

# Punishing Savers

By

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“Stretch him,” comes the cry from the English king’s specialist in extracting confessions as the valiant William Wallace lies gasping for breath at his feet. The next scene in the most excellent movie, *Braveheart*, shows Mel Gibson, a.k.a., William Wallace, being hoisted up into the air by means of a horse harnessed to block and tackle. His legs and lower body pulled in one direction by the horse; his arms and upper body pulled in the other, he is racked with exquisite pain while he hangs suspended between heaven and earth. One marvels at the display of fortitude and internal strength of character that enabled the man to hold fast to his convictions in spite of such overwhelming agony.

Why introduce an essay about market matters with a scene from an Academy Award winning movie? Simple – judging from the emails I receive on a regular basis, many investors seem to feel they are in a similar situation as Mr. Wallace. They feel themselves “stretched” or “racked” as they attempt to discover somewhere they can put their hard earned wealth in order to preserve it. First they are pulled in one direction, then another, and yet another.

Each time they settle on what they feel is a decent place to park their working capital, lo and behold, it appears they are snake bitten - If it is the stock market, stocks tank – if it is bonds, bonds tank – if it is cash – interest rates go nowhere – if it is gold, it drops like a lead brick – if it is gold or silver mining shares – the bottom falls out – if it is one of those reverse stock funds that make you money when the market goes down – the market goes up! Pretty soon they reach a point where they figure they might as well just go dig a hole in the backyard and bury the stuff! Been there?

The point is that this is the environment that the Fed in its glorious wisdom has created for American citizens. In their attempt to avert a collapse after a market bubble blow-off, Greenspan and company slashed interest rates to 45 year lows effectively removing a major source of expected income from the entire population of our senior citizens. Many of these people were born during the Great Depression and grew up with an inherent aversion to debt and to risk. They worked hard, played by the rules, avoided excessive debt and saved a goodly portion of their salaries over their lifetime.

As they approached their golden years, their expectation was that they could move their life’s savings into something very conservative and very safe such as a bank CD and use the interest proceeds to fund their retirement needs. Many were no doubt thinking that a million dollar nest egg yielding a safe and solid yearly yield of 6% would be more than sufficient to allow them to live comfortably while they reaped the rewards of all those years of doing without and saving. Thanks to Mr. Greenspan, those dreams have gone with the wind.

This, in my mind, is perhaps the real legacy of the Federal Reserve System foisted upon the nation nearly a hundred years ago. It is the human cost of the pain and suffering inflicted on the good citizens of this land by a system that has now come to fruition, a system that punishes those far-sighted enough to save and prepare for the future while at the same time rewarding the profligate and reckless.

How many have parents or grandparents that are faced with the quandary I outlined in the beginning of this essay? They do not know where to put their money and are almost desperate to find a place, any place, where they can obtain a decent rate of return or yield without exposing it to excessive risk. Yet such places seem to elude them and thus they are forced into risking that money at a time in their lives when risk is the last thing they want to take on. Watching these

seniors take the earnings of their lifetime out of bank savings deposits paying a pitiful 0.8% per year or one year CD's paying a trifle more and sinking it into high yield junk bonds or REIT's (Real Estate Investment Trusts) in order to actually make enough interest to survive upon personally makes my blood boil. What happens to these poor folks should those investments go south? How many more horror stories do we need to hear about people in their golden years being forced into becoming door greeters at the local Wal-mart since they have lost their nest egg?

Greenspan and company have made a deliberate and calculated decision which in effect has forced savers such as these seniors into putting their capital at excessive risk. The truth be told, the average investor upon learning that he can make a mere 1% or so a year on his money in the bank, looks to the stock market as an alternative. Whether this is sound judgment or not is not the issue right now. The issue is that he or she has no other alternative in his or her own mind. Most do not or cannot afford to hire the truly knowledgeable financial advisors out there and those remaining advisors are more often than not, young greenhorns who were not even born or were still in diapers during an actual bear market in stocks.

Yet these novices scurry about by land and by sea giving counsel to millions of the citizens of this land to get into the stock market. So it's off to the stock market they go. Yet the stock market is currently vastly overvalued by any conventional or historical method of analysis. What's worse, the broad indexes are down for the year and technically are showing signs of rolling over and breaking hard to the downside. Were it not for the continued intervention by the PPT (Plunge Protection Team), the markets would have already begun the next leg down in this major bear market.

Then again, there are those citizens who are a bit more skillful in money matters and prefer what they perceive to be the relative safety of bonds. They will gravitate towards those feeling that at least they are avoiding risky stocks. The problem for them is that the Fed has set in motion a process that is soon to take its toll on the bond market- the creation of a level of debt that can only be described as gargantuan.

The only way it can hope to see this debt repaid is to have it repaid in cheaper dollars and that can only be done by inflating. The problem is that in so doing, bond prices will sink as interest rates soar leaving bond holders with the loss of their capital. That might be considered a good thing for some who can then obtain a decent rate of return on a bank CD as a result, but a lot of good that will do if a one-year CD increases at a slower pace than the real rate of inflation! You hear that sound? It is the sound of your wealth burning away.

Then there is another class of investors who see the ominous signs abounding and have fled into gold viewing it as the ultimate safe haven. So what does our illustrious Federal Reserve do? In conjunction with Treasury officials and large New York based banking institutions, it attacks gold by leasing it out of its vaults and through its minions at Morgan and Goldman, dumps it into the market place in a brazen and deliberate attempt to squash any rallies and keep the price in check. Prudent investors who have fled to the yellow metal for safety then watch in stunned disbelief as the price of gold sinks while both stocks and bonds sink. Again, they feel "racked" by what seem to be a group of financial elites sent especially into their life to torment them and separate them from their savings.

There is yet another class of savers who look out and see commodities as the place to be if they are to preserve their savings. They study supply and demand statistics and long-range trends and see Chinese growth along with Indian growth as a long-term demand source for an increasingly shrinking commodity pie. They watch the CRB index (Commodity Research Bureau) and see the index moving into 20-year highs and thus come to the conclusion that is the place to indeed be if they are to preserve their wealth in the face of a falling stock market. So it's off to one of those new fangled commodity funds they go. Wouldn't you know it? Just about the

time they open that new account, Greenspan opens his mouth and the dollar rallies up and down go a broad basket of commodities and with it a goodly chunk of their life's savings.

Finally, they give up in total despair and just throw in the towel and figure, "Since I can't seem to keep it, I might as well spend it on something I can enjoy before it is all gone anyway". A trip to the motor home dealer, a jaunt to the high priced restaurants, a Harley, a sports car to tool around town, etc. and Greenspan nods approvingly while he extols the resilience of the American consumer as he sits before the Congress assuring the nation and the world, that the American consumer continues to spend and thus drive the global engine of growth. Ah yes indeed – "...and Alan spoke and it was done. And Alan looked at what he had created and said it was good"!

This is the point we have reached in our nation. Investors are frustrated beyond words. Those who save are thoroughly bewildered and confused in most cases. There is an air of despair among many who are desperately trying to preserve their capital especially those who believe that gold should be shining brightly at such a time. My thoughts are that we are rapidly reaching the end game for this Fed orchestrated travesty. The final curtain is about to fall and the names of the players who acted out this charade will rot in history along with their pipe dream of limitless amounts of paper money. Those who hold gold will no longer be punished, but will be amply rewarded and more than recompensed for their frustrations and disappointments.

The Federal Reserve may have seemingly won many battles, but they will ultimately lose the war. The long-wearied and abused savers who refused to capitulate and persistently accrued the ancient metal of kings will stand triumphant at last. Like William Wallace, they will not surrender their convictions to that which they know to be false. What will be tragic is how many of our fellow citizens will not be among the victors but will rather have been the victims of Greenspan's war on savers.

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