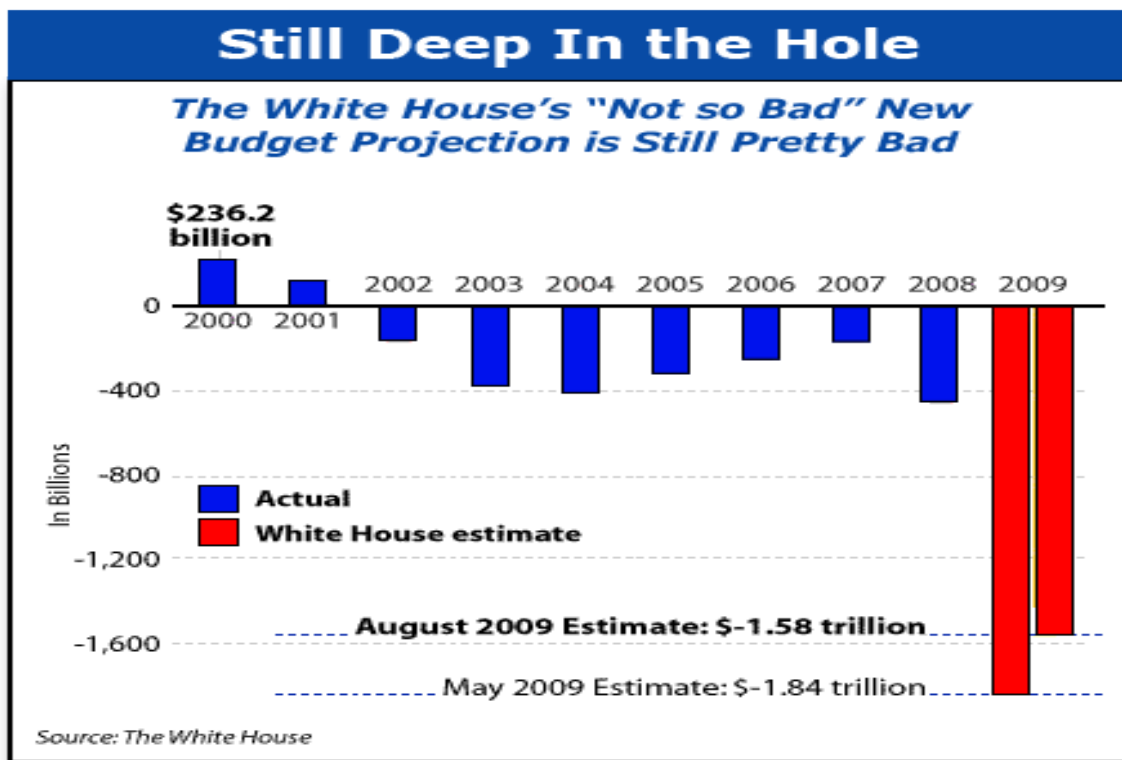


Is the Crisis Over?

The stock market recently hit new highs for 2009. Separately, we've heard that home sales have bottomed, that the "Cash for Clunkers" program jumpstarted manufacturing and the White House has cut its deficit estimate for 2009.

So is the crisis over? Most of these things are only partly true. Home sales may have hit a bottom, but prices haven't. Cash for Clunkers was a success, but it probably "borrowed" sales from the future. The White House isn't fooling anybody with its deficit figures. Do you want to see what the deficit really looks like? Look at this chart ...



You can see that America is still going deeper and deeper in the hole. And considering that recent bank failures have wiped out the FDIC fund for such emergencies, and we're probably going to see between 150 and 300 more bank failures over the next year, that alone will be enough to send Uncle Sam much deeper into the red.

So, am I bearish on stocks? No, not in the short term. I believe that what the chart shows us is the government is working very hard to re-inflate asset prices, including stocks, including commodities, including houses. This is setting up the greatest reflation event in history.

In short, the government is bound and determined to give us another asset bubble – multiple asset bubbles.

They will stop at nothing to achieve this goal – even if it means trashing the US dollar – which I think will happen – even if it means buying US Treasuries by the billions when foreigners refuse to step up, as China is starting to do now.

It means that Cash for Clunkers was only the beginning. There's also a cash for first-time home buyers. Soon we'll have cash for old refrigerators. Then we'll have cash bonuses for ALL homebuyers. Then cash for just about anything – anything at all – to keep the Ponzi economy going.

You have to forget the old rules. The government isn't about fiscal responsibility. Everything that the people in Washington and on Wall Street hold dear is at stake, and what they hold dear above all is power. The economy is about making things; power decides who gets to skim money they haven't earned.

So they CAN'T quit, because if they stop trying to reflate, they lose. They have no choice but to follow this path to wherever it leads. My predictions ...

- The stock market will go higher at least into November
- The dollar is on a slippery slope – they'll use lip service to talk it higher while doing nothing real to support it.
- This will be very good for hard assets – gold, silver, oil, other natural resources, and the stocks that are leveraged to them.

Things could work out differently – an external event could turn things around fast. But for now, I recommend buying on the dips, especially in natural resources.