

## THE RAND REPORT #207

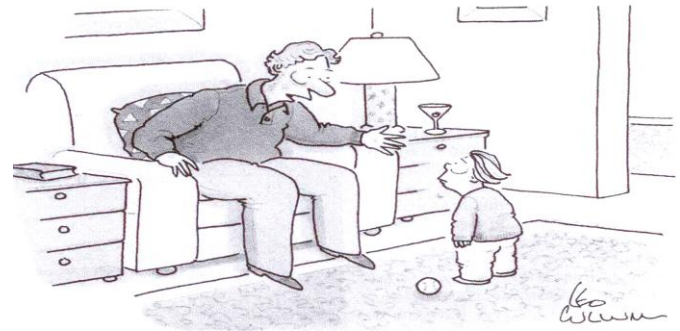
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*"We love Santa, but Santa didn't know as much about investing as he thought he did."*

I'm going to make some predictions and support those predictions with the ever-increasing lack of facts regarding the US economy, the stock market and the Obama administration. That sounds like an oxymoron doesn't it? How does one sift through propaganda and misinformation and make investment decisions?

The four indicators most buried in subterfuge are interest rates, the money supply, Federal spending and unemployment. Only about 2% of the US money supply is in currency, or actual dollar bills and coins. Credit increases the US money supply to a point where it becomes impossible to get an accurate read. The Federal Reserve System creates money, not the Federal government although there is supposed to be major cooperation between the two; now called collusion. The US money supply is actually "virtual money." Virtual money cannot be counted and certainly is not transparent. **The reason that increases today's problem is that if you can't measure the money supply you cannot measure inflation.**

What we have today is a money supply and inflation rate that cannot be disclosed. Much of this problem is derived from Federal spending because it now allows the government to spend freely and not be accountable for debt. Suppose you relate the Federal debt to your personal finances. Your debt would be equal to six years income. The government collects about \$ 3 Trillion in annual revenues and our national debt is about \$13 Trillion. (***federal revenues declined in 2009 under Obama.***) The problem is that we increase the national debt on a daily basis and the only payment we make against that debt is annual interest payments, actually paid quarterly. During 2009, the US government collected only \$2.1 Trillion and spent \$3.5 Trillion resulting in adding \$1.4 Trillion to the National Debt. If you want to see the rest of the big picture, the average US personal income rose from 1999, at \$37,448.87 to \$39,446.63 in 2009. Obviously the rise would have been greater except for the 2008 recession. In 1999 there were 130,532,000 jobs in the US and at the end of 2009, 130,996,000. There are approximately 150 million families in the USA and a fluctuating 13 million unemployed.

The US Treasury is now selling bonds at about 3% interest rates. That rate has finally exceeded sub prime rates, but the most serious problem facing the USA is if treasury rates reach 6%, where they used to be, then the interest payment on the national debt will be greater than the entire annual Federal budget. In other words, if interest rates get to 6% there will be no money to pay politicians, and that is the only good news. The USA could not pay for the military, healthcare, education, social security, Medicaid, and all costs of our burgeoning bureaucracy. **Investor Beware!**

From the standpoint of investing, the choice of investment strategies becomes a maze of impossible tasks because there is no disclosure on our financial problems or solutions. The most recent example of violations of full disclosure was on this past Christmas Eve when Congressional Democrats met secretly and passed a \$400 Billion credit to

Fannie Mae and Freddie Mac. There was no debate or Republican input. Republican's are not privy to new Congressional acts and are labeled "obstructionists." Here is the WSJ report. There can be no dissent!

***"Happy New Year readers, but before we get on with the debates of 2010, there's still some ugly 2009 business to report: To wit, the Treasury's Christmas Eve taxpayer massacre lifting the \$400 Billion cap on potential losses for Fannie Mae and Freddie Mac as well as the limits on what the failed companies can borrow."*** (1)

***"The US Household sector also faces a difficult period of financial retrenchment in the wake of a major collapse in home prices, over extended debt positions for many, and high unemployment."*** (2).

Meanwhile, with no disclosure, ***"President Obama and Congress signaled their intentions to introduce major changes in taxes, government spending and regulations...changes that could radically transform the American Economy."*** (2).

The Stimulus package was designed to stimulate the economy with an initial \$800 Billion, but instead, ***"The stimulus was oriented to sectors that liberal Democrats believe are deserving of much greater Federal help."*** (2).

In my opinion,, back to the money supply, here is another quote that says it better than I can: ***" in its efforts to combat the financial crises and recession, the Fed created over \$1 Trillion of excess reserves at banks through various bailout programs and open market operations. When banks draw on these reserves for loans to businesses and households, there is a potential for the money supply to grow rapidly, possibly producing a substantial inflation."*** (2). The problem is the money is not being loaned to anybody. Banks hold cash and credits and buy leveraged US Treasuries to earn their profits. Actually that is a market for US debt.

The virtual money supply in the entire world has been distorted by derivatives, which compounds the problem many times over. Derivatives are actually "virtual securities" that are created out of thin air and whose value is attached to some other value. Perhaps "fictional" securities is a better description. The Wall Street Journal's conclusion is that the Obama Administration is actually slowing the economic recovery and prolonging stress from the recession. (2).

How come the stock market went up in one of the best performing years ever in 2009? Every time the news media reflected Obama losing popularity or that his programs might not pass through Congress, the stock market advanced. Whenever Obama spoke about what he would accomplish, however disingenuous he was, the market fell. Fortunately

Obama's favor declined enough in 2009 to give some hope and strength to the stock market.

Regarding the US economic growth, the GDP grew at the average rate of 3% in spite of the 10% to 16% unemployment numbers. That is an indication that those gainfully employed managed to spend enough money even while restraining their spending to produce enough commerce to raise the GDP. The government's efforts to stimulate the economy were actually a handicap and does not reflect on the underlying strength of the US economy. It proves that US industry is strong without government intervention and would really be successful if the government lowered corporate tax rates. Lower corporate taxes always increases employment. Everything seems backwards today.

**Consumer spending comprises about 60% of our GDP.** The government subtracts from the commerce because it does not generate revenues. It is true that some jobs are created by the government, but increasing bureaucracies, or creating Federal jobs reduces the GDP because even though the new government employees pay taxes, their base pay is paid by you and me and is deducted from our production.

**What supports Obama's popularity?** Well he is the best teleprompter reader in history, but remember, teleprompters did not exist for most Presidents. "Human Events" headline in "Across America," in the last issue in 2009 stated, ***"Obama Still Appeals to the Unchurched, Unmarried, Poor and Inexperienced."*** I love that headline and the article goes on to say that the backbone of the US society are the married, churchgoing, hard working, knowledgeable members of our national community, who do not believe Obama serves their interests. **60% of Americans do not support Obama policies.** In my opinion, the use of "inexperienced" really means those that simply do not read, view, or understand news. They are just a group of uninformed TV watchers that read short "bumper sticker" type messages that are forms of political propaganda. In my opinion, the phony liberal elite is scamming us, as a nation, for their personal gain of power and money. I love you readers that call me and tell me to quit mincing words. Or, the ones that think I can't support my opinions with facts. Call me with evidence to the contrary if you can.

Have you ever seen people interviewed on street corners? They do not even know who the vice President is or what Iran is, or why we are at war with terrorists. I remember seeing people on TV who think Sarah Palin is the vice President. Too many people have become secularists and want the government to take care of them. Many are young people who live their lives in video games and on TV, or those with the "Hollywood" influenced hedonistic, socialistic ideologues who concentrate on their self centered lives rather than what goes on in the real world.

**I hate reporting so much pessimism.** My job is to find positive things for my investors. I have several ideas, but first I must tell you that I believe in the USA, its free enterprise economy, and the challenges accepted by those hard working patriots. Our technology and small businesses have kept us at the forefront of world economics and I believe we will maintain that position. **I believe that all investors should establish revocable Trusts to better protect their assets and that tax deferred investing that insures you against losses to your estate is the best path for investment success.** These investment strategies have evolved and are now designed to

protect you from the inadequacies of this administration. Call me!

As for new technology that provides investment opportunity I suggest investors study the future potential of "lithium." Lithium is the key ingredient for lithium-ion powered batteries that play an important role in future automobiles, or transportation in general. It is true that batteries are heavy and not sufficiently long lasting enough for acceptable transportation roles. But Lithium technology should evolve just like cell phones, computers and TVs, they will evolve with lower costs and better efficiency. In the Bolivian Andes at four Kilometers above sea level is the world's largest salt flat, reserves estimated at nine million tons, more Lithium than Saudi oil reserves.

Worldwide countries and companies are competing for this product, but the Bolivian government is very strict about allowing the rest of the world to pillage their valuable resources. (3) There are two US companies, FMC and ROC. NYSE stocks, that mine, refine and produce commercial grade Lithium in the USA. I am not recommending these stocks for purchase, just that they should be reviewed and you can call me and I will give you my opinion if I think this industry fits your investment objectives. In my opinion, these are not high risk investments, but I am bound by rules to know my clients and I do not specialize in individual stock recommendations.

I am reviewing Global warming for investment opportunity and so far I think more data is needed. I think it strange that all scientists who support climate control have easy access to Federal grants, but if you disagree and have conflicting evidence, you are essentially ostracized and maligned. The Earth's atmosphere is comprised of 78% Nitrogen, 21% Oxygen, 0.93% (less than 1%) Argon and **0.036% carbon dioxide**, which equals about one inch of a football field as a comparison. I just have a hard time accepting the basic mathematics that can create sufficient alarm that Al Gore et al. can raise global alarms and panic to the point of Trillions of dollars to be taken from taxpayers to reshape "Mother Nature." I agree that the advent of catalytic converters eliminated the smog in California, but global control of carbon emissions seems impossible to me. And I don't think we can afford to spend the \$trillions on theories. I do think that pollution controls when localized can be productive, and can be forced on the private sector. We can solve any problem with free enterprise technology. **The government cannot solve our problems.**

The mean temperature change in the United States has risen 1/3 of one degree since 1880. The highest temperatures were in the 1930's. (4). About 90% of the world's ice is in Antarctica, and those ice caps are growing. Since 1888 those Antarctic temperatures have dropped 2/3rds of one degree. That is getting colder and by the way, I'm sitting here in 50 degree Florida weather wearing a sweater while the rest of the country is experiencing one of the coldest winters with the most snowfall in decades. I think the climate problem is about power and money. Does that sound familiar?

My message to our President: Hey, Obama, Islamic Jihadists have declared war on the USA! If 10% of Muslims are radicals then there are 300 million jihadists, one terrorist for each US citizen. **Are you concerned?**

**Footnotes:** (1) WSJ. "The Biggest Losers," 1-04-10. (2) WSJ. "Uncertainty and the Slow Recovery, 1-04-10. (3). "The Lithium Rush," Technology Review, published by MIT, February 2010. (4). Website, Giss.nasagov.