



With 4 kids in my house, you can imagine that I see my fair share of cartoons. When the kids are awake, there's a good chance that anything from the Backyardigans to Max and Ruby will be on TV. The only show that is forbidden in my house is Barney. I don't know what it is but he bugs me and since there are lots of other choices, I really don't feel that I'm depriving my children. I give today's children's programming high marks for educational content - all my kids can count to 10 in Spanish, for example. But give me Bugs Bunny or Wile E. Coyote any day. They were brilliant and funny (isn't that the point?) and if you watch closely enough, there are lots of life lessons to be gleaned - like don't walk off the edge of cliff without a parachute. Between you and me, just once I would have loved for poor Wile E. Coyote to actually have caught the roadrunner. I'll come back to Wile and his picture in a minute.

These days, analysts and politicians are throwing around lots of big numbers. This will cost this many billion and that will cost this many trillion. Because they're talked about so much, it's natural to become complacent about just how big these numbers are. I read recently that the US fiscal deficit could reach \$2.8 trillion in 2009. That was the size of their ENTIRE budget in 2008. So let's do a little exercise: How big is a billion, anyway?

1 billion seconds ago, it was 1977

1 billion minutes ago, it was the year 106 AD

1 billion hours ago we were in the stone age (114,155 years ago)

1 billion days ago (about 2.7 million years), nothing on Earth walked on 2 feet

If the US deficit reaches \$2.8 trillion this year, the US government will be going into the hole at the rate of \$1 billion every 3 hours and 8 minutes (give or take a few seconds). Now think of your own personal situation. Let's say you have an income of \$100,000 after tax per year and your personal budget is \$100,000 a year. No problem - you're spending just what you're making. If you start spending \$200,000 a year, though, you will have a problem. The reality is that governments can employ deficit spending indefinitely (theoretically) but not without consequences. Since the US has to create this money (by printing new money - lots and lots of it), one of these consequences which I've been talking about for

months now is a devaluing of their currency. The laws of supply and demand say this will happen if they print too much. President Obama has made it crystal clear: there is no limit to how much money they will print to get themselves out of this mess.

So why has the US dollar been so strong in recent months? The main reason is there has been a massive flight to safety in the markets. Despite their problems, the US dollar is still the reserve currency of the world and is still considered a safe haven. Foreign investors continue to support the dollar by buying US treasuries. The obvious question is: How long can this last?

The answer is, I don't have a clue but let's go back to my good friend, Wile E. Coyote. Did you ever notice that whenever he walked off a cliff, he just kind of stayed there suspended in mid-air until what? Until he looked down and realized where he was and then: splat! At some point, investors are going to look down and it might not be a splat but there will certainly put downward pressure on the dollar. That's because the laws of gravity (and supply and demand) apply to everyone and everything and the US dollar is no exception.

The point is (and thankfully, I do have a point) that this is a development you cannot ignore when you're investing your money. The financial world changed on September 15 (when Lehman Brothers went bankrupt) and as a result, managing money has become more difficult. For now, at least, the old axioms of "buy and hold" and "think long term" are not enough. I'm working extremely hard to keep on top of these dislocations in the market and make sure I take advantage. For example, in many of my discretionary accounts, I increased my clients' exposure to gold and gold stocks in November. I did this for defensive and offensive reasons. On the defensive side, gold is a traditional safe haven for investors in times of financial turbulence so theoretically, this would offer some cushion against the storm. On the offensive side, since the price of gold and the US dollar have an inverse relationship (if the dollar goes down, gold goes up and vice versa), if I'm right about the US dollar, gold and gold stocks should do very well. This has worked out extremely well so far but I'm prepared for when it doesn't make sense anymore. If circumstances change, I'll sell these positions.

If you're interested, click on this link which will take you to a story about what can happen to a national currency (in this case, Zimbabwe) when the printing presses go wild. I am not suggesting that what happened in Zimbabwe is what will happen to the US currency. The article is very, very instructive, though, if nothing else.

<http://www.telegraph.co.uk/news/worldnews/africaandindianocean/zimbabwe/2778562/Final-humiliation-for-Zimbabwe-dollar-as-foreign-currency-legalised.html>

Have a great weekend.

Regards,

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