RIO Forecast for 2010

15th December 2009

Could FDIC be the next victim of the financial crisis?

Warning! 2,035 US banks are in imminent danger of going under, not 552, and this could have very negative effects on the market. One of my sources, highly placed in banking circles, has just informed me that all banks that have received TARP funds have been informed by the Federal Reserve that they must further restrict any commercial lending from January 2010. The directive states that Loans have to be 75% collateralized, 50% of which has to be in cash, which is a compensating balance.

The Fed has to do one of two things: They either have to pull $1.5 trillion out of the system by June next year, which would collapse the US economy, or face hyperinflation. This is why the Fed has instructed banks to inform them when and how much of the TARP funds they can return. At best they can expect $300 to $400 billion plus the $200 billion the Fed already has in hand.

I believe that the Fed will opt for letting the system run into hyperinflation. They cannot risk allowing the undertow of deflation to take over the economy. The system cannot stand such a withdrawal of funds and they must also depend on assistance from Congress to supply a second stimulus plan. That would probably be in the order of $400 to $800 billion. A lack of such funding would send both the US economy and the stock market into a tailspin. Even with such funding the economy cannot expect any real growth, and at best a sideways movement for perhaps a year.

Our research indicates that the FDIC is not only $8.2 billion in the hole, but they have secretly borrowed an additional $80 billion from the Treasury. It also seems to show that there is a serious a shortfall in the FDIC report on the number of banks in trouble. The number in eminent danger is not 552, but a massive 2,035. This is alarming! The cost of bailing these banks out would be $800 billion to $1 trillion. It is difficult to imagine this extra bail out happening, which means over 2,000 are in danger of being closed in 2010.

I would forecast that the FDIC could be the next victim of the financial crisis and collapse before the end of 2010, which means no more deposit insurance. This follows the 18/9/09 end of government guarantees on money market funds. Both will force deposits into US government bonds and agency bonds in an attempt to save the system, which will strip small and medium-sized banks and force them into shutting down or being absorbed.

Any members with deposits in US Banks should consider taking their money out, especially CDs. I would recommend having a close look and seriously consider taking the cash values out of US based life insurance policies and annuities. In my opinion, members should keep only enough money in banks for three months of operating expenses, six months for businesses.

The Fed also expects a meltdown in the bond market, especially in municipals. I would also forecast that US public services will be cut drastically leading to increased crime and social problems within the USA.

The latest favorable events we are told are the seeds of recovery. The green-shoots of spring are to be harvested before winter sets in. I am skeptical of the strength and duration of such a recovery. The underlying problems are still not being addressed.

The US government and the Fed cannot bail out banking, Wall Street, insurance and government indefinitely via monetization. Impaired corporations, no matter what their size, have to be allowed to fail. Stimulus cannot be used indefinitely. Both have to be reigned in, because the longer this behavior continues the worse the final outcome is going to be.

As members may recall I predicted six year's ago that Fannie Mae, Freddie Mac, Ginnie Mae and FHA are the wards of American taxpayers, as is AIG. All their financial conditions worsen every day. They have again been insuring subprime mortgages by the thousands and when they begin to reset next year, we will be back to 60% failure rates. The US government admits already they'll see 20% failure rates; this situation is not over.

US Government and the Fed have no exit plans for these sinking ships, particularly Fannie, Freddie, Ginnie and FHA, in an economy guaranteeing everything in sight.

The US mortgage market is worse than it was a year ago, only being kept from sinking by a tax credit on a deposit of 3%. As a result, the US have more than $1 trillion of new mortgage failures on the way.

Interest rates will probably stay where they are for 18 months. The 2009 fiscal budget deficit was $1.5 trillion and 2010 will be worse. Government is not cutting expenses; they are increasing.

The dollar will move lower and inflation, gold and silver higher.

In case members are unaware, in normal times throughout the past century bankers using the fractional banking system usually lent 8 times their assets, or deposits. It was recently that the privately owned Federal Reserve banks within the system lent 40 times assets or more in order to accommodate the system. The fact is that the American public no longer trusts the Fed and the US banks system with much of the western world beginning to question the whole system. No one wants to be first to say this, but the facts are beginning to show that this could mean the demise of the financial system that people have known for 315 years.

I do not know as yet what the new system will be like, but the con game is over. The debt that is owed simply cannot be repaid. Japan, the US, the UK and Europe will be the first to go, followed by most of the rest of the world. Members may ask what will be the big winner. **Gold!**

Accordingly, members should consider investing in the repositioned RIO Professional Investors Fund which trades Gold, the fund has significantly increased its weighting in this asset class and can now hold up to 85% of its holdings in this commodity. **The last gold trade executed on the twenty seventh of October produced a 9.45% profit in less than thirty days**; **the position was closed tacking profits**. I have been accurately forecasting gold's movement since gold was $252.00 as members will know from the multitude of reports I have sent over the past few years on gold.

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