Memorial Day Disaster

by Martin D. Weiss, Ph.D. 05-25-09

This would normally be my time for a quiet Memorial Day at home.

But even as we seek calm, investors overseas are doing precisely the opposite.

They're dumping U.S. assets.

They're driving those assets down in price.

And they're threatening to sink our entire economy into a THIRD phase of this crisis.

Remember: The first phase was the debt disaster. The second phase was the collapse in the economy. Now, in the third phase, Treasury bonds and the U.S. dollar are getting hit hard, largely due to foreign selling.

The latest drama began this past Thursday …

The supply of U.S. Treasury bonds dumped on the market was so overwhelming, even the Federal Reserve, with all its massive efforts to buy up bonds, could not stop the avalanche.

By the time most traders left for the weekend Friday afternoon, ALL of the gains in bond prices the Fed had been able to engineer in recent weeks were wiped out — vanquished by market forces beyond the Fed's control.

Why The U.S. Government Is the Next Victim of the Market's Revenge!

Look. In each successive phase of this debt crisis, investors have consistently attacked and destroyed the market value of institutions that owned large amounts of toxic assets — Countrywide Financial, Fannie Mae, Citigroup, Bank of America and many others.

The shares of these companies were pummeled; their ability to raise new capital, virtually extinguished.

Now it's the U.S. government that's the next victim of the market's revenge.

Why?

Because the government never was — and never will be — immune to market selling.

Like private corporations, it borrows. Like any borrower, it has creditors. And like all creditors, it's ultimately up to THEM — not up to the borrower — to decide what to do with their money.

But ***unlike*** most borrowers, the U.S. government has arrogantly thumbed its nose at its creditors. Without remorse.

"We can do anything we damn please," was the message from Uncle Sam.

"We can spend our money wantonly. We can bail out our giant corporations to our heart's content. We can even debase our currency.

"But YOU, our creditors, are stuck with us. No matter what we do, you've got to keep loaning us more money, endlessly."

Our creditors swallowed hard and tolerated this message for a while. But not now. Now they're fed up. They can't take it anymore.

Now, explicitly or implicitly, the U.S. government has assumed the liability for

TRILLIONS of dollars of bad mortgages, sour commercial paper, and sick consumer credit.

Now, directly or indirectly, the U.S. government has placed its own credit and credibility in grave jeopardy.

And now, our creditors are raving mad, dumping U.S. bonds and the U.S. dollar.

The Immediate Consequences ...

Treasury bond prices aren't the only U.S. assets plunging. The U.S. ***dollar*** is also plunging against major world currencies. It has just fallen below 6-month lows. It's almost certainly going to fall further.

Gold has surged dramatically, coming within striking distance of the $1,000 level — and beyond.

Meanwhile, new, unexpected supplies of bonds are being tossed on the market on TOP of the massive supplies the Treasury must issue to finance its mammoth $1.84 trillion budget deficit estimated by the Obama administration for fiscal 2009.

Long-term interest rates are getting ready to soar far further. And as rates rise, consumers and businesses will have to pay through the nose to borrow. Or they won't be able to borrow at any price.

You can expect a sweeping, devastating impact on the economy, especially in the real estate market. Even with LOWER mortgage rates, commercial real estate is already collapsing. With HIGHER mortgage rates, any hope for stabilization will be dashed.

Thousands of insurance companies and banks will suffer a new round of losses that could make the subprime mess seem small by comparison.

The Dow will plunge to our target of 5,000; the S&P, to 500.

A Unique Convergence of Events

If all of these events can tell you anything, it's that you now have the kind of opportunity that generations of investors could only dream about.

You have the ability to read the handwriting on the wall; to know in advance what is most likely to happen next.

Treasuries bond prices are already sinking. Interest rates are rising. The dollar is falling. Unemployment is surging. Commercial real estate is collapsing. General Motors is going bankrupt.

This is the recipe for disaster I've been warning you about.

But it's also a prescription for some of the greatest profits of all time, using contrarian investments designed to profit from the decline.

For instructions on how, when and where, click here for the updated report I've just posted to the Web. This is your last week to do so.

Good luck and God bless!

Martin

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2009 ISSUES 2008 ISSUES 2007 ISSUES 2006 ISSUES