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What you don't want to hear!

Fred Richards

Rotary Club
Brookhaven CC

Disclaimer

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Fred F. Richards, Jr.



You can't handle the truth!

Jack Nicholson in "A Few Good Men."

Let me apologize upfront!

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- What I have to say may make you feel uneasy, uncomfortable, and ready to lynch me.
- That's o.k.
- Because that will mean that I have forced you to confront reality.
- Hopefully, in doing so, you will have to decide what steps you must take to solve today's problems!



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Who's responsible for this mess?

You as a voter!

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The Voters are responsible!

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- Did you vote in every election?
- Did you demand honest elections?
- What steps have you taken to assure that the constitutional requirements for all offices be met?
- Did you abdicate your citizenship by failing to demand that the constitution be upheld by all parties?
- Have you ever read the Constitution, the Bill of Rights and the Federalist papers?
- Do you believe that words mean what they say or are you ok with the definition of “is” and other permutations?

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The Economy

What may impact your portfolio going forward!

Problem #1 - Debt

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- **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*
- *Stimulus programs address liquidity, not insolvency*
- *FASB 157 change to “Mark-to-Make Believe”*

Problem #2 – Demographics

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- **Meaningful jobs for 7 billion people**
- **In U.S., if over 55, unemployment may be permanent**
- **Declining birth rate not good for housing in US**
- **Increasing productivity reduces labor costs**
- **Undeveloped country low wages not an advantage**
- **Robotics decreases labor costs**
- **Repetitive movements eliminated**

2012 Forecasts

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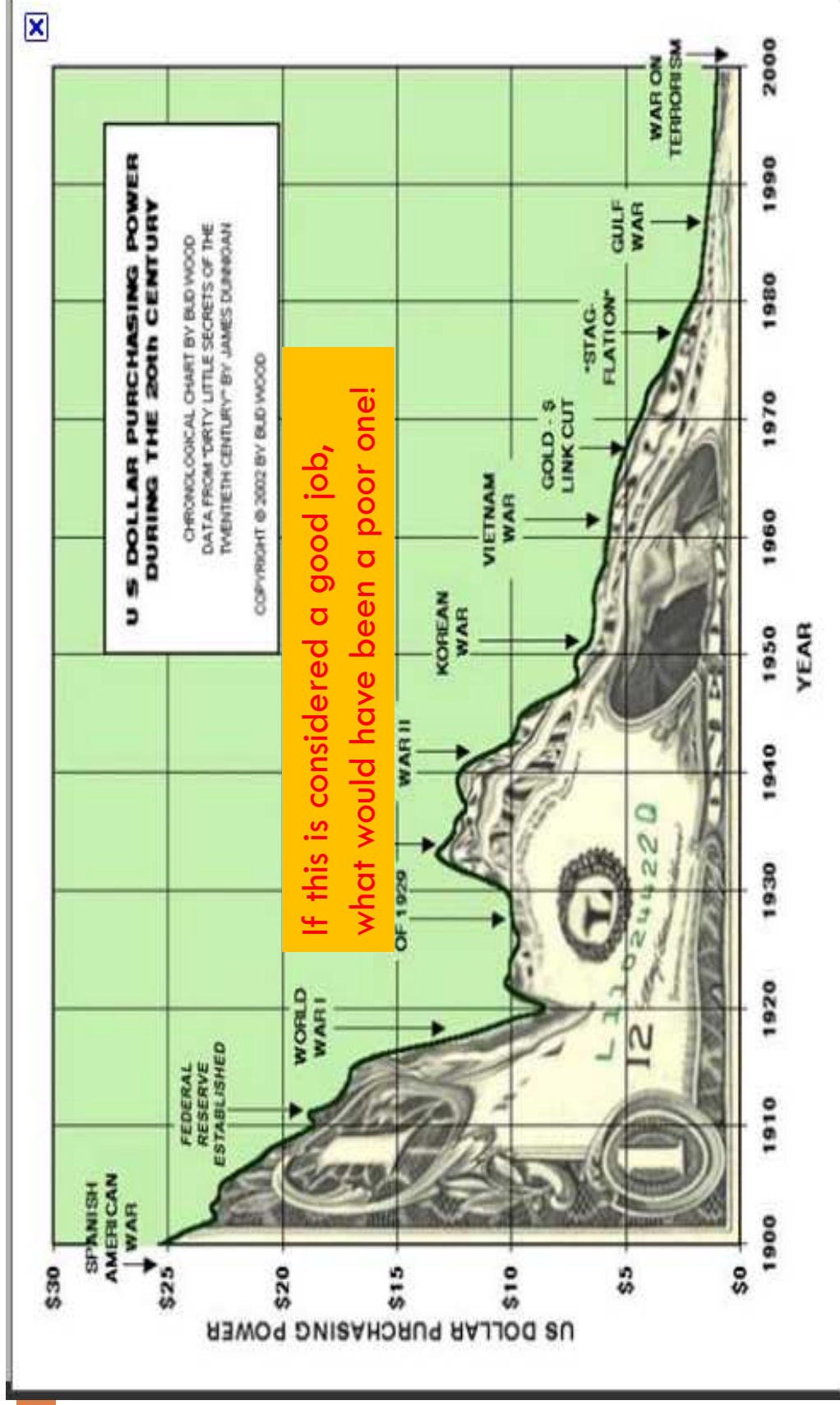
- World GDP – \$63.4 T
- World Savings - \$2.2 T
- US GDP - \$15.5 T
- US Federal Deficit - \$1.2T
- US GAAP Federal Deficit - \$4.8 T
- US Trade Deficit - \$400 - \$700 B
- US Treasury FY 2012 funding needs - \$4.0 T

The Federal Reserve Charter

"to help counteract inflationary and deflationary movements and to share in creating conditions favorable to a sustained higher level of employment, a stable dollar, growth of the country, and a rising level of consumption."

Purchasing Power & the FED

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Government Options To Solve The Debt Problem

* Tried These Already



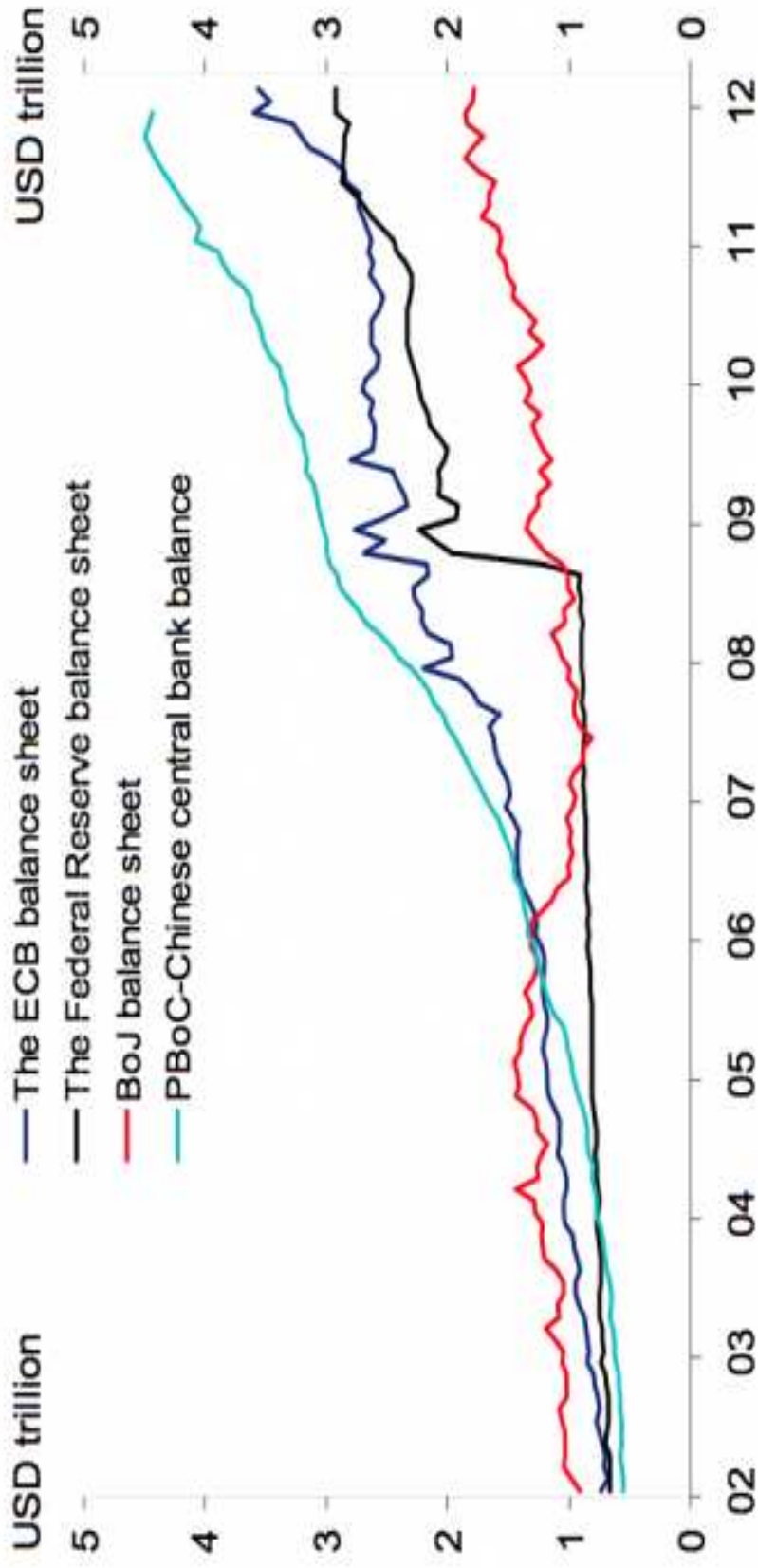
Source: Getting There, By DoubleLine

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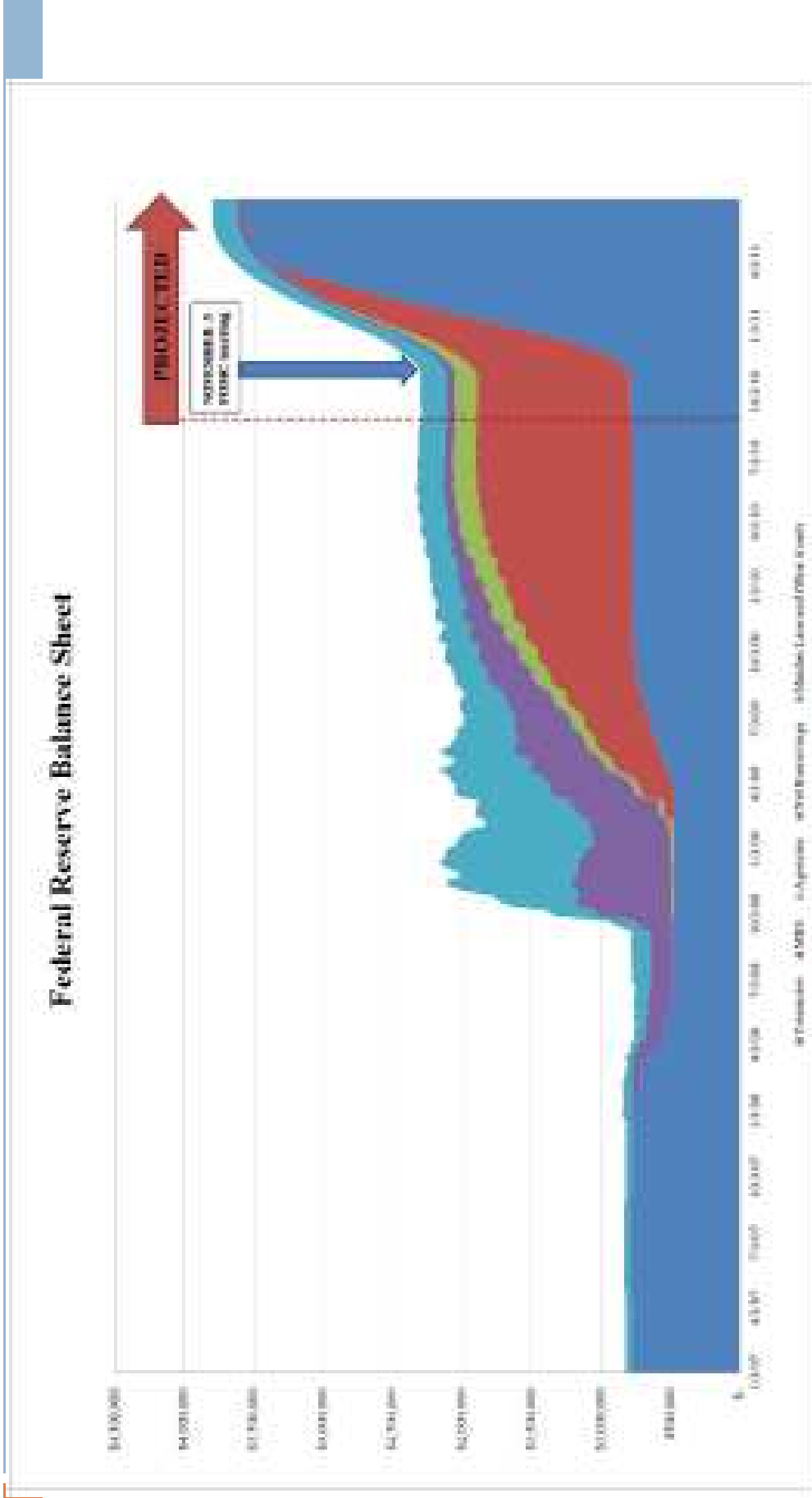
Major world Central Banks growth



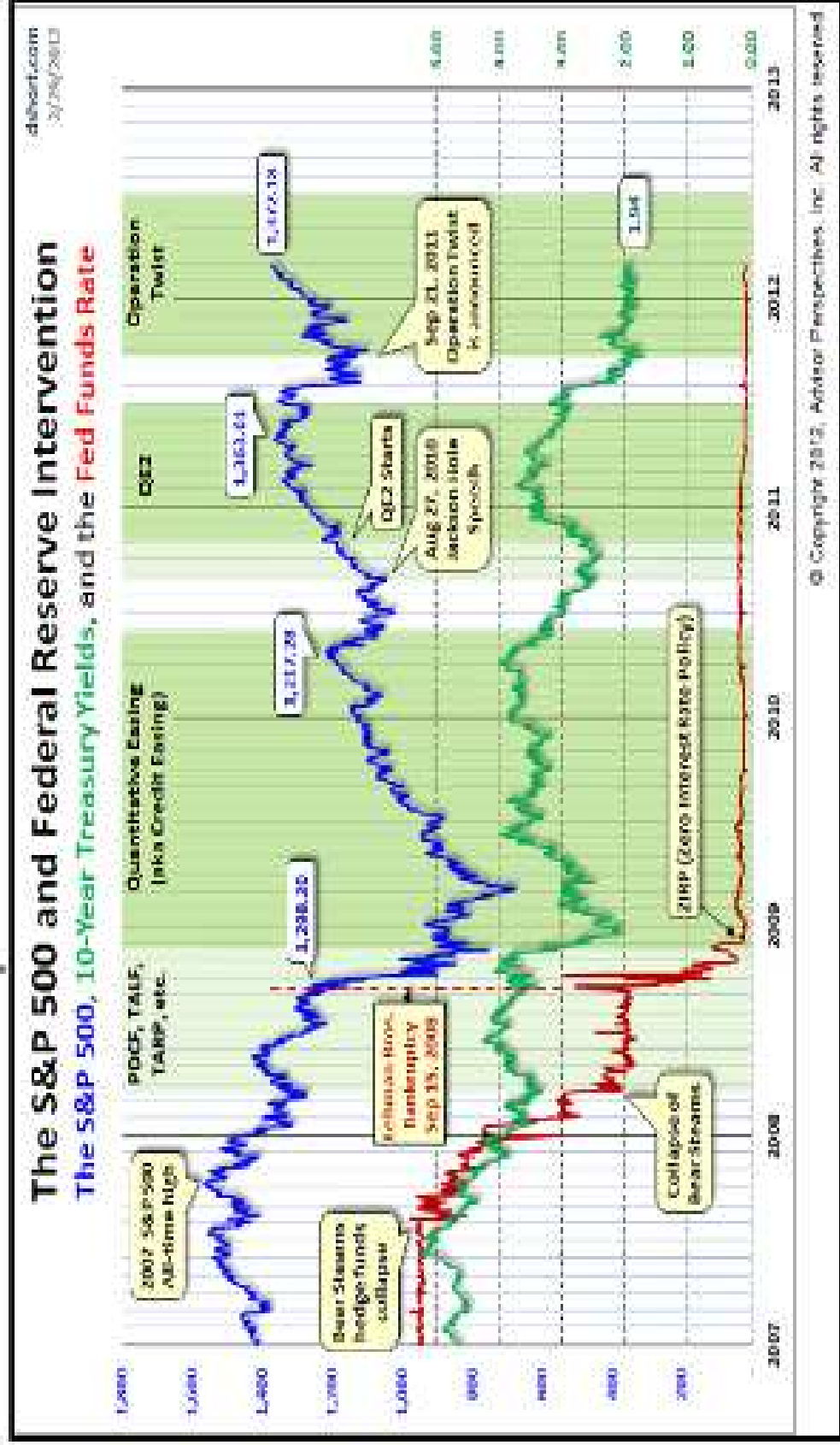
US, ECB, BoJ, and PBoC balance sheets measured in USD



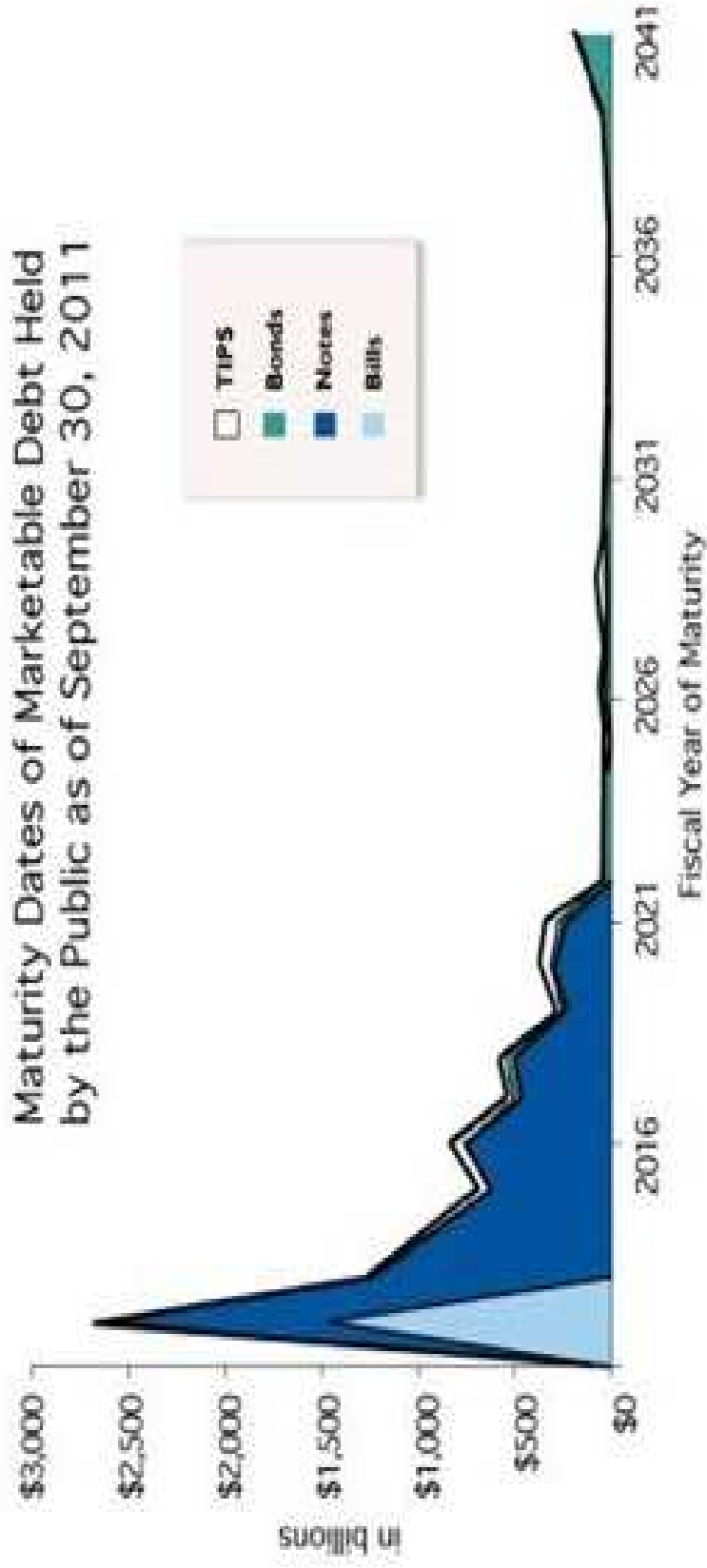
Quantitative Easing and Default



QE and the Market



Maturity Schedule - Refinance



Source: *FAO*

Things you better remember ...

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- Money goes to where it is most appreciated!
- Innovation does not abound in a government-controlled environment.
- The trouble with socialism is that you eventually run out of other people's money!

Words of Wisdom from Harvard

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- 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

The U.S. Federal Debt Problem

Financial Report
of the United States Government



7 of 14 major departments
did not receive a
“unqualified opinion!”
They account for over 50%
of the total budget!

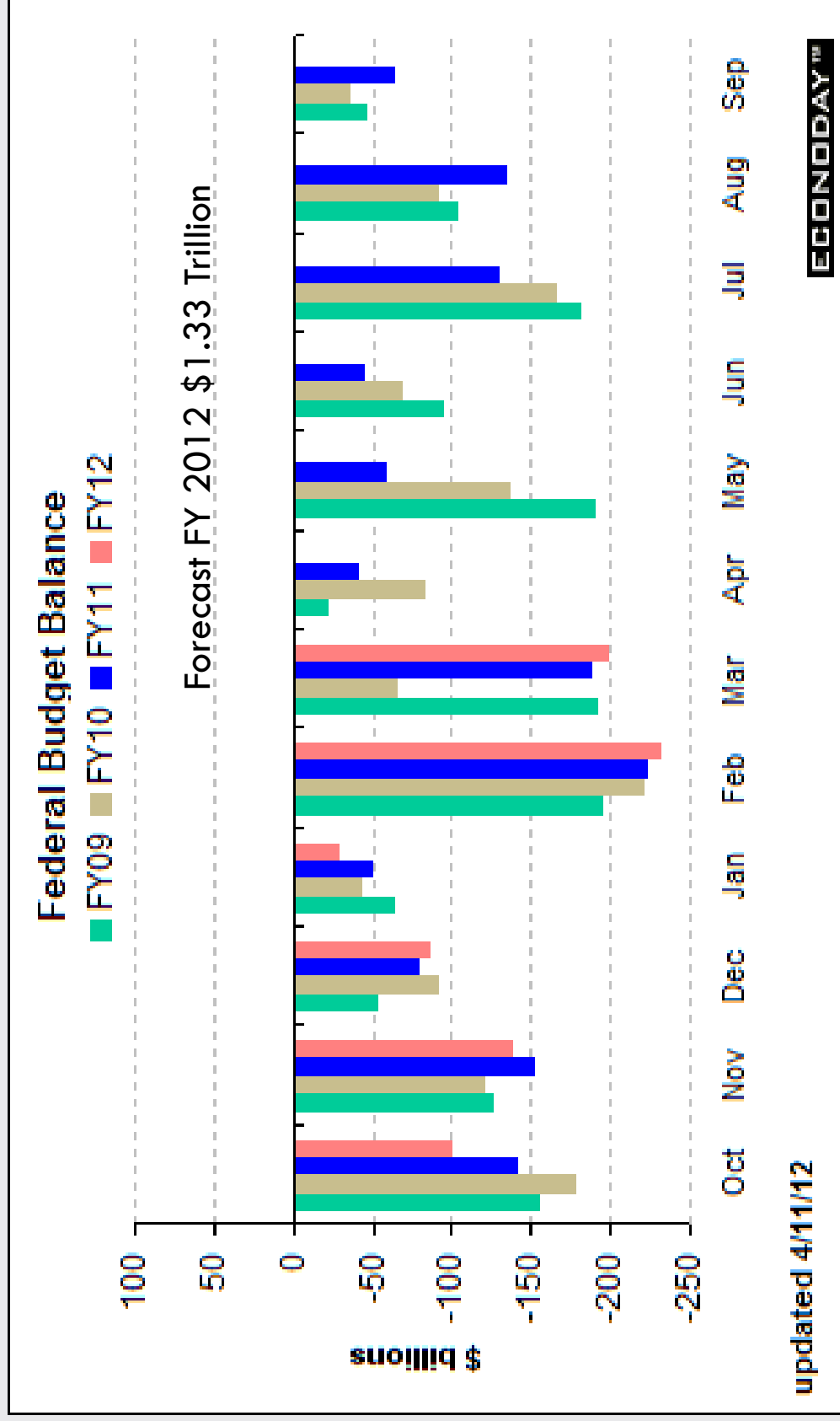
<http://www.fms.treas.gov/fr/index.html>

Trying to Understand Debt

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- Definitions
 - Stated Cash Debt \$15.6 Trillion as of today
 - G.A.A.P. Debt \$80.9 Trillion as of 9/30/2011
- Public vs. Privately Held Cash Debt - today
 - \$10.9 Trillion held by public including foreign
 - \$4.8 Trillion held by intergovernmental agencies
 - The Fed is largest holder, China, then Japan
- Off-balance sheet debt - \$9.2 Trillion and growing
- Unfunded Liabilities - ????

What you think you know?



U.S. GAPP deficit

U.S. Government - Alternative Fiscal Deficit and Debt Numbers
Reported by U.S. Treasury

Sources: U.S. Treasury, Shadow Government Statistics.

(I) Fiscal Year	(II) Formal Cash- Based Deficit (1) (\$Billions)	(III) GAAP Ex-SS Deficit (3) (\$Billions)	(IV) GAAP With SS Etc. Deficit (3) (\$Trillions)	(V) GAAP Federal Negative Net Worth (3) (\$Trillions)	(VI) Gross Federal Debt (3) (\$Trillions)	(VII) Total (2) Federal Obligations (GAAP) (3) (\$Trillions)
2011	\$1,298.6	\$1,312.6	\$4.6 ⁽⁵⁾	\$73.5	\$14.9	\$80.9
2010	1,294.1	2,080.3	5.3 ⁽³⁾	68.9 ⁽³⁾	13.6	\$76.3 ⁽³⁾

GAO - Alternative Based⁽³⁾

The "Real" U.S. Federal Debt

	Amount in Billions
U.S. Debt as of 9 March, 2012	\$ 15,505
Loans & Loan Guarantees in Major Federal Credit Programs	
Federal Housing Administration Programs	\$ 1,181
Student Loans	\$ 706
Veterans' Home Loans	\$ 258
Department of Agriculture Credit Programs	\$ 99
Small Business Administration Programs	\$ 82
Other	\$ 339
Total	\$ 2,665
Fannie Mae/Freddie Mac	\$ 6,000
Federal Deposit Insurance Corporation	\$ 500
Pension Benefit Guaranty Corporation	\$ 94
Total	\$ 24,764

Notes:

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Notes: Excludes unfunded liabilities of Social Security, Medicare and	
Medicare plus governmental employees and military pension	
and healthcare liabilities.	
FDIC potential	
PBGC liabilities	1.
Does not include	m commitments.
Sources:	
http://www.cbo.gov/ftpdocs/12xx/doc1255/12-5-FairValue_Brief.pdf	
Fannie Mae and Freddie Mac statements	
FDIC Loan Guarantee from Congress	
PBGC 2011 Actuarial Report	

Nor the cost of any military operations taken in the future!

The “Unfunded Liabilities”

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- Social Security
- Medicare
- Medicaid
- Government and Military pensions and health care benefits

Unfunded Liability estimates?

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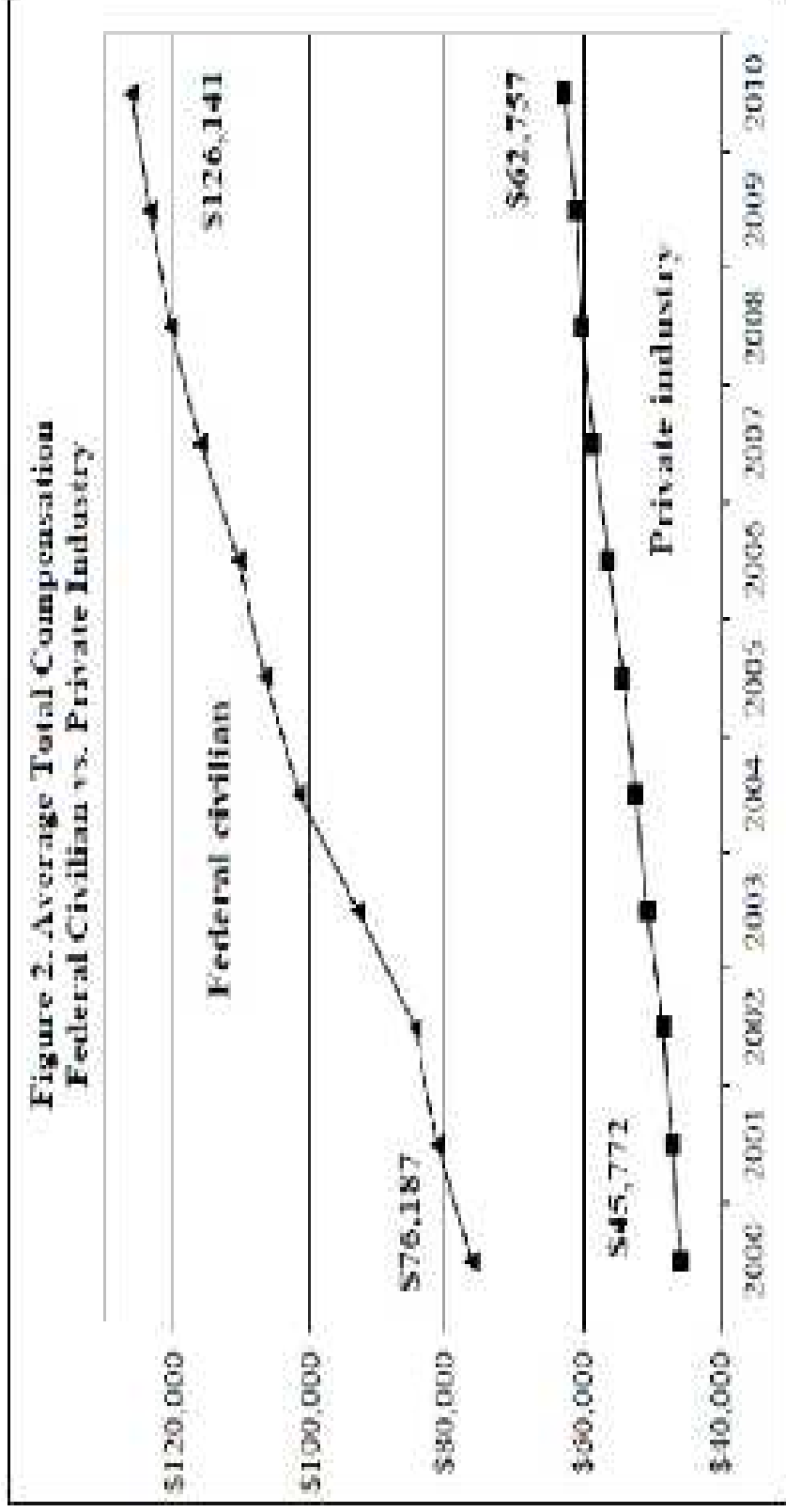
- It all depends upon
 - ▣ The time period
 - ▣ The discount rate
- Here are the high and low estimates
 - ▣ \$61.6 trillion – USA Today – June 2011
 - ▣ \$65 trillion ... U.S. GAO – December 2011
 - ▣ \$125 trillion ... Dallas Federal Reserve – 2011
 - ▣ \$144 trillion ... Usdebtclock.org - 2012
 - ▣ \$225 trillion ... UCLA Economics research paper 2012

How to solve the problem ...

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- Reduce entitlements
- Cut spending
- Increase taxes
- OR
- Continue to inflate risking hyper-inflation!

Federal/Civilian Total Compensation



Source: <http://www.bureauofeconomicanalysis.gov/compensation>

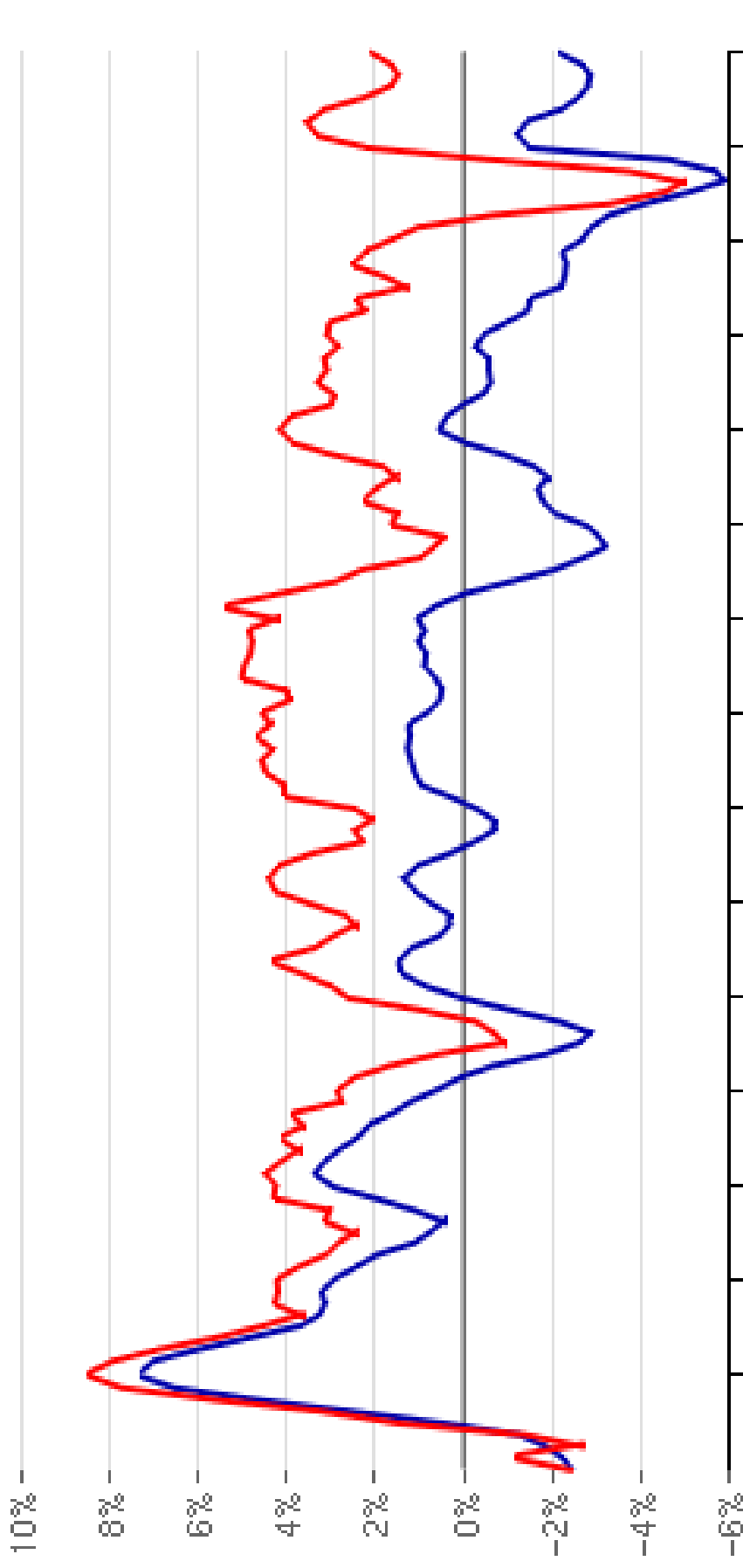
THE U.S. ECONOMY

Signs of the Times/Hiding reality!

GDP Annual Growth - Official vs SGS

Annual Change through 2012q1 (SGS, BEA)

— Official (BEA) — SGS Alternate

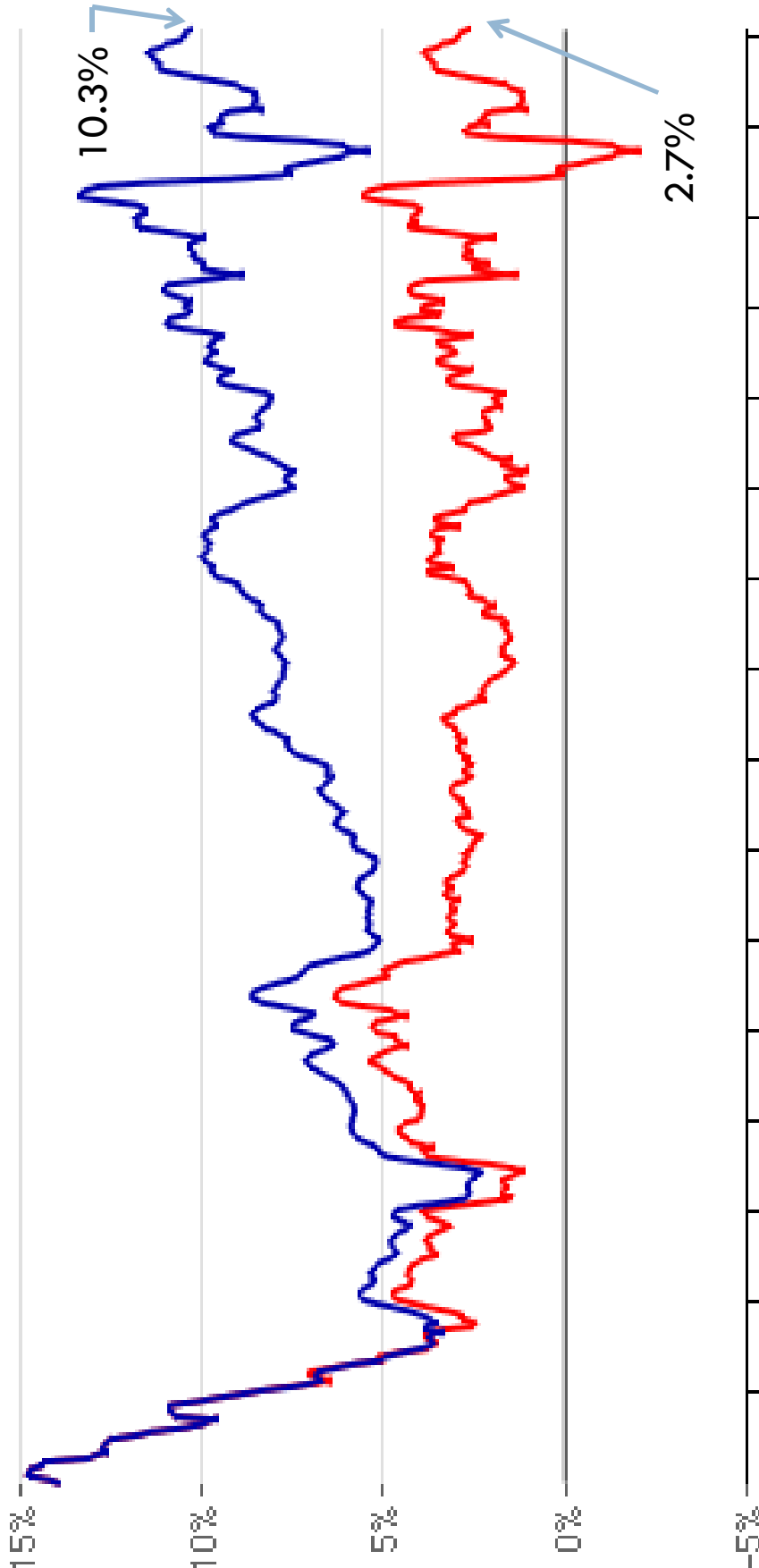


1984 1986 1988 1990 1992 1994 1996 1998 2000 2002 2004 2006 2008 2010 2012
Published: Apr. 27, 2012
shadowstats.com

Annual Consumer Inflation - Official vs SGS (1980-Based) Alternate

Year to Year Change. Through Mar. 2012. (BLS, SGS)

— SGS Alternate CPI, 1980-Based — CPI-U

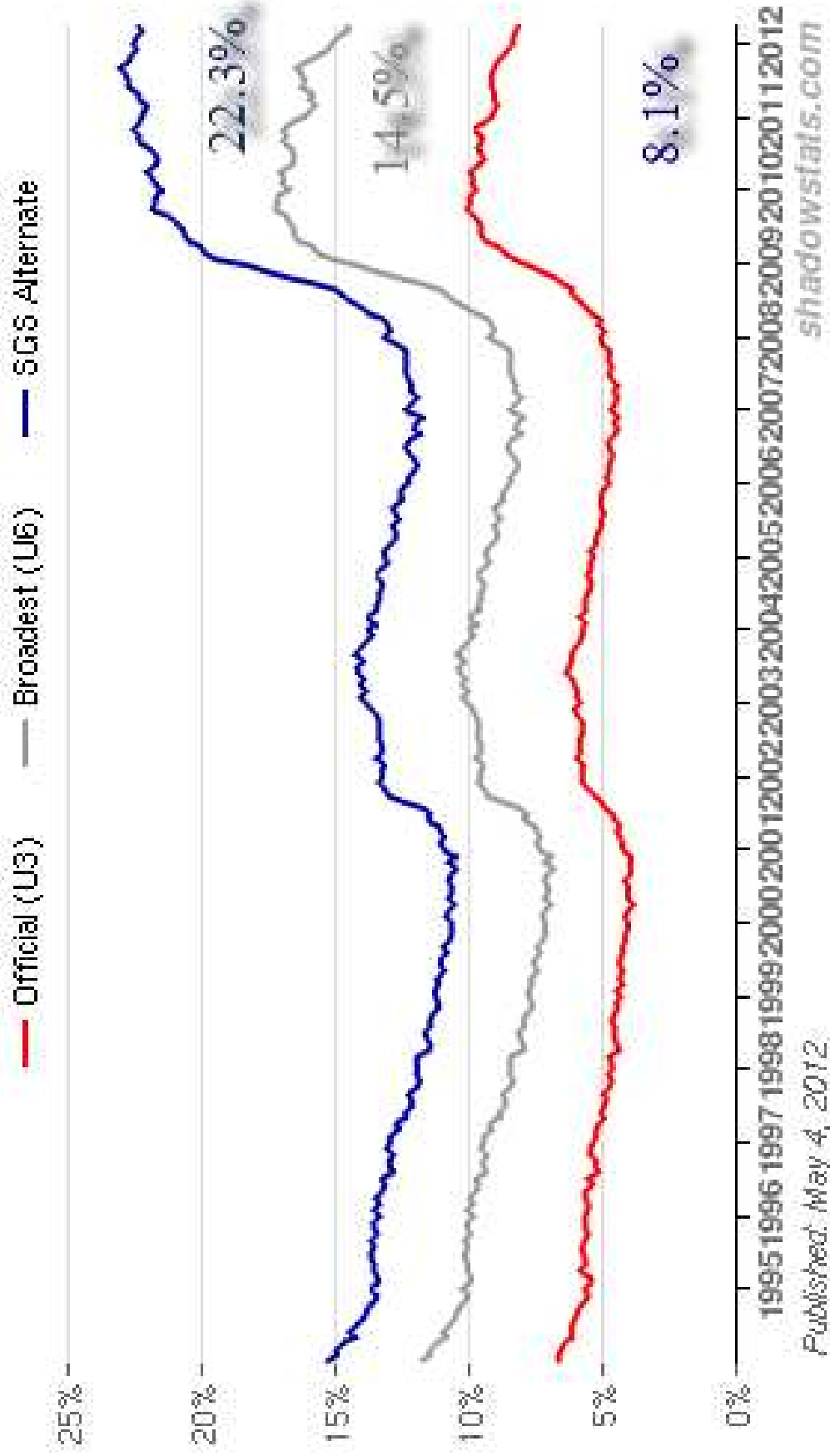


shadowstats.com

Published: Apr. 13, 2012

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

Monthly SA. Through Apr. 2012 (SGS, BLS)

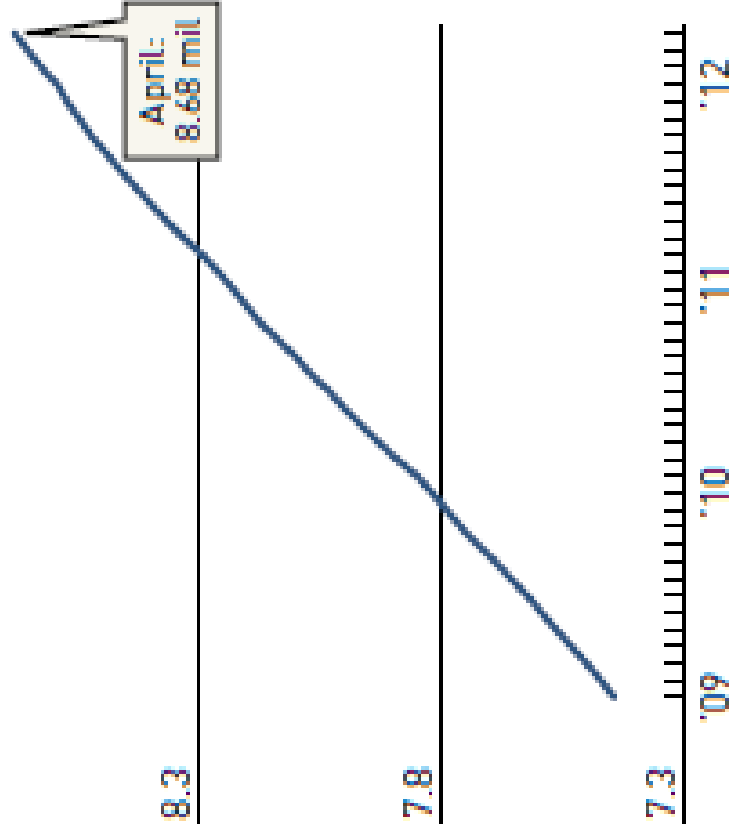


Workers Less Willing Or Able

Labor force shrinks as disability rolls climb

Workers on disability

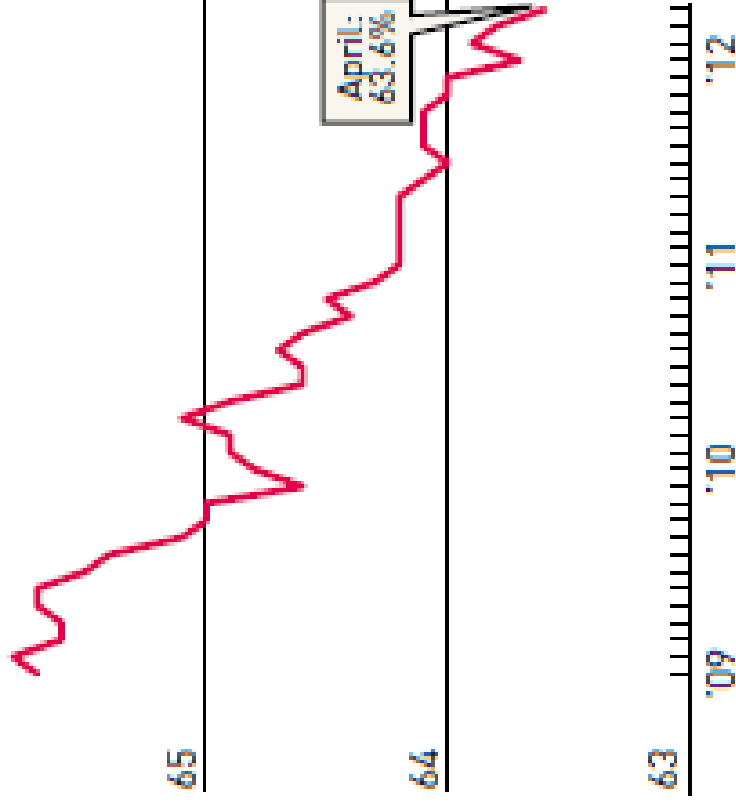
8.8 In millions



Source: Social Security Administration, Bureau of Labor Statistics

Labor force participation rate

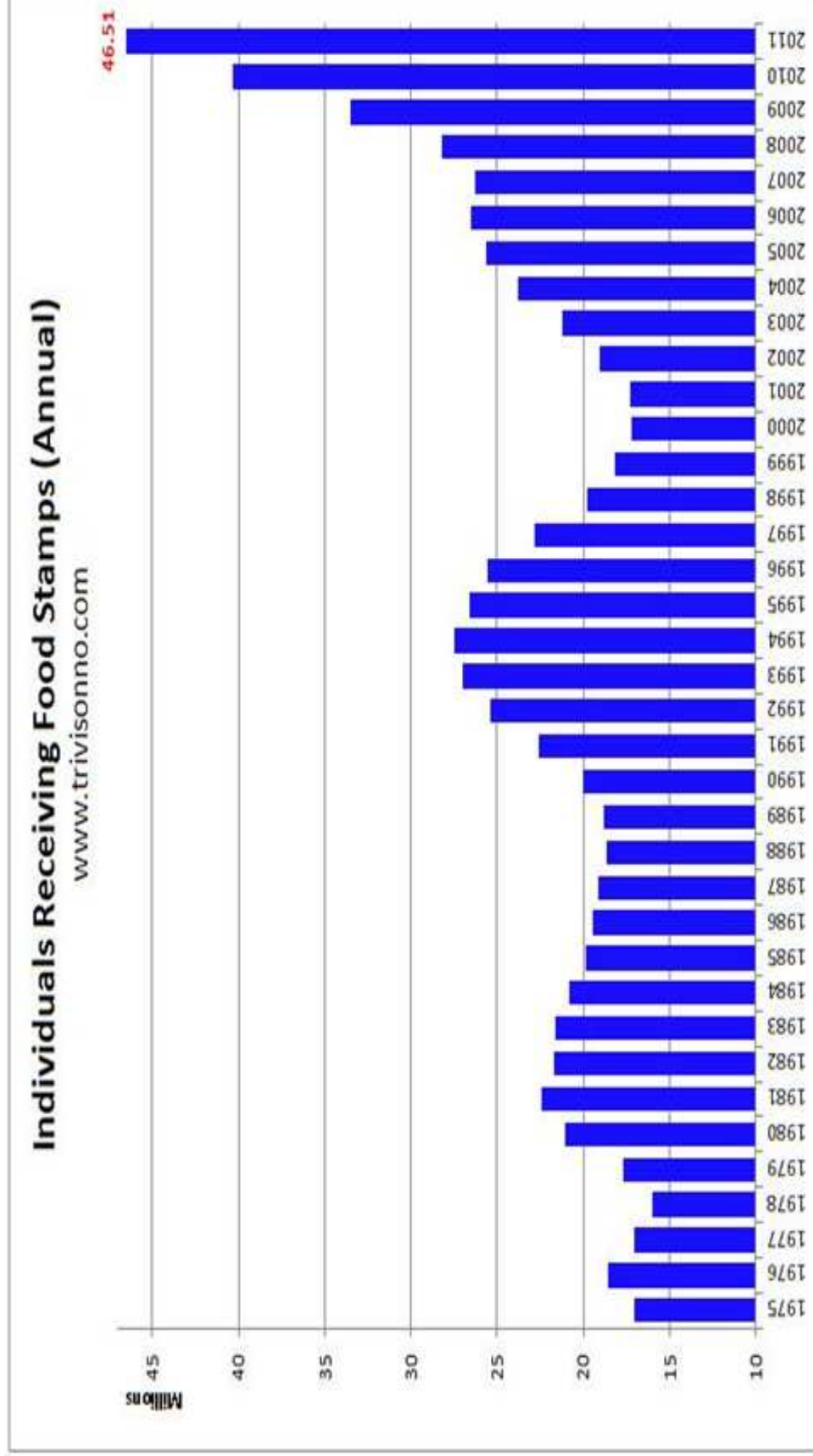
66%



2012 Establishment Survey	Jan	Feb	Mar	Apr
Total non-farm payroll, S.A.	132461	132720	132874	132989
Change from Previous Month	275	259	154	115
YTD Change	275	534	688	803
Birth/Death Adjustment	-367	91	90	206
YTD Change	-367	-276	-186	20
Source: BLS Employment Reports				
Table B-1. Employees on nonfarm payrolls				

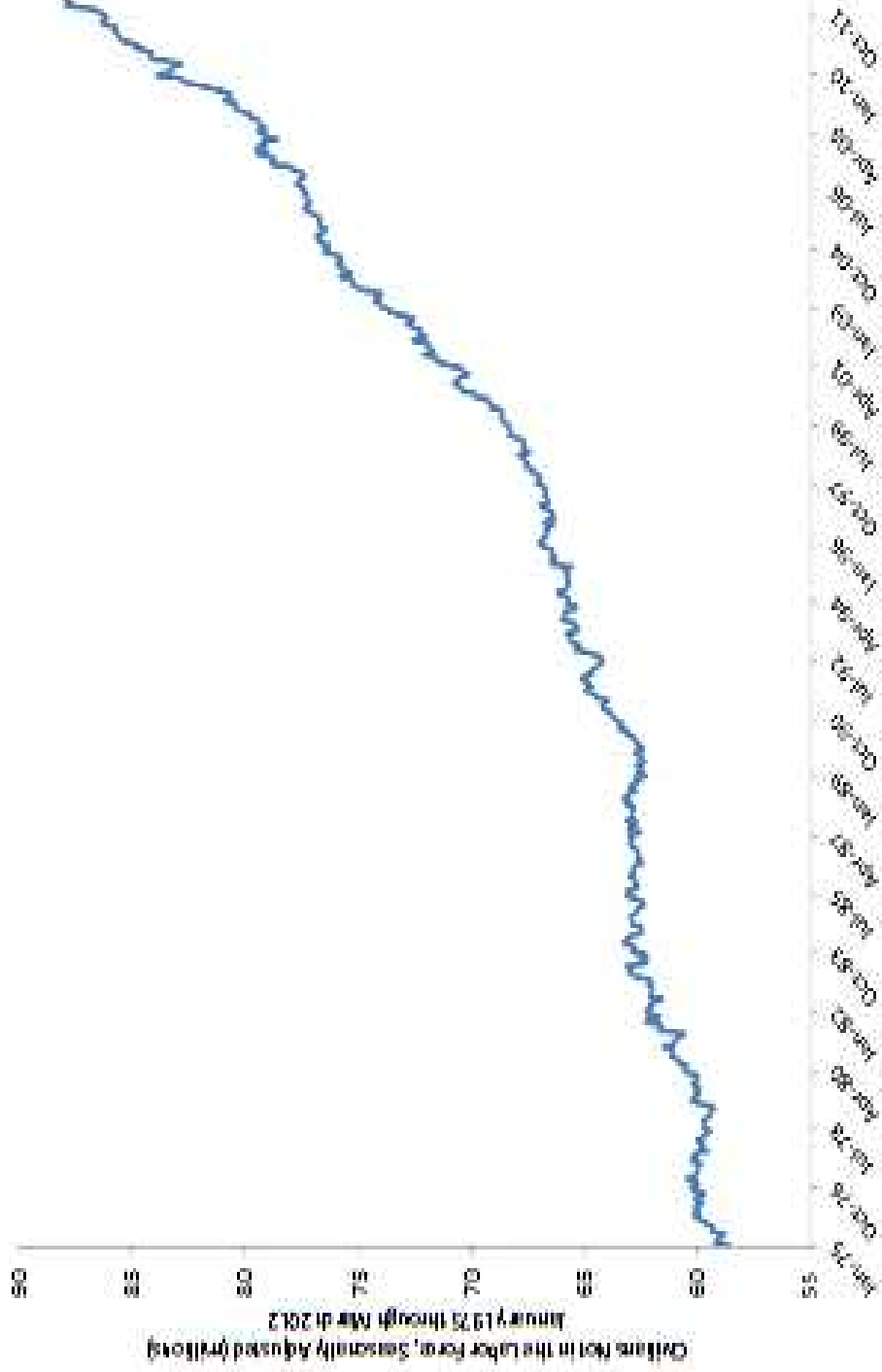
2012	Household Data		Mar		Apr	
	Not Seasonally Adjusted All data in '000's.	Previous Month		Previous Month		
		Mar	Change	Apr	Change	
Civilian noninstitutional population	242604	169	242784	180		
Civilian labor force	154316	202	153905	(411)		
Participation rate	63.6		63.4			
Employed	141412	728	141995	583		
Employment-population ratio	58.3		58.5			
Unemployed	12904	(526)	11910	(994)		
Unemployment rate	8.4		7.7			
Not in labor force	88288	(34)	88879	591		
Persons who currently want a job	6041	(335)	6328	287		
Source: BLS Reports. Table A-1, NSA data						

Food Stamps in U.S.



Civilians not in the Labor Force

January 1975 through March 2012

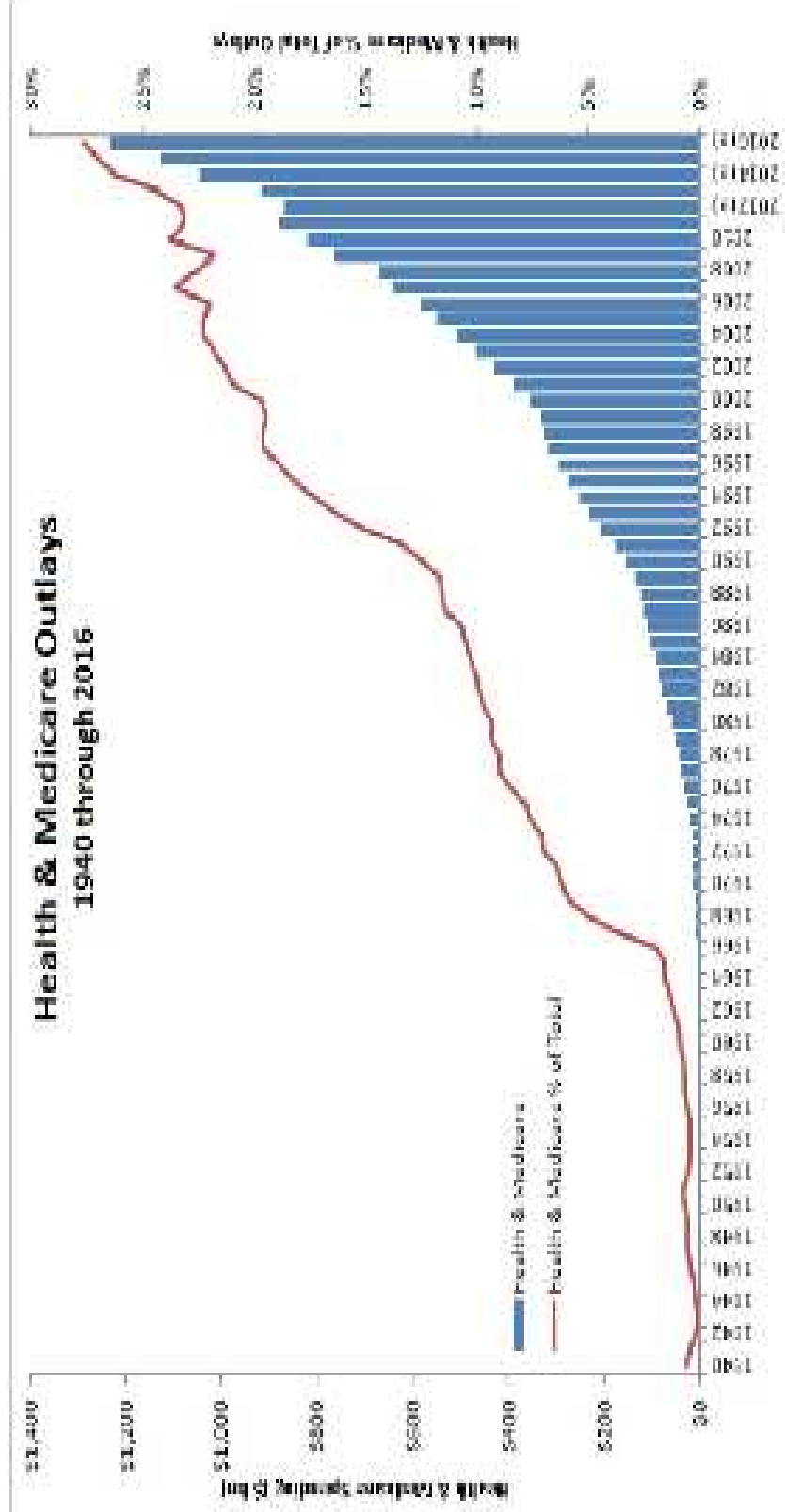


Source: Bureau of Labor Statistics

May 10, 2012

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Health and Medicare Outlays



Source: US Office of Management & Budget

STOCKS



NASDAQ

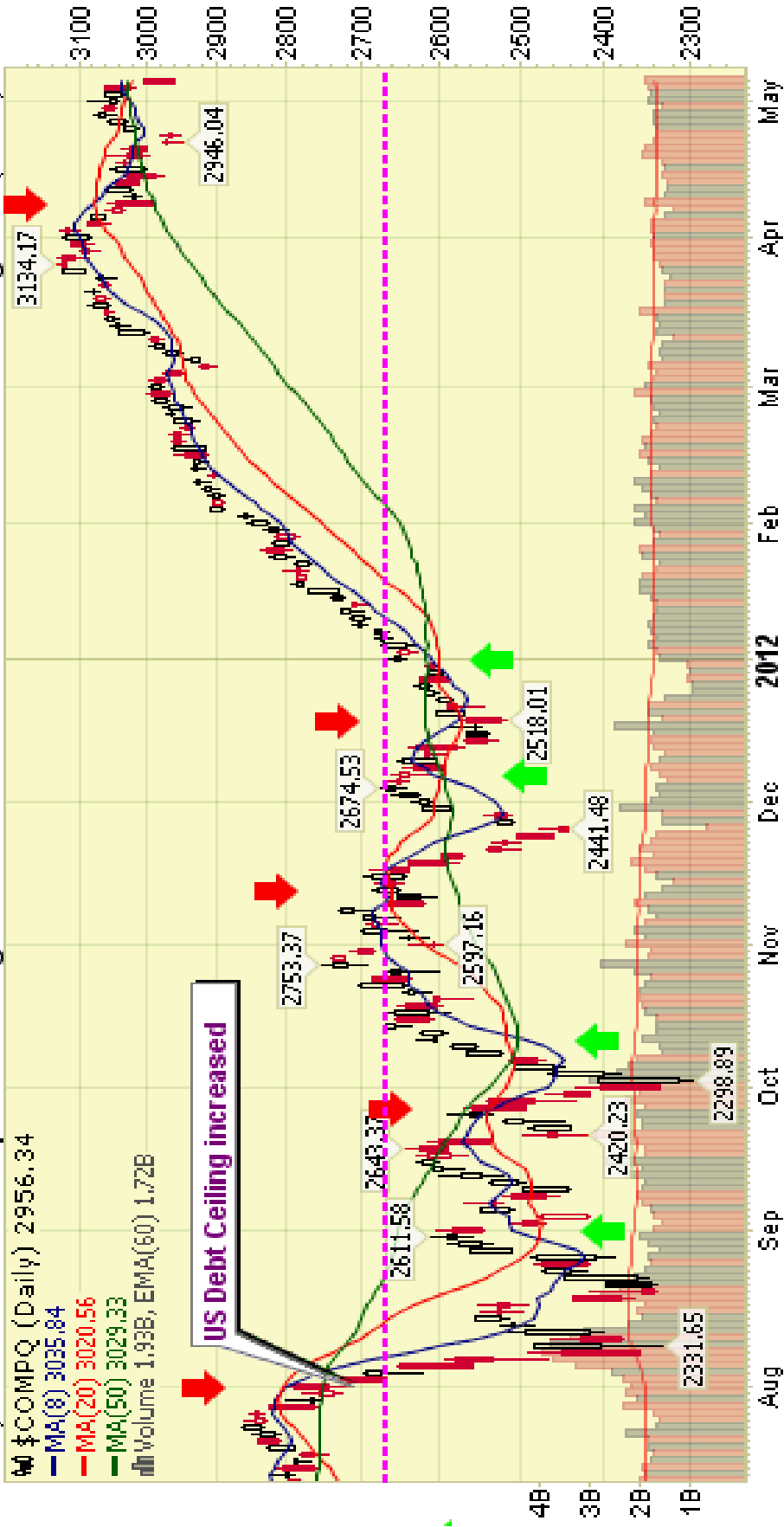
\$COMPQ (Nasdaq Composite) INDEX

4-May-2012

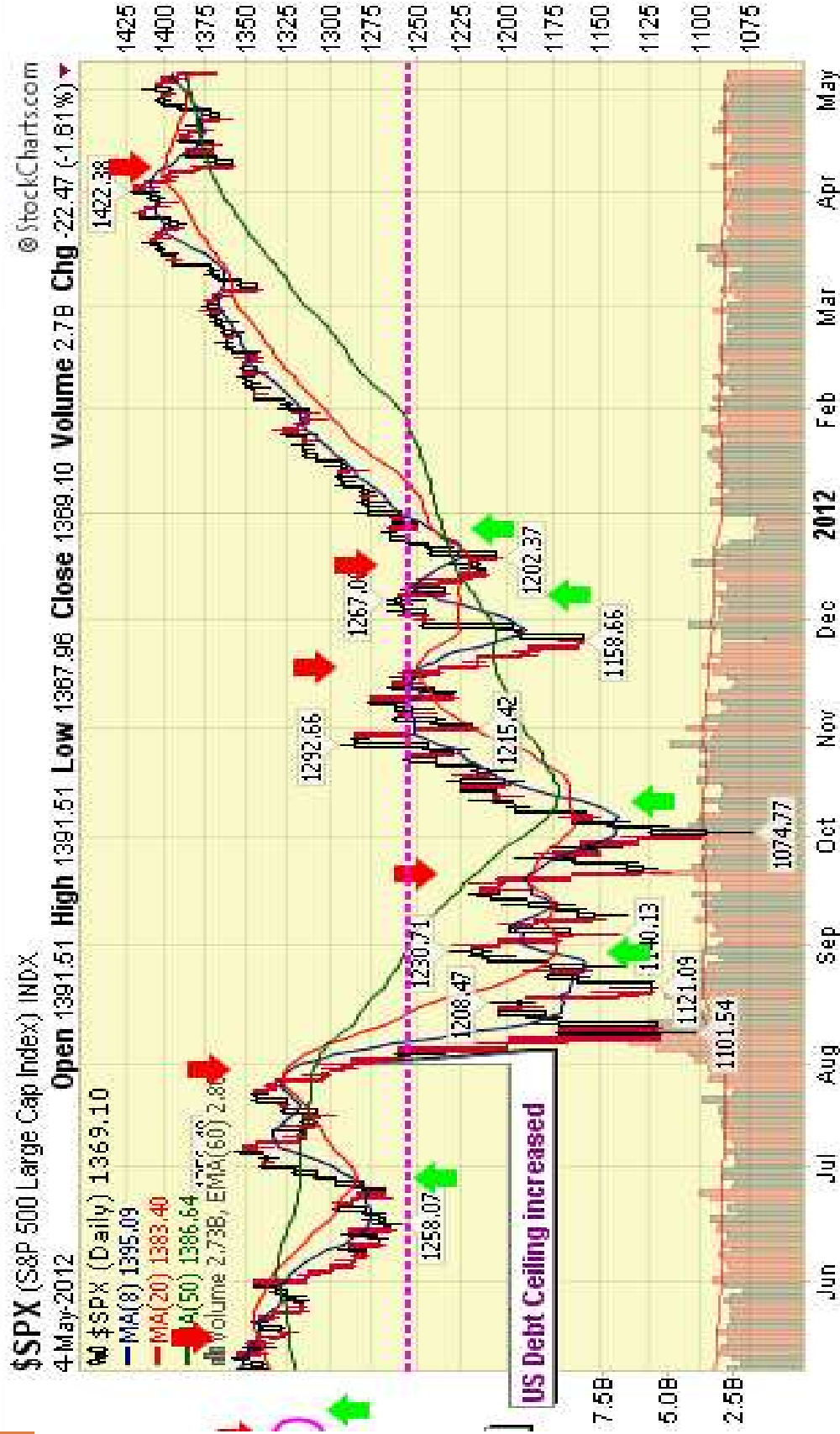
© StockCharts.com

Open 3001.15 High 3001.48 Low 2956.34 Close 2956.34 Volume 1.9B Chg -67.96 (-2.25%)

\$COMPQ (Daily) 2956.34
 MA(8) 3035.84
 MA(20) 3020.56
 MA(50) 3029.33
 Volume 1.93B, EMA(60) 1.72B



S&P 500



May 10, 2012

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Can the Dow get to 36,000?

Slide 43

\$2.00



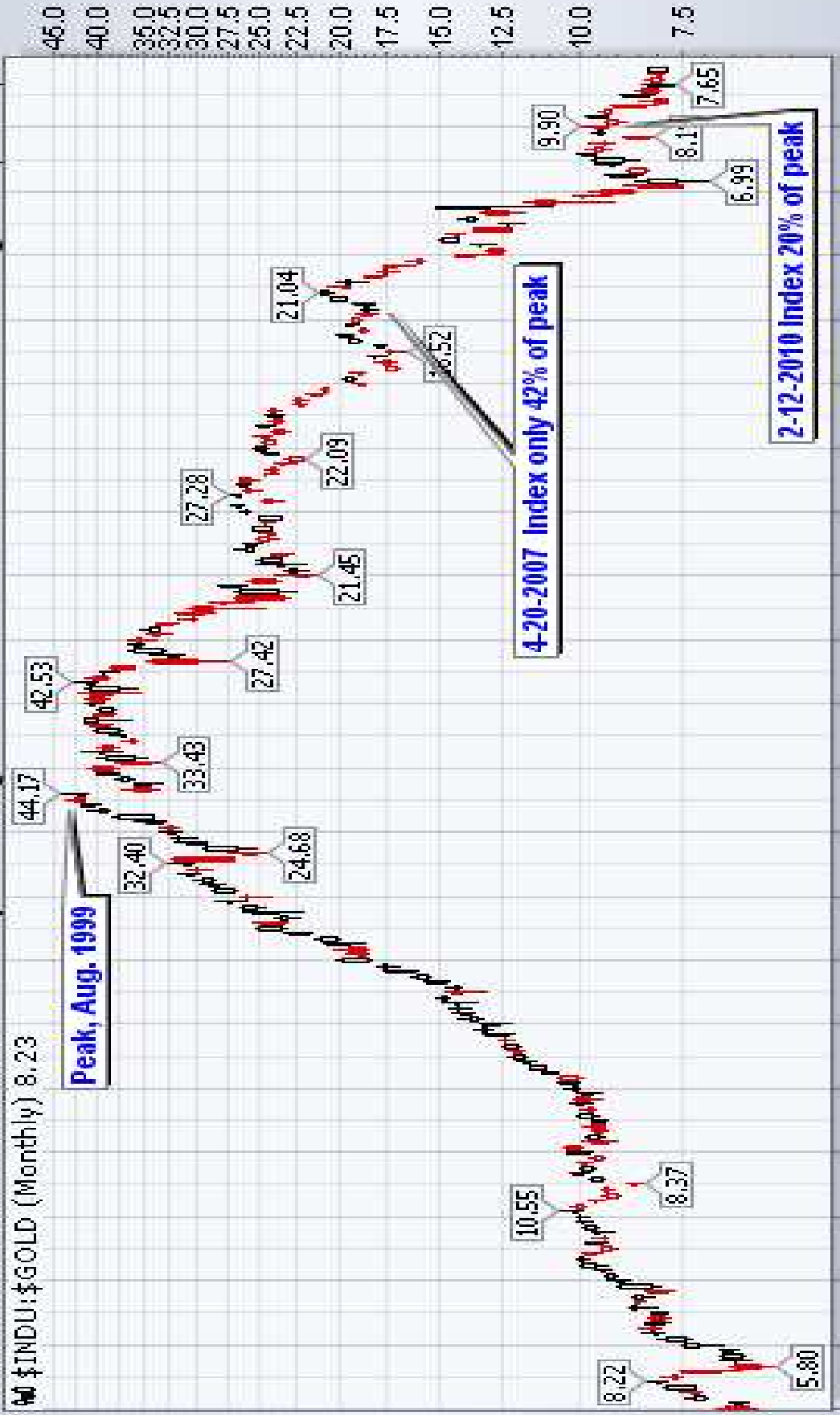
\$45.00



Purchasing Power

\$INDU:\$GOLD (Dow Jones Industrial Average/Gold - Spot Price (EOD)) **INDX:GME** © StockCharts.com

30-Dec-2010 **Open** 7.83 **High** 8.27 **Low** 7.83 **Close** 8.23 **Volume** 5,854 **Chg** +0.29 (+3.84%) ▲



1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010

\$SPX:\$GOLD (S&P 500 Large Cap Index/Gold - Spot Price (EOD)) INDX/CME

17-Feb-2012 © StockCharts.com
Open 0.76 **High** 0.79 **Low** 0.76 **Close** 0.79 **Volume** 21.2K **Chg** +0.03 (+4.49%) ▲



Which way are you looking?



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