The Mishkin Report:

To go directly to the Mishkin Report: Crunch Time For Financial Markets click here:

http://research.chicagobooth.edu/igm/usmpf/download2.aspx

The report uses lots of math and economic mumbo jumbo. Don't be intimated by it. This is one of the most important reports you will ever read.

It predicts a potential currency crisis that will reverberate throughout the economy and make the crash of 2008 look like a picnic. However, the consequences for investing and the global financial markets will be much different. Some markets will go up and a few people will make fortunes. It is time to understand what can happen and plan ahead to profit virtually no matter what happens.

I wrote the following below summarizing the key points of the report and putting it into the context of our times. The following is excerpted from my WallStreetWindow Monthly Newsletter - Mike:

You see our era also started with the creation of the Bretton Woods monetary system that made the US dollar convertible for other currencies and gold in the international markets. Nixon took the dollar off the gold standard in the 1970's, but after some years of currency instability the dollar continued to retain its status as the world's great reserve currency.

That enabled the US government to rack up enormous debts with seemingly no consequences. Foreigners had no problem financing the federal government's budget deficit. However, if one day the US debts grow so large that people lose confidence in the dollar then we'll see the dollar decline in value, inflation will grow, and interest rates will eventually spike - in what would be the final event to bring the end of the secular bear market that begin in 2000. It would be the end of our era and a new one will begin to emerge out of the turmoil.

In short our era will end when the United States government goes through a government debt crisis like we saw in Europe last year or in Argentina from 1999 to 2002. The bad news is that will mean another big drop in the living standards of the

average American who suffers from the inflation bomb. The good news is that such a crisis will likely spell the end of the current secular bear market that started in 2000 in the stock market and bring a bottom to the economic malaise the country is trapped in. It will pave the way for a true economic boom that those aged around ten years old now will be coming to age at the start of.

Right now there are not enough buyers in the United States and the rest of the world to buy all of the bonds that are being issued by the US Treasury to finance the federal budget deficit every month. So the Federal Reserve is using QE money printing to bridge the gap and buy additional mortgage securities on top. They need interest rates to stay low to continue to do this or else the financing costs for government debt will go up. They would then need to increase QE or else interest rates would skyrocket and create a vicious spiral that would lead to the United States federal government going bankrupt.

Now I have come into my possession a shocking internal Federal Reserve report that says that the Federal Reserve is on path to go bankrupt by 2018. It says the CBOE projections aren't real and the real crisis is going to hit much sooner than anyone realizes. Its implications are for QE to not only continue forever, but to likely be increased within the next year.

This report is very important for you, because internal Fed reports often set the agenda for future monetary policy. They can tell you what people inside the Federal Reserve are thinking. To give you an idea of what this can mean for you back in August of 2007 Frederick Mishkin, who had been appointed to the Federal Reserve Board of Governors by Ben Bernanke - the two have been close friends for decades - wrote a report for the Fed that laid out what would happen to the economy if real estate prices in the United States were to drop and what the Federal Reserve should do if it starts to happen.

The paper called for a rapid reduction in interests rates to near zero. The report predicted everything that was to come. I got a hold of it in September, 2007, and after I read it I realized that the US economy and stock market were in big trouble. With this knowledge I actually bet against the stock market in 2008 and made a gain of over 35% in my main account as the stock market crashed and almost everyone else lost tons of money in the market.

It was one of the most important papers I read about in my life and I shared it with all of the people I could as soon as I read it. If you want you can read it here:

http://www.federalreserve.gov/pubs/feds/2007/200740/200740pap.pdf

Now Mishkin and a team of economists presented another paper back in February, 2013 for the Fed titled "Crunch Time: Fiscal Crises and the Role of Monetary Policy," in which they predict another financial crisis in a few years - this time to be centered around a government funding debt crisis.

So far no American mainstream reporter has done a story about the report. CNBC has not informed its viewers about it. They didn't share with their audience the 2007 report and they aren't telling their audience about this one neither. Nor has the Wall Street Journal or any other American newspaper. Journalists in the United States are asleep and TV news is just propaganda. I can't find a single story about it anywhere.

But it has been a hot topic of discussion inside the Federal Reserve all year and will prove to be one of the most important things I have read when it comes to investing I have to share with you. At the end of February a panel convened at the Fed "U.S. Monetary Policy Forum" in Chicago to talk just about the report. Mishkin presented a revised version of the report this August at the annual Jackson Hole Fed gathering.

You can read the report in its entirety right here:

http://research.chicagobooth.edu/igm/usmpf/download2.aspx

It begins with an abstract summary of what is to come in the rest of its 94 pages. The summary contains these lines:

"We analyze the recent experience of advanced economies using both econometric methods and case studies and conclude that countries with debt above 80% of GDP and persistent current-account deficits are vulnerable to a rapid fiscal deterioration as a result of these tipping-point dynamics. Such feedback is left out of current long-term U.S. budget projections and could make it much more difficult for the U.S. to maintain a sustainable budget course. A potential fiscal crunch also puts fundamental limits on what monetary policy is able to achieve. In simulations of the Federal Reserve’s balance sheet, we find that under our baseline assumptions, in 2017-18

the Fed will be running sizable income losses on its portfolio net of operating and other expenses and therefore for a time will be unable to make remittances to the U.S. Treasury. Under alternative scenarios that allow for an emergence of fiscal concerns, the Fed's net losses would be more substantial."

The study goes on to look at the history of financial government debt crisis in countries all over the world and finds that when the ratio of government debt to GDP passes the 80% mark eventually some sort of crisis hits. These crisis can hit suddenly when the costs to finance government deficits increases exponentially due to a rise in interest rates. Then governments can no longer manage their debts and must default or print them away. This isn't really new stuff. A great book came out a few years ago titled This Time Is Different by a group of economists who studied all of this using historic economic data from countries all over the world and broke down the various ways these debt blows ups tend to play out. This "Crunch Time" report uses this book as a source. It's worth reading too.

Now according to a Congressional Budget Office release of September 17, 2003, the current US government debt to GDP is 73% and they expect it to rise to 100% by 2030 if nothing is done to cut government spending and control the budget deficit. However its gross debt to GDP is over 100% and the CBOE has also recently projected the government debt to GDP to go above 100% next year. It has a habit of changing its projections.

Nonetheless twenty-five years from now and sometime around 2030 has been the mainstream target for seeing a future of debt trouble for the United States. In the last chapter of my War State book(you can find it on Amazon) I cite a Peter Peterson article in Foreign Affairs where he uses these CBOE figures and targets the same time period around 2030 as our window of trouble.

However, once you get to page 47 of the Mishkin "Crunch Time" report you get to the scary stuff. If you flip to it and read it for yourself you'll see that the CBOE figures people are using in these projections are based on the faulty assumption that interest rates will stay at their current historically low near zero levels forever. If rates go up than the costs of funding the government debt will suddenly rise exponentially - the government debt to GDP would then skyrocket well above the 100% crisis level overnight. Investors all over the world would demand a higher rate of interest to fund the country's national debt, the dollar would decline, and another economic crisis worse than the one of 2008 would hit the United States as the

cost for the federal government and Federal Reserve to finance the debt escalates.

As this "Crunch Time" report states:

"In 2012, debt service was quite low (less than 1.4% of GDP) because interest rates were so low. Roughly one-quarter of the Treasury debt outstanding is in the bill sector (meaning an original maturity of 1 year or less) and borrowing costs at the short end of the yield curve have been close to zero for the past several years. Even longer-term notes and bonds issued by the Treasury in recent years have had a very low coupon. But, if the U.S. continues to pile on more debt and if we assume – as CBO (2013) does – a normalization of interest rates over the course of coming years (to roughly 4.0% for 3-month T-bills and 5.2% for 10-year notes), then debt service costs will eventually skyrocket."

To put this in simple terms if the interest rate on the 10-year treasury bond were to go to over 5.2% than the cost to finance the deficit will explode.

The report states:

"The CBO's baseline estimates (and similar projections produced by the White House Office of Management and Budget) assume that long-term interest rates rise gradually to reach a level of 5.2% in 2018 and then remain constant at that level despite a continued escalation in the amount of public debt outstanding. The theoretical analysis and historical experience reviewed in Sections 2 and 3 suggest that this assumption could lead to a significant understatement of the potential deterioration in the budget picture because yields are assumed to hold steady at normalized levels as debt continues to accumulate."

The implications of all of this mean that the Federal Reserve cannot allow the interest rate on the 10-year treasury to rise beyond 5.2%. To prevent that it would have to increase its so called "quantitative easing" bond buying program and purchase more bonds if rates start to rise. The report calls this policy "fiscal dominance" and a way to manage the mushrooming debt "through inflation."

The report explains, "to see how this would play out in practice, we need to recognize that fiscal dominance puts a central bank between a rock and a hard place. If the central bank does not monetize the debt, then interest rates on the

government debt will rise sharply, causing the economy to contract. Indeed, without monetization, fiscal dominance may result in the government defaulting on its debt, which would lead to a severe financial disruption, producing an even more severe economic contraction. Hence, the central bank will in effect have little choice and will be forced to purchase the government debt and monetize it, eventually leading to a surge in inflation."

All of this means that it has now become virtually impossible for the Federal Reserve to reduce its QE money printing operation and in the future it will be forced to actually INCREASE it in order to provide enough additional buying pressure in the bond market to keep interest rates from increasingly over 5.2%. That would mean inflationary pressures and a falling dollar and a new crisis by 2018.

It is such a crisis that I believe will mark the final chapter of the era US dollar global supremacy that began after World War II and was backed by the fact that the US dollar is the reserve currency of the world, which has enabled the federal government to essentially run gigantic deficits to fund its military-industrial complex and various social programs. It will also bring the last and final inning of the secular bear market ball game that began in March of 2000. It would mean one final bear market at the end that will mark the bottom of the whole financial and economic mess the country has been in for over thirteen years now.

It will be a time of financial turmoil for most people. Inflation will explode. Stocks in the United States will go up for awhile more, but crash in the end. Money can be made in the right investments in such an environment, but few will make the adjustments necessary ahead of time. We must navigate all of this together and we will witness some wild moves in markets all over the world in the next few years. However, the simplest way to profit and/or hedge against all of this is to own some gold and silver in your portfolio. Get a relationship with a broker like Regal Assets if you do not have one already.

You also need to own more investments in markets outside of the United States instead of the typical mutual funds and ETF's that most Americans own that are merely tied to the action in the S&P 500 and the DOW. The right overseas investments will go up.

Most Americans fear the rest of the world. And many come to hate what they fear so they are unable to invest in anything

else than the standard US stock market centric model taught to them on CNBC and in the financial media. They're afraid to own foreign stocks. But there is no reason for you to be scared of anything. There are some who will make money in all of this.

But you won't figure things out watching CNBC. CNBC talking heads did not warn anyone to watch out for the 2008 stock market crash. Instead their "economist" Steve Liesman said the Fed was handling things and everything would turn out fine. Jim Cramer will not tell you what is coming and neither will the "Fast Money" crew on that network. Nor will playing on Facebook and watching "reality television" help you either. You have to look out for yourself. Yes this is not time to be lazy like everyone else or to bury your head in the sand like an ostrich. They have yet to talk about the Mishkin report.

The first step of action is to educate yourself to what is going on and then plan. I recommend that you read the Mishkin "Crunch Time" report for yourself:

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The second step is to pay attention to my emails. I'm going to have a lot more to say going forward to help you with all of this!

And finally if you want to take a really big step and find out to profit from all of this the answer is to buy my book on investing in gold and gold stocks. You can find it on Amazon here:

http://amzn.to/1oGbR4X