by someone quite important. Though Americans weren't warned specifically about the gold, Americans were warned about the powerful interests sending US dollars abroad at such a rate that America's gold would soon disappear.

As an indication of how powerful these interests are, the man who warned America, Dwight D. Eisenhower, was the President of the United States and informed the nation of what was occurring only as he was about to leave office because of the dangers of so doing.

> *The real rulers in Washington are invisible, and exercise power from behind the scenes.*
>
> - Felix Frankfurter, US Supreme Court Justice

President Eisenhower warned America three days before his term ended; and, it was then he felt safe enough to name those responsible. He called them ***"the military-industrial complex"***, a collusion of military and business interests so powerful that unless opposed, Eisenhower believed they posed a threat not only to America's wealth but also to its freedoms. In his farewell speech to the nation in 1961, the highly decorated and retired General warned:

> *This conjunction of an immense military establishment and a large arms industry is new in the American experience. The total influence -- economic, political, even spiritual -- is felt in every city, every State house, every office of the Federal government. We recognize the imperative need for this development. Yet we must not fail to comprehend its grave implications. Our toil, resources and livelihood are all involved; so is the very structure of our society.*
>
> *In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex. The potential for the disastrous rise of misplaced power exists and will persist.*
>
> *...We cannot mortgage the material assets of our grandchildren without risking the loss also of their political and spiritual heritage. We want democracy to survive for all generations to come, not to become the insolvent phantom of tomorrow.*

Eisenhower's warnings went unheeded. And just as he predicted, the US is now insolvent and the material assets of our grandchildren have been mortgaged beyond their ability and even their grandchildren's ability to repay. The national debt of the US stands now at $10.9 trillion and is growing at a rate of almost $100 million each hour.

> *No generation has a right to contract debts greater than can be paid off during the course of its own existence.*
>
> \- George Washington 1789

It is not our purpose here to otherwise detail what occurred as a result of Eisenhower's unheeded warning, other than the loss of America's gold. For those interested, the works of the late Professor Seymour Melman of Columbia University will be more than enough to satisfy your interest regarding the effect of the US military-industrial complex on America. It is our purpose here only to increase your understanding of the grave danger you are now facing as a result of what has already occurred.

2012 UPDATE: In 2007, US debt was $10.9 trillion and growing slightly less than $100 million per hour. Today, July 2012, US debt is $15.88 trillion (45% higher than in 2007) and is increasing at the rate of $162 million every hour.

A HOUSE BUILT ON SAND SAND DOLLARS AND THE APPROACH OF THE VULTURE

Topic 3

It was as if someone removed a pin from the axle of international commerce when the US dollar was no longer convertible to gold. Previously, the US dollar was linked to gold, and other currencies were linked to the dollar. Everything was stable. It is no longer so. Once the pin connecting gold and paper money was removed, everything changed. The axle of international commerce began to vibrate and lately it's been getting much worse. The fear is that the wheels are now about to come off.