

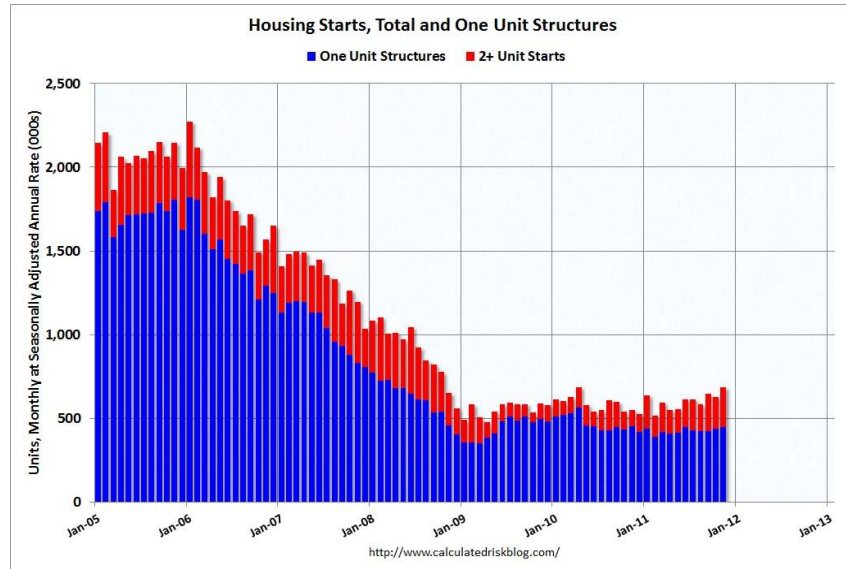
PROSPECTS FOR 2012

WEB BUZZ 2011.12.27

Recession or no recession is the controversy of the day. All Wall Street economists are calling for an increase of approximately 2.5% for next year's real GDP. Then again, they always project an increase in GDP. After all they have products to sell and being positive in most aspects is their stock in trade. Our record, on the other hand, has always been to be early in calling a recession and this time is no different. We expected the fourth quarter (October-December 2011) to show a decline, whereas it looks like there will be a 2.5% or so increase. This increase is primarily attributed to two things: (1) consumers redirected their savings from around 4.5% to 3% and (2) lower gasoline prices gave them a \$70 billion tax cut.

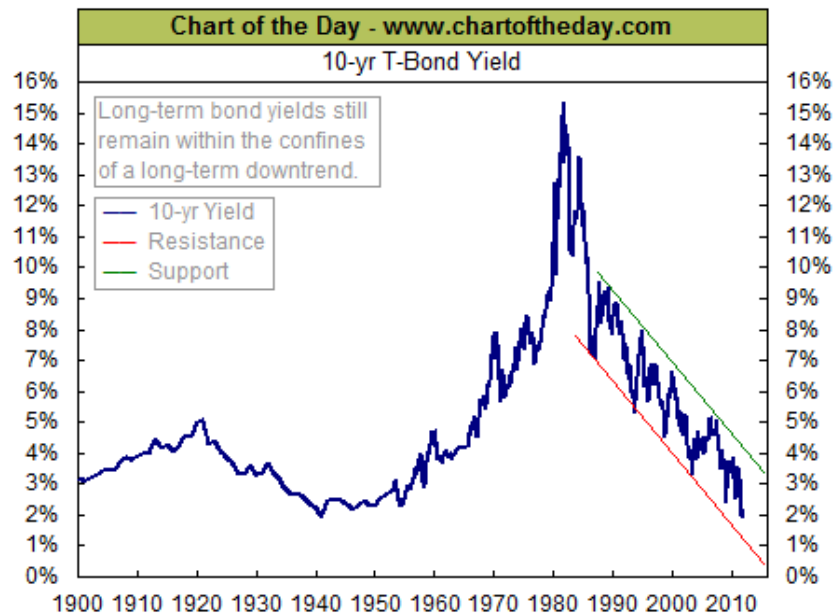
All of our long-term indicators continue to point to recession and the real probability of deflation coming in 2012. The Fed may again attempt to head off deflation with more quantitative easing, but of course it won't work. They are pushing on a string, but it is about the only thing they can do. We expect Operation Twist to be extended after June 30, 2012. That, if you may recall, is the Fed selling short-term government notes for long-term government bonds.

The stock market came alive December 20, 2011 with a 3%+ gain in the DJIA. The reason given was the increase in housing starts. Please note the chart below.



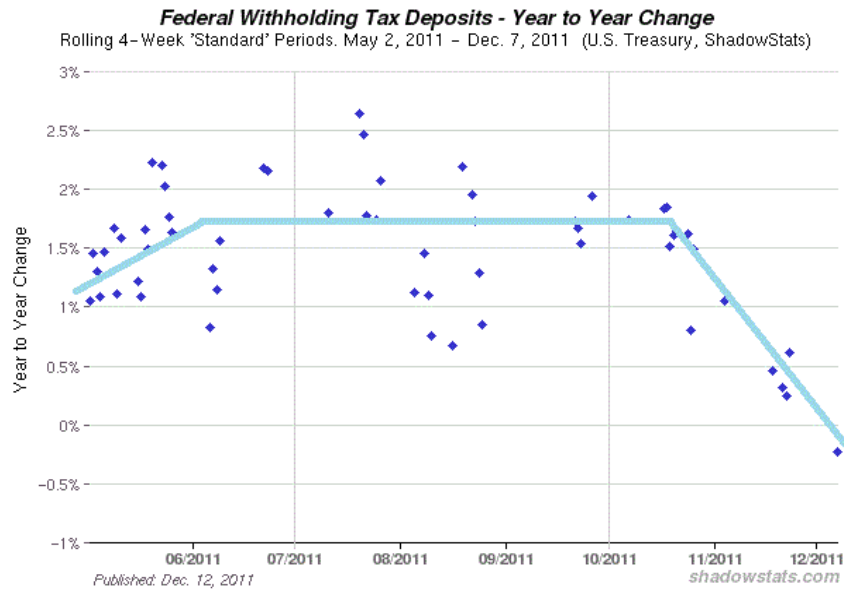
Adapted from [calculatedriskblog.com](http://www.calculatedriskblog.com)

Does this look like something that would create such a move? Of course not. What we just had, and have been having for some time, is the normal short covering rally in an ongoing bear market in stocks. Once the futures indicate a strong opening after a week or so of decline, the traders head for the hills. This is the case both in a bear stock market and a bull bond market, both of which are ongoing at this time. Note the chart below which gives one a look at the bull market in the 10-year government.



Adapted from pragcap.com

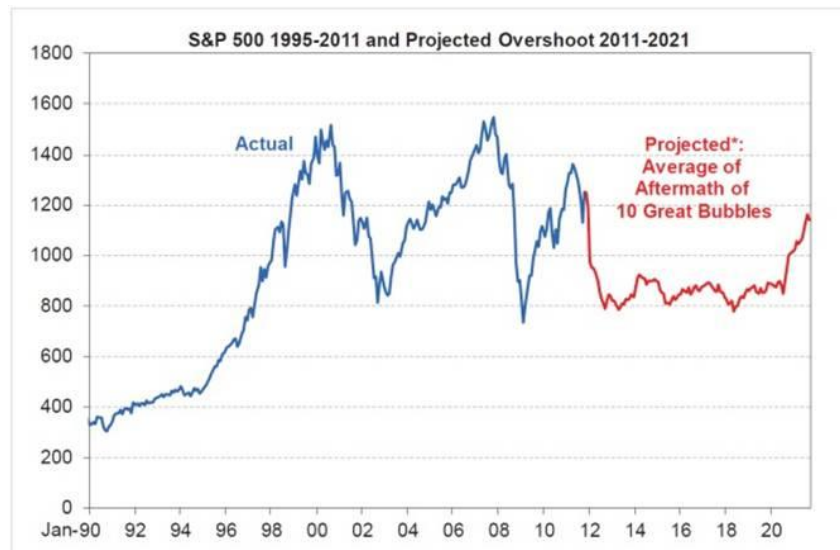
One of the most telling charts we have seen is that of the federal tax withholding depicted year over year through December 7, 2011.



Adapted from hussmanfunds.com

The trend is drastically down. That tells us personal incomes are certainly not growing, but rather shrinking. How can that be good for anybody?

Our position remains stocks down and bonds up in price. Note this last chart which is an educated guess of the stock market to come. Does that look bad or what?



Adapted from hussmanfunds.com