

Dear Clients:

**Listen to me, the question is not whether the government will bail out GM or not...
The question is who is going to purchase their cars and when?**

I'm not. No one that I talk to says that they are going to purchase a car anytime soon. Are you going to buy one?

You talk about home price deflation. But auto price deflation is equally severe. At the end of a two-year lease, one of our most popular SUVs was supposed to be worth \$22,000. As it turns out, the best price that you can get for it in the used car market is less than \$4,000.

Forget about buying auto stocks right now please!

OK, on to my real subject today.

The G-20's Secret Debt Solution

If you think this weekend's G-20 meetings in Washington are only about designing short-term fixes to the financial system and regulatory reforms for banks, hedge funds, brokers, mortgage companies and investment banks ... think again.

Behind the scenes, a far more fundamental fix is being discussed — the possible revaluation of gold and the birth of an entirely new monetary system.

I've been studying this issue in great depth, all my life. And given the speed at which the financial crisis is unfolding, I would be very surprised if what I'm about to tell you now is *not* on the G-20 table this weekend.

And, I am not the only one talking about it. It's a minority but growing view, including from 86-year old former Goldman Sachs chairman, John Whitehead, at the November 12 Reuters Global Finance Summit in New York. As disturbing evidence mounts, he said: "I think it would be worse than the depression. We're talking about reducing the credit of the United States of America, which is the backbone of the economic system. I see nothing but large increases in the deficit, all of which are serving to decrease the credit standing of America."

Before I go to sleep at night, "I wonder if tomorrow is the day Moody's and S & P will announce a downgrade of US government bonds. Eventually (they'll) no longer be the triple-A credit that they've always been. I've always been a positive person and optimistic, but I don't see a solution here." Powerful words from a man who wants to get people thinking about this, and realize (we're on) a road to disaster. (you will be able to read his whole statement tomorrow on www.CFG2020.com)

First, the G-20's motive for a new monetary system: It's driven by and based upon this very simple proposition...

"If we can't print money fast enough to fend off another deflationary Great Depression, then let's change the value of the money."

I call it...

"The G-20's Secret Debt Solution"

It would be a strategy designed to ease the burden of ALL debts — by simultaneously devaluing ALL currencies ... and re-inflating ALL asset prices.

That's what central banks and governments around the world are going to start talking about this weekend — *a new financial order that includes new monetary units that helps to wipe clean the world's debt ledgers.*



The G-20 may propose devaluing all currencies, including the U.S. dollar and the Euro.

It won't be an easy deal to brokers, since the U.S. is the world's largest debtor. But remember: Debts are now going bad all over the world. So everyone would benefit.

Fed Chairman Ben Bernanke ... Treasury Secretary Paulson ... President Bush ... President-elect Obama ... former Fed Chairman Paul Volcker ... Warren Buffett ... and central bankers and politicians all over the world agree a new monetary system is needed.



So I think that they'll start hashing out the details to get the *new financial architecture* deployed as quickly as possible.

If you think I'm crazy or propagating some kind of conspiracy theory, then consider the historical precedent...

To end the Great Depression in 1933 Franklin Roosevelt devalued the dollar via Executive Order #6102, confiscating gold and raising its price 69.3%, effectively kicking starting asset deflation.

Only this time, it won't be just the U.S. that devalues its currency. The world is too interconnected. Instead, the world's leading countries will propose simultaneous and universal currency devaluation.

This time, they will NOT confiscate gold. There would be riots all over the globe if they even mentioned the "C" word.

But they don't have to confiscate gold. Here's one scenario...

They cease all gold sales and instead, raise the current official central bank price of gold from its booked value of \$42.22 an ounce — to a price that monetizes a large enough portion of the world's outstanding debts.

That way, just like in 1933, the debts become a fraction of re-inflated asset prices (led higher by the gold price).

And this time, instead of staying with the dollar as a reserve currency, *the G-20 issues three new monetary units of exchange, each with equal reserve status.*

The three currencies will essentially be a new dollar, new Euro, and a new pan-Asian currency. (The Chinese Yuan may survive as a fourth currency, but it will be linked to a basket of the three new currencies.)

The new fiat monetary units would be worth less than the old ones. For instance, it could take 10 new units of money to buy 1 old dollar or Euro.

New names would be given to the new currencies to help rid the world of the ghost of a system that failed. Additional regulations and programs would be designed and implemented to ease the transition to a new monetary system.

The International Monetary Fund (IMF) would implement the new financial system in conjunction with central banks and governments around the world.

Keep in mind that the IMF is already set up to handle the transition, and has had contingency plans allowing for it since the institution was formed in 1944.



The IMF would be at the center of the new monetary system.

Included in the design and transition to a new monetary system...

A. A new fixed-rate currency regime. Immediately upon upping the price of gold and introducing the new currencies, a new fixed exchange rate system would be re-introduced. *The floating exchange rate system would be tossed into the dustbin along with the old currencies.*

This would kill any speculation about further devaluations in the currency markets, and drastically reduce market volatility.

B. To sell the program to savers and protect them from the currency devaluation, compensatory measures would be enacted. For instance, governments could issue a one-time windfall tax-free deposit directly to citizens' accounts, or, to employer-sponsored pensions, to IRAs, or Social Security accounts.

Income taxes may subsequently be raised to pay for the give-away, or a nominal global type of sales tax could be enacted to help pay for the new system and the compensatory measures.

C. Additional programs would be designed to protect lenders and creditors. Lenders stand a much higher chance of getting paid off under the new monetary system — but with a currency whose purchasing power would now be a *fraction* of what it was when the loans were originated.

So programs would have to be designed to help lenders offset the inflationary costs of their devalued loans, probably via the tax code.

Naturally, all this is a bit more complicated than I've spelled out above. But that gives you a big-picture outline of what the plan could look like. And I think major changes like these are going to be set in motion at this weekend's G-20 meetings in Washington.

Would they work?

Yes. They would help avoid a repeat of the deflationary Great Depression. But don't expect even a new monetary system to put the U.S. or the global economy back on track toward the high rates of real growth that we've seen over the last several years. That's simply not going to happen. Not for a while.

Instead, I'm talking about massive asset price deflation, negative real economic growth in the U.S. and Europe — but continued real GDP gains in Asia.

The Big Question: What gold price would be legislated to relate the U.S. and global economy?

I can't tell you what gold price the G-20 would ultimately agree to. But here's what they will be looking at...

- To monetize 100% of the outstanding public and private sector debt in the U.S., the official government price of gold would have to be raised to about \$53,000 per ounce.
- To monetize 50%, the price of gold would have to be raised to around \$26,500 an ounce.

- To monetize 20% would require a gold price a hair over \$10,600 an ounce.
- To monetize just 10%, gold would have to be priced just over \$5,300 an ounce.

Those figures are just based on the U.S. debt structure and do not factor in global debts gone bad. But since the U.S. is the world's largest debtor and the epicenter of the crisis, *the G-20 will likely base their final decision mostly on the U.S. debt structure.*

So how much debt do I think would be monetized via an executive order that raises the official price of gold? What kind of currency devaluation would I expect as a result?

I would not be surprised to see the G-20 monetize at least 20% of the U.S. debt markets. THAT MEANS...

- Gold would be priced at over **\$10,000 an ounce.**
- Currencies would be devalued by a factor of at least 12 to 1, meaning it would take 12 new dollars or euros to equal 1 old dollar or Euro.

The return of the Gold Standard?

"But Larry," you ask, "How could this be accomplished when we no longer have a gold standard? Further, are you advocating a gold standard?"



If the G-20 monetizes at least 20% of the U.S. debt markets, gold could easily hit \$10,000 an ounce.

My answers:

First, you don't need a gold standard to accomplish a devaluation of currencies and revaluation of the monetary system.

By offering to pay over \$10,000 an ounce for gold, central banks can effectively accomplish the same end goal — monetizing and reducing the burden of debts, via inflating asset prices in fiat money terms.

Naturally, hoards of gold investors will cash in their gold. The central banks will pile it up. At the same time, other hoards of investors will *not* sell their gold, even at \$10,000 an ounce. But the actual movement of the gold will not matter. It is the psychological impact and the devaluation of paper currencies that matters.

Second, I do NOT advocate a fully convertible gold standard. Never have. There isn't enough gold in the world to make currencies convertible into gold. It would end up backfiring, restricting the supply of money and credit.

What should we do to prepare for these possibilities?

It's obvious: Make sure we own some gold, possibly as much as 5% of your invest able funds.

But listen to me. This is a theory only! It makes sense to me that this could happen as I have stated but it is still just a theory so I do not want anyone to jump the gun or start putting thousands of dollars into gold. If I am correct we will start to see more signs that this is happening. So for now it doesn't hurt us to buy some gold in your portfolios.

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