

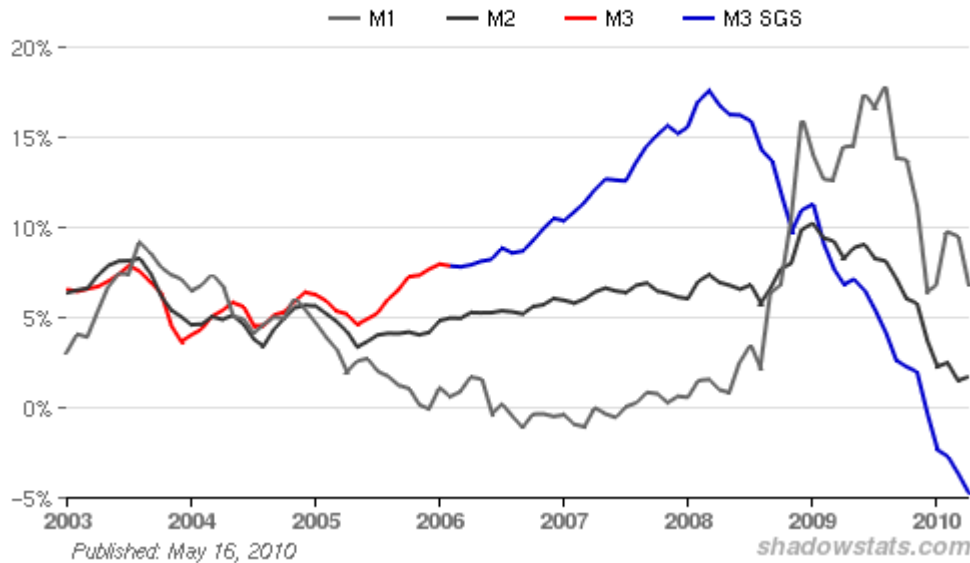
**LOVE MAY MAKE THE WORLD GO ROUND,  
BUT MONEY GREASES THE WHEELS  
WEB BUZZ 2010.06.07**

It used to be that market participants, especially fixed income managers, would watch money supply trends on a minute-by-minute basis. It was gospel in the 1980s that increases in money supply would lead to growth and possible inflation and declines would do just the opposite. Over the last decade or so, monetarism as advocated by Milton Friedman has lost its appeal in making buy and sell decisions.

We know a monetarist economist who has a good handle on the U.S. economy and its future and we guarantee you that he is watching the money supply numbers, and, by the way, so are we. While the inflationists are all a' twitter over the huge increase in the banking system's monetary base, that is not where the real action is. The banks are not making loans, which would increase the money supply if they did, as they have their own problems, i.e. real estate and other loans made during the heady days of 2006 and 2007 that have gone bad. Also, the demand for loans as well as the credit-worthiness of many would be borrowers are such that loans are just not being made. Please note the following chart:

### Annual U.S. Money Supply Growth - SGS Continuation

Monthly Average through Apr. 2010 (Source: St Louis Fed, SGS)



Adapted from ShadowStats.com

Deleveraging is what is taking place and that reduces the money supply. This will be a very long process and will reduce the GDP numbers over the next three to five years and possibly longer. The process has only just begun. There is no way we can have runaway inflation while this is taking place. Another very deflationary condition may be taking place in Europe and China as well. Europe's banks are in troubled conditions and we expect a giant deleveraging will also take place there. The question becomes who will China sell their goods to? Europe is their largest customer with the U.S. being second. China has been stockpiling copper and other hand goods in anticipation of prices going up and demand being strong. If Europe and the U.S. can't and/or won't buy what happens to their economy.

The picture is not pretty my friends. Be extremely careful. Don't let Wall Street suck you in.