

NEWSLETTER > BUDGET 2009

OVERVIEW

The budget measures were the opposite of what was needed to save our country from drowning in a sea of debt.

The Chancellor announced plans for a huge increase in borrowing when he should have begun a programme targeted at reducing the size and cost of the state and outlawing most of what the Banks and City of London do.

In choosing to bail out the UK banking system with a £1.3tn support package (of which the IMF expects the taxpayer to lose £100bn) the Chancellor has breached the Country's credit limit and saddled the people with a crushing repayment burden for decades to come.

Darling's actions will reduce demand in the economy at a time when most businesses are struggling – so that even more people will lose their jobs.

His schedule of tax rises is both misguided and deflationary as well as being highly political. It will not relieve the tax burden on the less well off and is, in fact, more likely to increase it, as those with capital can take their businesses and personal wealth to countries where taxes are lower.

DEFLATION

Some experts say that the increase in the money supply as a result of 'quantitative easing' will give rise to inflation while others see deflation as the problem. So who is right?

Well, when you look at what has been happening in the real economy the facts speak for themselves. Prices are falling, company order books and profits are down and the number of bankruptcies, house repossessions and redundancies are rising.

What is most significant, however, is the change in peoples spending behaviour. Whereas increases in disposable income from pay rises, bonuses or cost savings would have been spent, now they are either saved or used to reduce debt. In these uncertain times we have become more cautious. Our love affair with credit is over. We have learnt from bitter experience not to over extend ourselves.

This is not an environment where inflation can easily take root, as the banks, who provide 97% of the money supply as credit (debt), are lending less. They are conserving cash to cover their bad debts and bolster their balance sheets. Most western banks are so undercapitalised that they are technically insolvent. It is estimated by the IMF that the amount of bad debt in the pipeline (\$3tn) is enough to wipe out the banks many times over. Most taxpayer bailout money has been used to paper over the cracks in the bank's balance sheets. Very little has filtered through to real businesses that are the backbone of the economy. Consequently credit is scarce and solvent firms are unable to expand for lack of finance.

Shoppers have cut back and will only borrow to buy essentials. Our consumer driven society is on hold as we have entered a deflationary spiral that will not stop without major surgery to the banking and monetary system.

By sucking money out of the economy with tax increases the budget will make this situation worse.

INFLATION

For inflation to restart, businesses and individuals must spend any excess money that is pumped into the system. If that money is saved or used to pay down debt, inflation will not result because the surplus money is not being used to bid up the price of goods and services. And businesses cannot put up prices if people cannot afford pay them. Unemployment and reduced incomes brought about by the recession reduces demand and thereby forces firms to lower their prices in order to stimulate sales. When people see prices dropping they delay spending in anticipation that prices will fall further. And so it goes until the economy is ground into the dust.

Japan suffered ten years of this and nothing their government did made any discernable difference. The public simply refused to spend.

OUR BANKING SYSTEM WAS DESIGNED TO FAIL

Our 'fractional reserve' banking system causes inflation by creating more money (as debt) than the value of goods and services produced. The excess money bids up prices. It is a banking model that operates like a pyramid selling scheme in that it needs a constant flow of new customers to stay afloat. But now we are all borrowed up and as an increasing number of us are defaulting on our loans, the system is collapsing under its own weight.

It started with the credit crunch and banks going under. Now we are in a full blown recession and the RPI has gone negative. Deflation has arrived.

The main crash (when all the towers of Babel built around the banks fall) is yet to come and this could happen as early as the last quarter of 2009.

As we have said before the 'fractional reserve' banking model is the root cause of ALL our financial problems today. We will not have a sustainable economy until it is abolished and replaced with a pure money system that is not based on the people having to pay ever increasing amounts of debt interest.

This banking model founded by A M Rothschild two centuries ago has run out of time and money.

What was an inflationary money making scheme for bankers has become a cancer. Deflation is the result but the good news is that the patient will die. This is inevitable because fractional reserve banking is a perversion of the pure money system. It was designed to fail.

BEAR TRAP RALLY

As the FTSE 100 has risen by over 25 % since its recent low point there has been talk of 'green shoots of recovery'. Our view is that these 'green shoots' have no roots, as the economic fundamentals are pointing in the opposite direction.

These green shoots are seeds of greed planted by the market manipulators i.e. news stories designed to talk up the price of shares and thereby tempt investors to back into the market where they can be fleeced again.

These seeds will fall on stony ground and die as the economy is still heading south - and will continue to do so - while the bankers control the media and the money system.

We must not forget that the stock market is a giant casino where the financial elite hold all the trump cards - though the game for them will be over soon.

When you think about it logically, how has this rally happened? Well, when the credit crunch started the banks faced bankruptcy and told the government that they were too big to fail. So the government (who always do what the banks tell them) decided that the taxpayer should give the banks the money they needed to bolster their balance sheets and avoid insolvency and that the people should underwrite all their bad debts. This has removed the downward pressure on bank shares as taxpayers are now shouldering much of the risk. Consequently banks share prices have risen dramatically driving the market rally.

However, this has only provided temporary respite because the underlying problem of excess debt is still there. All that has happened is that the deckchairs on the Titanic have been rearranged.

The government's actions will make the recession worse because taxpayers have been forced to pay the cost (in additional taxes) of the banks greed and profligacy.

The seeds of the next crisis have been sown because when people have less money to spend they default on their debts which will bring with it the next and probably the last banking crisis.

GILTS

As a result of the extra government borrowing announced in the budget the size of the gilt market will increase substantially. This has led to concerns that the market will demand a higher return for holding gilts which could adversely affect prices.

Our view is that the demand for gilts will exceed the supply because as the recession deepens more people will recognise that in relative terms gilts are one of the safest investments for these uncertain times.

In the film 'Titanic' the ship went down by the bow end and the passengers scrambled to the stern, which was the safest place being the highest point above the water.

Similarly, if investors see HMS UK plc going down they will move their money to the safest haven. Where that is will depend on whether they think that the vessel will be lost by hyperinflation or deflation. If the former they will buy index linked gilts and/or gold. And if the latter the longest dated conventional gilts will be their port.

We also think that existing gilt investors will switch their short and medium dated holdings to the longest dated ones, which could cause a massive price bubble, as these are in short supply. Pension funds and insurance companies will be the biggest purchasers, but private investors will most likely see the benefits of buying them too. This is one of the reasons why the Safest First Strategy is focused on conventional long - dated gilts.

GILTS ARE UNDERPRICED

Given a 4.75% drop in base rates and the Bank of England's policy of quantitative easing many people have been asking why the price of gilts has not risen as they would have expected. We think that there are five main reasons why:

1. The supply of gilts has gone up to meet the government's enlarged borrowing requirement but the demand for them is still lagging behind. We expect this situation to go into reverse soon – see 2, 3, 4 & 5.

2. The higher level of income from shares and corporate bonds (caused by their plummeting values) has made gilts look less attractive as an income generator. We expect a reversal of this situation to occur when the volcano of debt defaults erupts and the markets crash, probably towards the end of this year. When dividends dry up and corporate bond holders default en masse, most of the money invested here is likely to go into longer dated gilts.
3. The City is betting that interest rates will go up in the medium term to prevent the return of inflation. This has held gilt prices back. We believe, however, that deflation is the problem and that when the City realises this there will be a major shift in sentiment, which will drive prices up. Until this happens gilt prices may fall as market manipulators bet against them.
4. There is denial and lack of understanding of the true nature and extent of the systemic flaws within the fractional reserve banking system. This is likely to continue until debt defaults hit epidemic proportions and it becomes crystal clear that the financial system is collapsing. At this point any misguided notions about future inflation are likely to disappear. Panic and fear of loss will take over and cause an unprecedented flight to safety in conventional long - dated gilts. Index linked gilt holders will want to switch to conventional gilts and this combined with switching from commercial property, shares and corporate bonds is likely to create a massive gilt price bubble.
5. The power elite who own and control the fractional reserve banking system know that their creation is collapsing and that there is little more they can do to stop it. In the months ahead they will do everything they can to prop their edifice up including soliciting more hand outs from government. Their other strategy will be to step up their market manipulation activities in order to extract as much profit as possible from the financial markets before they fail. We believe that they are already manipulating the gilt market which is why long dated conventional gilts are currently underpriced. However, we do not expect these low prices to continue for much longer as explained earlier.

IMPORTANT LINKS

- If you would like to know why the banking system does not work and why the real cause of this crisis is never mentioned by the government or mainstream media please read the illustrated article entitled: [I want the Earth Plus 5%](#) It explains how a small banking elite headed by the Rothschild family came to control our lives and steal our wealth through their 'fractional reserve' banking system.

IF YOU NEVER READ ANYTHING ELSE YOU SHOULD READ [THIS](#)

Every adult should know the truth about how the world's wealth is being siphoned off into the secret vaults of this secret banking elite. We have been deceived and robbed. Had it not been

for the activities of these bankers there would be no poverty in the world today. I strongly recommend this article for its content and the way it has been written.

- This second article entitled: [The Marginal Productivity of Debt](#) explains how additional government borrowing is accelerating the deflation rate. I have touched on this here but this article explains it in full.

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