Powder Kegs and Photo Ops September 19, 2012
Doug Wakefield

The following is a portion of an interview I conducted with Dr. Janice Dorn, as found in the December 2006 issue of *The Investor's Mind: Mindgames*. Dr. Dorn has not only traded the futures markets for the past 2 decades, but has coached hundreds of traders in the futures markets. She holds a PhD in neuroanatomy, and is an M.D., certified by the American Board of Psychiatry and Neurology. I am confident you will find these comments even more pertinent today, than when they were originally read in December 2006.

"Doug – What I find fascinating, in regards to our thinking, is that if we look at a variety of cultures and nations, we find an enormous group of people living out their day-to-day lives under the premise that the one of the primary roles of government is to provide various safety nets. We have even come to believe that the greater the complexity, the safer the safety net must be. In a world where our morning fruit comes from one country, our transportation from another, and our computers from yet another, the elaborateness of our distribution system has given us a sense of stability and ease, when by the nature of its complexity, it becomes more difficult to maintain that stability.

So, if I start thinking about change and the complexity of the system upon which I am relying, and I realize that I can't control all of these variables and that based on the level of spending to support this complexity, the status quo is unsustainable, then I become afraid.

Dr. Dorn – I agree, something's got to give. What happens in a situation like this is very interesting. When people are not thinking about how something is provided for their benefit – just expecting it to continue – they come to the conclusion that somebody else is going to take care of them; somebody else is going to think for them and tell them what to do, where to go, and what to take on a plane... So the more the government keeps establishing and/or expanding programs that will "protect us," the more people feel this sense of security. Of course, this sense of security is completely false, and in the process, freedoms are taken away from us.

This issue is critical when it comes to making trading and investing decisions, and I'll tell you why. Let's say we're just moving along; everybody is taking care of us; everything is just fine; the government is paving our streets as well as providing Social Security for income and Medicare to cover certain medical cost; we have this sense of being safe and cozy in this artificial environment that our government has created. Then suddenly, it is not there."

The US National Debt closed out December 2006 at $8.68 trillion, information that any person in the world can find by searching "Debt to the Penny, Treasury Direct". If I visit the same website, I find that on September 13, 2012, the day the Federal Reserve released its statement that "further policy accommodation" or Quantitative Easing (*of more debt*) 3 would start, the US national debt had already risen to $16. 045 trillion.

Now I asked you, what person or business do you know that would tell you almost 6 years later, AFTER their debt level had grown by 85%, that they their best financial plan was to ADD to the speed of debt accumulation, and that without it their "economic growth might not be strong enough"? Let me state this again.

http://demonocracy.info/infographics/usa/us_debt/us_debt.html

After piling up over $7.365 trillion in additional debt, the BEST advice from the highest authorities in the U.S. financial system was to ADD to the speed of debt accumulation, since without this action, "economic growth might not be strong enough". If you can find ten people who honestly believe this is a good LONG-term solution for any person, business, or nation's financial problems, please let me know. I cannot fathom how anyone with the most basic understanding about PERSONAL OR BUSINESS finance, could endorse this solution for his or her own finances.

Yet as the two headlines below reveal, the recent "add more gas to the fire" solution received praise by some?

Cramer Praises Bernanke, Defends QE3, Sept 13, 2012

Krugman Praises and Defends Bernanke's QE3; Everyone Else is Less Enamored, The Curmudgeon's Attic, Sept 17, 2012

It would seem that Cramer and Krugman, and sadly many others, have drunk the debt Kool-Aid lie for so long, that either they believe it, or they know their own careers are based on continuing the foster the lie.

Think back to this comment by Dr. Dorn regarding the way we as humans think when our "safety net" is challenged:

> "When people are not thinking about how something is provided for their benefit – just expecting it to continue – they come to the conclusion that somebody else is going to take care of them."

Since most investors pride themselves as people who take care of themselves, and pull themselves up by their own bootstraps, why is there not a louder outcry every time "the Committee" reveals another "add more debt" scheme? Does this not assure MORE instability, not less? Could it be that we have become addicted to the FEELING of a rising stock market? Clearly, the way we FEEL is of critical importance to the Federal Reserve.

Fed Seeking to Create Wealth, Not Just Cut Rates, NewsObserver.com, Sept 13 '12

"The Federal Reserve wasn't just trying to drive down interest rates when it announced a third round of bond purchases Thursday.

It also wants to make people *feel* wealthier - and more willing to spend.

The idea is for the Fed's $40 billion-a-month in bond purchases to lower interest rates and cause stock and home prices to rise, creating a 'wealth effect' that would boost the economy.

And 'if people *feel that their financial situation is better* because their 401(k) *looks better* or for whatever reason - their house is worth more - they're more willing to go out and spend,' Chairman Ben Bernanke told reporters. 'That's going to provide the demand that firms need in order to be willing to hire and to invest.'

And since Bernanke gave a speech Aug. 31 more or less confirming that QE3 was on the way, the Dow Jones industrial average has jumped more than 500 points, about 4 percent." [italics and font color change my own]

In the 7 weeks leading up to Federal Reserve's release about QE3, US Treasuries decline sharply, and US equities rallied hard. Other than one group "feeling worse" and one group "feeling better", was anything constructive done for the economy?


TLT (iShares Barclays 20+ Year Treasury Bond Fund) NYSE + BATS
©StockCharts.com
19-Sep-2012 2:00pm
Last 120.91 Volume 4.0M Chg +0.59 (+0.49%)
TLT (Daily) 120.91
Best Minds Inc.
131.94
130.69
126.94
126.69
127.72
120.52
118.05
The price of US Treasuries, an asset that still today is considered the highest quality collateral in the global banking community, fell for 7 weeks into Bernanke's announcement. With the S&P 500 at 5 year highs, will global funds continue to flow into stocks and out of Treasuries, thus sustaining the "wealth effect"?
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$SPX (S&P 500 Large Cap Index) INDX
©StockCharts.com
19-Sep-2012 2:10pm O 1459.50 H 1465.15 L 1457.88 Last 1463.06 Chg +3.74 (+0.26%)
$SPX (Daily) 1463.06
Best Minds Inc.
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1426.68
1391.74
1380.39
1374.81
1396.56
1325.41
1329.24
1309.27
As Treasuries started down after July 25th, the SPX jumped 10.9% in the same 7 weeks (if annualized, this would be an 81% growth rate!). Should investors be basing their decisions on "feelings" or the FACTS surrounding the two previous stock bubbles since 2000?
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From examining the latest weekly mutual fund flows from the Investment Company Institute, retail investors continue to pull billions out of stocks funds and move into bond funds, a pattern we have seen for 3 YEARS now.

Estimated Flows to Long-Term Mutual Funds
Millions of dollars

	8/8/2012	8/15/2012	8/22/2012	8/29/2012	9/5/2012
Total Equity	-2,415	-3,281	-5,876	-4,509	-3,082
Domestic	-2,294	-2,724	-4,472	-3,705	-2,857
World	-121	-557	-1,404	-803	-225
Hybrid	1,050	953	2,412	866	910
Total Bond	7,200	7,588	6,828	6,387	5,284
Taxable	5,710	5,996	5,906	5,390	4,490
Municipal	1,490	1,592	923	997	794
Total	**5,835**	**5,260**	**3,364**	**2,744**	**3,111**

When a nation is so addicted to debt, that its broadest stock index, the Wilshire 5,000, increases the nation's wealth by $1.156 trillion in 19 months, while at the same time watching its national debt expand by $1.921 trillion in the same period, it would appear that collectively, our greatest problem is our desire to FEEL wealthy, thus falling prey to those who fuel this desire, than seeking those who would speak truthfully about the FACTS, even if they are painful. And of course if anyone were to tell us that the history of money is fraught with stories of "bait and switch", well we all know these are the real fools. These individuals are always theorizing that in the Darwinian game of finance, the powerful for generations have conspired for more control, and used the rise and fall of wealth as their primary tool, no matter who got hurt in the "survival of the fittest" process. Or maybe it is time for ALL Americans to start doing their own due diligence regarding the history of money and markets, rather than relying on "the experts".

> "As recorded by their biographers, one of the most effective devices employed by the House of Rothschild through the years to destroy their competitors and to discipline recalcitrant statesmen has been that of artificially creating an over-extended inflation by extended speculation, then to cash in and let others hold the bag. This trick was worked by them at intervals through the years....The fact that the House of Rothschild made its money in the great crashes of history and the great wars of

history, the very period when others lost their money, IS beyond question." [**The Empire of 'The City': The Jekyll/Hyde Nature of The British Government** (1944), E.C. Knuth, pgs 70-71]

By Thanksgiving, I believe we will look back on the actions of the ECB and the Federal Reserve, and realize that they did not find a solution in September 2012, but lit a fuse to the global sovereign debt/stock market powder keg.

If you are already - or ready to start - thinking outside the "wealth effect" model, come join The Investor's Mind. If you are ready to leave the bubble mentality, you can access research back to January 2006 and weekly reports as history continues to change our world and markets.

This Friday, Sept 21st, I will expand off the theme that a fuse has been lit, in a special report, "A Thief in the Night". It will look at a wide range of markets, and connect dots across a host of experts in an attempt to prepare our readers for the "surprise" that has been accelerated based on the ECB and Fed's recent actions.

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