CHAPTER TEN

THE CURRENT ECONOMIC CONDITIONS AND THEIR INFLUENCE ON THE COIN MARKET

Introduction

Before you can put your investment portfolio together you must take into account the world that those investments will have to perform within. That world is called the current economic climate. As of this writing, the American economy is already facing high gold prices on the rise. This fact, coupled with gross under reported inflation combine to create a situation that will affect the investor in at least three ways.

The current economic conditions can be broken into three main categories. First, what is the influence of the current economic climate directly on the private investor? Second, what is the influence of the current economic climate on corporate America, and therefore again on the private investor. And lastly, what is the influence of the current economic climate on the Federal Government and its indepndendent agencies, and therefore on the private investor for a third time.

The influences on the private investor consist of three main problems. They consist of average lower reported income by the individual investor, continued layoffs, and the chronic unemployment and under employment problem, all of which cross economic and educational lines.

While widespread corporate fraud has always been a way of life in the United States, the new influence of the widespread reporting of that corporate fraud is not and may be an indicator of the lack of trust and security by the investor in the traditional investment markets.

The influence of the Federal Government is paramount, encompassing Social Security, Medicare, the Federal Debt, the Federal Budget deficits, and Trade deficits.

In combination, the resulting conclusion screams one thing to the investor: Trust no single solution to your economic problems, but instead diversify across the investment board for maximum protection. And what investment can fit that description during times of war and times of peace, during times of prosperity and times of economic grief? Rare coins should come instantly to mind. Let us examine in detail what the investor is forced to deal with today.

The Investor and Lower Income

For the first time since the modern income tax reporting system was introduced early during the Second World War, the overall income of all Americans reporting income to the United States Government shrank for two consecutive years. All of this happened after the internet stock market bubble burst in 2000. Before this drop, the last time incomes fell for even one year was in 1953. Before that the last reported income drop was in 1947 but because of a change in the reporting laws, and not an actual drop in incomes.

The gross total adjusted income on tax returns for all individuals fell 5.1 percent, to just over six trillion dollars in 2002, from $6.35 trillion in 2000, which is the last year that the Internal Revenue Service has figures for. If you figure in population growth, the average income declined further to 5.7 percent.

Adjusted for the inflation that the West Wing of government says does not exist but that the IRS reported anyway, the income of all Americans fell 9.2 percent between 2000 and 2002. While the recession that hit the economy was relatively mild in 2001 after the market drop of 2000, income of all Americans declined, and the more income reported the greater the decline was reported. While the government was aware that incomes declined, they were not aware the nature of the size of the decline or that it covered all income groups. The unprecedented decline for two consecutive years was caused primarily by the combination of the following:

1. The big fall of the stock market.
2. An erosion of quality jobs.
3. Lower wages on new jobs being created.
4. A decline of well paying jobs in industry.
5. Systematic under reporting of unemployed
6. Large numbers of under employed workers.

Until 2000, overall personal income in America rose from one year to the next for over fifty years, or since 1944. The average income rose regardless to the ordinary fluctuations in economic activity, including during the Korean and Vietnam Wars.

Never have there been more Americans at risk to be able to make their regular expenses and day to day living costs. This also explains why the personal income tax estimates that are the government's primary income source are more unreliable.

From 2000 to 2002, individual income taxes fell 18.8 percent, more than three times the decline in adjusted gross income, which includes all tax payers except those whose incomes come from tax-free bonds. Taxes fell more than incomes as a result of the 2001 tax cut, which made most income taxes apply to incomes of less than one hundred thousand dollars, incomes of those families with children, and capital gains from the sales of appreciated assets, like homes, and stock.

Major tax rate reductions did not take effect until 2003. It has since become clear from spending patterns and the performance of the stock market that some of the more affluent taxpayers regained some or all of the losses from earlier in the decade.

Falling incomes rather than tax cuts appear to account for the greatest share of the decline in income taxes. The higher the taxpayer's income, the more likely that the decline in the stock market would lower income.

Those who reported the most incomes, that is from $200,000 to $10 million and who paid the higher tax rates lost the most income. One in every eight workers who had income of over $200,000 fell below that income level, or a total of 350,000 workers. Taxpayers' earnings-adjusted incomes of more than $10 million fell from 11,125 to 5,250. This very small group of Americans had their income fall from $300 billion to $110 billion, or a sixty-three percent drop. And of those who stayed above $10 million, the average income dropped twenty-two percent.

Capital gains income, which is the result primarily of selling stock and other investment assets at an adjusted taxable profit, fell over twenty-nine percent in two years that is from $349.5 billion to $246.8 billion. So many companies reduced or stopped paying dividends between 2000 and 2002 that dividend income fell 17.4 percent.

The stock market decline also affected incomes under five thousand dollars, which includes a lot of children. Income from that group fell 7.8 percent over two years.

The primary factor was the fall of the dot-coms and telecommunications companies, which both eliminated trillions of dollars of paper profits and provided a large pool, a reservoir if you will, of tax loss carry forwards that offset and will continue to profits on the winning stocks.

While there are no current IRS figures on the total number of taxpayers who had an overall loss in the value of the assets that they sold, the net capital losses reported more than doubled from $13.9 billion to $29.9 billion, and the number of taxpayers with reported net losses grew 98 percent to 13.3 million taxpayers. And during the same two year period, the number of tax payers reporting no income at all or an actual net loss for tax purposes grew, or actually grew 48.8 percent to 1.7 million tax payers in 2002

The bulk of these taxpayers were either people closing a failed business or full time real estate investors who are allow by law for tax purposes to use their paper losses to offset their wage income. The huge increase in the number of people reporting looses is just one indication of how many tax payers were actually wiped out by losses from the dot-com era, as the losses now trickle down from the dot-coms to the various venders and small businesses that made their living supplying those companies.

Those who reported negative income reported being $65.6 billion in the red.

The Investor and Job Layoffs

Layoffs occurred at the second fastest rate on record during the period between 2000 and 2003. The government figures of the frequency that workers are permanently dismissed from their jobs reached 8.7 percent of all adult jobholders. This included 11.4 million men and woman aged twenty or older. That is nearly equal to the nine percent rate for the period of 1981-83, which included the greatest contraction in the American economy since the Great Depression of 1929-33.

Recession and weak economic growth characterized most of the period of the new millennium when millions of jobs either disappeared or were sent overseas. While it is true that layoffs tend to rise during hard times and fall off during prosperous times, the U. S. Bureau of Labor Statistics shows evidence that layoffs are more frequent now than ever before and more than in similar cycles in the past. The layoff rate, for example, is greater now than during the recession of 1990-91. One reason, of course, is globalization as companies shift production around to take advantage of both lower labor costs and new opening markets. This accounts for why American jobs are becoming increasingly insecure.

While job security has been on the decline for the past twenty-three years, unemployment was also on the decline at the same time. This highlights the problem in its worst light. You are more likely statistically to be laid off now than in similar periods of unemployment in the past. The falling unemployment rate also implies that most job losers are re-employed relatively soon after being laid off, which would explain why two-thirds of those who had lost their jobs in the previous three years were re-employed later.

This decline in unemployment and decline of wages at the same time highlights the other problem: About 56.9 percent of those who lost there jobs but were later re-employed within three years reported lower salaries at their new job, and that compares with 46.6 percent during the 1991-93 period and 42.2 percent during the boom years of 1997-99.

The latest figures show that national poverty rate rose from 12.1 percent in 2002 to 12.5 percent in 2003, this after a long economic boom and a government war on poverty. The number of Americans without health insurance rose from 14.2 percent in 2000 to 16.5 percent in 2003.

As pay fell in rural areas and in cities, income dropped more fore those who could least afford it. Currently, the highest paid twenty percent of the work force takes home more than fifty percent of the payroll.

Unlike most economic turndowns, the one that started in early 2001 was some-thing of an equal opportunity recession, hurting families of all income brackets. While on the surface, the economy is not getting any worse, there are still a number of unsettling areas on the horizon.

The Investor and Bankruptcies

In 2004, no fewer than 1.65 million personal bankruptcies occurred, up 14% from last year and breaking all previous records. Twenty percent of all Americans are now carrying medical debt, and over half have no medical insurance at all, making them all potential candidates for the involuntary bankruptcy route.

The second quarter of 2004 had the highest modern job layoff rate since the 1981-83 periods. The layoff rate reached 8.7%, or 11.4 million workers, which is the highest rate since the Great Depression of 1929-33, according to economists for J.P. Morgan Chase. While job displacement, the replacing of well paying jobs with poorly paying jobs, has been gradually increasing for the last twenty-three years, until now the unemployment has trended down. Workers are more likely to be laid off now more than any other time, and more likely to replace their jobs with a lower paying job. 56.9 percent of those re-employed were earning less in their new job than in their old job, compared with 46.6 percent from 1991 through 1993, during a similar period of recession followed by a weak recovery, and 42.2 percent from 1997 to 1999, which were the boom years. Of the long-tenured workers, that are workers with more than three years on a job, 5.3 million were displaced during the 2001-2003 period or 6.3 percent of all tenured workers. According to the Labor Department’s Bureau of Labor Statistics, the recession and weak economic growth characterized the period from 2001 to 2003, and 6.3 percent was the highest layoff rate on record since records on this data have been kept, slightly above the 6.2 percent of the 1981 to 1983 period.

The Investor and Real Estate

Location, location, location. The three rules of investing in real estate. There is almost a unanimous opinion that investments in prime real estate were one of the major winners in the last decade, and they will continue to show gains, albeit only modest gains. But in the less desirable areas that showed nearly as good a return are another story altogether. There are already declining prices and the trend should continue for the rest of the decade, just as second-class real estate did in the 1920s. Then, as now, farm prices were the first to show declines. And by late 2003 non-prime residential properties first leveled off in value and then began to fall in value. Of late, we have also seen weakening in the price of non-prime city and suburban real estate, resort condominiums, and farm-land. Prime urban real estate is holding as it should, but a decline in non-prime big city cooperative and condominium prices is already underway and worse may also be ahead of us.

Inflation

Another reason long-term investment in coins is necessary today is because of the shrinking dollar. According to United States government figures, the official value of the dollar has fallen 68.2 percent in the past seventeen years. But, in reality, the dollar has fallen 76 percent in value during this period. As an investor, you can't afford to ignore the dwindling value of the dollar. It is the major consideration in creating any long-term investment strategy. Long-term planning is crucial.

For the last few years, the U.S. has been a magnet for a one-way flow of capital from global money markets. This is draining the world economy of money. Fortunately, thanks to a relatively free world trade, this is balanced by U.S.

exports. Unfortunately, this situation translates into a merchandise Trade Balance deficit, or better known as the Trade Deficit. The Trade Deficit has increased 386 percent since 1980, and 1205 percent since 1975, our last year without a deficit.

This past year the trade deficit is likely to soar above 140 billion dollars and could reach 150 billion dollars, compared with last year's record 123 billion dollars. With such trade deficits piling up, the United States has become the world's biggest debtor. The big budget deficits are helping to create America's two-tier economy, with strong growth in service sectors and slow growth or recession in the manufacturing sector.

According to the U.S. Department of Labor, one would need $4.87 to replace the buying power of a 1970 dollar, $2.29 to replace the buying power of a 1980 dollar, and $1.45 to replace the buying power of a 1990 dollar.

Does anyone really know how the economy is doing? "Recovery" and "prosperity" aren't as certain as some people would have you believe. While this is not an issue for the ten per cent of Americans who have money, it will surely to one foe everyone else. The problem is nobody knows the facts!

Business Climate

Frankly, I don’t even want to go there but I am obliged to at least include some of this just for accuracies sake. As of July, 2004 the United States government had convicted over three hundred businessmen for Federal economic crimes and another four hundred are currently awaiting trial.

There are so many of them to pick from that I will just list my favorite few dozen or so: Enron. A fifty-three count multi-billion dollar accounting and tax fraud; WorldCom. A six billion dollar accounting fraud; Waste Management. Inflated profits in a two billion dollar accounting fraud; Microsoft. Nearly two billion dollars to settle consumer anti-trust suits; Sunbeam. A two billion dollar accounting fraud with sixty million dollars missing; Merrill-Lynch. A one hundred billion dollar fine for tailoring stock research to defraud customers; Xerox. A six billion dollar accounting fraud; Adelphia. Multi billion dollar fraud; Deloitte & Touché. Accounting fraud; Ernst & Young. Accounting fraud; Gateway. Accounting fraud; Grant Thornton. Fraudulent tax shelters; KPMG. Accounting Fraud; K-Mart. Bankruptcy fraud; Price-Waterhouse. One Million Dollar fine for unprofessional conduct; IBM. Reported improperly three hundred million dollars as profits; CUC. Five hundred million accounting fraud; Rite Aid. Seventy million dollar accounting and kickback fraud; Micro Strategy. Fifty million dollar accounting fraud; Commerce Bank Corp. Kickbacks and fraud; Global Crossing. A multi billion dollar bankruptcy fraud; Im Clone. Nineteen million dollar insider trading fraud; Arthur Anderson; Obstructing justice, accounting fraud and conspiracy; Dynergy. Fraud; Tyco. Insider trading fraud; Halliburton. Rigged bids, Influence Peddling and accounting fraud, overcharged the U.S. Government one hundred million dollars on Iraq contracts; Morgan Stanley; Fifty four million dollar sex discrimination settlement; Schering-Plough. Three hundred fifty million dollar fine for cheating Medicaid; Duke Energy. Two hundred seven million dollar fraud overcharging the State of California for energy. U.S. FoodService; Seven hundred million dollar accounting and securities fraud. SIG Specialists Inc. and Performance Specialist Group and five allied firms; Two hundred forty-one million dollar settlement for improper trading and front running. Capital One; Insider trading. Boeing; Felony bribery on a twenty-three billion dollar Air Force contract. Bristol-Myers Squib; Three hundred million dollar accounting fraud. Bayer; Overcharged Medicaid two hundred fifty- seven million dollars. GlaxoSmithKline; Overcharged and billed Medicaid over eighty- six million dollars.

Cendant; Mortgage fraud. Riggs Bank; Money laundering. Infineon Technologies; Two hundred twenty-nine million dollar fine for price fixing. Franklin Advisors Mutual Fund; Fifty million dollar fine and restitution for improper trading. Deutsche Bank Securities and Thomas Weisal Partners; One hundred million to settle claims of conflict of interest. Long-Term Capital Management; Forty million for bad faith tax deductions in an abusive tax shelter.

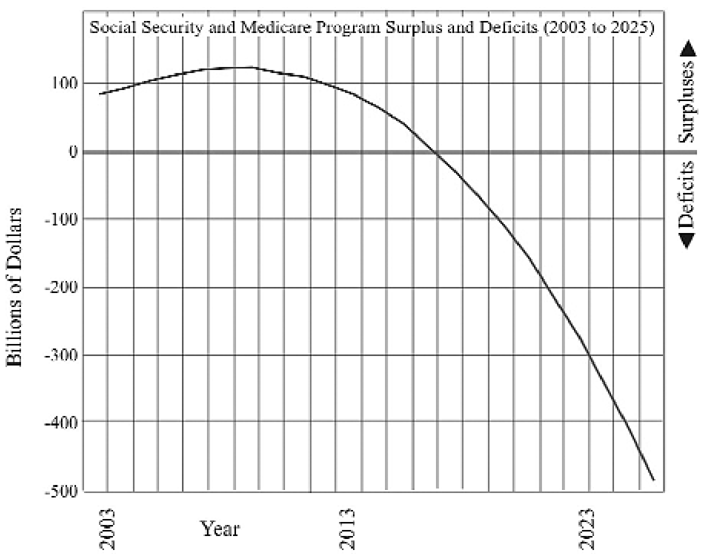
I think you get the point. Detractors of rare coin investment often cry that coins are unregulated and the payers are purchasing a pig in a poke. Well, all these guys were regulated and look what they did to their investors. At least with coins you have the coins, and coins are never worth nothing.

The Federal Budget Deficit

Social Security and Medicare

You could say that besides National Defense, the Social Security and Medicare Programs are most of what our federal government does. As the Federal Budget chart shows, in 2003 these two programs and Medicaid amounted to $946 billion, nearly forty-four percent of what the government spent. Social Security and Medicare are in huge financial trouble as the baby boomers start to retire. This makes today's budget deficits and the certainty of rising interest rates an even bigger problem for us because there is no relief in the future. What is more, the solutions to the Social Security and Medicare financial problems will themselves require many billions of dollars -- we should not approach those solutions with mounting debt and interest charges.

CHART 57 SOCIAL SECURITY AND MEDICARE DEFICITS



Source: U.S .Department of the Budget.

We need to know some things about these programs in order to understand the enormity of their financial problems. First, the programs are "pay-as-you-go." The money collected in wage taxes each year, about 15.3 percent of your salary, half from you and half from your employer, goes right back out to pay program benefits in that same year. Today, Social Security collects about twenty percent more than is necessary to pay benefits. This surplus goes into so-called "trust funds" but it is immediately "borrowed" by the government itself and spent on unrelated government functions. Many people believe their Social Security contributions go into special accounts, like bank savings accounts, and are saved for them. This should be so but is not. As usual, nothing has been saved.

So the workers pay into the programs and the money goes directly out to the retirees. If the ratio of workers to retirees stayed constant, and if Congress did not increase benefits without raising new taxes to pay for them, then Social Security and Medicare would not be heading for financial trouble. The ratio of workers to retirees today is about three to one, but that ratio is falling steadily and by 2030 it will be down to two to one. So, to keep the programs financially sound, either the taxes per worker must go up so two workers are paying what three used to pay, a fifty percent wage tax increase or retirees must get along on two-thirds of the benefits they were promised. Of course, some combination of increased taxes and decreased benefits is also possible. And so are new taxes on everyone, including the workers and retirees, to try to make up for some of the shortfall.

If the government hadn't been borrowing and spending the excess intended for the trust funds, the problem would still be a long way in the future. Social Security would be financially sound until 2041 and Medicare until 2030. Unhappily, as the Office of Management and Budget spelled out in its 2004 Budget document, “the government did not save those excess taxes in any economically significant sense, and the trust funds will not help the government as a whole meet its obligations to pay for future social security benefits."

How big is the problem? The 2004 budget spells it out. Social Security: Future benefits less future taxes for those 15 and over, $11.2 trillion. Medicare: Future benefits less future taxes for those 15 and over, $12.9 trillion. Medicare Prescription Drug benefits for those over 15 years, $2.6 trillion. Total $25,700,000,000.00

What is meant by actuarial present value is that this is the amount of money you would need in the bank today, earning a reasonable interest, in order to meet the obligations over the seventy-five year period. Seventy-five years is about how far out these obligations go when you think of someone just entering the work force, working forty-five years, and then living in retirement for thirty years. For a little perspective, the entire output of the United States, the Gross Domestic Product, was about $10 trillion in 2001.

In 2003, Social Security collected about $80 billion more than was needed to pay benefits, not counting about $100 billion in interest due to the trust funds which was, as usual, "borrowed" back and spent elsewhere. As the graph shows, these programs will continue to run a surplus until 2017 but will be running an annual deficit near $400 billion and rising twenty years from now. Losing a surplus of $100 billion and adding a deficit of $400 billion means a $500 billion drain on the budget. $500 billion is about what is collected today in wage taxes, and most people pay more in wage taxes than they do in income tax.

There have been many suggestions on how to bring Social Security and Medicare back into financial balance, but no solution is pain free, and none is forthcoming on the horizon at the moment, but the sooner we implement a remedy, the more affordable it will be. The longer the Congress waits, the more debt we are acquiring, and the more uncertain your Social Security and Medicare retirement benefits become.

CHART 58 FEDERAL BORROWING AND DEBT

FEDERAL BORROWING AND DEBT

TRENDS IN FEDERAL DEBT HELD BY THE PUBLIC

(Dollar amounts in billions)

Fiscal Year	Debt held by the public:		Debt held by the public as a percent of:		Interest on the debt held by the public as a percent of:[3]	
	Current Dollars	FY 2000 dollars[1]	GDP	Credit market debt[2]	Total outlays	GDP
1946	241.9	1,821.2	108.6	n.a	7.4	1.8
1950	219.0	1,339.6	80.2	53.3	11.4	1.8
1955	226.6	1,217.1	57.2	43.2	7.6	1.3
1960	236.8	1,127.8	45.6	33.8	8.5	1.5
1965	260.8	1,161.6	37.9	26.9	8.1	1.4
1970	283.2	1,047.7	28.0	20.8	7.9	1.5
1975	394.7	1,074.6	25.3	18.4	7.5	1.6
1980	711.9	1,340.7	26.1	18.5	10.6	2.3
1985	1,507.3	2,164.7	36.3	22.3	16.2	3.7
1986	1,740.6	2,443.0	39.5	22.6	16.1	3.6
1987	1,889.8	2,584.8	40.6	22.3	16.0	3.4
1988	2,051.6	2,720.6	40.9	22.2	16.2	3.4
1989	2,190.7	2,796.4	40.6	22.0	16.5	3.5
1990	2,411.6	2,968.1	42.0	22.6	16.1	3.5
1991	2,689.0	3,189.8	45.3	24.1	16.2	3.6
1992	2,999.7	3,471.1	48.1	25.7	15.5	3.4
1993	3,248.4	3,675.5	49.4	26.6	14.9	3.2
1994	3,433.1	3,802.7	49.3	26.8	14.4	3.0
1995	3,604.4	3,910.2	49.2	26.7	15.8	3.3
1996	3,734.1	3,974.5	48.5	26.3	15.8	3.2
1997	3,772.3	3,946.4	46.1	25.3	15.7	3.1
1998	3,721.1	3,846.1	43.1	23.4	15.1	2.9
1999	3,632.4	3,705.7	39.8	21.4	13.8	2.6
2000	3,409.8	3,409.8	35.1	19.1	13.0	2.4
2001	3,319.6	3,243.7	33.1	17.5	11.6	2.1
2002	3,540.4	3,399.3	34.1	17.5	8.9	1.7
2003	3,913.6	3,697.3	36.1	17.8	7.5	1.5
2004 estimate	4,420.8	4,122.3	38.6	n.a	7.1	1.4
2005 estimate	4,791.9	4,413.2	39.8	n.a	7.9	1.6
2006 estimate	5,074.1	4,604.0	40.1	n.a	9.1	1.8
2007 estimate	5,333.0	4,759.9	40.2	n.a	10.1	2.0
2008 estimate	5,589.4	4,894.9	40.0	n.a	10.7	2.1
2009 estimate	5,844.4	5,016.3	39.8	n.a	11.2	2.2

n.a. = not available

[1] Debt in current dollars deflated by the GDP chain-type price index with fiscal year 2000 equal to 100.

[2] Total credit market debt owed by domestic nonfinancial sectors, modified in some years to be consistent with budget concepts for the measurement of Federal debt. Financial sectors are omitted to avoid double counting, since financial intermediaries borrow in the credit market primarily in order to finance lending in the credit market. Source: Federal Reserve Board flow of funds accounts. Projections are not available.

[3] Interest on debt held by the public is estimated as the interest on Treasury debt securities less the "interest received by trust funds" (subfunction 901 less subfunctions 902 and 903). The estimate of interest on debt held by the public does not include the comparatively small amount of interest paid on agency debt or the offsets for interest on Treasury debt received by other Government accounts (revolving funds and special funds).

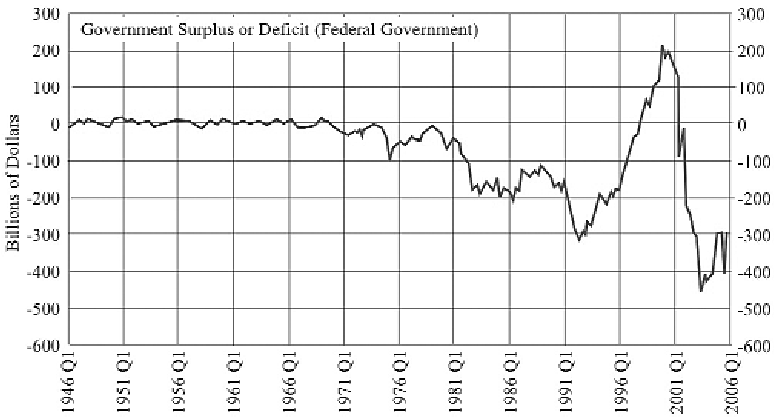
Debt is the largest legally binding obligation of the Federal Government. At the end of 2003, the Government owed $3,914 billion of principal to the people who had loaned it the money to pay for past deficits. During that year, the Government paid the public around $162 billion of interest on this debt.

The budget shifted from surplus to deficit in 2002, and the deficit then grew sharply in 2003. This was primarily because of the recession, the prolonged decline in the stock market, increased spending in response to terrorism, and several measures of tax relief that were intended to stimulate the economy during the recession and provide an impetus for growth well into the future. As a result, the deficit is estimated to rise to a higher level in 2004 before declining. Debt held by the public as a percentage of GDP increases by small amounts through 2005 and then changes little through 2009.

The 2005 Federal Budget, released by the United States Government in February, 2004 updates the total in the above table from $24.1 trillion to $26.7 trillion. This figure is the sum of all future benefits to be paid by Social Security and Medicare, less the taxes which will be paid in to cover those benefits after discounting cash flow; it represents the amount of money we would need in the bank right now, drawing interest, to be able to pay the promised benefits. The 2005 Budget also provides an estimate of the value of the total net worth in physical assets of the United States, its private citizens, businesses, and its governments; that figure is $45.8 trillion. In other words, to raise the money necessary to make Social Security and Medicare fiscally sound for the next seventy-five years it would be necessary to sell about half of all our physical assets.

The not unexpected kicker to this situation was the announcement by Federal Reserve Board Chairman Alan Greenspan on August 27, 2004 that the federal government might have to scale down Social Security and Medicare payment, a result of Congress systematically diverting the tax funds collected for the very purpose of paying these obligations in the first place.

CHART 59 FEDERAL GOVERNMENT SURPLUS OR DEFICIT



Source: U.S. Commerce Departments © Bull and Bear. USCD 2004. Used with permission.

Trade Deficit

In 1992 the United States had a Trade Surplus of $9 Billion with the fifteen countries that form the European Union and a Trade Deficit of $18.3 billion with China. What has happened in the past twelve years? The latest figures show a $99.8 billion deficit with Europe and $138.7 billion with China, that is to say that between Europe and China account for forty-six percent of the trade deficit. China tends to supply goods that require cheap labor, which American workers can not compete with. But Europe provides luxury goods like machine tools, and cars, for example. While Europe retrades the American dollars they get in this upside down trade arrangement, China holds $164.8 billion in U.S. Treasuries, second only to Japan, at $689.3 billion.

Some investors argue that the deficit is a sign of economic strength since foreigners must buy dollar denominated investments, but that has not proved to be the case as foreigners have bought $270.5 billion in Treasury notes just in the first half of 2004 rather than stocks or bonds denominated in dollars. In the meantime the net deficit has risen from one half of one percent of the gross domestic product in 1992 to five and an eighth percent of the gross domestic product in 2004.

In some cases, like in Japan and China, these governments have been buying Treasuries as a way of supporting the dollar so that they may continue to maintain their own favorable Trade balance. While in the short-term this is beneficial for both American investors and the United States Government, the long term outlook is that these oversized deficits can not be sustained indefinitely. This means all the inflation money that the government has been printing will come home to roost in the form of inflation at some time or another, but that exactly when will be anyone's guess. While I am not an economist, it is all but obvious that the foreigners holding this debt will want to compensate for holding the debt with a declining dollar, which will cause real interest rates to increase. The imported goods will cost more dollars which in turn will reduce the trade deficit, all at the cost to the American holders of debt and the American consumers.

Extremist Terrorism

Tactical Arab terrorism can be traced as far back as 1920 with the unprovoked attack on Jews murdered while praying at the Western Wall in British Mandate Palestine. The leader of the Arab extremists was Muhammad Amin al-Husseini, the so called "Grand Mufti of Jerusalem", who also led the Arab riots against civilian Jews in 1929. By 1936 the riots had become a full scale terror war murdering indigenous Jewish civilians called the "Arab Revolt".

Between 1936 and 1939, German Nazis supported Mufti in Palestine against the Jews and the British. Mufti moved to Germany in 1941, where he met with Hitler, visited Auschwitz with Eichmann and recruited Muslins for the Nazi SS until the end of the war. Mufti returned to Egypt in 1945 as a wanted war criminal to help incite the 1948 war against Israel. In 1951 he arranged the assassination of King Abdullah of Jordon when the king declined to join in another attack on Israel. Well before he died in 1974 Mufti passed his power to his nephew, Mohammed Abdel-Raouf Arafat.

In the 1960s such secular groups as Al Fatah and the PLO, now lead by Arafat, began murdering civilians outside of the so called "war zones". By the end of 1967 War Palestinian and Islamic terrorists, now allied, realized that they could never militarily defeat Israel and changed tactics from guerrilla war to urban terrorism. By the 1970s small groups of independent Arab or Islamic terrorists focused on material damage and individual political and religious murders world wide.

In the 1980s a more distinct move toward urban based attacks on massed civilians as specific targets with a subsequent increase in casualties as arms became freely available from the civil war in Afghanistan. This time also marked the emergence of the so called Fundamentalist Islamic Terrorist, no longer with a political agenda, but a religious one now offended by the very existence of Israel and the Western "immoral secularism, which included free speech, feminism, Judaism, Christianity and other ideas that Islamists opposed".

In the 1990s these murderers filled the void left by the collapse of Lebanon, Iran, Afghanistan, and Iraq, creating new terrorists states or within states, supported by Syria and Libya among others, and a new suicide extremist who attacked indiscriminately targets in Israel, Lebanon, England, France, Belgium, Egypt, Jordon, Russia, China, India, Brazil, South Africa, Nigeria, Spain, Algeria, Tanzania, Kenya, Bali, Mexico, Malaysia, Thailand and Indonesia.

Finally, in this century with the Pentagon and World Trade Center attacks, we find that there are no limits to the eighty-six year old terror war in plain view. The terrorists appear to have no political agenda to form a basis for negotiation. The likelihood that these organized murders will last a very long time, perhaps 10 years or more, and cost tens of thousands of additional lives and billions of dollars, will indefinitely impact every part of your life. So what is the investor to conclude? The only safety in the uncertain economy of this world is a carefully designed investment portfolio that is well diversified against risk. The number one best product to diversify a well balanced portfolio is rare coins.