

Outlook 2012

Hope versus Reality!

Success North Dallas

January 18, 2012

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Fred F. Richards, Jr.

Acknowledgements

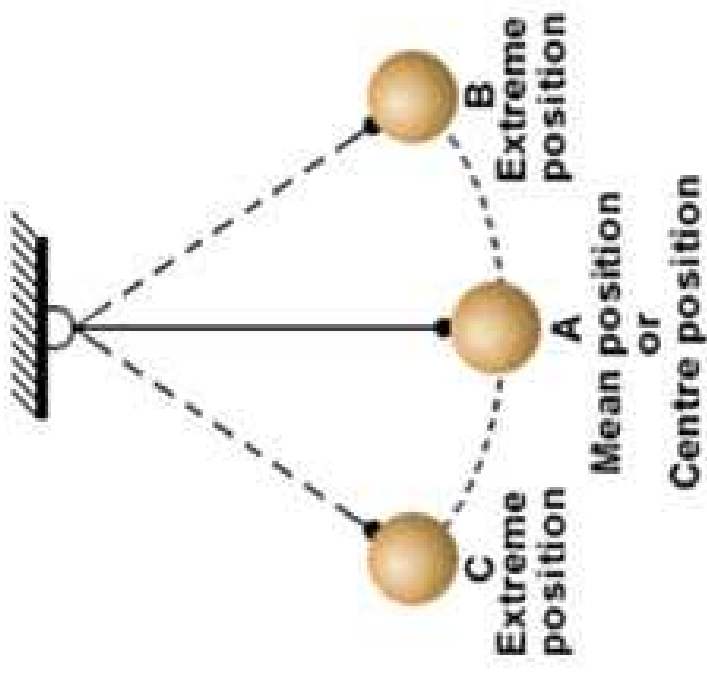
- We gratefully acknowledge the data provided by various sources in this presentation and have identified on each chart the source from which the charts were obtained.
- Charts are courtesy of Haver Analytics, The Wall Street Journal, Dow Jones, Inc., Halkin Services, Finviz, Martin Capital, Kitco.com, High Growth Stocks, Stockcharts.com, Econoday, Prudent Bear, International Monetary Fund, Simon Hunt Strategic Services, ProFarmer.com, GaveKal, Prudent Bear and/or Big Charts.
- Special thanks to Market News International and Haver Analytics.
- Current Agriculture data is courtesy of ProFarmer.com.

The confusion inspired by hope!



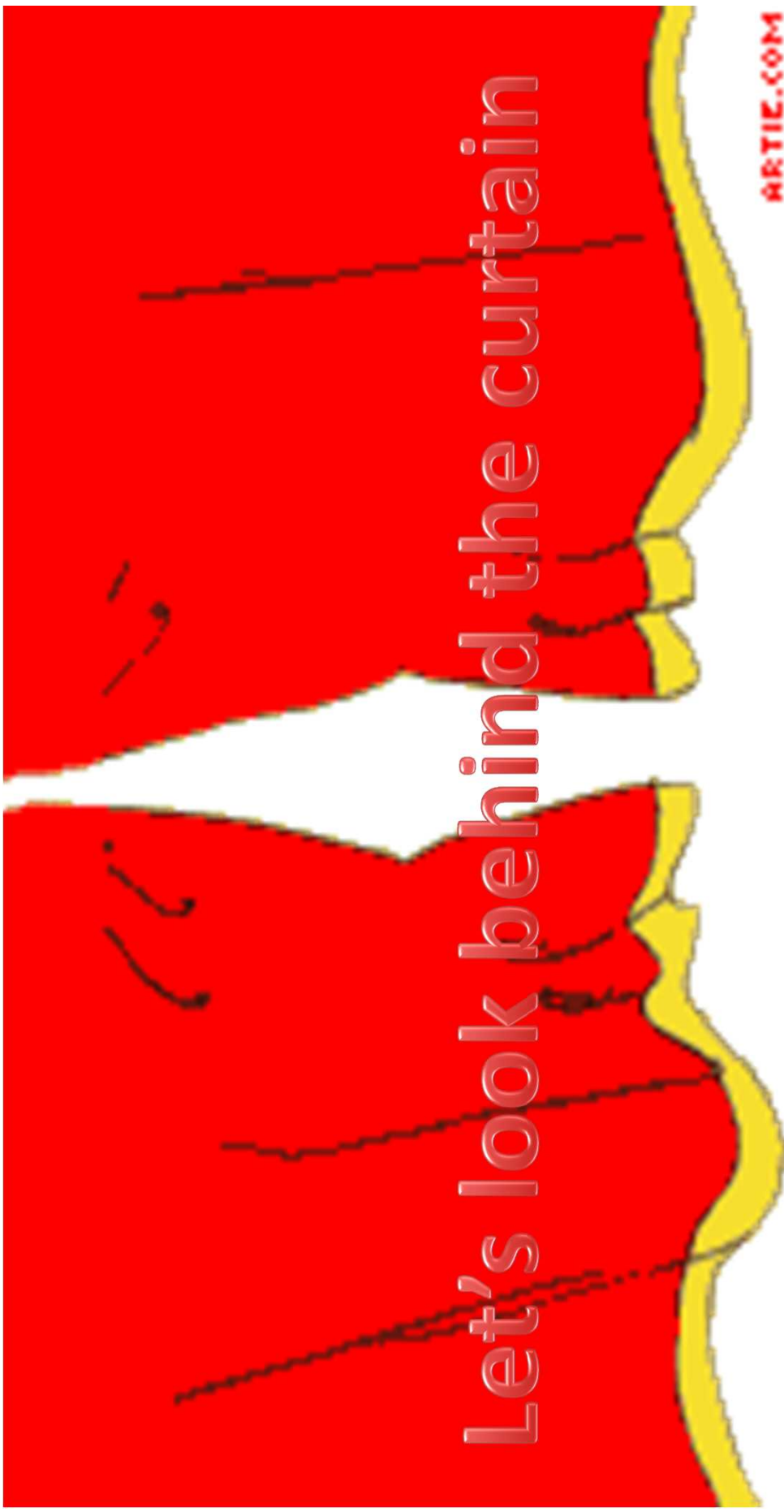
Cycles and Pendulums

- Cycles
- Pendulums



Now Playing

MOT ... MSM



ARTIE.COM

**The only thing that counts
is purchasing power!**



Today's World

World Macro Views (IMF)

	2009	2010	2011	2012 Est
	In billions			
World GDP	\$59,400	\$61,900	\$63,300	\$65,300
World Savings	\$1,200	\$2,500	\$2,000	\$2,200
U.S. GDP	\$13,800	\$14,600	\$15,200	\$15,500
U.S. Federal Deficit (non-GAAP)	\$1,417	\$1,294	\$1,299	\$1,100
U.S. Federal Deficit (GAAP)	\$4,300	\$5,300	\$4,200	\$4,800
U.S. Trade Deficit	\$414	\$485	\$540	\$600
U.S. Treasury Debt - one year maturity			\$2,540	\$2,570
U.S. Financing Needs w/o trade deficit			\$3,839	\$3,670
Source: IMF, Shadow Government Statistics. U.S. Treasury				
U.S. data is for fiscal years.				

Does the IMF forecast make sense?

Deleveraging and its effects



January 18, 2012



© Strategic Investing

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Problem #1 - Debt

- **The Deleveraging Cycle**
- *Too much debt at all levels*
 - *Sovereign, corporate, & individual*
 - *Skewed to short-end of the maturity schedule*
- *BASEL III Accords magnifies problem*
- *Political solutions like stimulus programs address liquidity, not insolvency*
- *FASB 157 change to “Mark-to-Make Believe”*



Government
spending at
all levels is
over 40% of
GDP

Problem #2 – Demographics

- **Meaningful jobs for 7 billion people**
 - If over 55 unemployment may be permanent.
 - Declining birth rate not good for housing in US.
 - Rent .. **Multi-generational housing ...**
- **Increasing productivity reduces labor costs**
 - Undeveloped country low wages not an advantage.
 - Transportation now becomes major concern.
- **Robotics decreases labor costs**
 - Repetitive movements eliminated.

Now for the Big Question ...

- Eventually, who will be able to purchase the world's output!

Words of Wisdom from Harvard

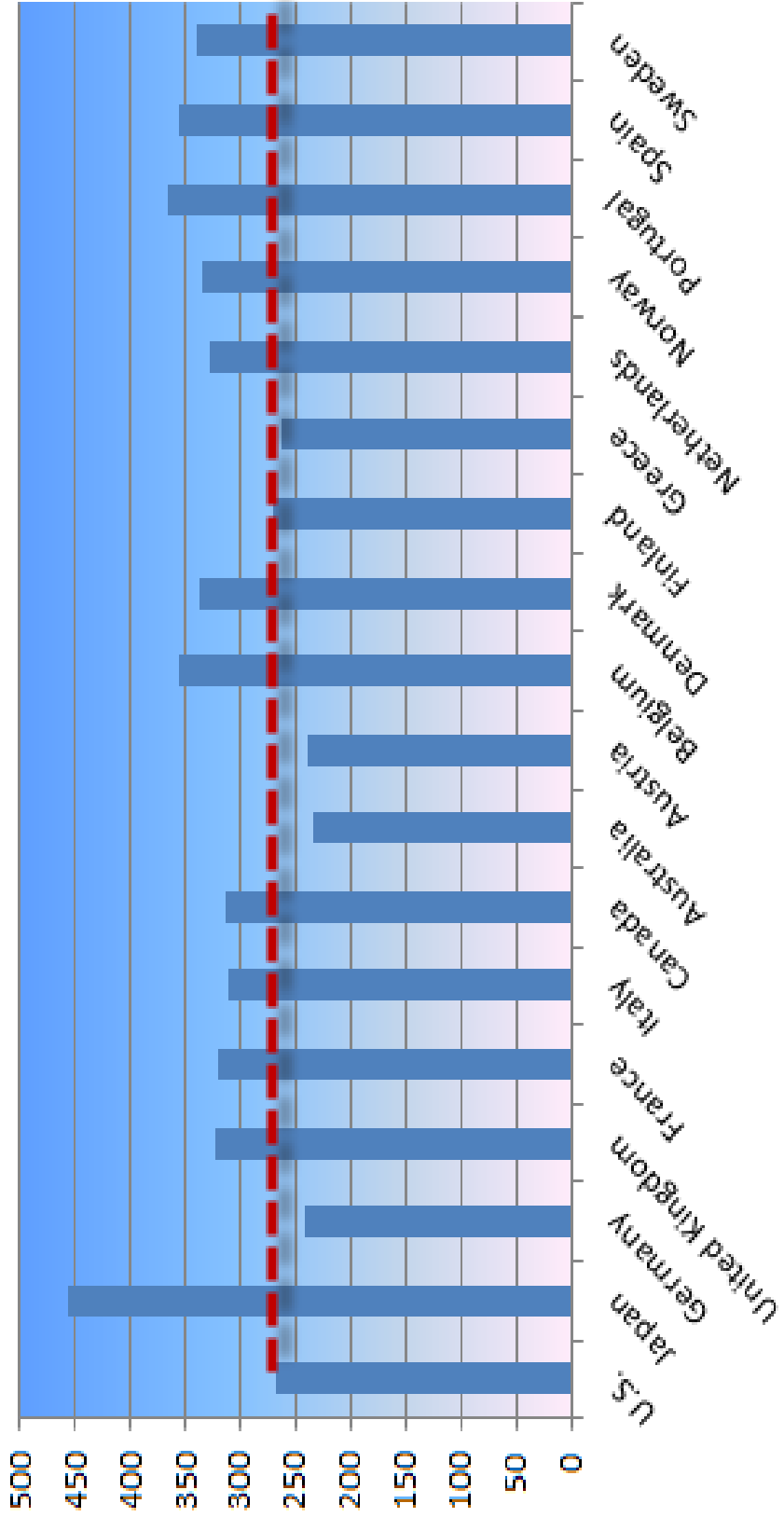
- You can not believe anything you read in the
- New York Times
- and
- The Wall Street Journal
- (MSNBC, CNN, CNBC and others)
- **They all lie!**
 - William A Sahlman, Professor and Associate Dean, HBS, May 2011, in Dallas

World Economy

OECD government, corporate and household debt to GDP, 2010			
Country	Total % of GDP	Government %	Corporate % Household %
U.S.	268	97	76 95
Japan	456	213	161 82
Germany	241	77	100 64
United Kingdom	322	89	126 106
France	321	97	155 69
Italy	310	129	128 53
Canada	313	113	107 94
Australia	235	41	80 113
Austria	238	82	99 57
Belgium	356	115	185 56
Denmark	336	65	119 152
Finland	270	57	145 67
Greece	262	132	65 65
Netherlands	327	76	121 130
Norway	334	65	174 94
Portugal	366	107	153 106
Spain	355	72	193 91
Sweden	340	58	196 87
Average	314	93	128 93
Threshold	---	85	90 85

Source: BIS working paper - The real effects of debt (September 2011)

Total Government, Corporate & Household Debt by Country as % of GDP



Source: BIS working paper

World Composite Leading Indicators

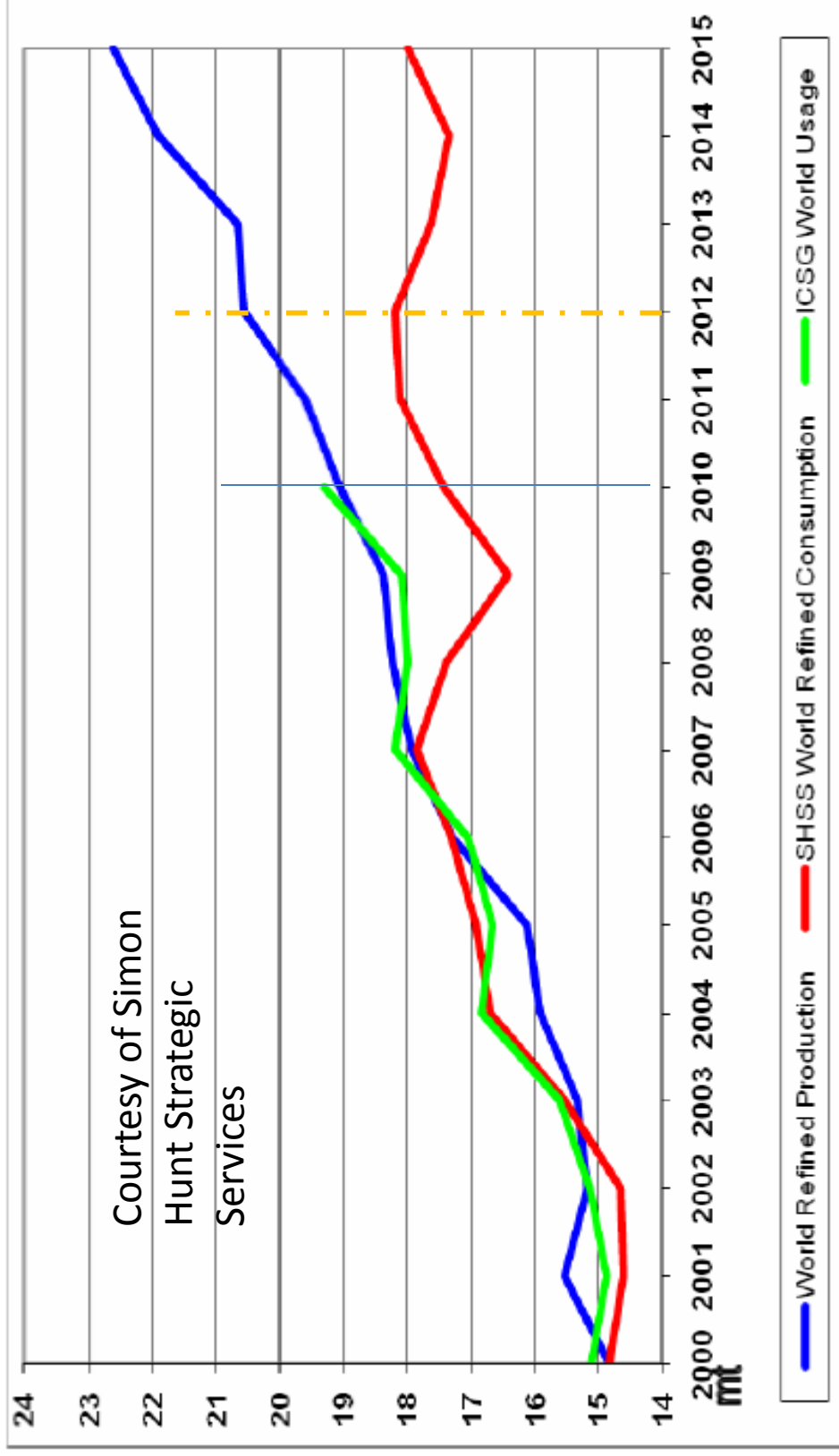
All but the U.S. showing a decline in the level of their leading indicators.



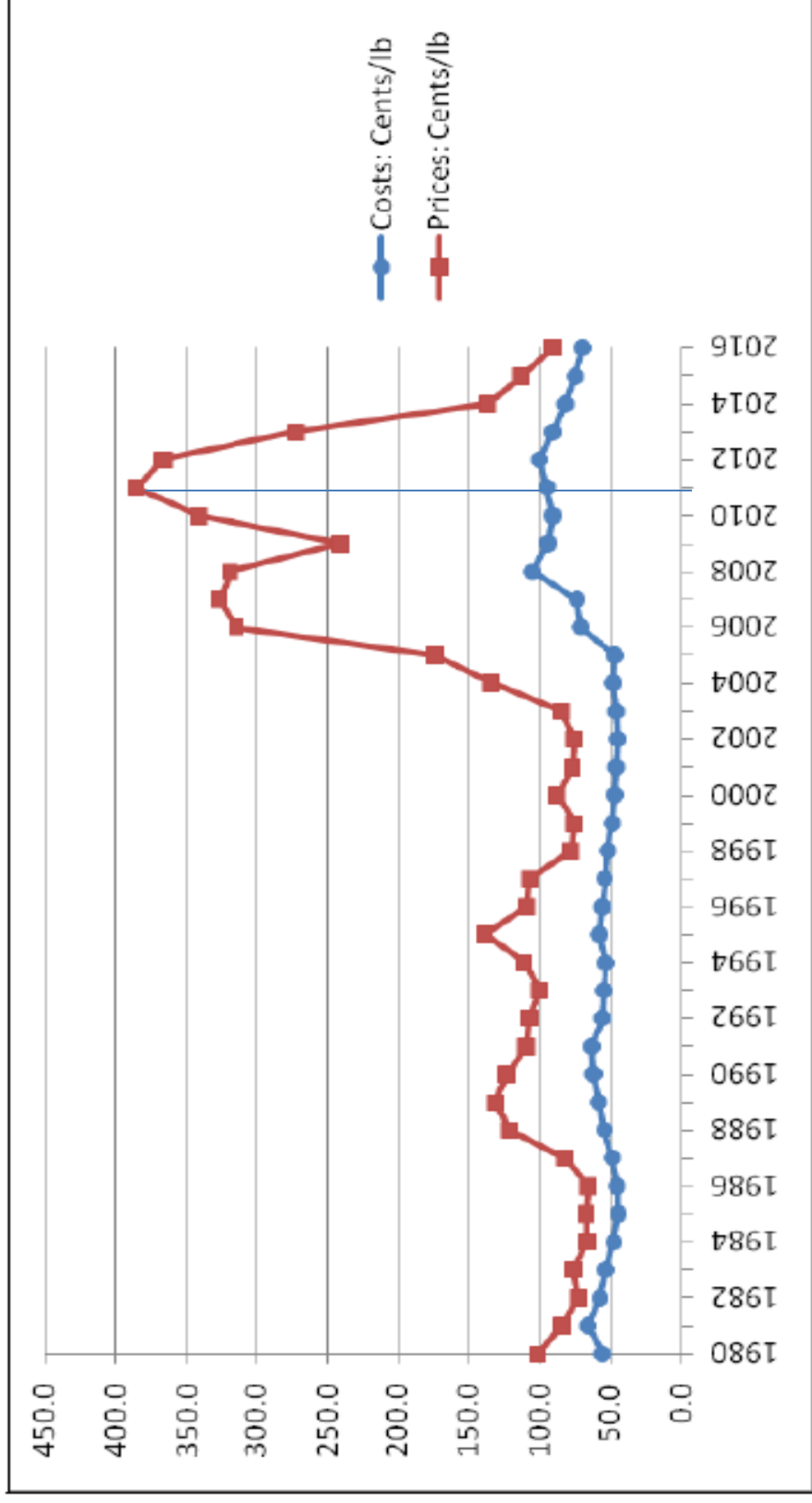
OECD CLI

	September	October	YoY % Growth Rate
OECD Area	100.4	100.1	-1.9
Euro Area	99.2	98.5	-5.1
Major 5 Asia	99.2	99.0	-2.4
France	98.8	98.1	-4.9
Japan	101.6	101.3	-0.1
Germany	99.4	98.3	-6.6
Italy	97.1	96.6	-7.0
UK	99.3	98.6	-3.8
USA	101.0	100.9	+0.2
Brazil	97.7	94.2	-7.9
China	100.3	100.2	-0.9
India	93.9	93.1	-8.7
Russia	100.2	100.2	-0.7

As copper goes, so goes the world



World Average Cash Cost of Production Versus Prices, 1980 - 2016

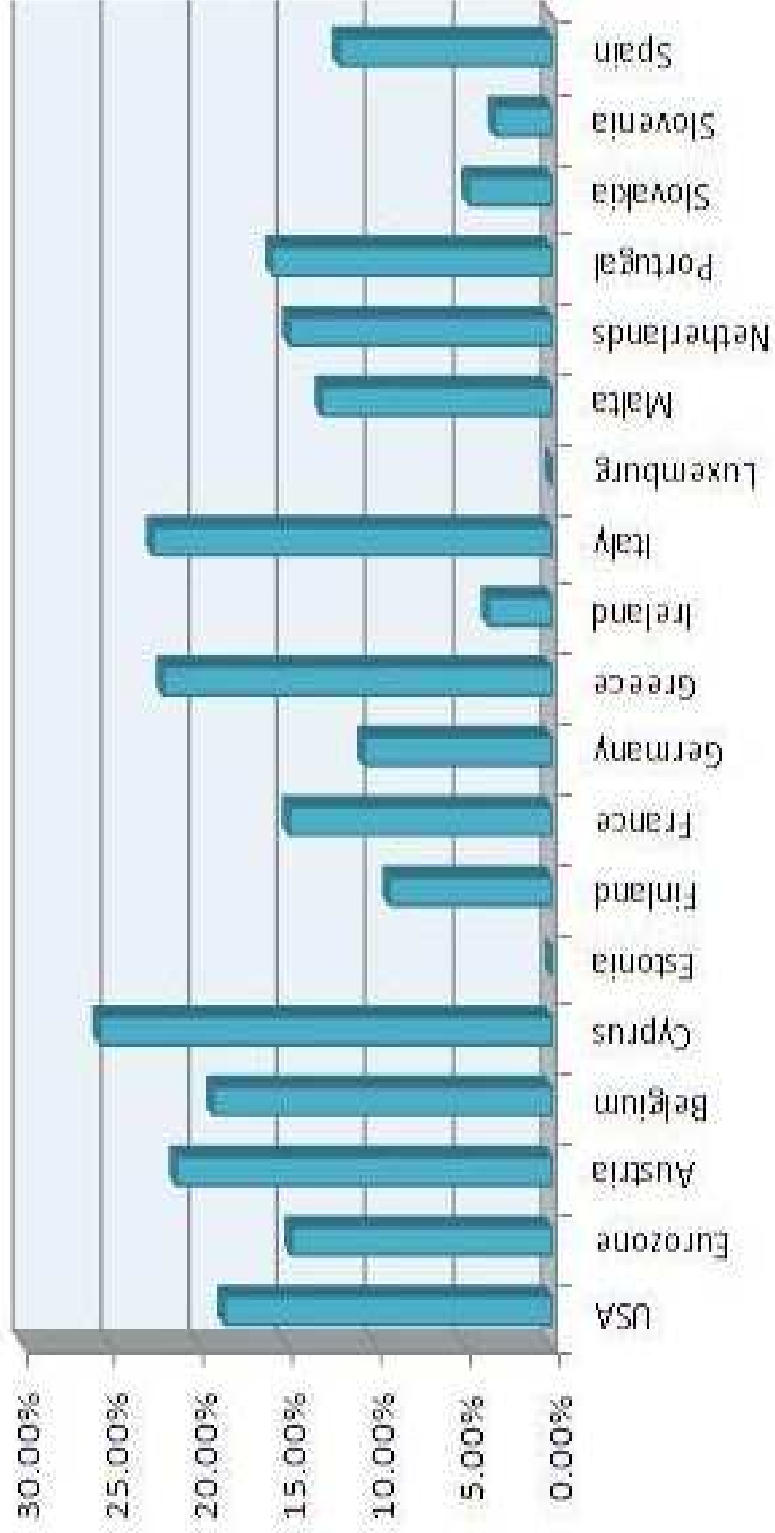


Source: SHSS

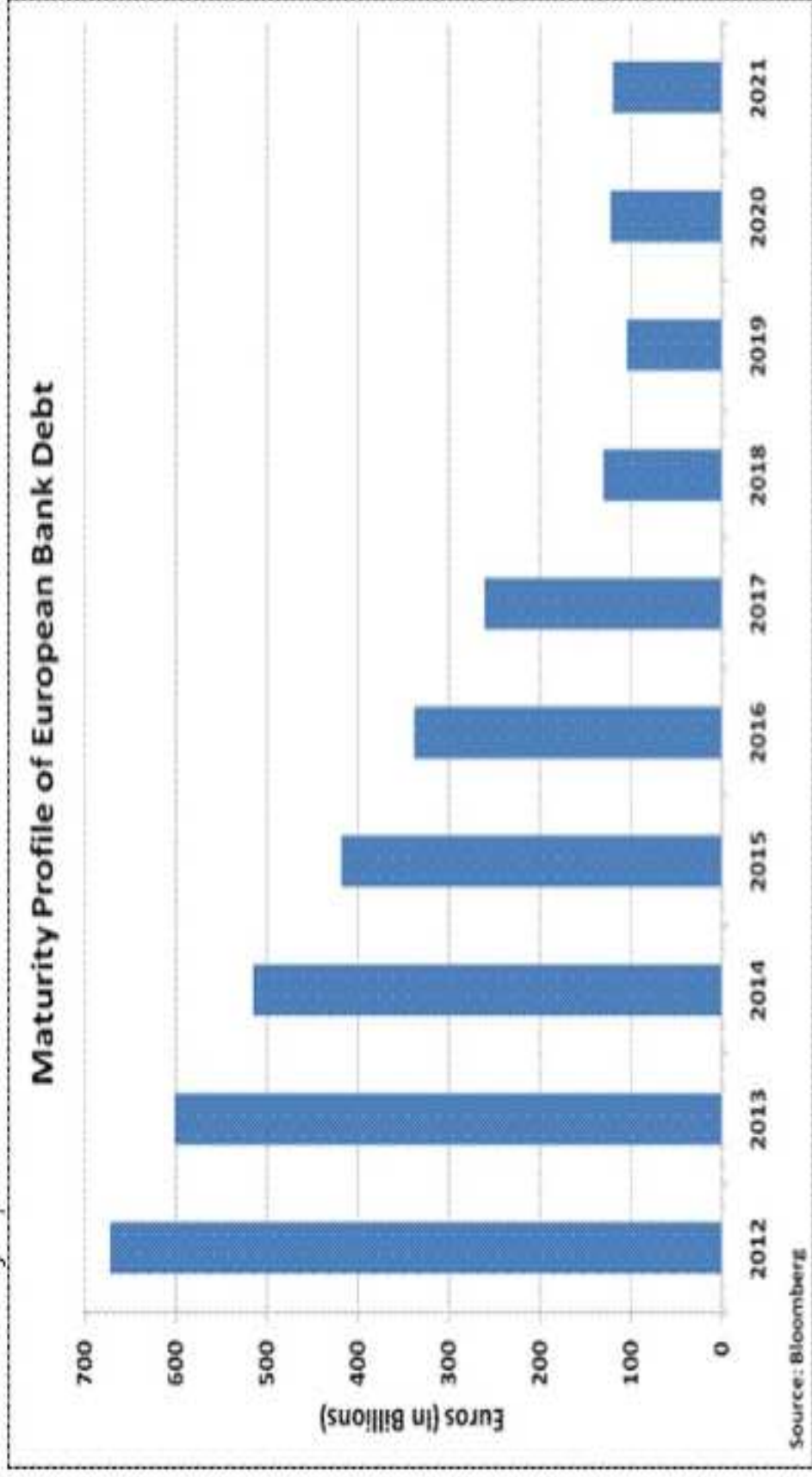
Sovereign Debt Redemptions



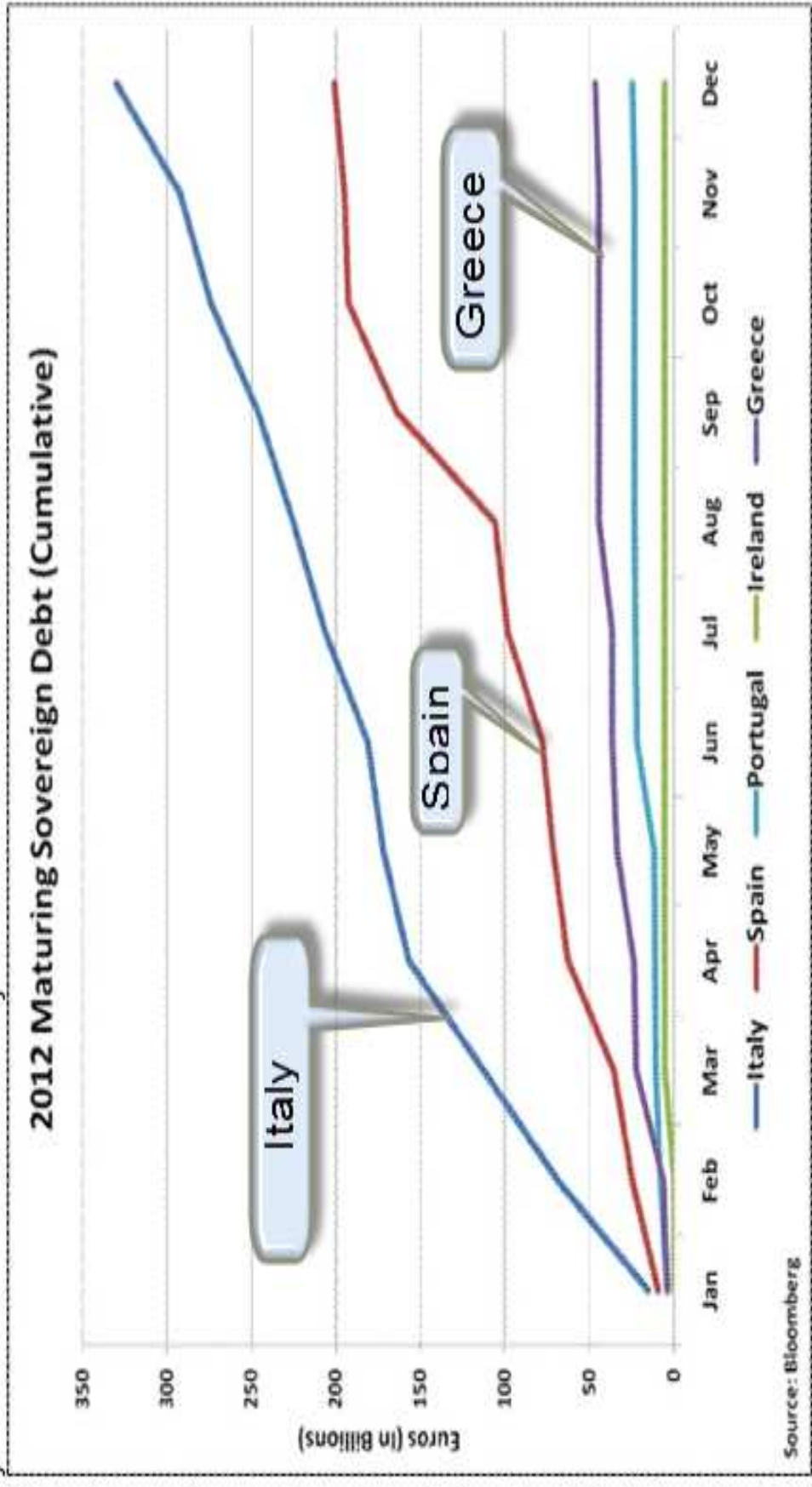
2012 redemption, % of GDP



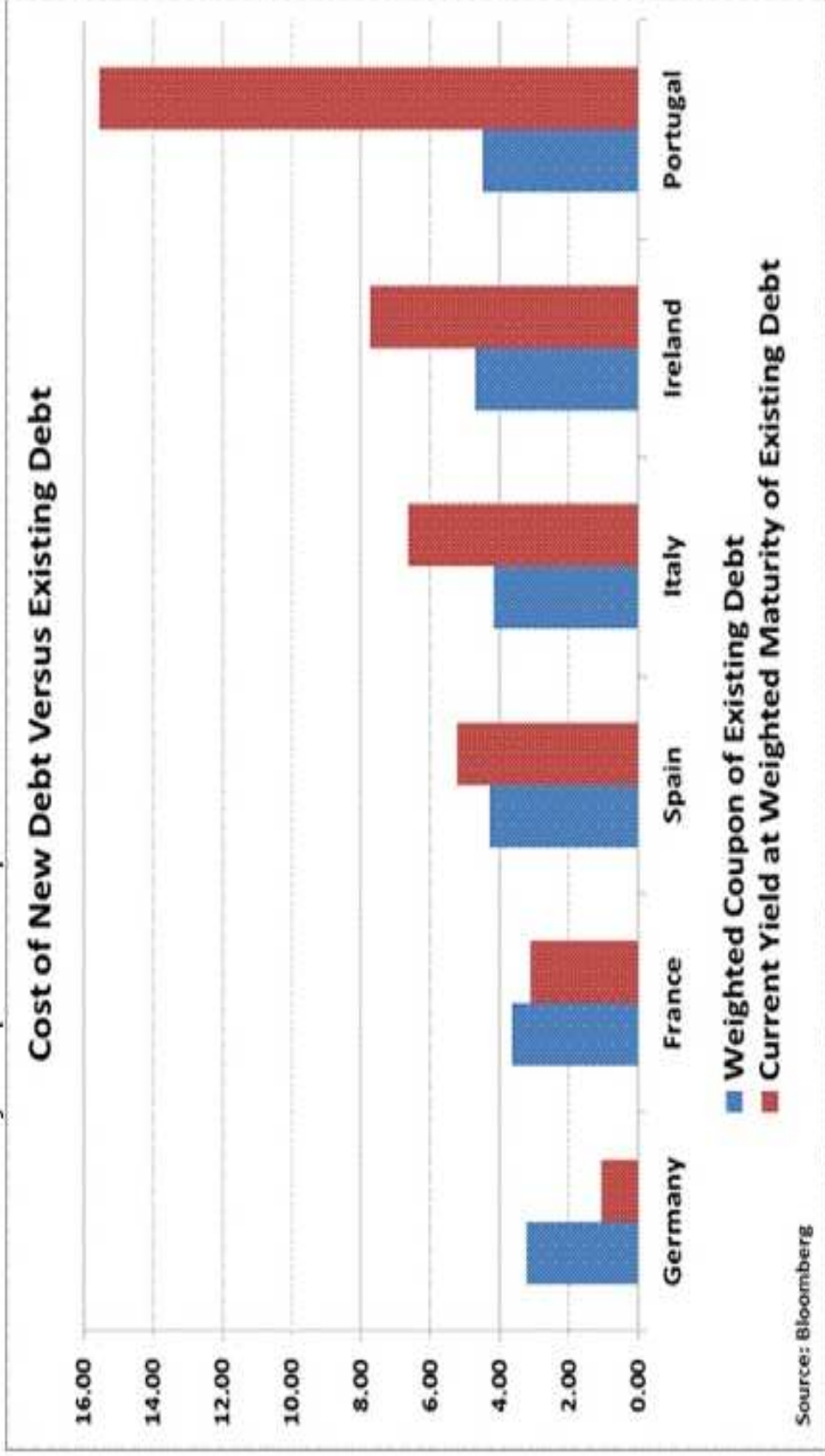
Debt skewed to short-term



Who's in real trouble?



The Pain of new debt!



*Free
Trade*

*Lower Living
Standards*

Globalization is a flawed concept!

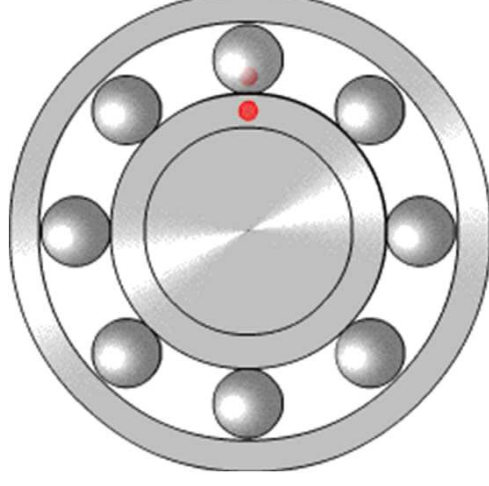
**Technology
Transfer**

Dr. Jürgen Stark,
Member of the Executive Board,
European Central Bank,
November 29, 2011,
Dallas Federal Reserve Lecture

The U.S. Economy

Good News on Jobs

- MOT reported an increase of 200,000 jobs in December 2011 after revisions (+10,000) and seasonally-adjusted data
- NSA jobs lost 389,000 Jobs
- Fudge factor ----- +599,000

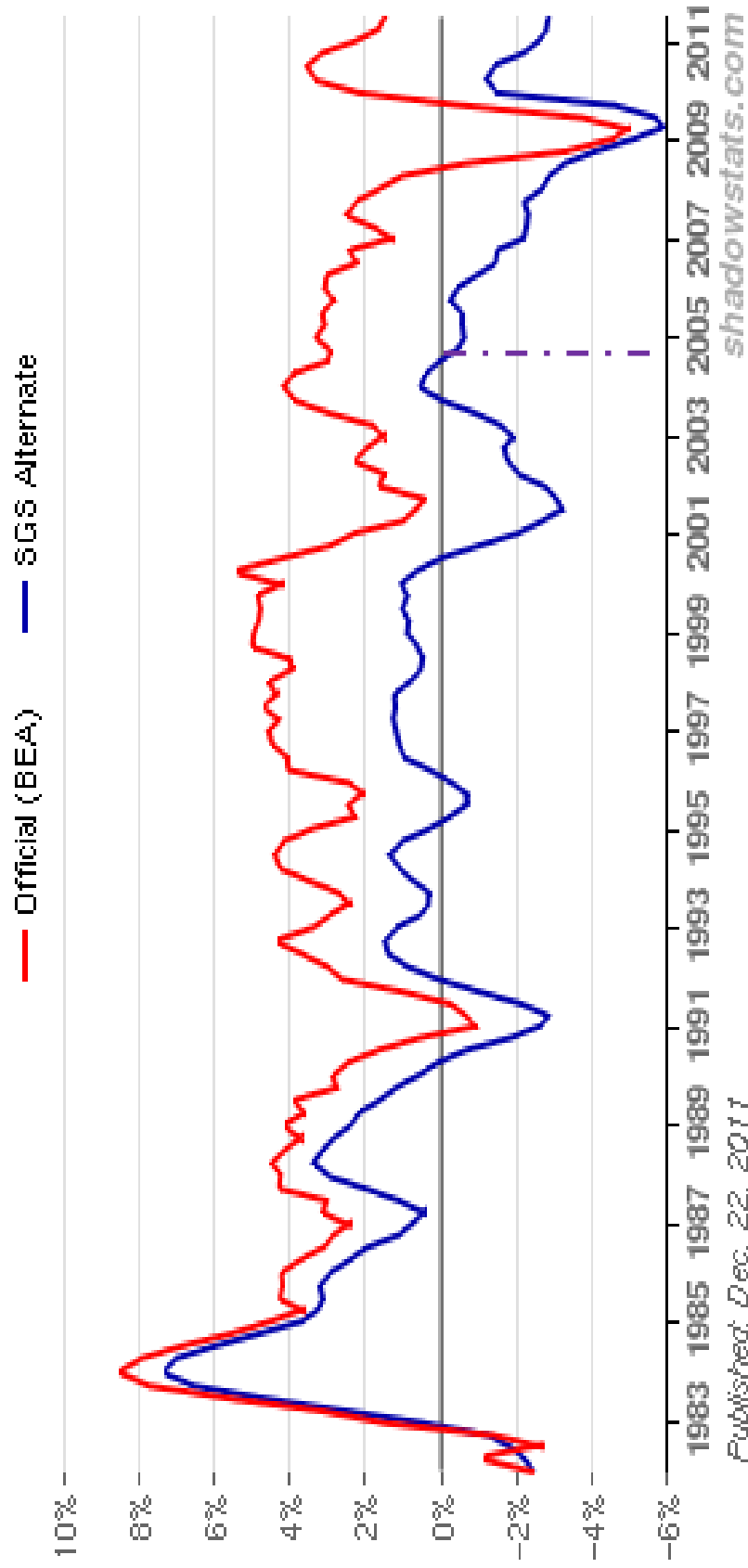


Look beyond the Headlines!

December 2011 Jobs Report			
	Nov	Dec	Change
Employment, SA	140580	140790	210
Employment, NSA	141070	140681	-389
Fudge Factor ...			599
Source: BLS Table A-1			

Economy still in recession!

GDP Annual Growth - Official vs SGS
Annual Change through 2011 q3 (SGS, BEA)



Economy bumping along

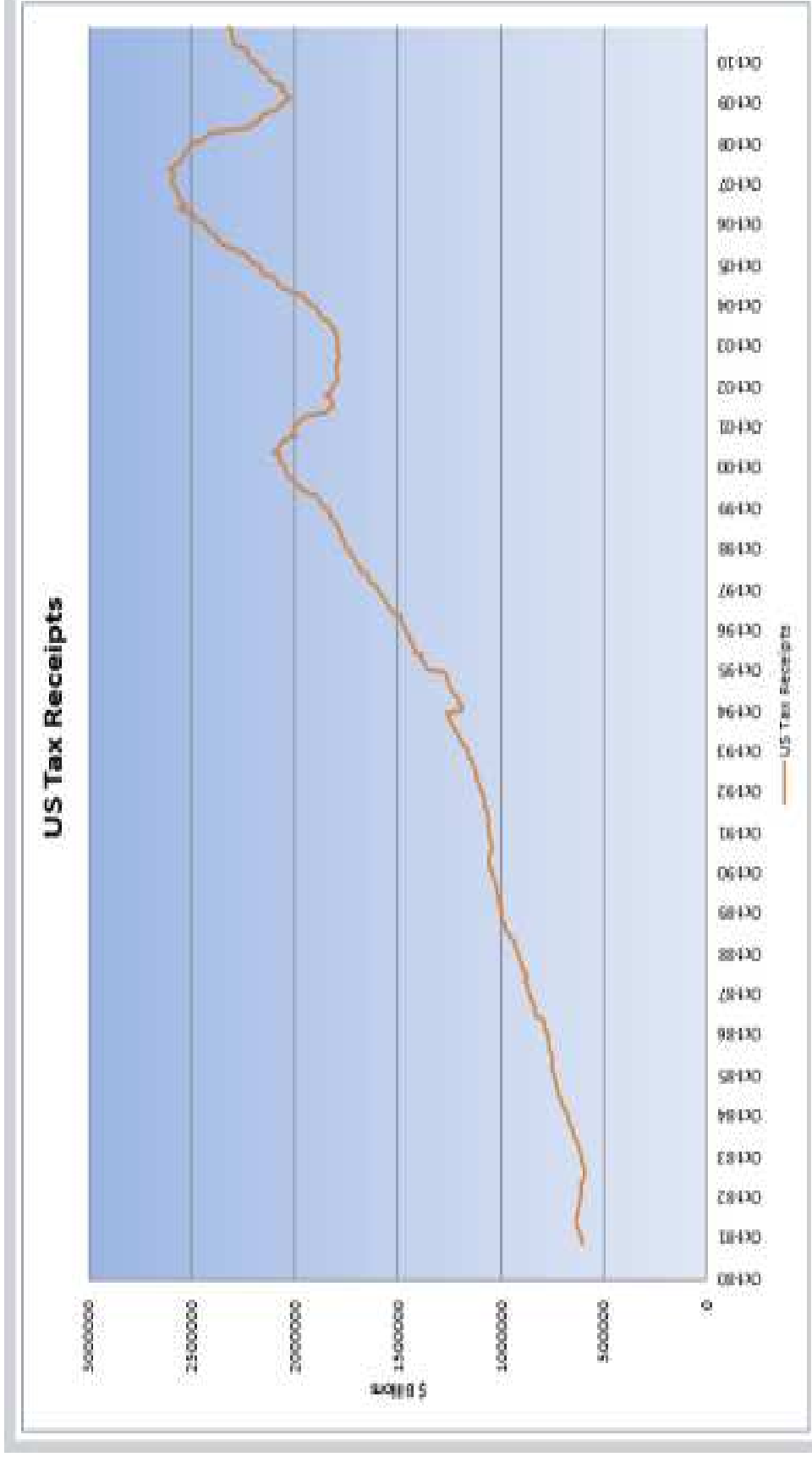
Ceridian-UCLA Pulse of Commerce Index

Compare to Industrial Production  6 Mo 1 Y 5 Y 10 Y



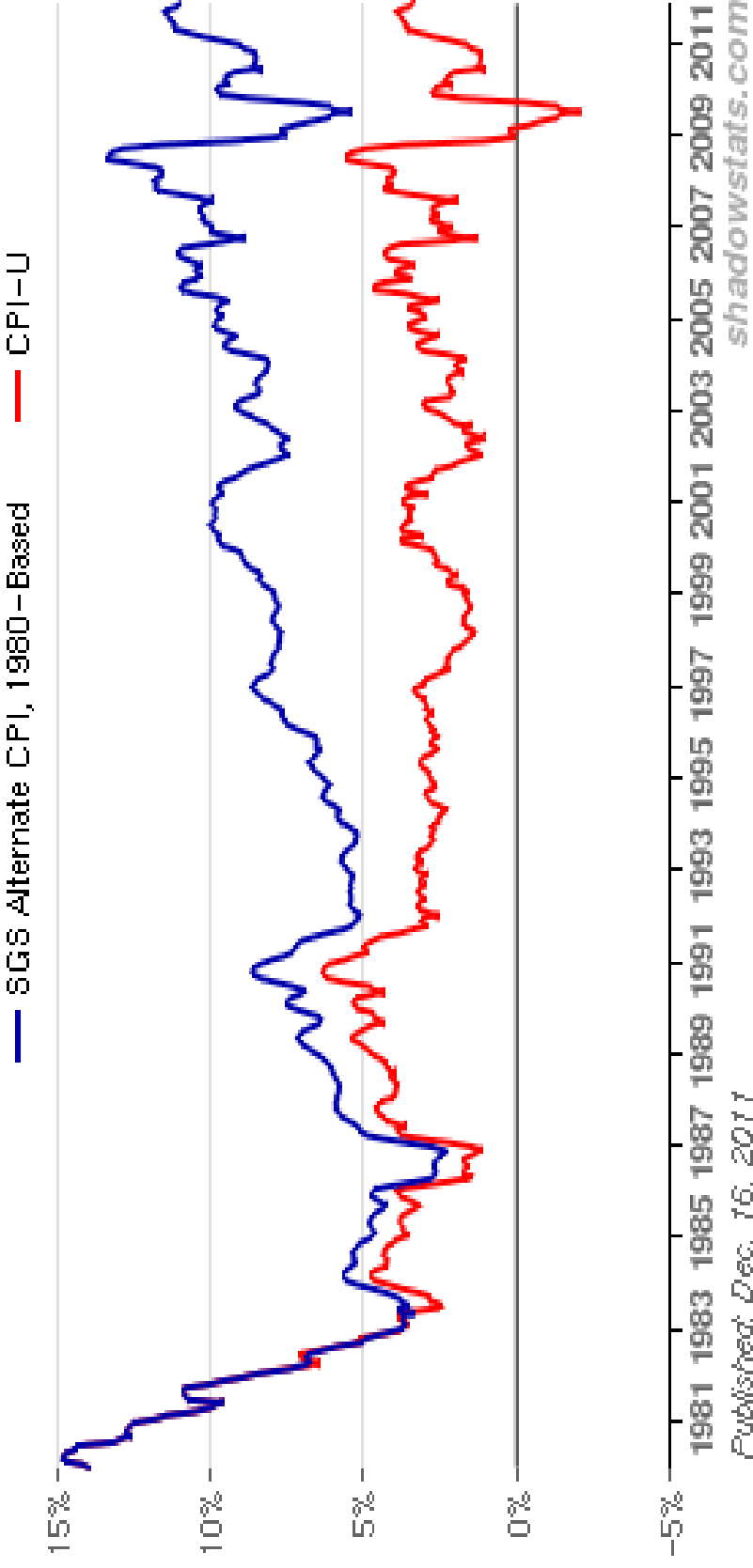
*All data is seasonally adjusted

US Government Tax Receipts



Inflation continues!

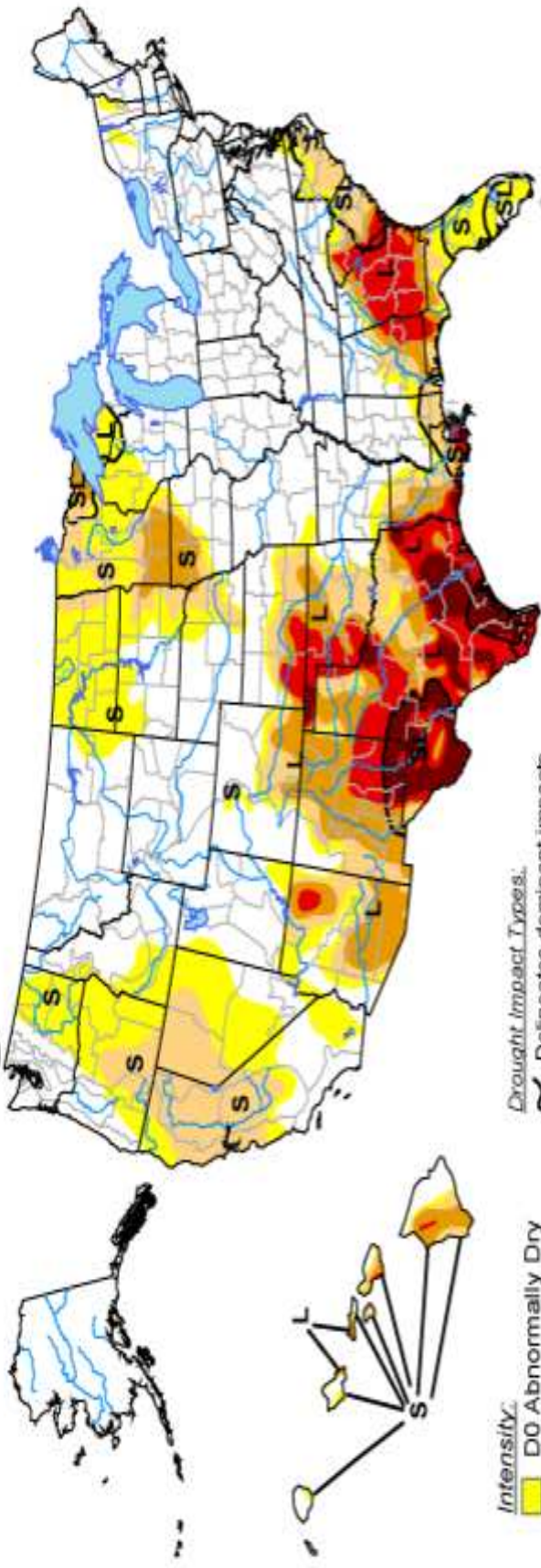
Annual Consumer Inflation - Official vs SGS (1980-Based) Alternate
Year to Year Change. Through Nov. 2011. (BLS, SGS)



Food production iffy in 2012

U.S. Drought Monitor

January 3, 2012
Valid 7 a.m. EST



Intensity.

- D0 Abnormally Dry
- D1 Drought - Moderate
- D2 Drought - Severe
- D3 Drought - Extreme
- D4 Drought - Exceptional

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

<http://droughtmonitor.unl.edu/>

Drought Impact Types.

- ~ Delineates dominant impacts
- S = Short-Term, typically <6 months (e.g. agriculture, grasslands)
- L = Long-Term, typically >6 months (e.g. hydrology, ecology)

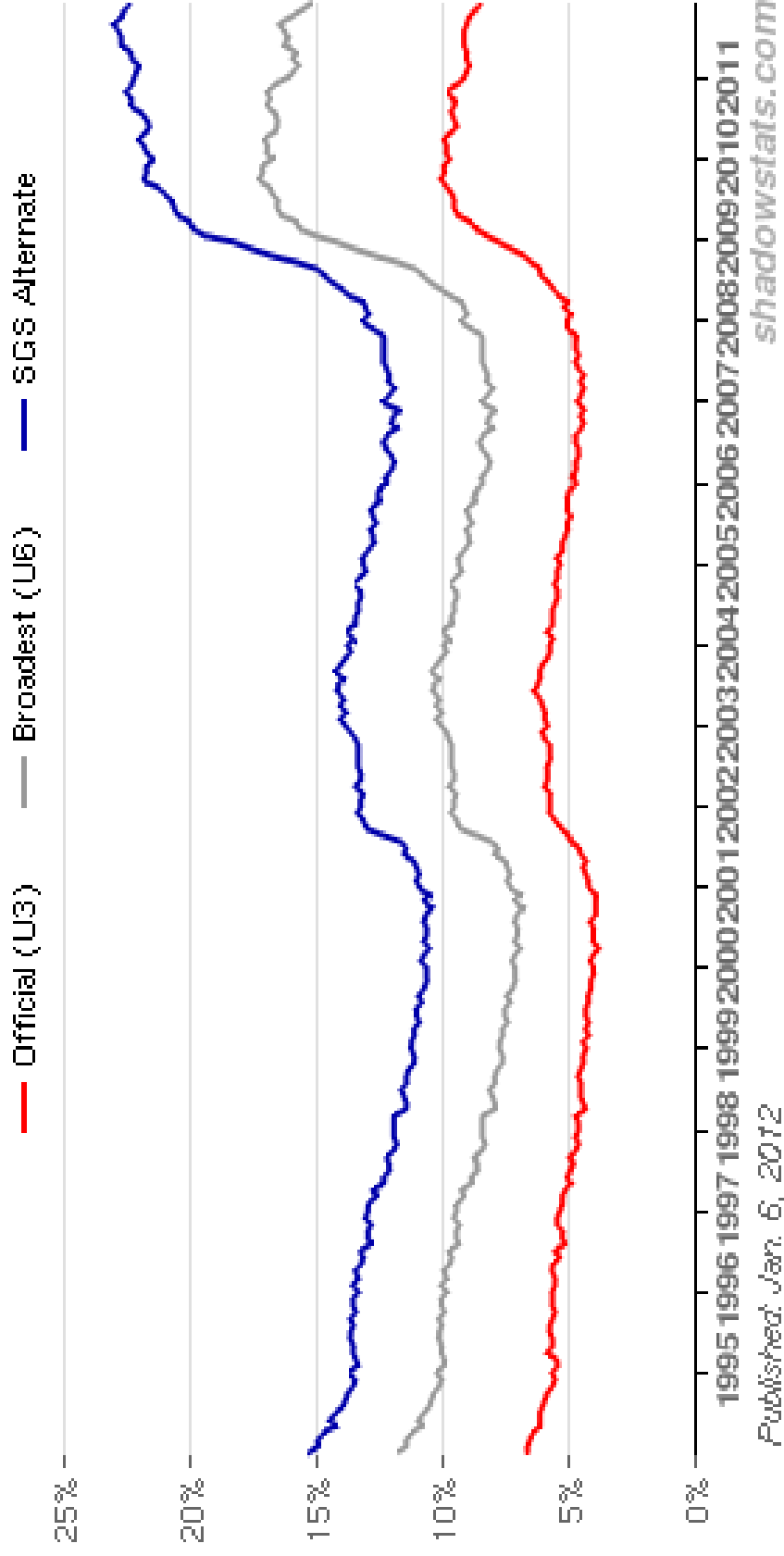


Released Thursday, January 5, 2012
Author: Brad Rippey, U.S. Department of Agriculture

Unemployment remains high!

Unemployment Rate - Official (U-3 & U-6) vs SGS Alternate

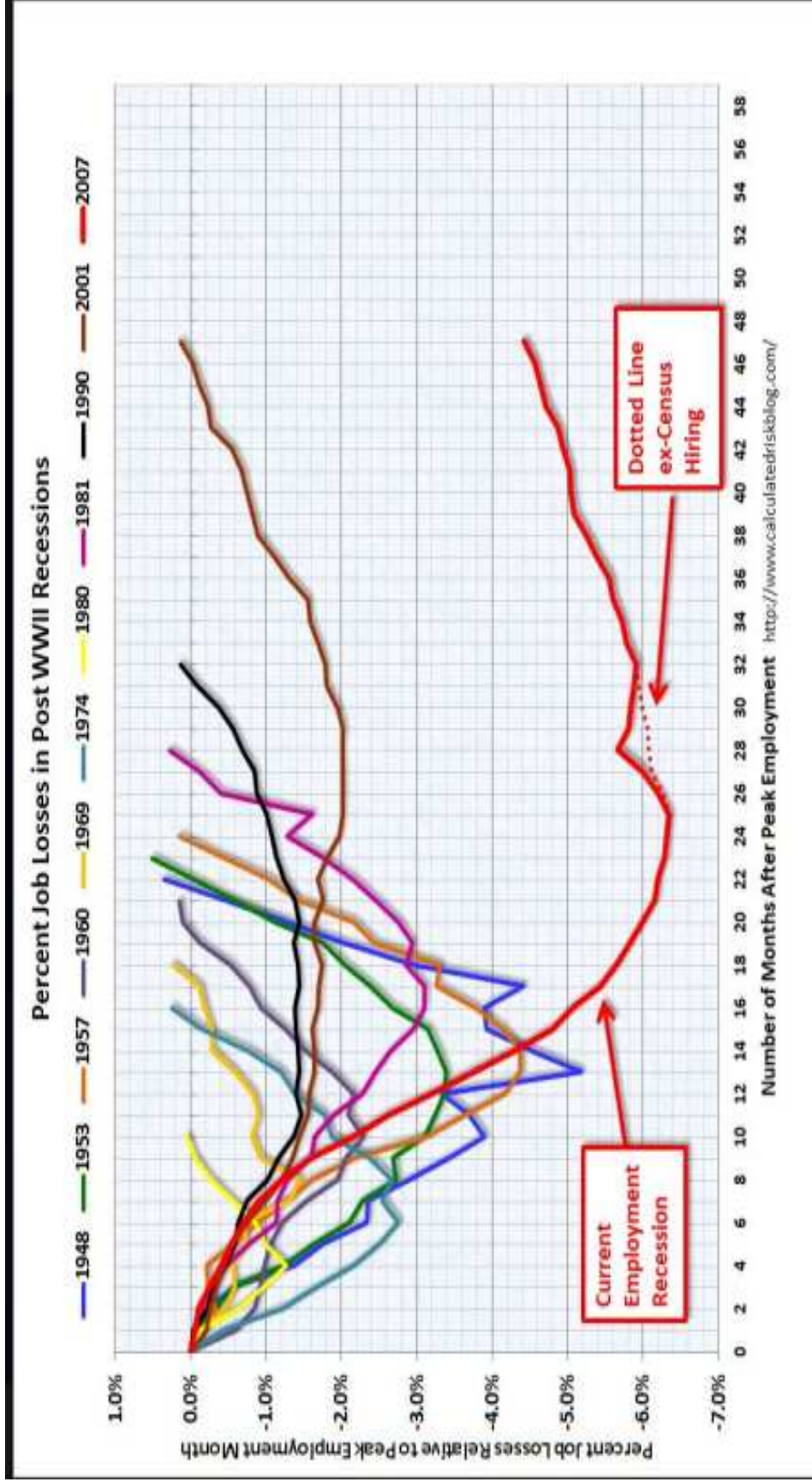
Monthly S.A. Through Dec. 2011 (SGS, BLS)



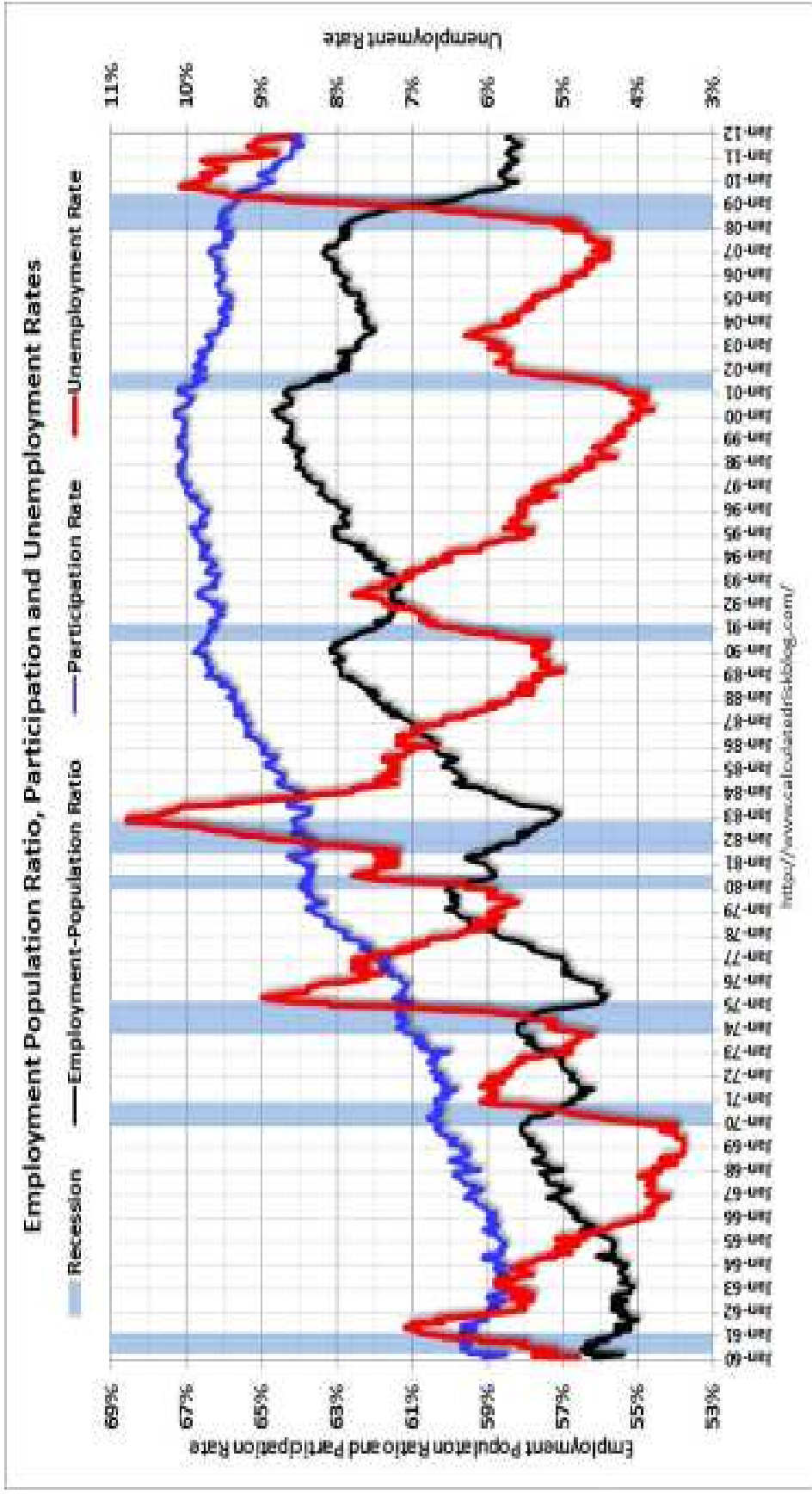
Published: Jan. 6, 2012

shadowstats.com

Looks like a long road ahead!

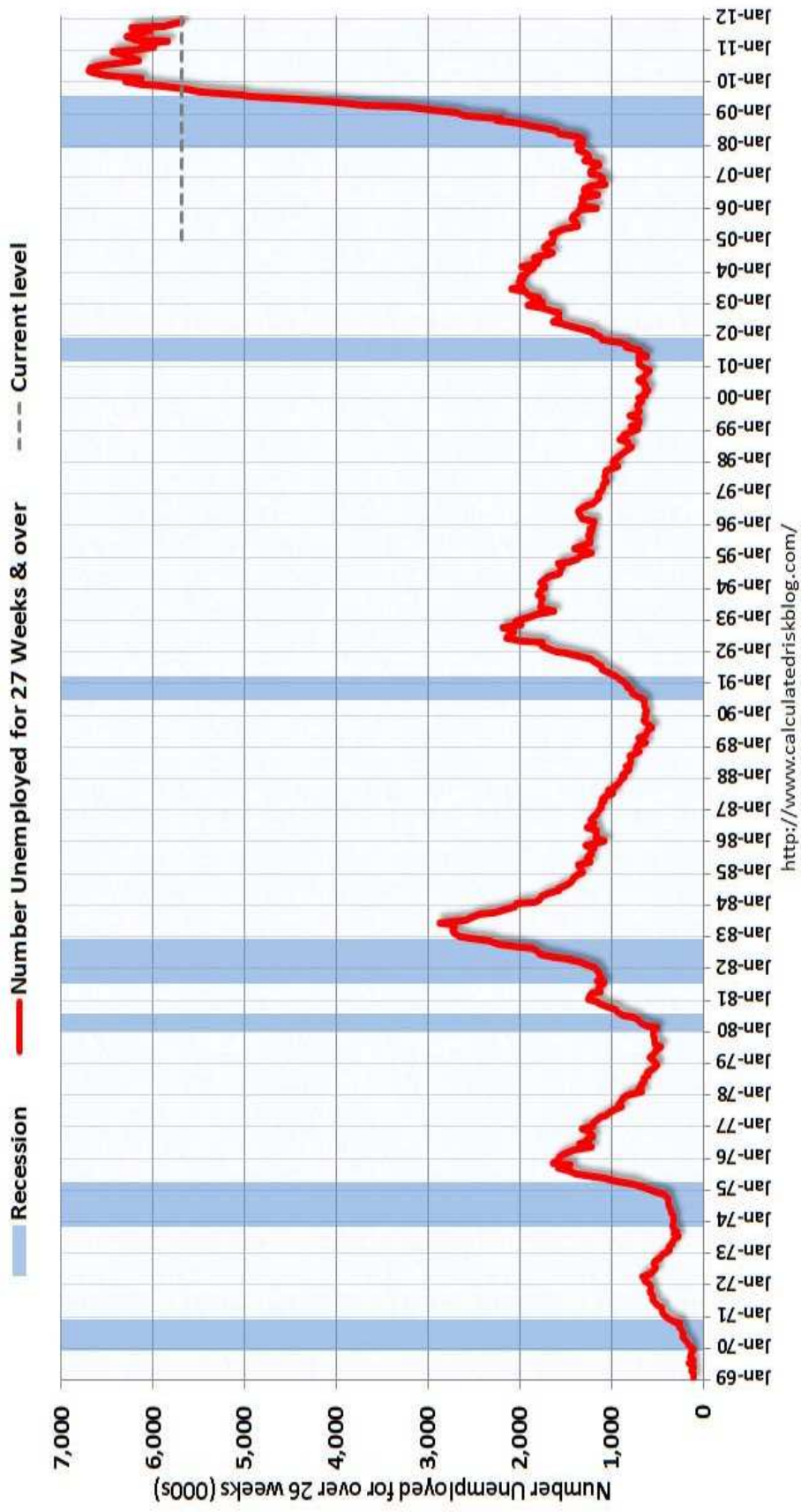


Participation Rate Declining!

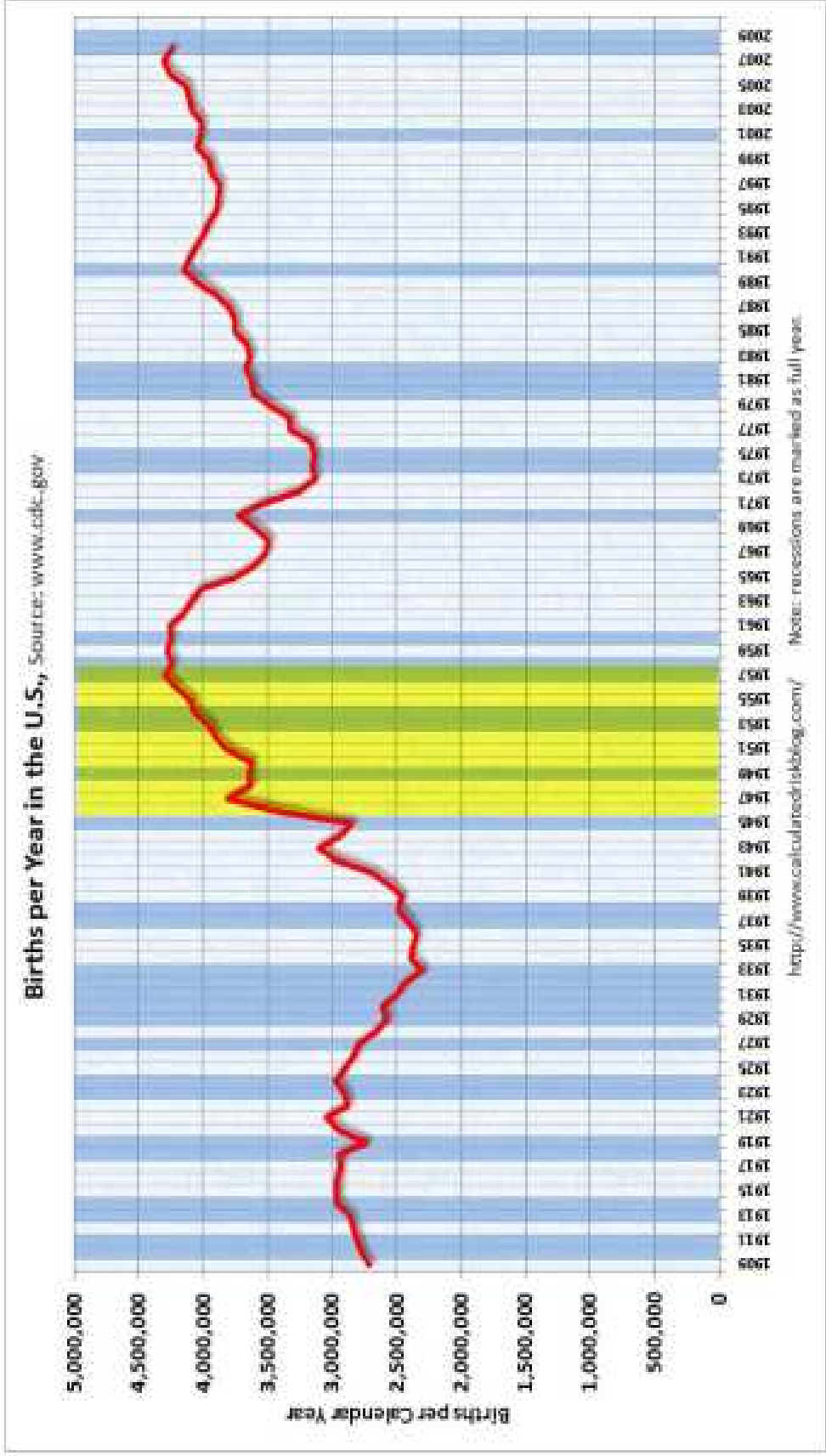


OOPS!

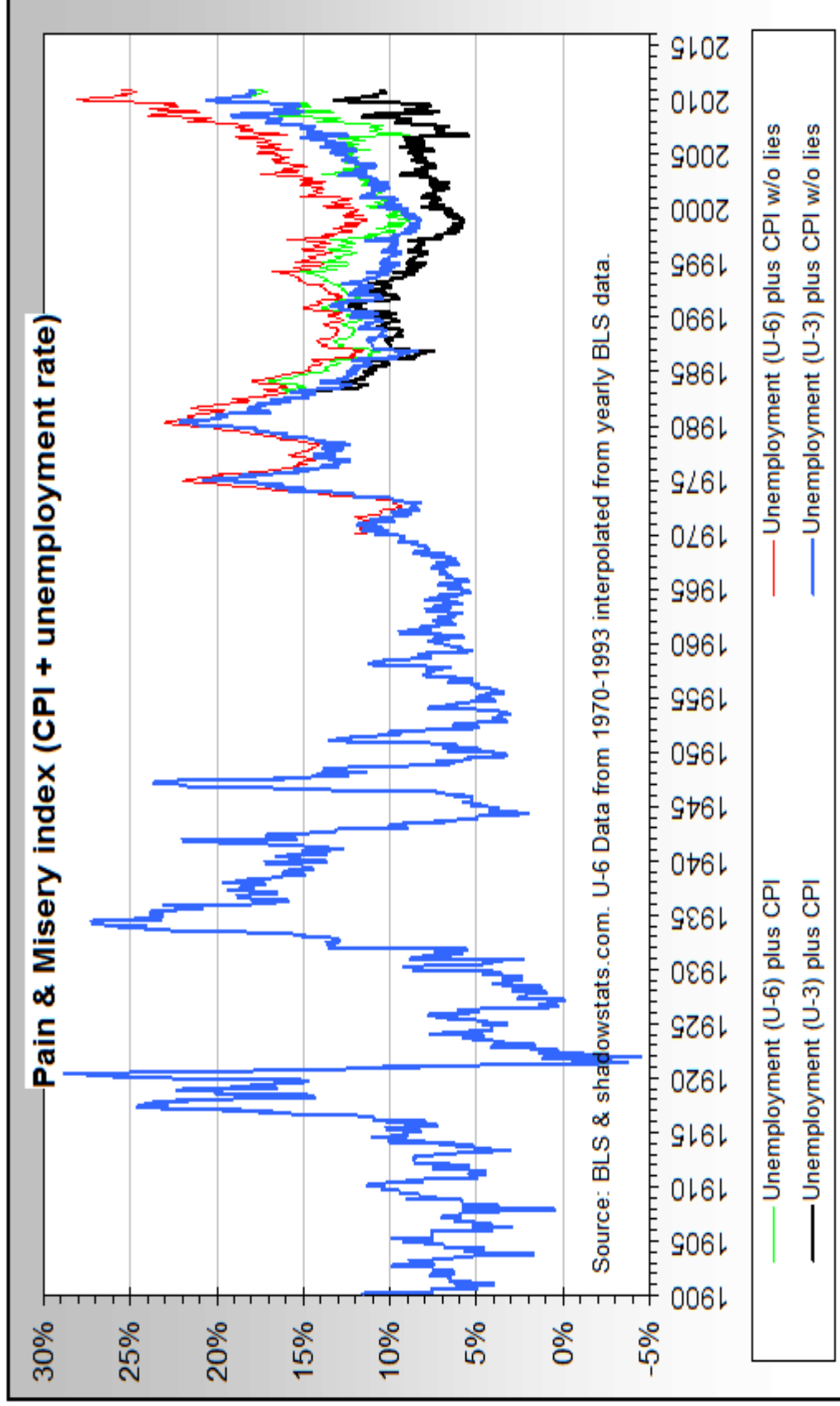
Unemployed for Over 26 Weeks



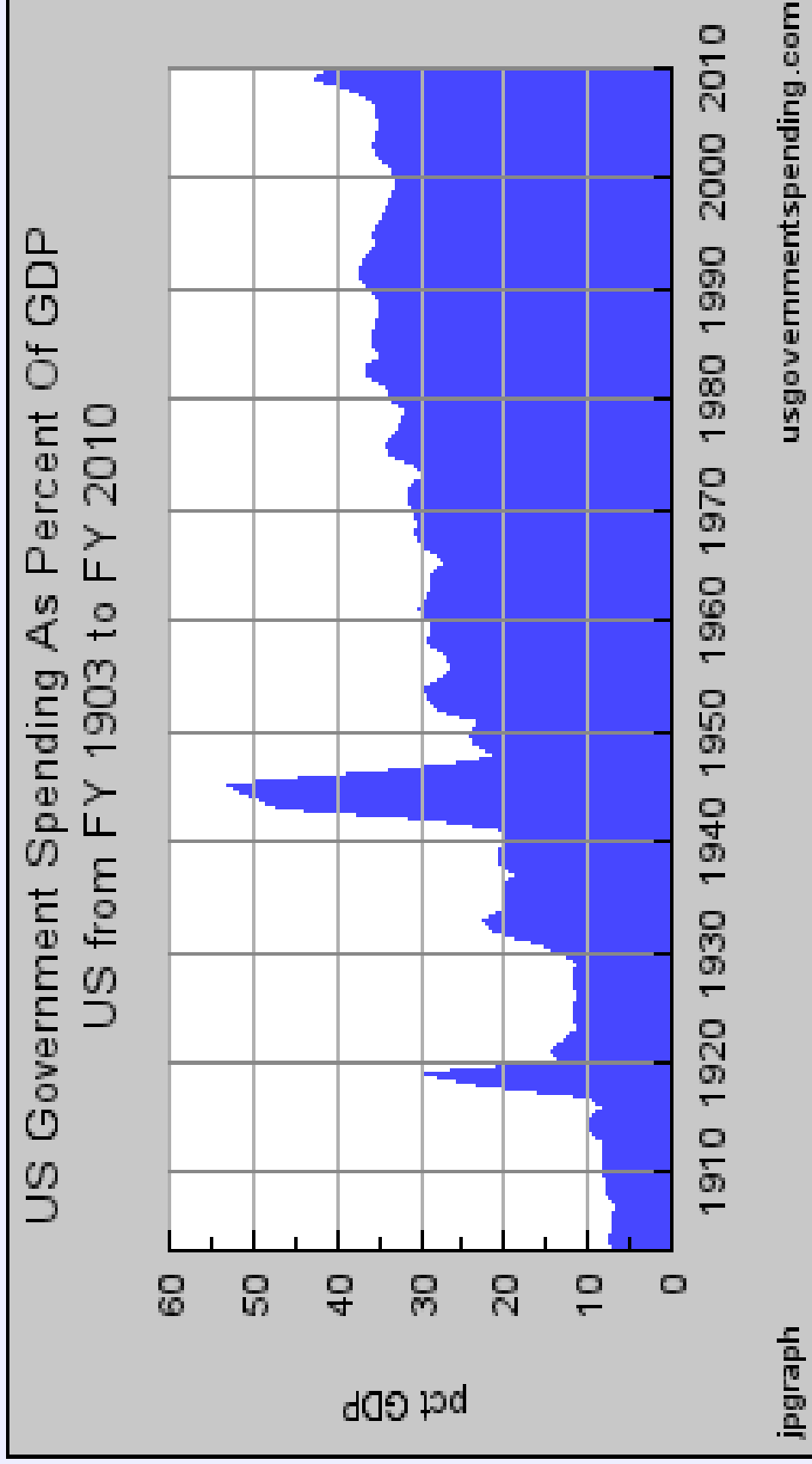
Employment & Demographics



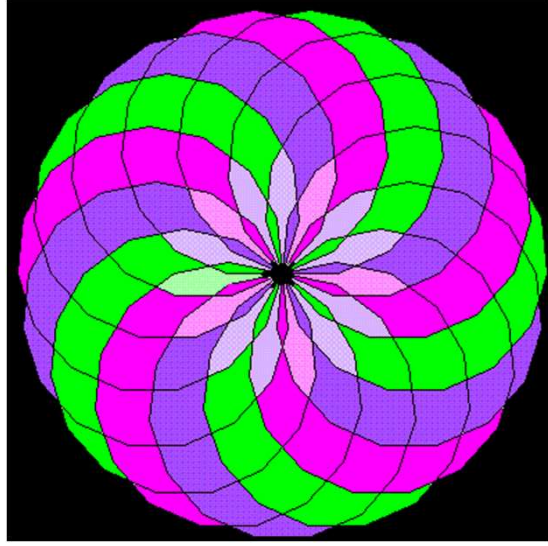
Pain & Misery Index



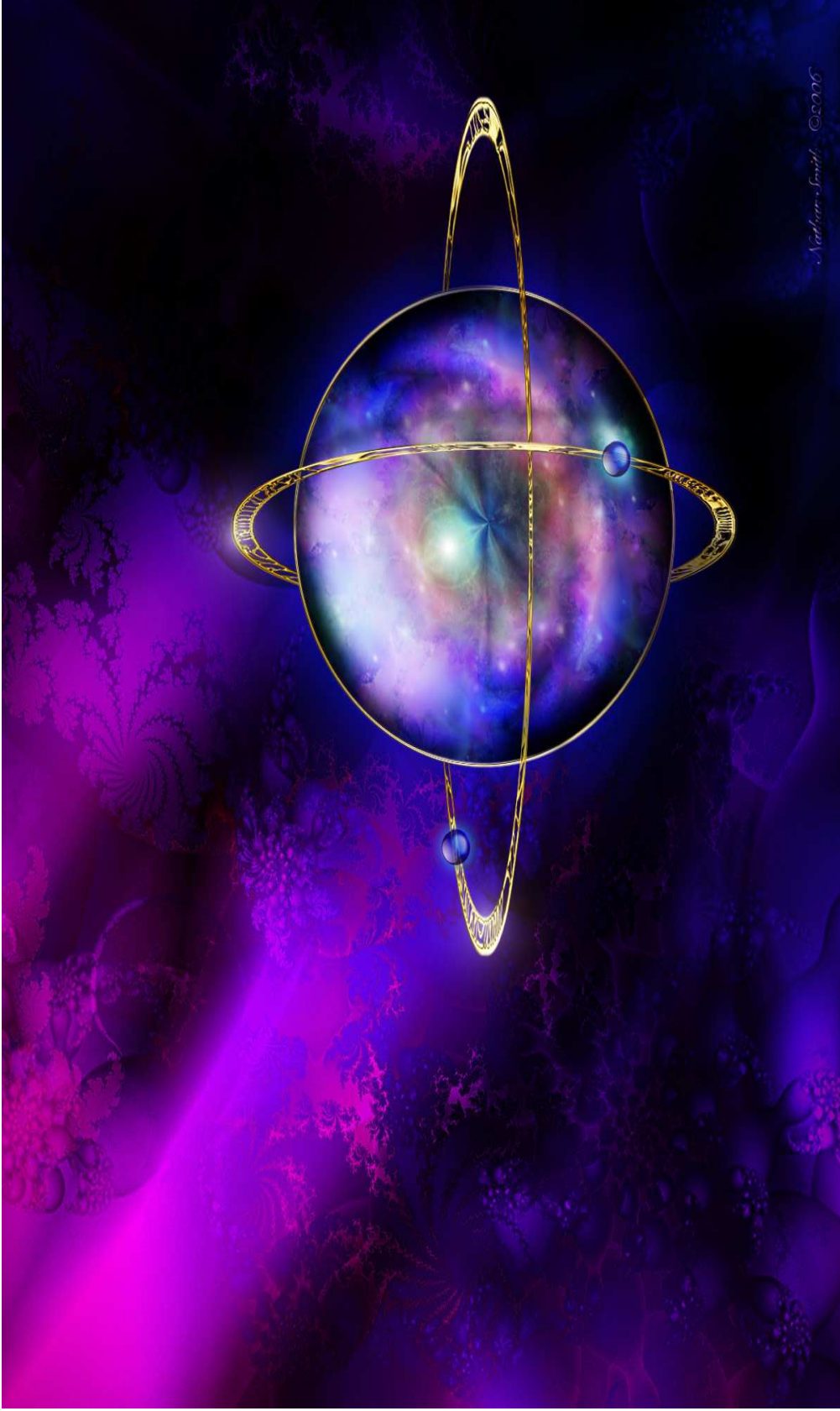
Spending has to be reduced!



**Governments are
spending like there's no
tomorrow!**

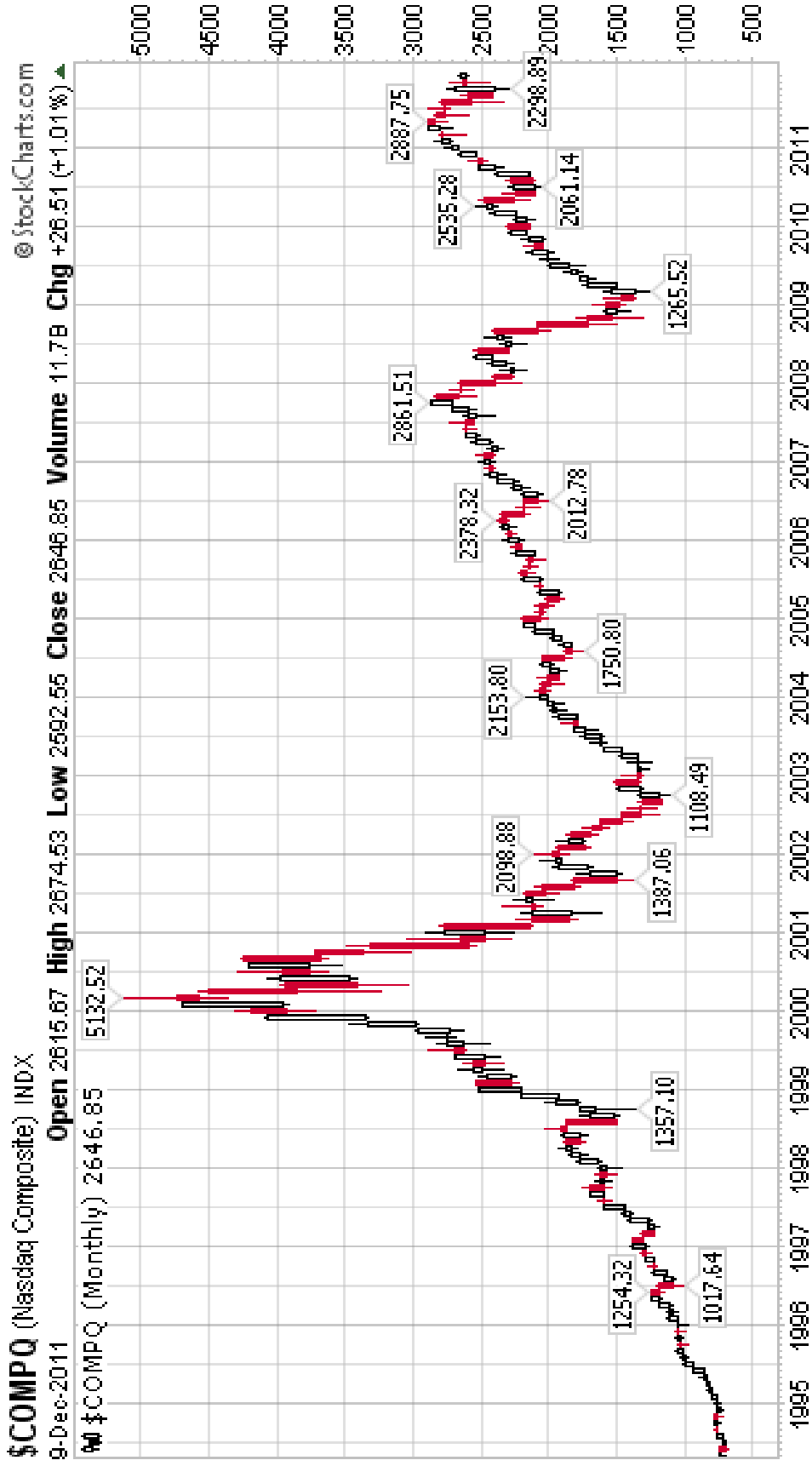


Seeing reality



Where are the markets?

Still in a Secular Bear Market

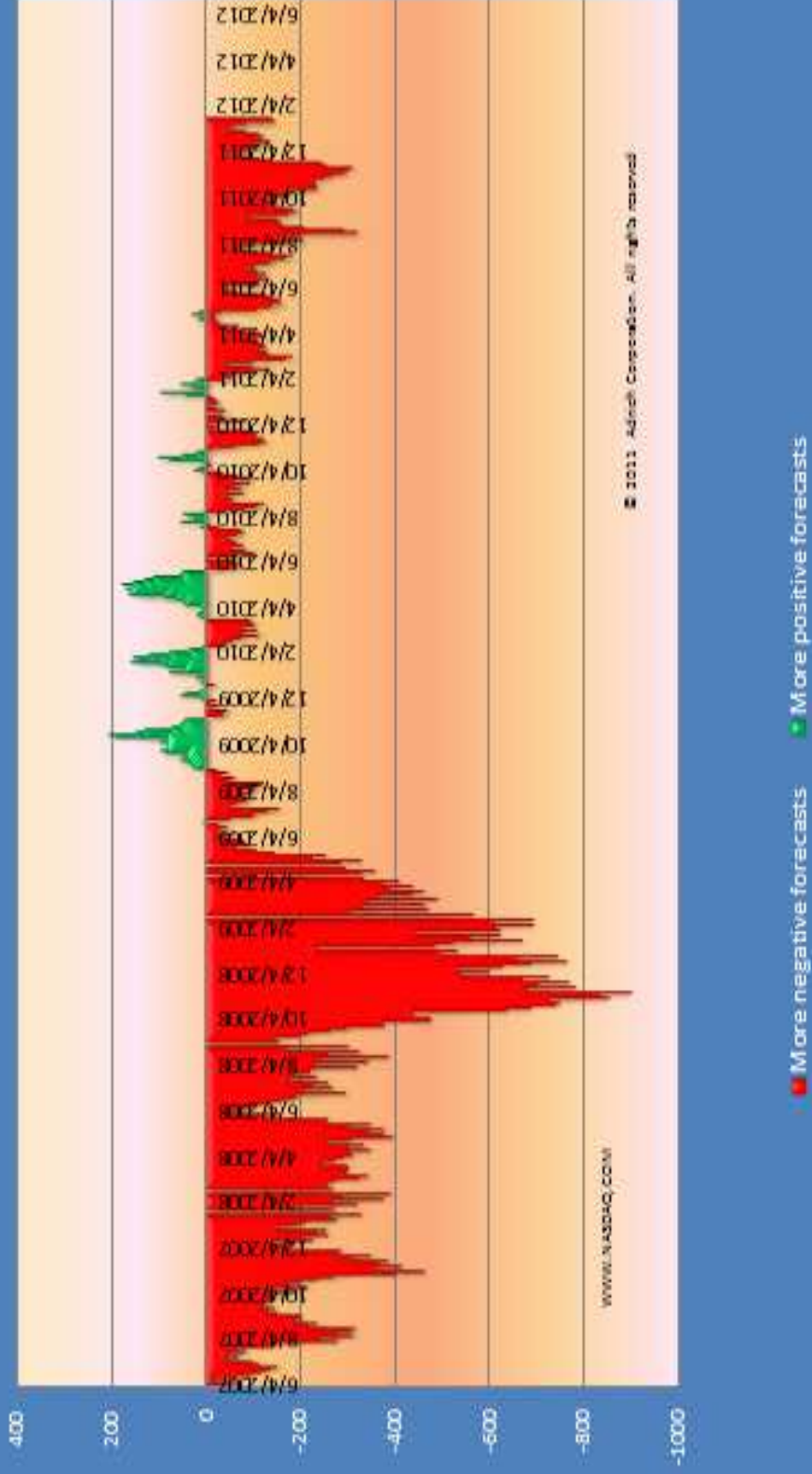


CAUTIONARY NOTE

- **39% of Russell 2000 companies bought back stock in Q3.**
- **What positive and/or negative effect did that have on the volume and overall level of the markets?**

Future Earnings Forecasts

Difference between Analysts Daily Positive & Negative Forecasts from NASDAQ.com

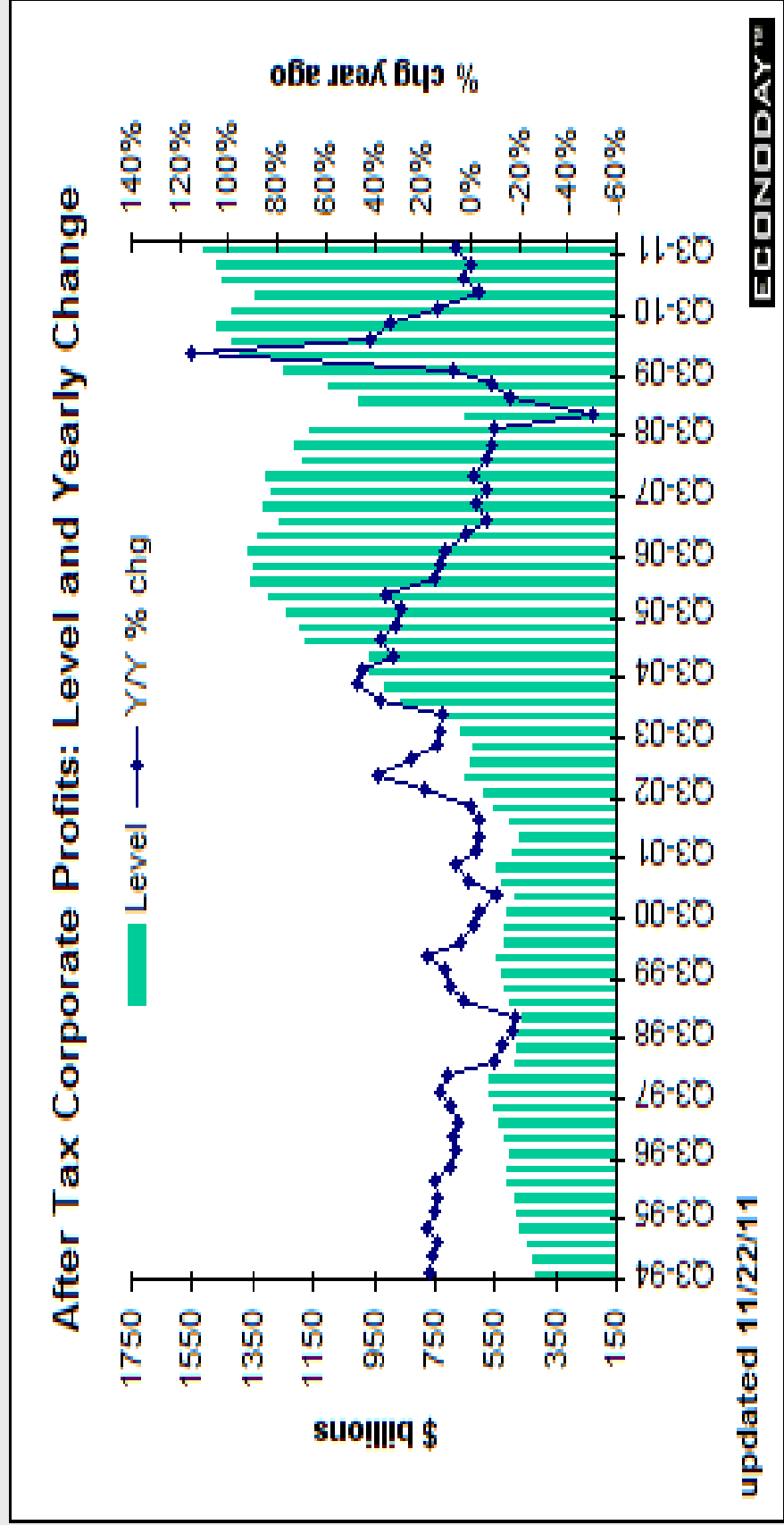


Future earnings forecasts

The Economy

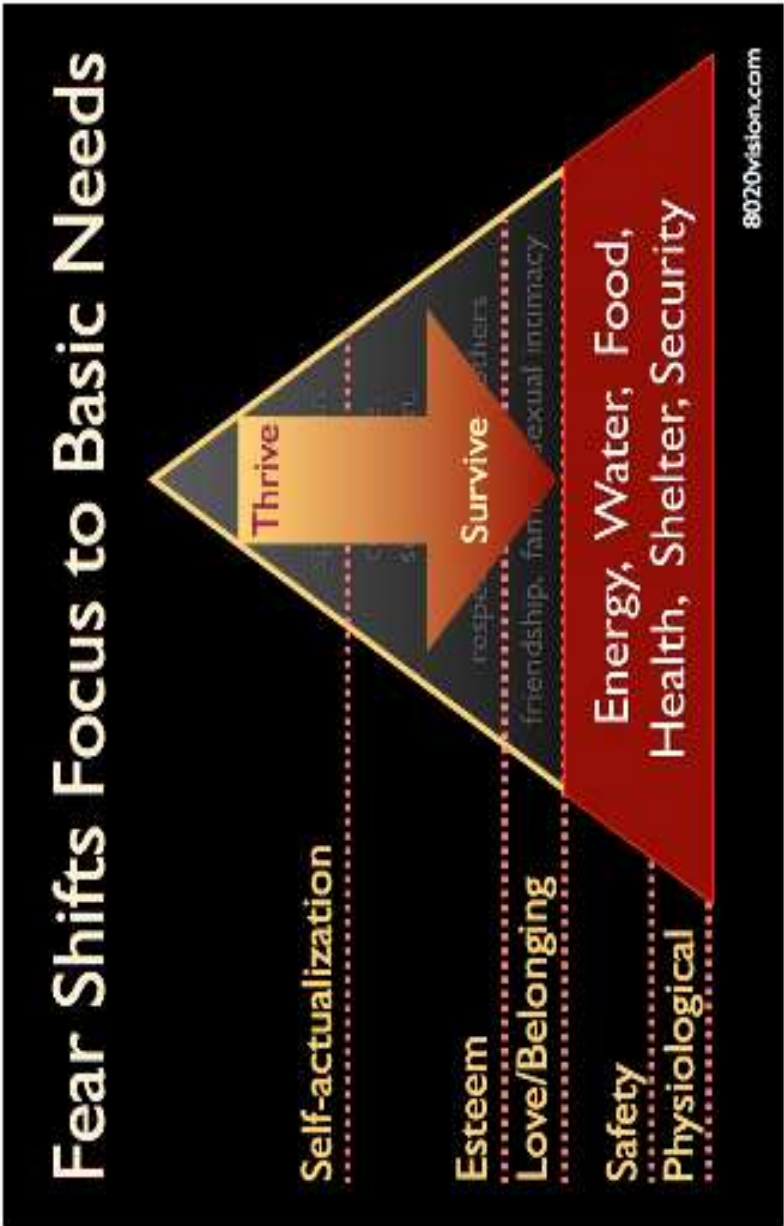
When will it bottom?

Corporate Profits increase!



Data Source: Haver Analytics

DELEVERAGING

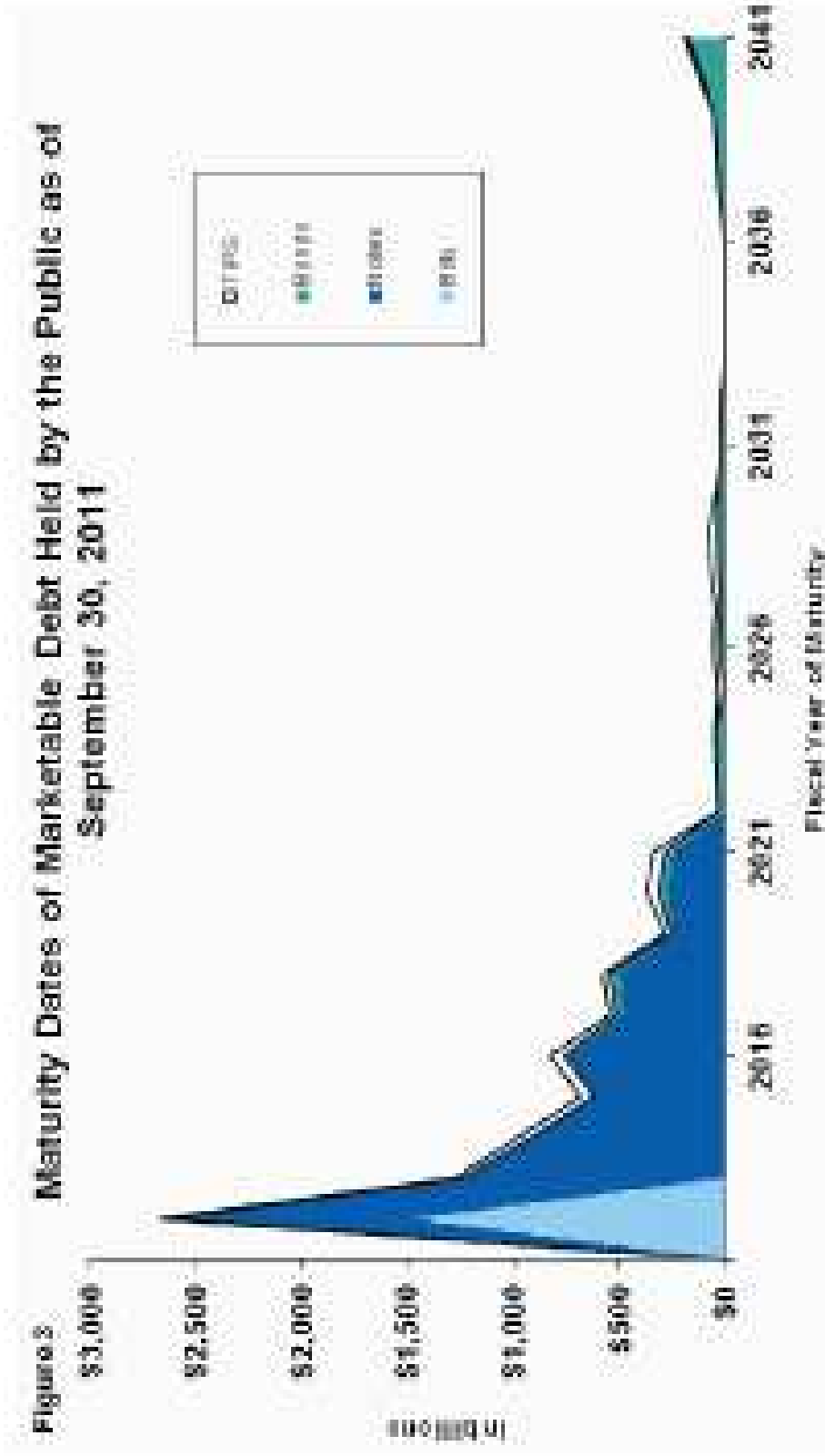


The Basic Problem ...

- US FY 2011 GDP \$15.5 Trillion
- US Stated Cash Debt \$15.4 Trillion and increasing
- **US GAAP Total Liabilities \$70 - \$112 Trillion or more and growing!**
- US Household Wealth \$55 Trillion and falling
- FY 2011 Budget Deficit .. \$1.29 Trillion

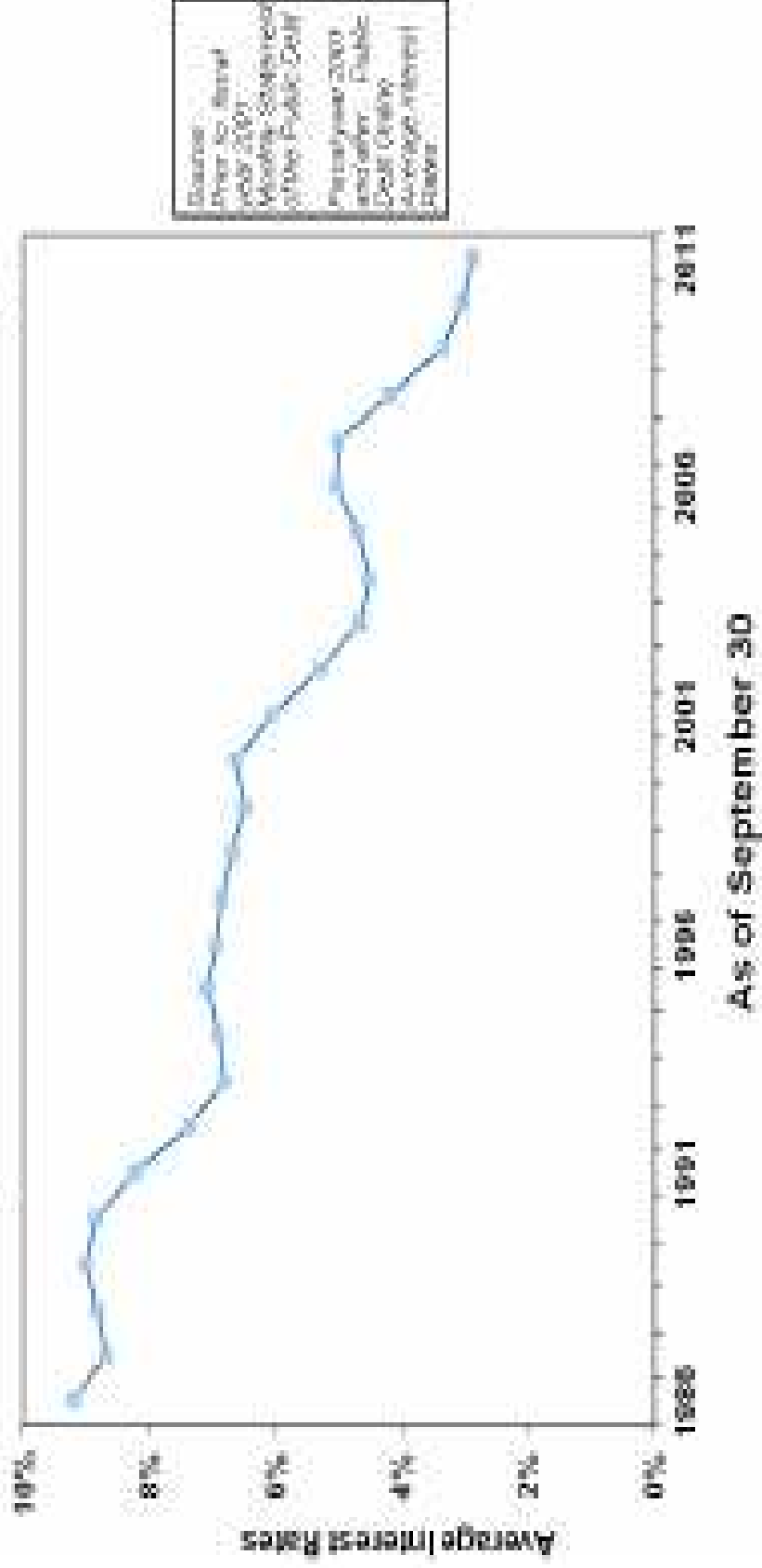
The U.S. Treasury Problem

Maturity Schedule - Refinance



Abnormal low rates

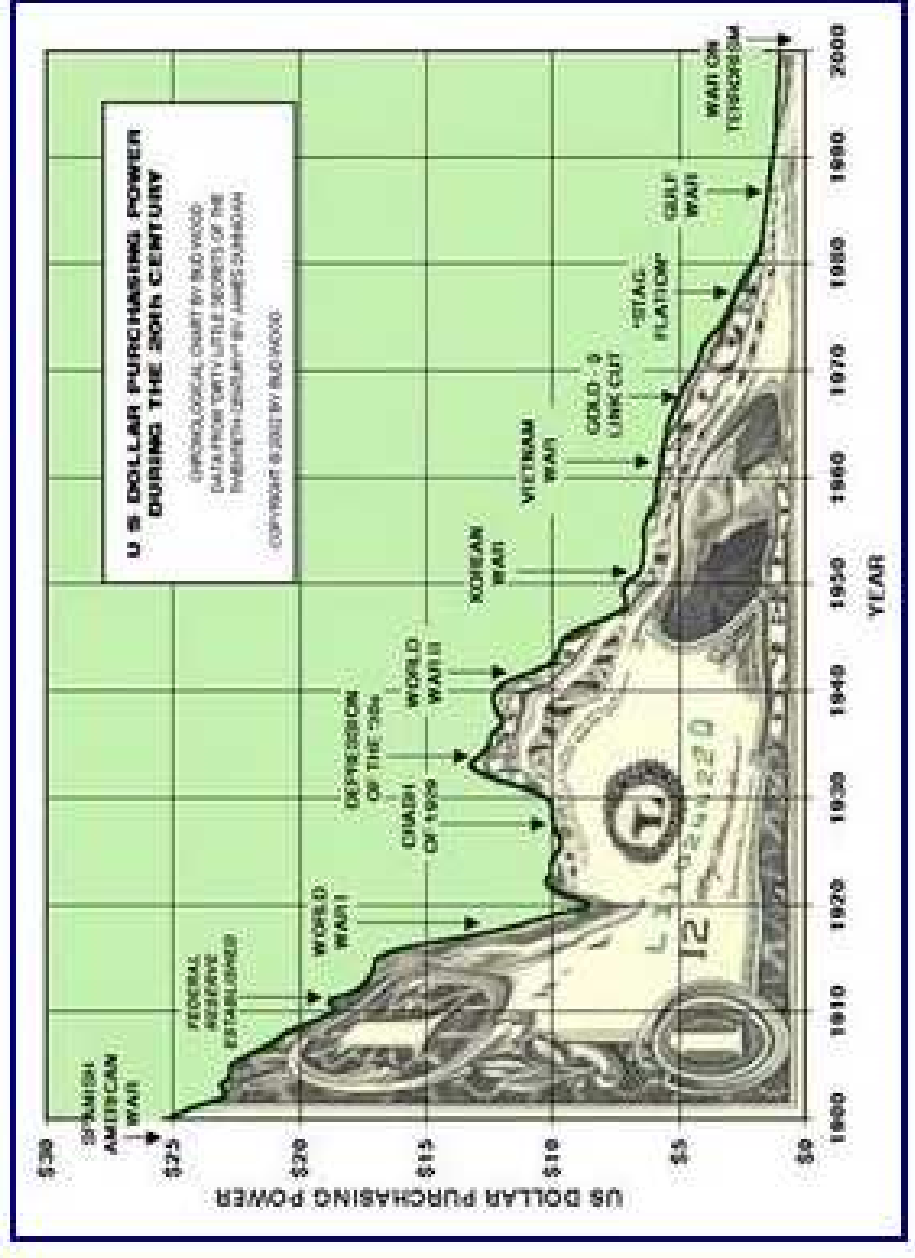
Figure 6 Average Interest Rates of Federal Debt Outstanding



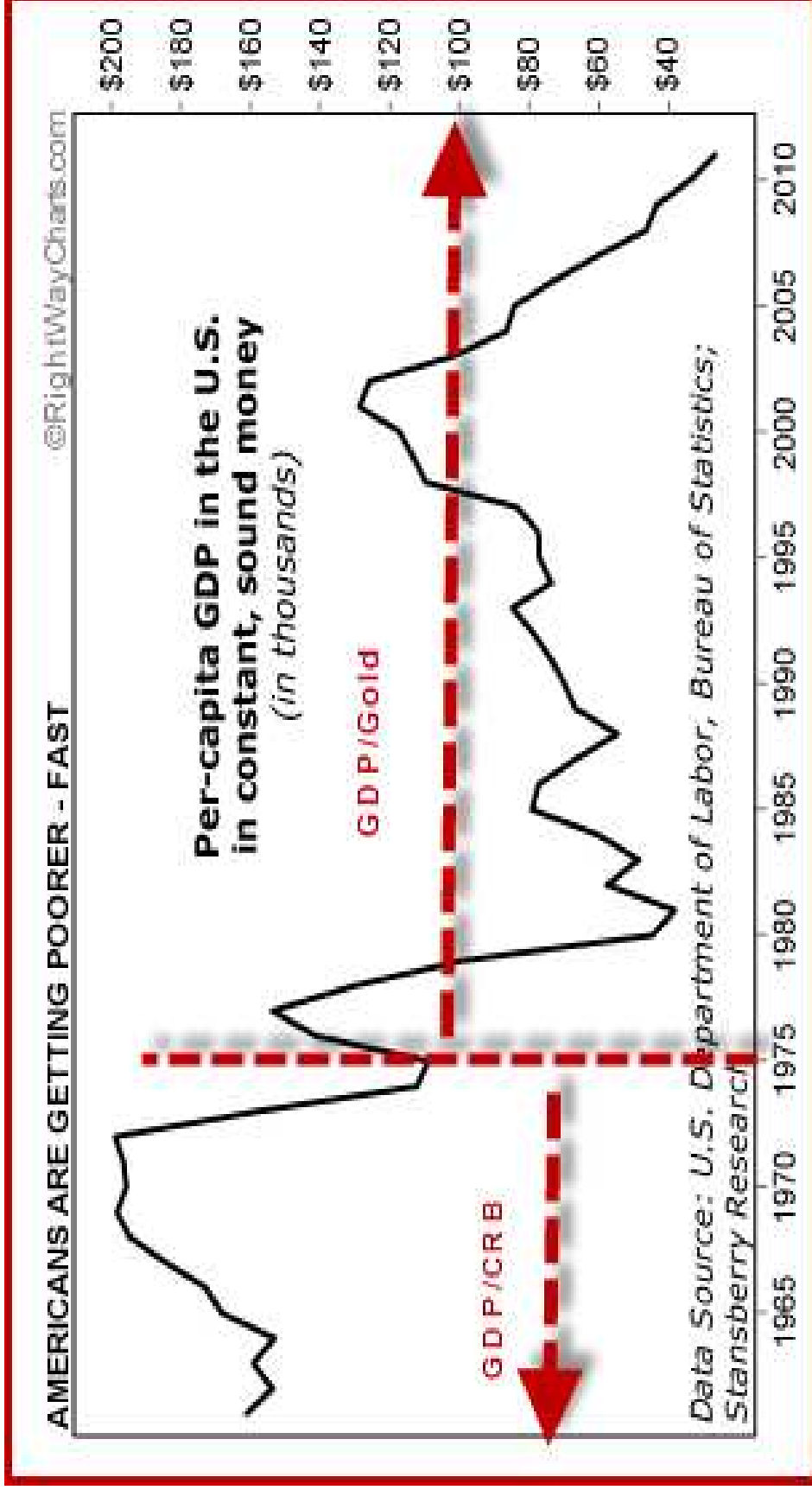
Federal Reserve Mandates

- **Maintain Price Stability**
- **Maximum Employment**
- **How is that working?**

The Federal Reserve Bank



Purchasing Power!



The real problem is Public Perception

- **GDP \$15.5 TRILLION** • **GDP \$15.5T - \$ 3.6T**
- **DeFiCIt \$1.3 TRILLION** • **GAAP Deficit - \$5.0 T**
- **Debt \$15.24 TRILLION** • **GAAP Debt \$70T**
- **INFLation 1 - 2%** • **++++**
- **UNEMPLOYment 8.5%** • **Inflation 12%**
- • **Unemployment 23%**

\$15.241 Trillion Debt really?

- Fannie Mae + Freddie Mac -- \$ 5 T plus
- Sallie Mae - \$410 B
- Ginnie Mae \$ 3 T plus
- Federal Housing Authority ?????
- FDIC -\$500 B
- PBOC -\$2 T plus
- Foreign Aid not spent
- And on and on and on

US Taxpayer Obligations

- Stated Federal Debt \$15.4 T
- The real world debt \$112 T
 - Social Security, Medicare, Medicaid
 - Off-balance sheet items, wars, pensions, treaties
- US GDP \$15.5 T
- Impossible to continue
- Then add the State, Local and Other Debt
- Consumer Debt
- Drowning and don't know it!

The American Economy!



U.S. \$...

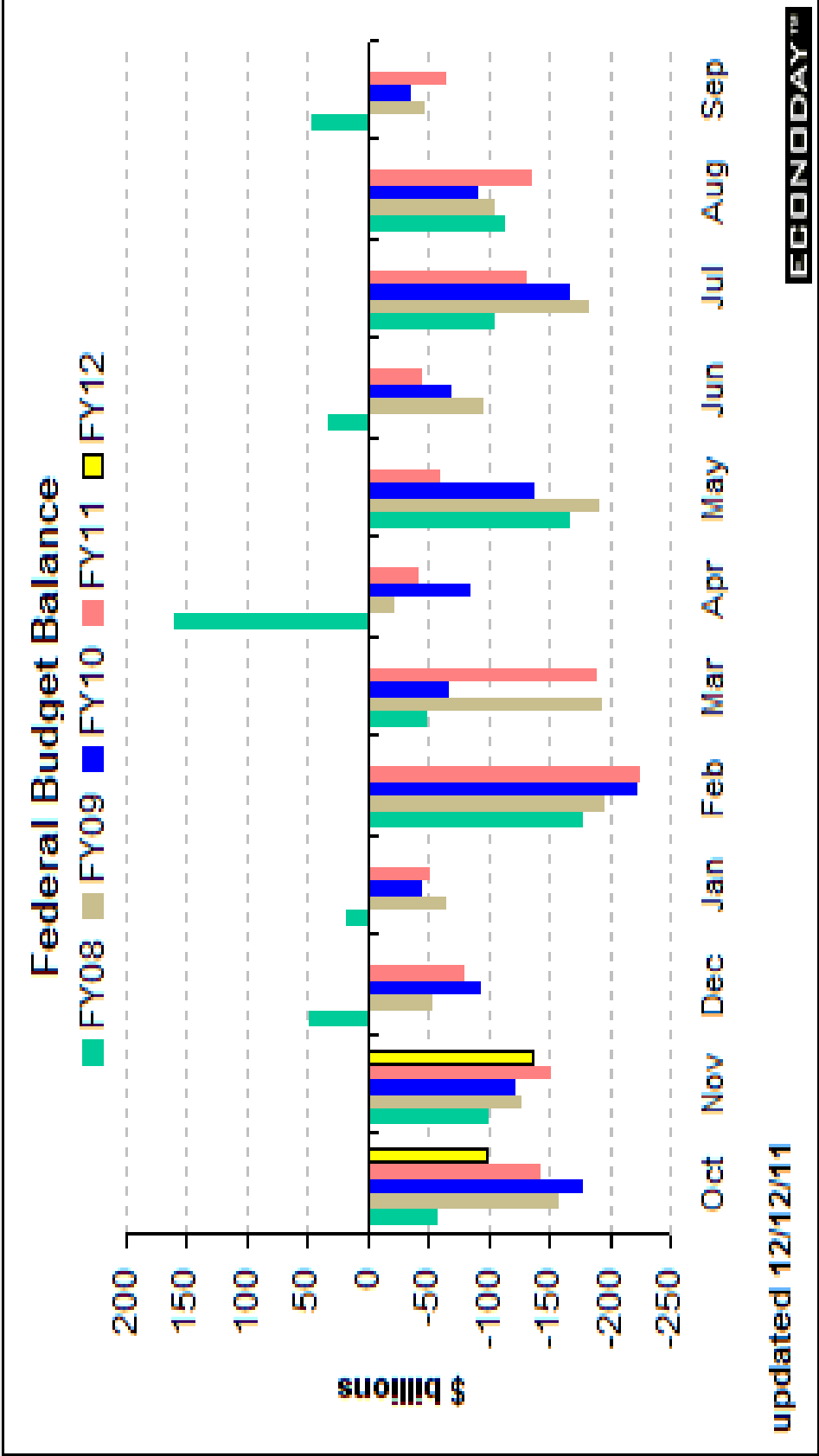
- Losing status as reserve currency
- In long-term decline
- Fiat currency
- Does not conform to Constitution
- Relies upon perception of value
- 60% of all U.S. Federal Reserve bills are out of the country.

Hyper-Inflation ahead?

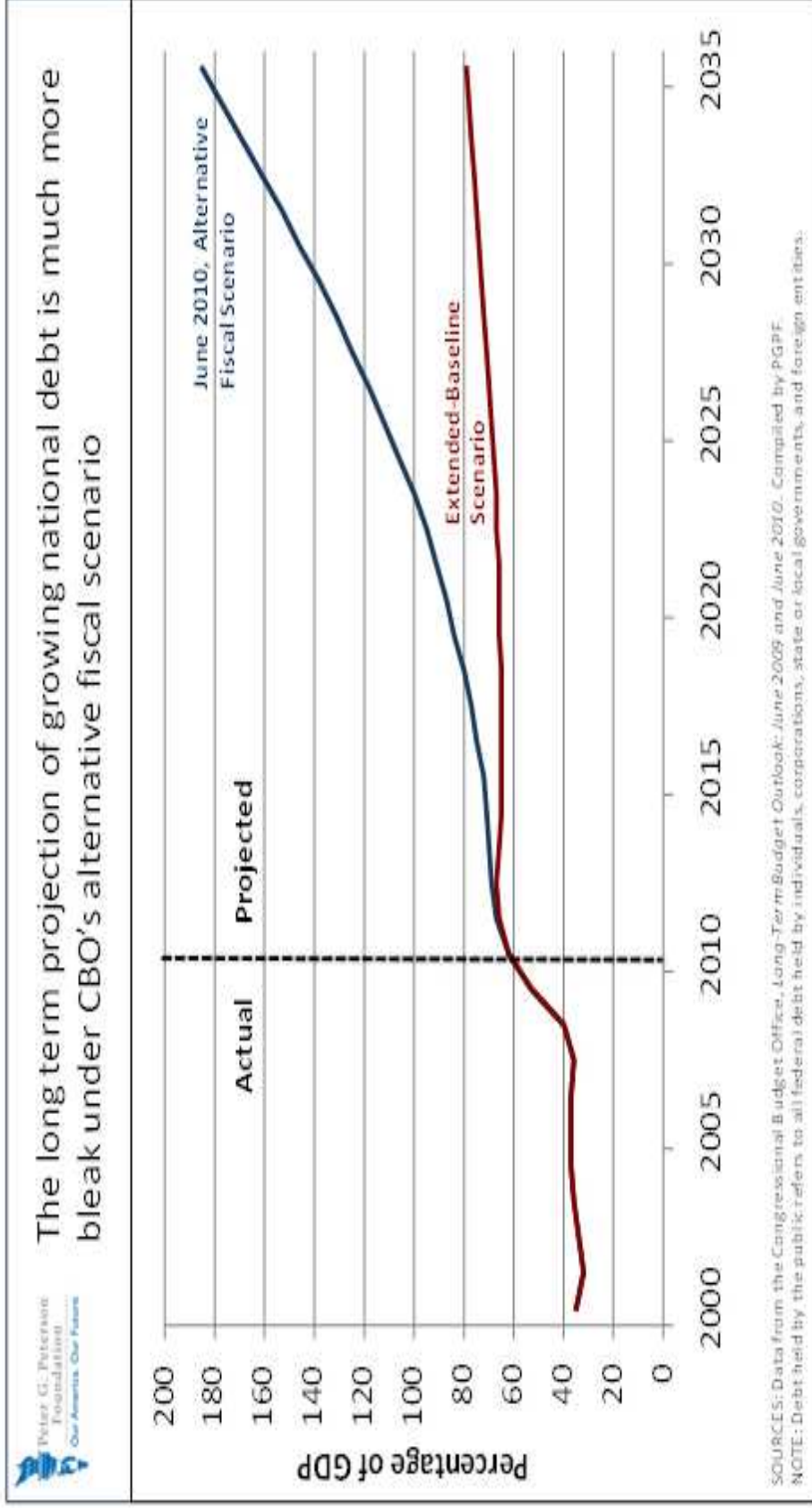


Bonds & Interest Rates

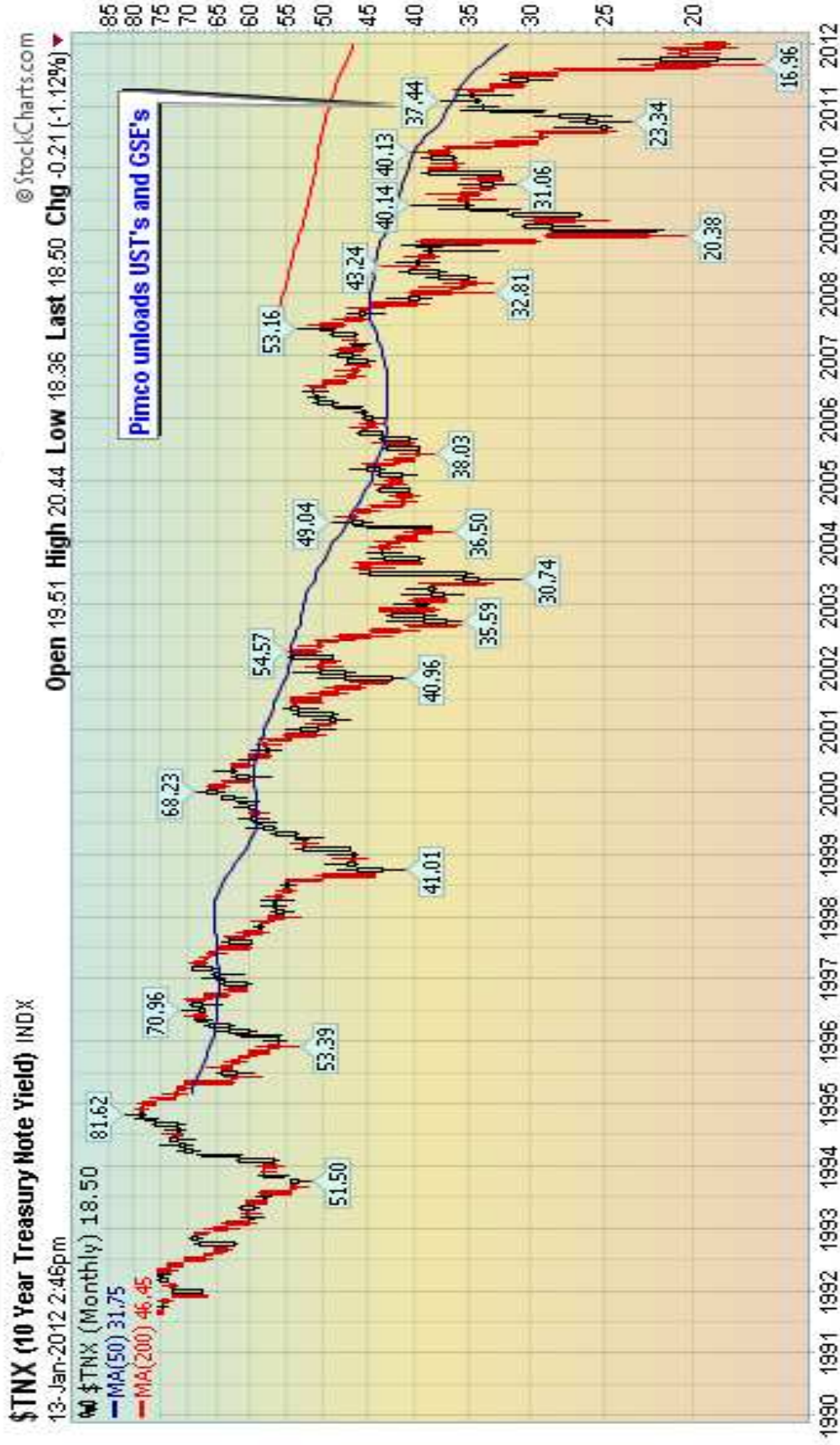
FY 2012 estimated \$1.1 trillion



Simply Impossible!

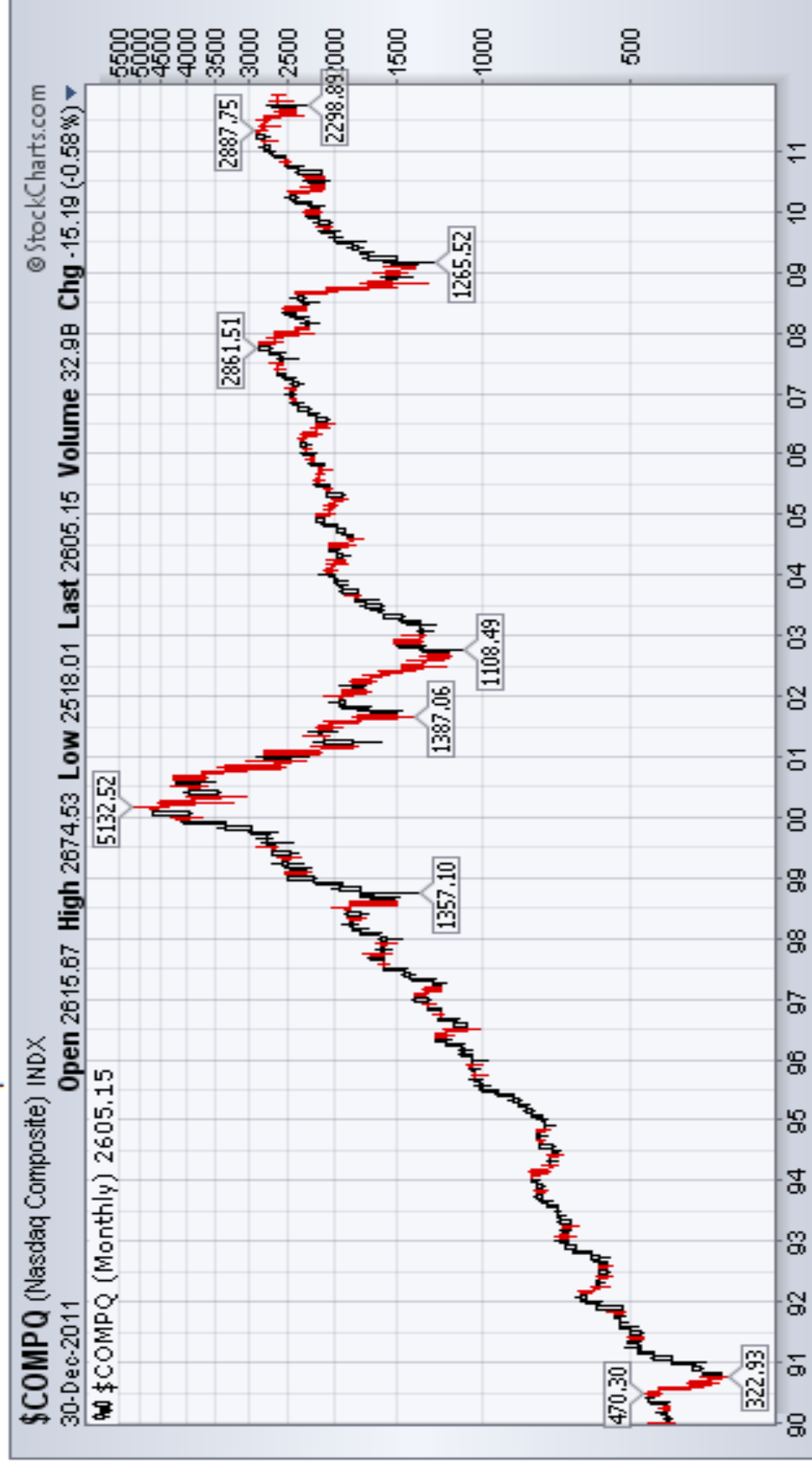


10 year US Treasury

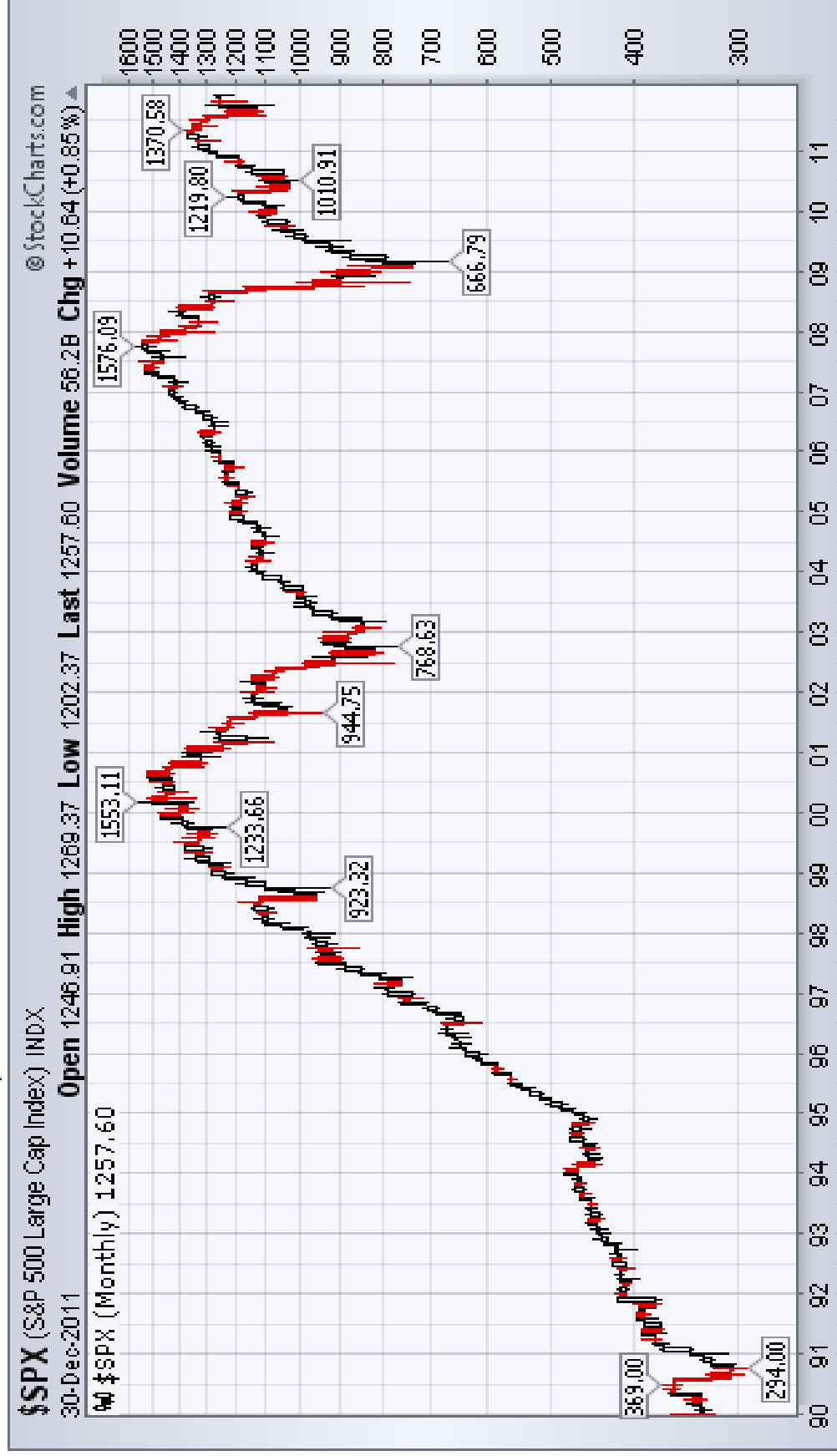


Stocks

NASDAQ Composite

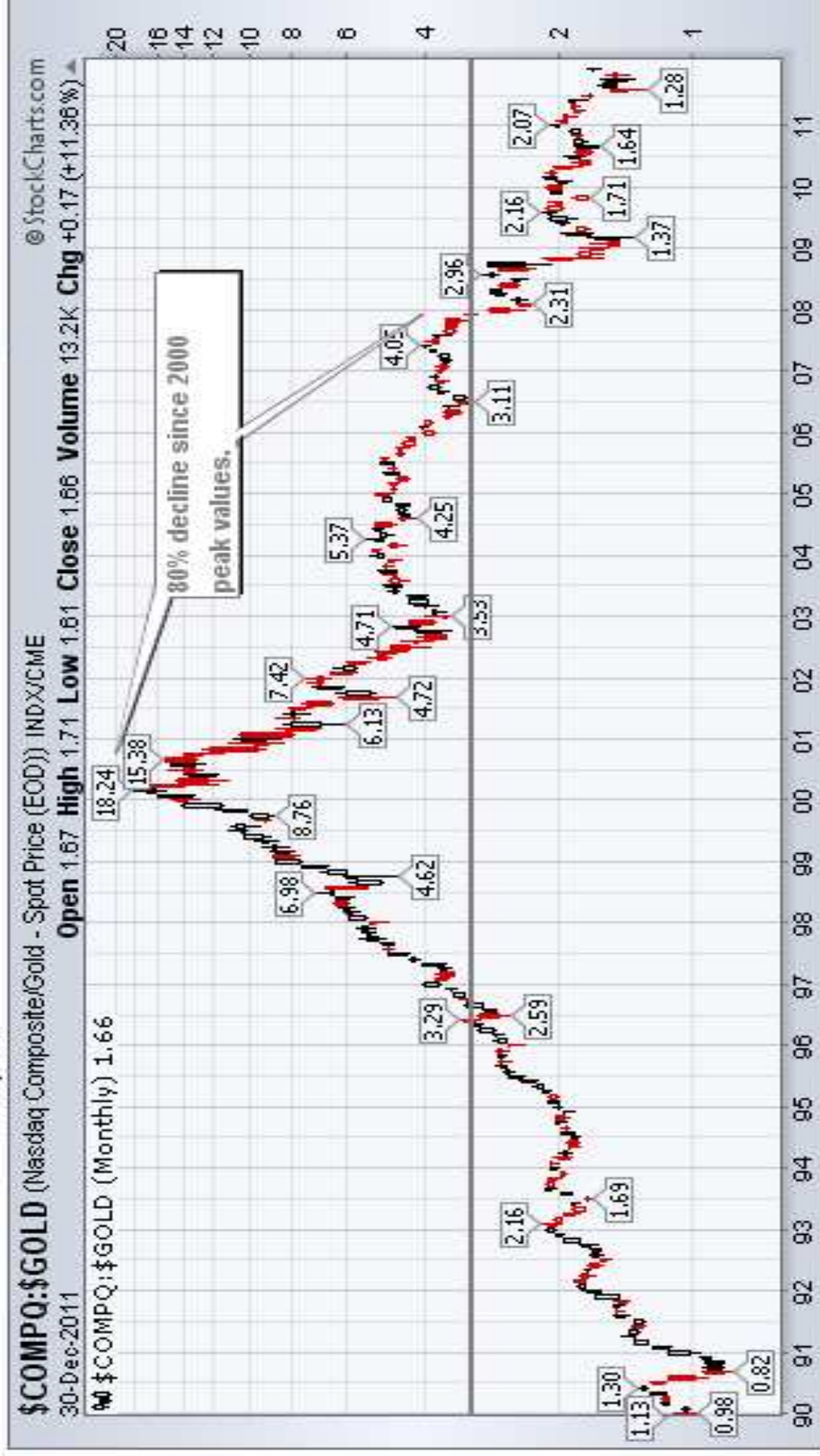


S&P 500

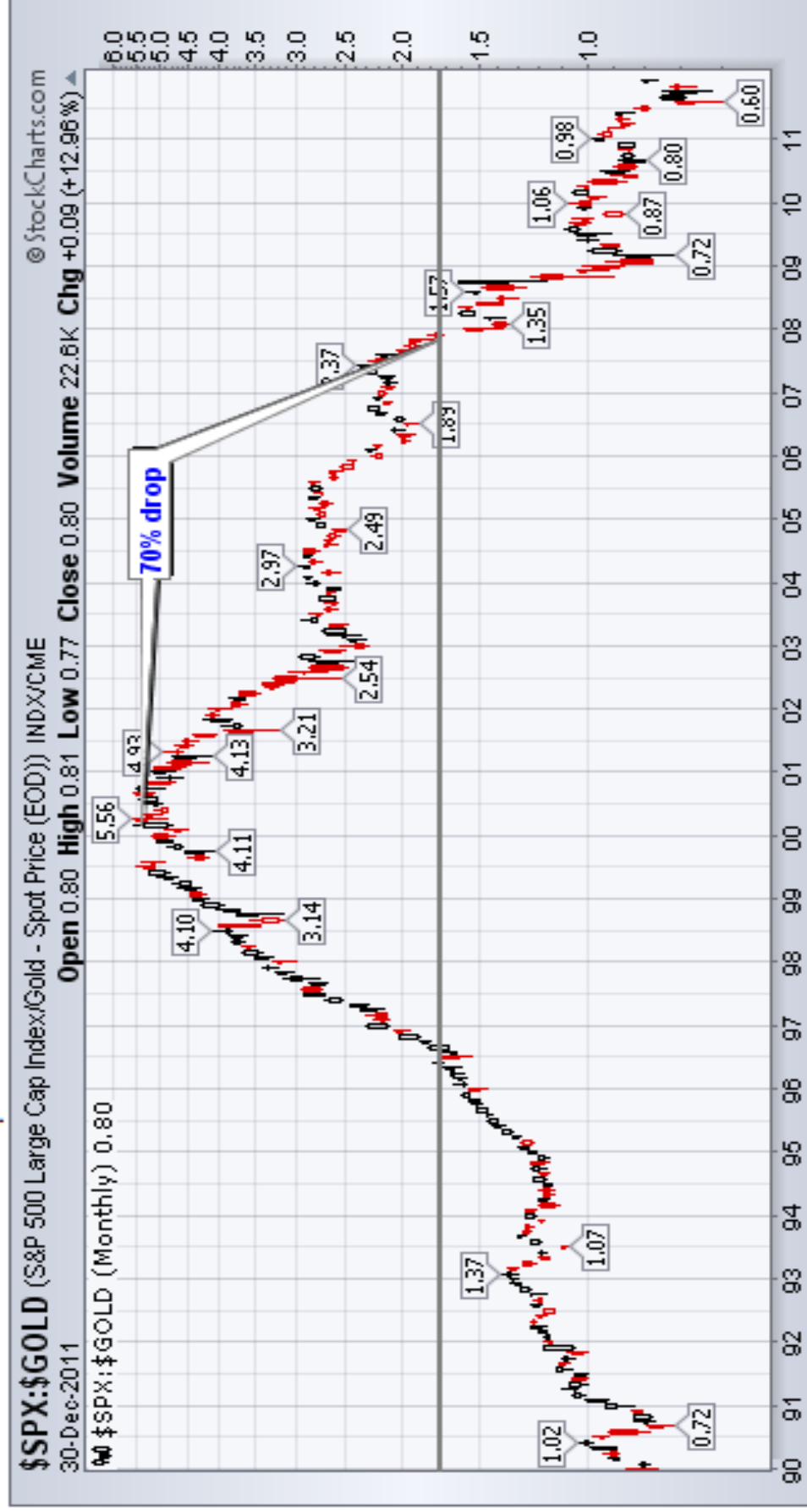


Stocks ... in the real world!

NASDAQ Composite



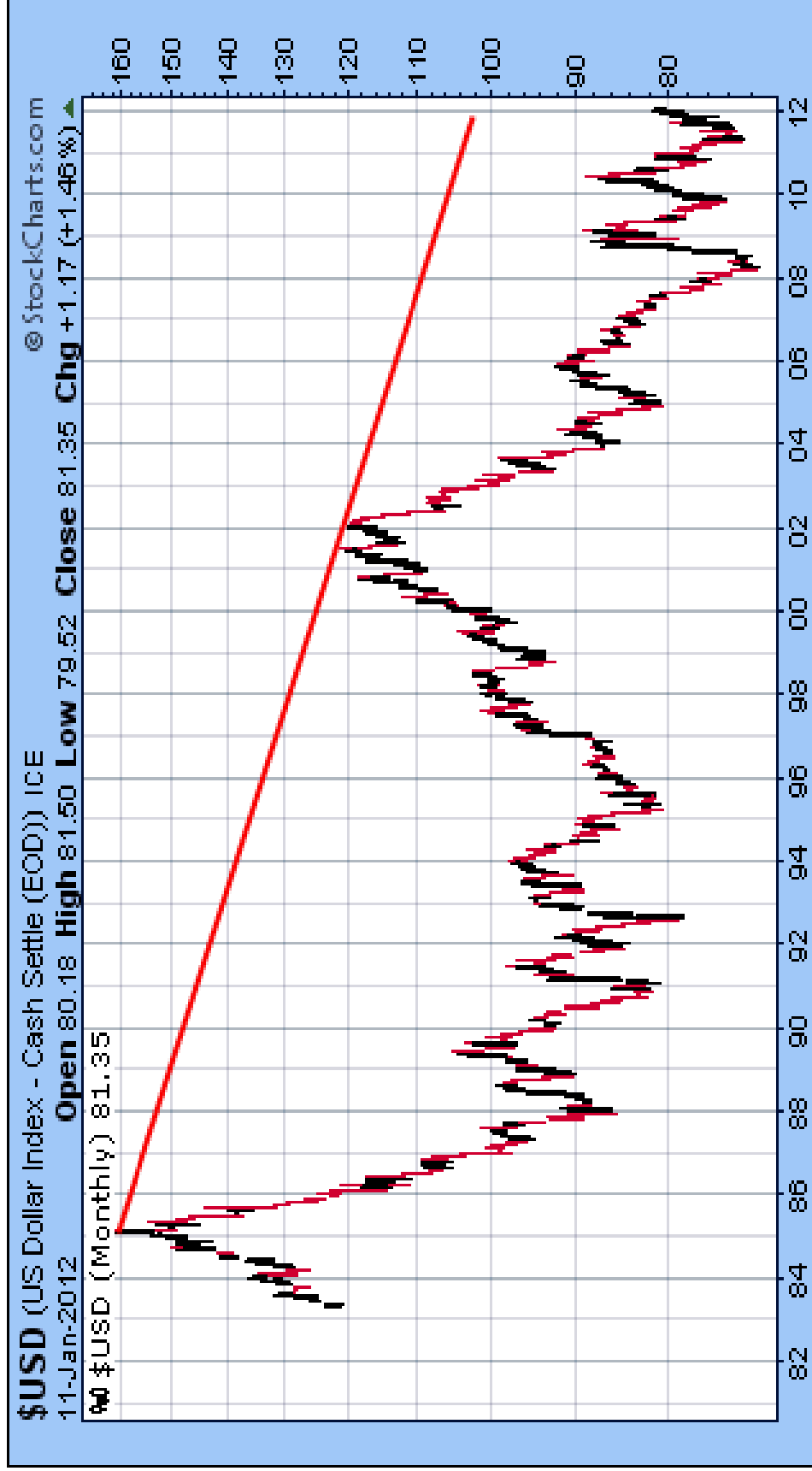
S&P 500



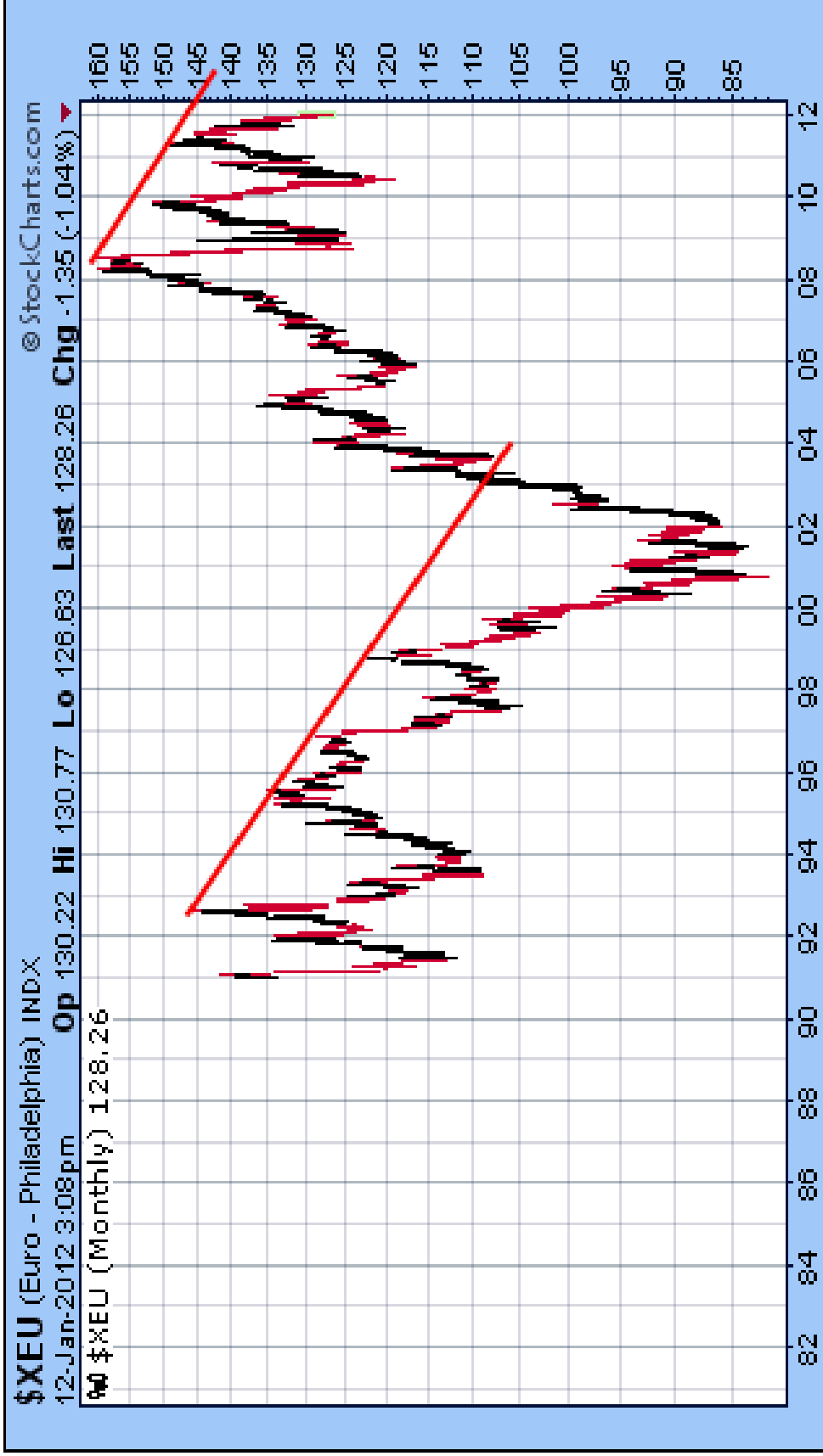
Counting Mechanisms of Exchange



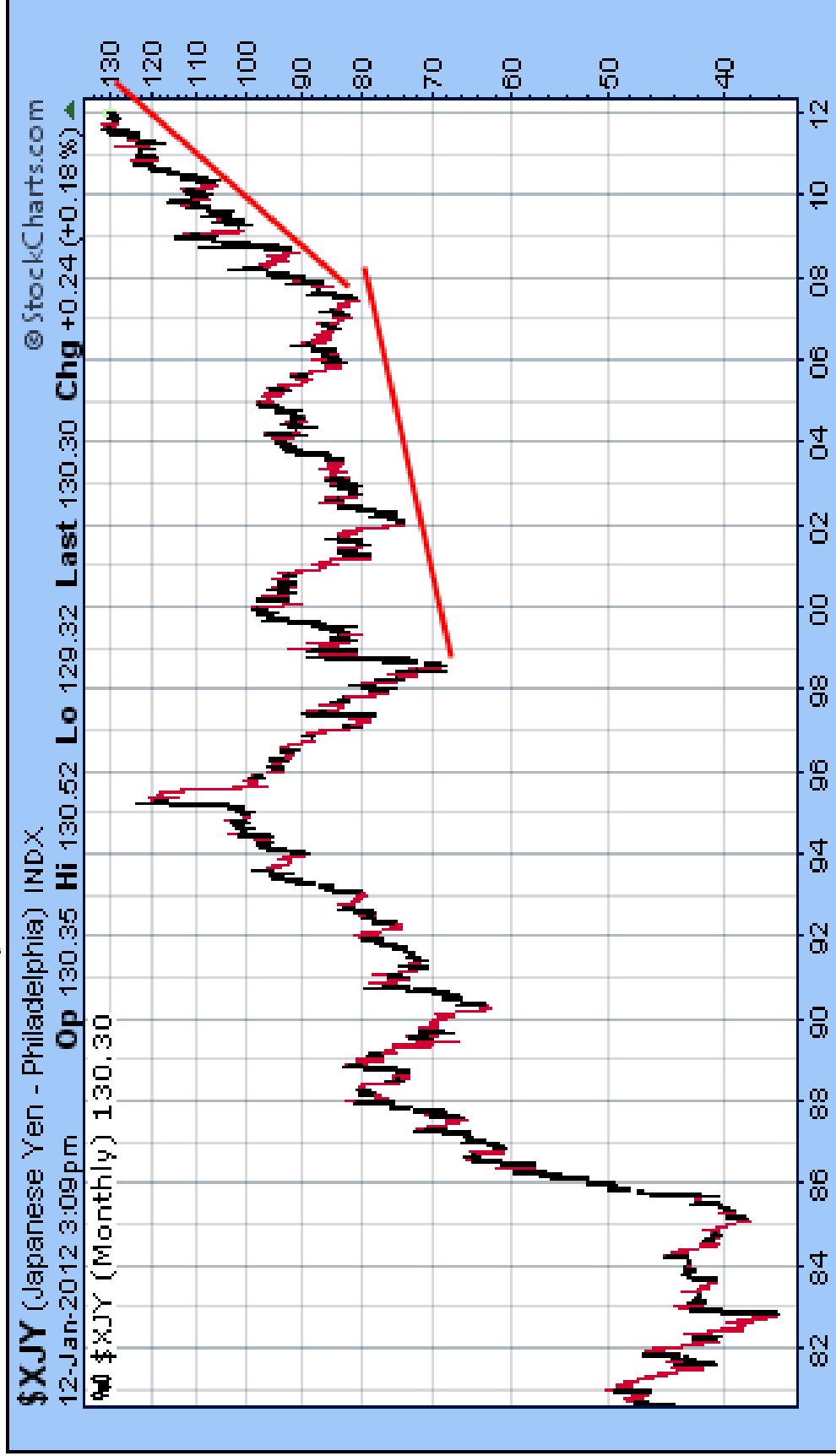
The US Dollar Index



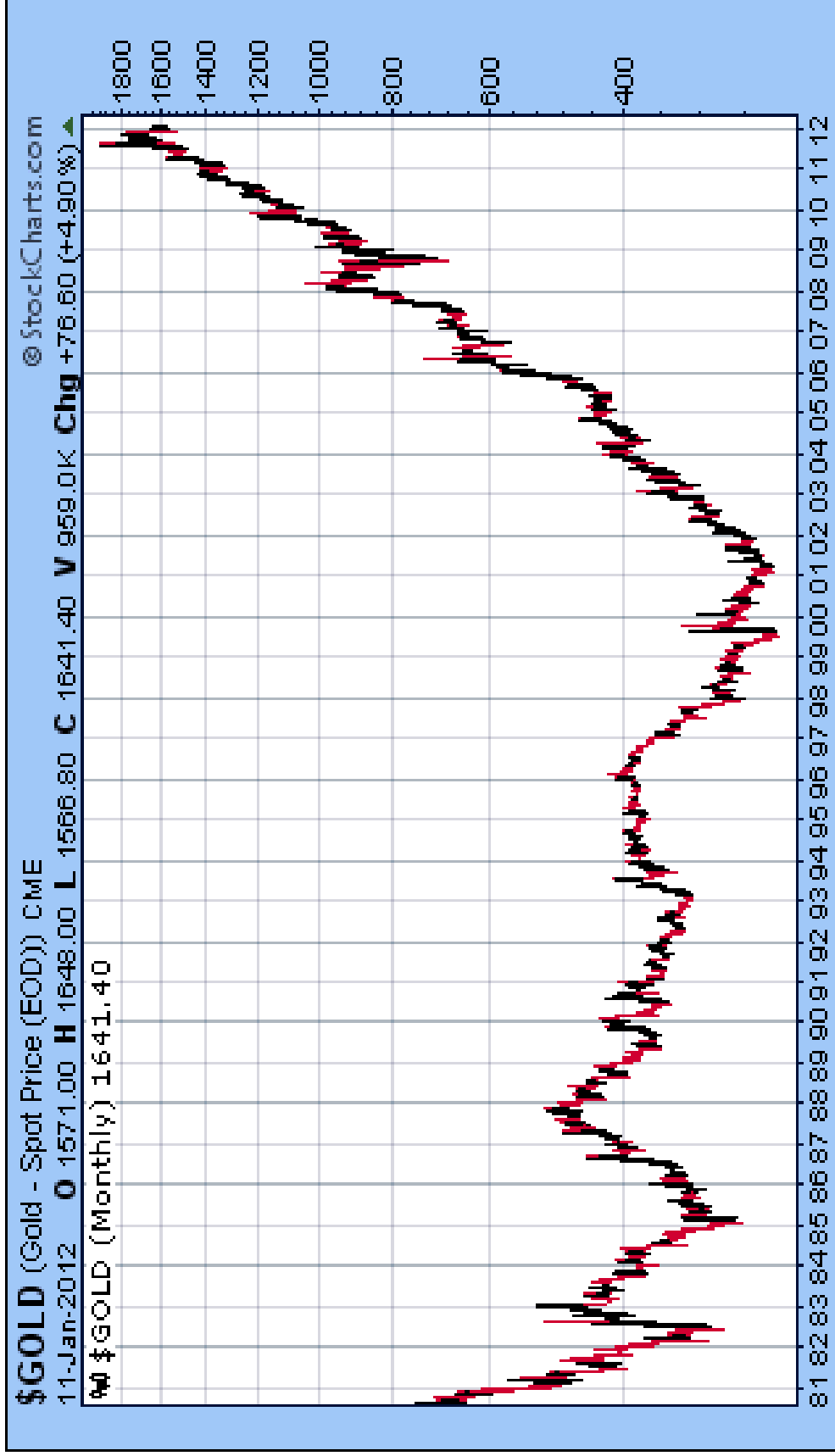
Euro



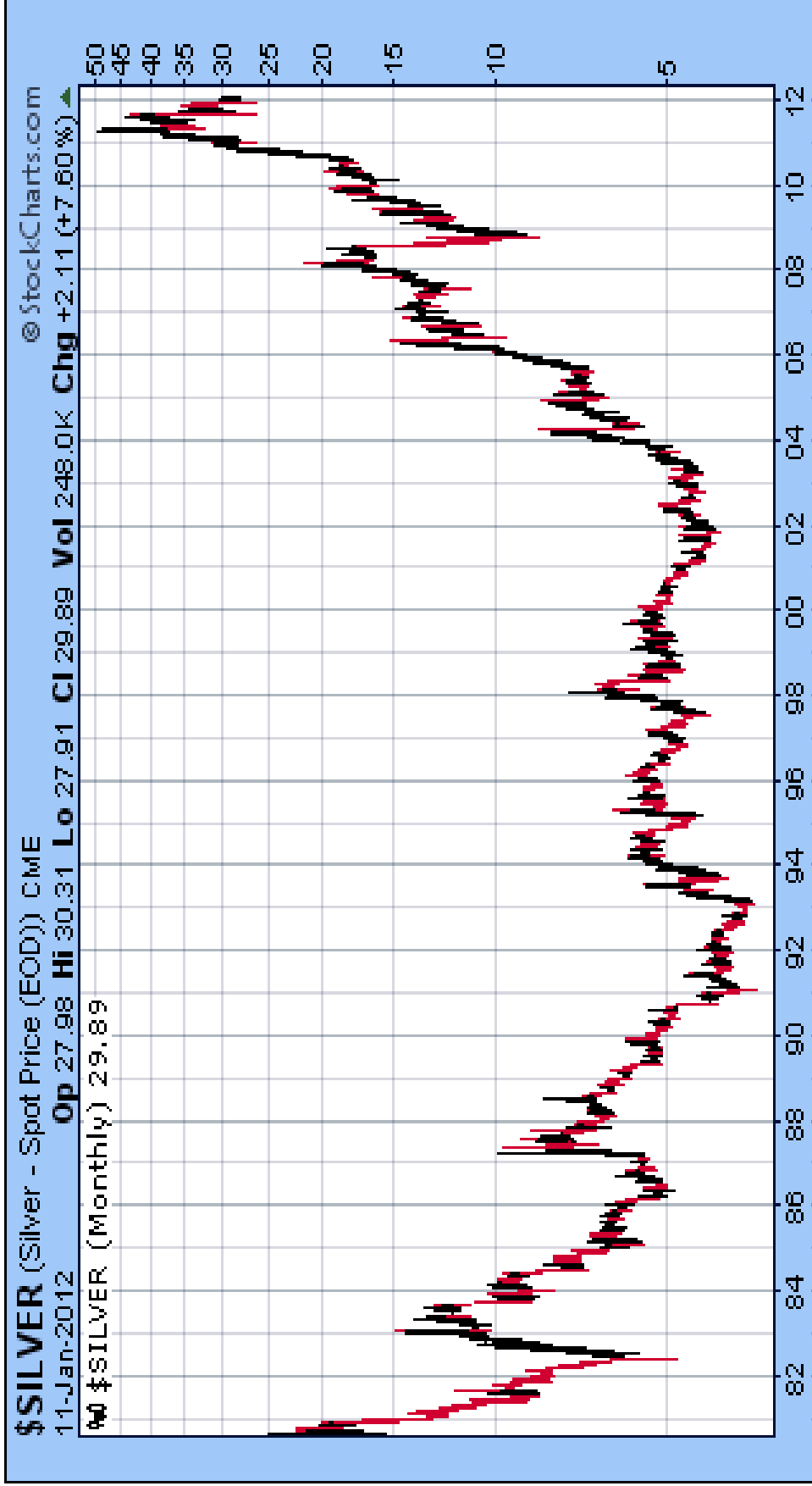
Yen



Gold



Silver





The US is insolvent!

Better prepare yourself for the end game!

The only way out is ...

- Either taxes must increase or spending must decrease!
- Otherwise ...
- Printing press inflation will lead to either
 - Stagflation
 - Inflation, or
 - Hyper-Inflation

Who's responsible for this?

The voter and no one else!

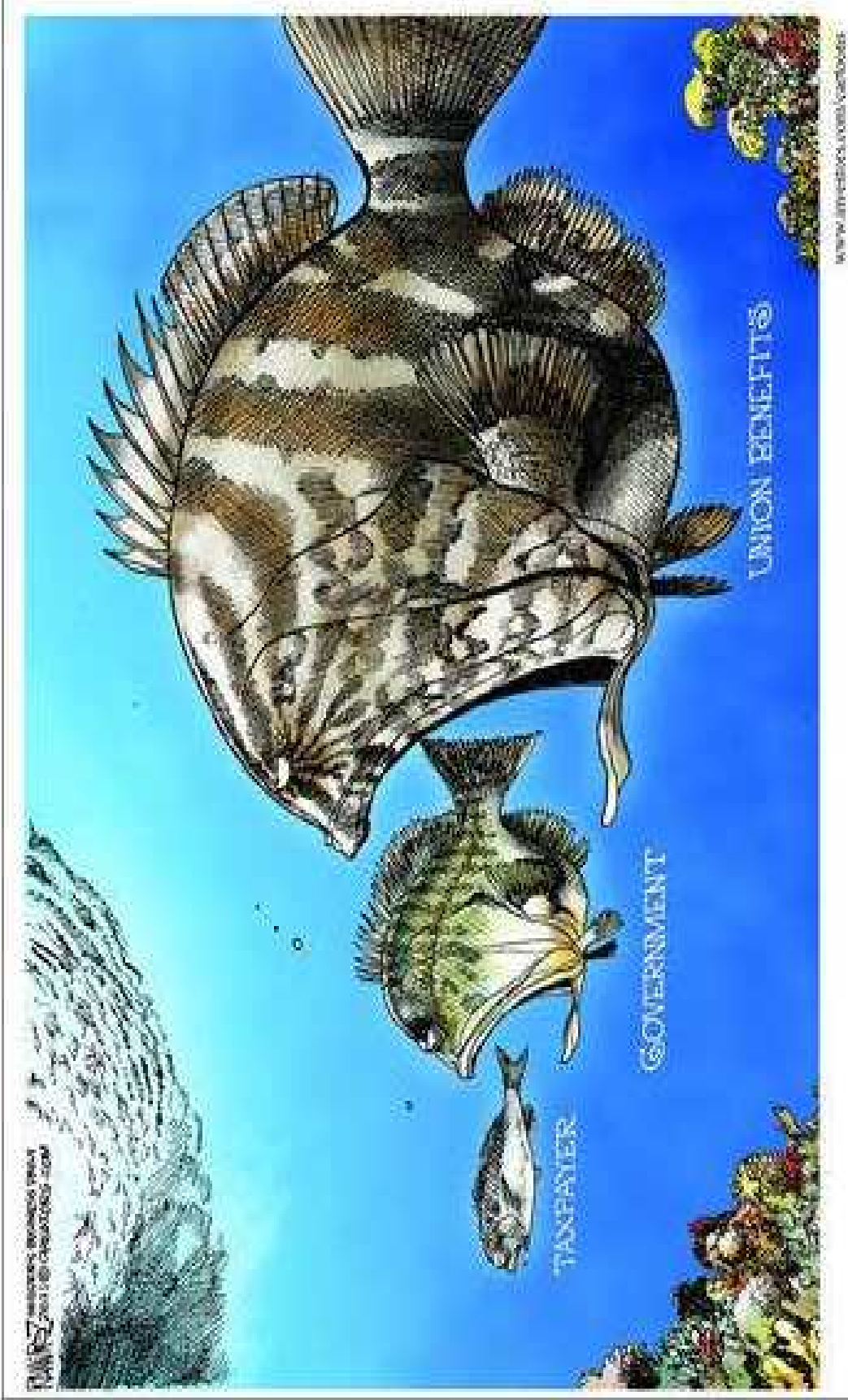
Deleveraging changes the mindset!

- Black Swan Event
- Overextended loans
- Shrinking asset values
- Employment declines
- Hoarding of real assets

Can bankruptcy be prevented?

WHERE TO NOW?

The real world!



Is the tipping point behind us?

- The electorate is becoming more involved
- Government is 42% of GDP
- Government unions are 52% of total union members
- 17% of all jobs are in government
- Entitlement programs keep expanding
- Few government programs meet their initial cost projections

Only if hard solutions are demanded and initiated

CAN THE END GAME BE ABORTED?

Conclusion

- Will we see the 250th birthday of the republic?
- Reduce taxes and increase incentives to put people back to work
- US must be able to compete globally on all fronts
- Elect statesmen rather than politicians
- **Purchasing Power is the only thing that counts**
... in the U.S., the dollar is only the way we count.

Which way are you looking?



That's all!

The full 'Outlook 2012' can be found at:

www.adrich.com