

THE RAND REPORT #210

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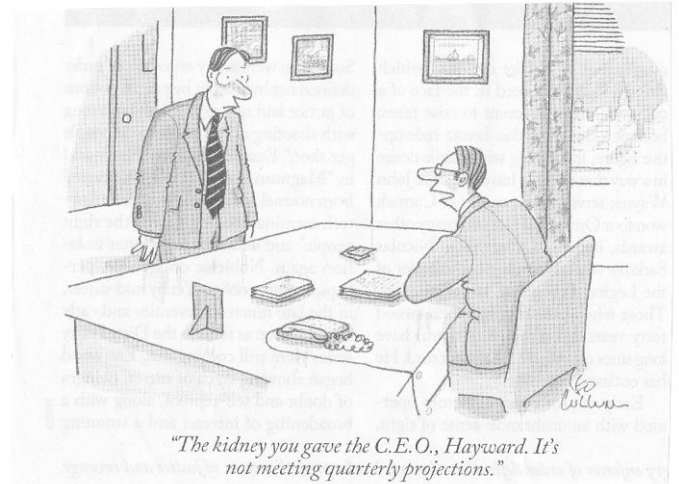
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“President Obama offers us a program for the obsolescence of self reliance.” Dennis Miller, March 31, 2010.

Dear Readers: You all know that for 20 years I have been writing about how news media bias and politicians affect investing more than analyzing the fundamentals, which investors had relied on for decades. In my opinion, the most reliable source for investor information is the Wall Street Journal. The WSJ, in the past could have been held liable if they reported false information or propaganda. Investors relied on reported financial information to make investment decisions. **Today, the WSJ has the largest research department of any news organization in the world and guess what? The WSJ has merged with FOX News.** This combined agency now also reports more political facts than any other media outlet. The WSJ also has an editorial page that offers political and economic opinions that are supported by fact. Therefore, I frequently cite these articles in my Rand Reports. The purpose of the Rand Report is to show investors some of the problems with having to interpret the media propaganda of the other news outlets. I will provide you with many examples today as I have saved many notes for the past month that reflects on the chaotic economic circumstances that we face today.

Let us first examine Federal spending and budgets. Our national debt historically, has been running about 25% of our Gross Domestic product, (GDP). Our GDP is the sum of every dollar that is earned, spent, and counted as it is taxed in any fiscal year. Today, our National Debt is a most concerning 90% of our GDP. About 65% of our GDP is generated from consumer spending. Our GDP is approximately \$13 Trillion and fluctuates daily. **Our National Debt grows by the minute and is about \$12 Trillion, and it is about to explode.** In my opinion, this April, 2010, the Federal Government will collect less in tax revenues than they expect. Because of the economy, the US taxpayers simply did not produce sufficient revenues to meet Federal objectives. **Congress has not recognized this probability.** Nor has the news media. **Where are you Congress?**

The Federal budget, which is always “overspent,” is coincidentally estimated at about 25% of the GDP, which today is about \$3 Trillion. The Federal budget can be broken down into six parts; For example, 2/3rds of Federal spending is comprised of the Military, Social Security, Medicare, and Medicaid. They are grouped together because they change the most because there are no restrictions on these categories. Medicaid, for example now grows an unpredicted 25% annually. All of these expenditures except the military are entitlements. **Entitlements are defined as benefits that we all pay for when deducted from our income and the tax payer is entitled to received his earned benefits.** All taxpayers pay for social security and sooner or later we collect it. I’m not sure our children will have social security since the government has already spent the monies due the baby boomers. There are not sufficient tax revenues to pay for everything allocated in the Federal budget before the Healthcare bill. The problem, of course, is that only half of the population pays into the system, but all receive benefits. Naturally people will support free healthcare, especially the half that doesn’t pay into the system. The majority of Healthcare recipients have no understanding about bankrupting the country, and why should they care. **They have been duped by Obama.** Those opposing Healthcare are shamed if their concern is about paying for the service. The other 2/6ths of the annual Federal budget are the cost of running the government including education, and the final 1/6th is paying the interest on the National Debt.



We must maintain our National credit rating and remain competitive so China, Japan, and our Federal Reserve will lend us money. **US banks are allowed to borrow from the Federal Reserve and leverage the purchase of US Treasuries so banks can earn a profit without the risk of lending money to the public.** Herein lies one of our major problems; interest rates on US Treasury bonds need to be competitive so China invests for the higher yield. Yet, if interest rates double back to 7%, then the interest to be paid on the National Debt doubles and which part of the Federal spending will we decrease or eliminate to pay the interest on the National Debt? You can’t increase the budget another 1/6th because there is no more revenues, so something has to be cut. The Military would have to be totally eliminated to pay the interest on our debt. We dare not do that, and social security and other entitlements dare not be cut; **or can they?** What about reducing Congressional salaries and expenses like the Administration branch? **Nah, that won’t work.** Michelle cannot survive without her multimillion dollar support staff, her social secretary, her wardrobe consultant, or, especially the full time dog grooming consultant. Does that make me a racist or just anti-puppy?

What really bugs me about the new Healthcare Bill is that Nancy Pelosi and Obama keep saying how no previous administration would pass universal healthcare when the public needed it. Now the Obamites brag they have the courage to do so against all opposition. Now why do you suppose every Congress since Teddy Roosevelt could not pass universal healthcare?.....Because common sense prevailed,.....WE COULD NOT AFFORD IT STUPID! Duh! Previous Congresses wanted Healthcare, but thought it would bankrupt us.

Common sense also suggested the private sector provide healthcare. Well, that is really a good idea, so the various State governments ruled against insurance company competition and the Federal Government did not see fit to overrule the States. Competition would easily have worked to reduce insurance premiums, and the Government could have supported such competition with tax incentives that surely would have lowered costs. The problem with the Federal Government is that Democrats insist on controlling Healthcare. They must be able to expand government and create more bureaucrats to keep Democrats in power.

The “Lame Street Media” also ignores reporting the impending tax increases when the Bush tax cuts expire next January. Democrats think those tax increases will help fund Healthcare. They do not understand that Federal revenues decrease with tax increases. Remember the propagandists claim only the rich benefited by the Bush tax cuts, but the 26 million small businesses that are falsely taxed the same as the wealthy also benefited the country to the point where Federal revenues increased and multitudes of jobs were created. **That fact has been totally buried as not politically correct.** Even the Iraq war would have been paid for under the Bush Federal budgets were it not for Katrina and other natural disasters. **Yes, the Federal annual deficit was decreasing under Bush until the Democrats took over Congress in 2007.** That is when the budget burst open and Federal spending began the serious rise. Almost 80% of the Bush increase to the National Debt occurred under the 2007 Congress, yet it became the most important propaganda tool to demonize Bush.

The overall tax increase to be imposed on all American families beginning next January is \$2.4 Trillion.

The average tax increase for about 100 million American families will average \$1,716 per family. And 17 million seniors will pay an average of \$2024 per senior citizen starting next year. And the 26 million small businesses that created all those new jobs under Bush will see a tax hike of \$3637 average per business. Some 44 million married couples will be hit the hardest when the Marriage penalty tax is reinstated. (1)

So why is the stock market going up and why is the economy growing? That answer is partially because of misinformation, part propaganda and a big misconception as to how the US economy works. The stock market is rising and looks strong for several reasons. **First of all, with the currency supply unknown and inflation unpredictable, there is an investor problem as to where to invest.** Money market funds were depleted by \$18 Billion in the first week in April. Some of that cash will be used to pay taxes, I would guess, but more cash was acquired from selling bonds. Many investors are selling bonds. Bonds only increase in value when interest rates decline and higher interest rates create serious problems financing our national debt, so there may not be any protection against inflation in bonds. **More important interest rates are too low for seniors to make a living off of interest rates.** Check out CD rates and you will see what I mean. Banks are the biggest culprits, in my opinion. Investor money has to go somewhere and the first choice seems to be into equities. Equities went from about 14,000 on the DJII down to about 6000 and now back to 11,000 in the past few years, but was the stock market over priced at 14,000? **Don't be so sure.** The 85% of Americans that still try to earn a living still have to spend something to survive and many people still save in tax deferred accounts for retirement, and that goes into equities more than bonds today. Don't forget the US GDP rose 5.8% the last quarter of 2009. Why do we continue to remain a strong economy with Obama trying to destroy us? Obama seeks to make us a socialist country. Here's what Charlie has to say!

"We are not inherently in economic decline. We have the most dynamic, innovative, technologically advanced economy in the world. We enjoy the highest productivity. It is true that in the natural and most painful global division of labor wrought by globalization, less skilled endeavors like factory work migrate abroad, but America more than compensates by pioneering the newer technologies and industries of the information age." (2)

Why is the US dollar weak? Two thirds of our trade imbalance is a result of imported oil. If we reversed that negative imbalance of trade with Nuclear Power production and opening up US drilling for hydrocarbons we can easily reverse that trend. The US dollar would again recover its prominence. **Why doesn't Obama understand this?**

"Obama has indicted his own country for arrogance, for dismissiveness and derisiveness toward Europe, for maltreatment of natives, for torture, for Hiroshima, for Guantanamo and for Unilateralism."(2)

How sad. Please allow me to support my economics with some facts or announcements that go unnoticed by the majority of the news media. Keep in mind that Republicans want Universal Healthcare; they just don't want the Government to waste money trying to effectuate the plan. **Liberals see healthcare as a moral issue and conservatives see healthcare as an economic issue.**

1. President Obama's last minute decision to add a 2.9% Medicare payroll tax to "unearned income" is the first lie. Unearned income is what politicians call savings and investment income. This was not in the original Healthcare Bill, but was secretly added. (3)

2. The Obama Healthcare plan requires that everyone enroll in a qualified (Qualifications to be determined by the government) plan to be regulated by the Secretary of Health Services, not Doctors. (4)

3. Three of the four largest healthcare insurance companies in Massachusetts are prohibited from raising premiums due to rising healthcare costs. Therefore they are going bankrupt. (5)

4. In 1966 the annual cost of Medicare was \$3 Billion. The House Ways and Means Committee said it would only cost \$12 Billion annually by 1990. The actual cost in 1990 was \$107 Billion. By 2009 Medicare costs reached \$427 Billion annually and Medicaid added another \$255 Billion. Don't you think these miscalculations should have been made public during the passing of Universal Healthcare? (6)

5. ***"If the President means what he says, the solution to solving budget overruns is comprehensive government rationing of Healthcare."*** (6).

6.. **"I absolutely reject that notion that this tax is a tax, because it is supposedly for your own good."** Says President Obama. (7)

7. Minimum wage increases vastly raised unemployment levels especially for teenagers. The press never mentions this when promoting wage increases.

8. In filling out the census form, President Obama checked himself as "Black," when multi-racial was a choice. Why? Tiger Woods checked multiracial. (8).

9. At the end of the first quarter, most major US banks sold US Treasury positions to lower their debt ratios for shareholder full disclosure. As soon as the quarter ends, they repurchase the Treasuries so they don't have to lend money to the public. (9)

10. Iran makes a deal with Chavez for gasoline in trade for weapons including missiles. This was reported in many newspapers, but seldom on TV, except FOX News. Isn't this news important?

11. Obama only now represents about 30% of Americans according to Newt Gingrich. OK, Newt is a Republican, but why aren't the Democrats raising cane about that quote by at least challenging it? Go figure!

12. US credit card balances have fallen for 16 consecutive months from October 2008 to January 2010 by \$864 Billion. (10). I think this trend needs more news coverage because it reflects on the intelligence of the average American and why we don't want Obama Healthcare. **Americans are afraid of debt.**

13. The average processing time for social security disability claims is 442 days. "Go bureaucrats;" that is our government at work. Duh!

That, my dear readers was a small sample of what I believe to be news worthy stuff for investors that isn't featured in the news media. You know, I read these things every day trying to decide how to advise investors. So far my advice has worked by concentrating on tax deferred investing. Tax deferred investing is not reported to anyone until you withdraw money and the government has no record of the existence of tax deferred accounts until you withdraw money, and even then they only see the 1099R form. Protect your investments and your estate by learning about tax deferred investing. Most tax deferred investing is creditor proof and avoids probate delays and costs.

That, and reducing taxes is what estate planning is all about.

Thank you for letting me expound on my thoughts. Terry Rand

Footnotes: (1) The Heritage Foundation. MyHeritage.org. (2) "Decline is a Choice, The New Liberalism and the end of American Ascendancy," Charles Krauthammer. (3) "Obama's Worst Tax Hike," WSJ 3-17-10. (4) **Section 1311 of the Healthcare Bill**, "Medical Privacy and Obama Care," WSJ, 4-9-10 (5) Blue Cross, Blue Shield; Tuft's Healthcare, and Fallon Community Healthcare. (6) "Healthcare in a Free Society," Congressman Paul Ryan (R) **Imprimus**, 2-2010. (7). "Obama Care and the Constitution," WSJ 2-2-10. (8). Obama's census identity. Census Bureau and the US Commission on Civil Rights. WSJ. 4-2-10. (9). "Banks Briefly Cut Debts." WSJ 4-9-10. **Federal Reserve**. 2010.