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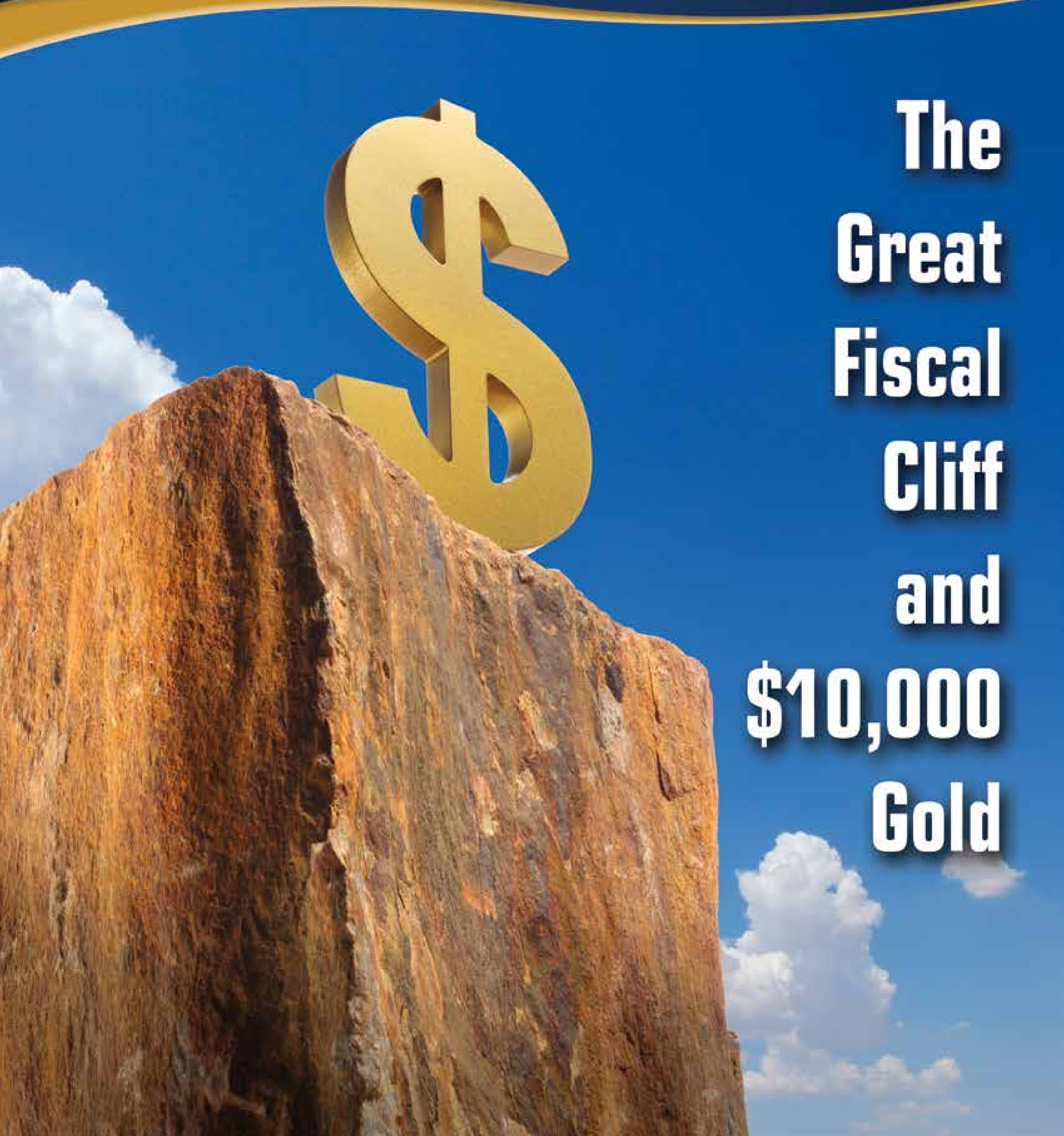
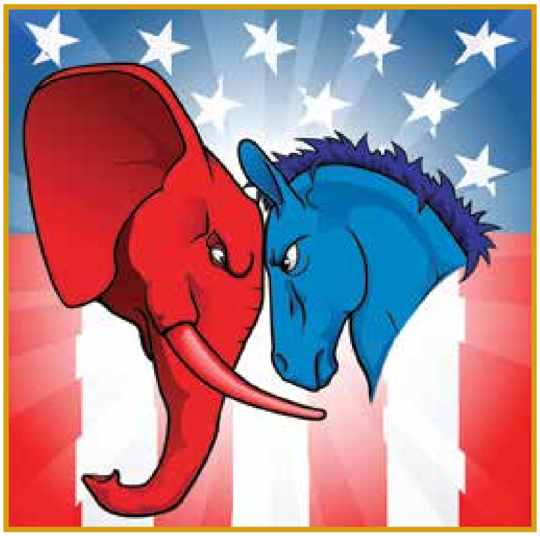


The Great Fiscal Cliff and $10,000 Gold

"The Fiscal Cliff" could potentially be one of the most significant economic events of our lifetime. Fueled by expiring tax cuts, new health care tariffs, automatic spending cuts, and soaring debt ... the resulting economic contraction could erode savings, negate assets, and decimate retirement funds.

The best defense against a financial calamity of this magnitude is education and preparation. The following pages will explore the conditions that have brought America to the brink and offer perhaps the only way back to solid ground.

The Fiscal Cliff and Stormy Political Stalemates



Like one of the recent storms brewing in the Gulf of Mexico, the conditions for a potential "Fiscal Cliff" in The United States can no longer be ignored. With the wild wind patterns and atmospheric turbulence of tax increases, new health care tariffs, a rising debt ceiling, and forced government spending cuts ... a dramatic economic slowdown seems imminent.

Fueled by partisan bickering in Washington, political paralysis has set in as neither Democrats nor Republicans seem willing to waiver from their fixed positions on taxing and spending. So there seems little hope to either adjust slated tax hikes and/or modify automatic spending cuts previously put in place as a result of successive stalemates. The Bush-Era tax cuts are now set to expire at year-end as massive, new spending cuts will simultaneously kick-in.

While higher taxes and new spending constraints will help reduce the federal deficit, they will also thwart our very tenuous economic recovery. And, without any direct, congressional intervention before the end of the year, over $600 billion (more than 4% of U.S. GDP) in fiscal shock is looming.

Unlike natural disasters where the wind eventually slows and flood waters gradually recede, the Fiscal Cliff will undoubtedly lead to another American recession. More than 40% of companies surveyed by Morgan Stanley in July of 2012 named "The Fiscal Cliff" as the main reason for curtailing spending. And that number is likely to rise according to the chief US economist at Morgan Stanley, Vincent Reinhart: "Economists generally overstate the effects of uncertainty on spending, but in this case it does seem to be significant."

The Dizzying View from the Edge

"The Fiscal Cliff" is enough to make one woozy. Allowing the US to slip over its edge would prove to be a foolhardy free-fall into tax increases, government spending cuts, and added debt. There are several components of the cliff to consider, and it's important to understand the impact that they will have on working, American families and the economy.

Expiration of the Bush Tax Cuts: The Bush Tax cuts of 2001 and 2003 are scheduled to expire at the end of 2012. Failure to extend these tax cuts would increase taxes on every taxpayer in the country and put millions of Americans back on the tax rolls. In addition, the so-called "marriage penalty" would be reinstated to increase the tax bill of married, middle-class wage earners by thousands.

Expiration of Payroll Tax Cuts: One of the more tangible aspects of the cliff, is the expiration of the payroll tax which will result in a two-percentage increase in paycheck withholdings. Also known as the payroll tax holiday, the expiration will see taxes withheld by employers rise from its current 4.2% back to its original 6.2%.

Affordable Care Act Taxes Kick-In: In order to finance the new health care reform law, a new tax on investment income will take effect in 2013. Taxable income over $200,000 for an individual and $250,000 for a family will be subject to an additional 3.8% tax.

Automatic Spending Cuts are Triggered: $2.1 trillion dollars over 10 years in discretionary government spending will also be cut including $1 trillion in defense spending cuts.

According to Urban-Brookings Tax Policy Center, there will be a direct impact on middle class Americans if these and several other key tax cuts expire including:

- The child tax credit which will be cut in half from $1,000 to $500
- The 10% tax bracket which will disappear so the first $59,500 for families and $35,500 for individuals will be taxed at a 15% tax rate

Ramifications

- There will be an average 4% decline in after-tax income for middle class American families
- 95.9% of middle-income families can expect to see their taxes go up.

Fiscal Cliff Looming

Without changes, expiring tax cuts, new taxes and spending curbs that kick in Jan. 1 will equal 4.6% GDP

Taxes	In 011
Bush tax cuts	$180
Alternative minimum tax	$120
Payroll tax	$120
Tax extenders	$20
Obama Care	$20
Business Expensing	$10

Expiring Programs	In 011
Extended jobless benefits	$40
Medicare doc fix	$20
Other programs	$40
Spending cuts	In 011
Sequester	$110
Initial debt plan	$40
Total	**$720**
As share of GDP 2013	**4.6%**

Source: BofA Merrill Lynch Global Research

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The Fiscal Free Fall of 2013

What is unique about places like Negril, Jamaica; Brontallo, Switzerland; Kimberley, Austrailia; Acapulco, Mexico; and Villers-le-Lac, France? They are the locations of some of the most dangerous cliffs in the world. They are also the home of extreme cliff diving or “tombstoning” … a reckless, high speed plunge into unknown depths that can often lead to an early grave. Tombstoning is hard on the body. Divers hit the water from towering heights at excessive speeds and can suffer broken bones, concussions, spinal injuries, paralysis, and even death.

But none of these dare devil leaps compares to the enormity of the “The Fiscal Cliff.” Its impact will land squarely on the backs of U.S. families, investors, and retirement planners. The Fiscal Cliff will be felt by Americans across the economic spectrum impacting everything from take home pay, to savings accounts, to everyday prices at the grocery store.

Massive in size, The Fiscal Cliff rises to over $600 billion. When considered in the context of the US economy which will produce over $15 trillion worth of goods and services in 2012, ($300 billion more than last year), America’s fiscal leap will be twice the economic growth of 2012. As a matter of fact, the size of the Fiscal Cliff contraction would exceed the GDP growth of the United States every year for the last 20 years!

The impact of the fiscal plunge would not only be a battered US economy but lasting fiscal consequences including a formidable economic contraction and resulting 6% drop in GDP that would leave millions unemployed.

Christine Lagarde, Managing Director of the IMF, recently stated, “There are serious questions regarding the U.S. economic future particularly as a result of the potential Fiscal Cliff should Congress not agree on at least a temporary plan in the coming months.”

With the weakening of the global economy, an embattled US election process, control of the White House, Senate and Congress all hanging in the balance amid deep partisan divides, and the looming possibility of a debilitating Fiscal Cliff … doubt, hesitation and vigilance now rule the day.

Timothy Powers, the CEO of Hubbel, perhaps put it best when commenting on what is already apparent to job creators and innovators in the marketplace, “The Fiscal Cliff is the primary driver of uncertainty, and a person in my position is going to make a decision to postpone hiring and investments. We can see it in our order patterns … customers are delaying. We don’t have to get to the edge of the cliff before the damage is done.”

America's CEO's on The Fiscal Cliff

"As we get closer to The Fiscal Cliff, there's just more uncertainty out there than ever. It's hard for me to see how that's going to turn around until we get some policy making done in Washington. We have a three, four, five year horizon. People cannot make decisions without that. So I think it's going to get tougher before it gets better."

— UPS CEO, Scott Davis

"In our talking with dealers and key fleets, they're looking at The Fiscal Cliff at year-end, and they're saying, 'I'll wait and I want to see how that's going to sort out.'"

— Eaton CEO, Alexander Cutler

"And as we look at The Fiscal Cliff, that's an even bigger looming issue, and it's important for all of us to be speaking up now to make sure that politicians get it, that this is not just a political advantage issue they're dealing with, but they're dealing with lives of a lot of people as they to-and-fro on this stuff."

— Honeywell CEO, David Cote

"I think the only questionable period or risky period is how the year closes, and nothing to do with the automotive recovery or underlying drivers, just simply the election and The Fiscal Cliff and all the real drama that will come with that..."

— Auto Nation CEO, Michael Jackson

"Even though we believe inventory of TI products is low at our OEM customers and distributors, both are reluctant to place new orders and commit to backlog given the uncertainty in the overall economic environment."

— Texas Instruments CEO, Richard Templeton

Navigating "Recession Ridge"

Let it be said that the only difference between an economic fatality and a fiscal opportunist is gold. So while Congress has decided that the only way out of our monetary predicament is a financial free fall, smart investors are blazing their own trail. They are donning their rappelling gloves, grappling hooks, and karabiners, and making their way across "Recession Ridge" with their haul bags filled with gold and their gear slings packed with silver.

The prospect of "The Fiscal Cliff" is increasing the cries for an honest currency such as the recent call for our return to the gold standard. The irony is that gold really never stopped being money, and it has remained a critical value standard. It trades on currency desks and is held by central banks across the globe.

As deficits continue to soar and governments continue to print money, gold will remain the sole yardstick of true worth as it has been for thousands of years.

The value of gold could continue to rise as long as world currencies continue to lose purchasing power and inflation prompts governments to print more paper money. As the United States and countries throughout Europe attempt to jump start their economies through uncontrolled currency creation, they feed the growing global sink hole of debt and devaluation. Country after country is now hitting the "backstop" and is facing the task of either finding a way to stimulate real economic growth or finding a way to end fiat currencies.

Currencies lose purchasing power against gold quite simply because their supplies are expanding faster than gold supplies. Bullion cannot be manipulated, multiplied or made. This, combined with aggressive gold investment by China and India, the steady march away from the US dollar, the central bank "bullion buy up," and an under-investment in gold by pension funds, possibly leaves gold no place to go but up … and up in dramatic fashion.

As loose monetary policies and negative interest rates continue to boost the value of gold … it has left many wondering what a gold-backed dollar would look like? Nick Barisheff, president of Bullion Management Group Inc. and author of *$10,000 Gold – Why it will get there sooner than you may expect,* tells us that gold is not necessarily rising in value as much as currencies are losing value against gold. "This means that gold, as money, can appear to rise in value as far as currencies can fall … and unless current monetary policy is drastically changed, it will almost certainly rise to $10,000 an ounce and beyond."

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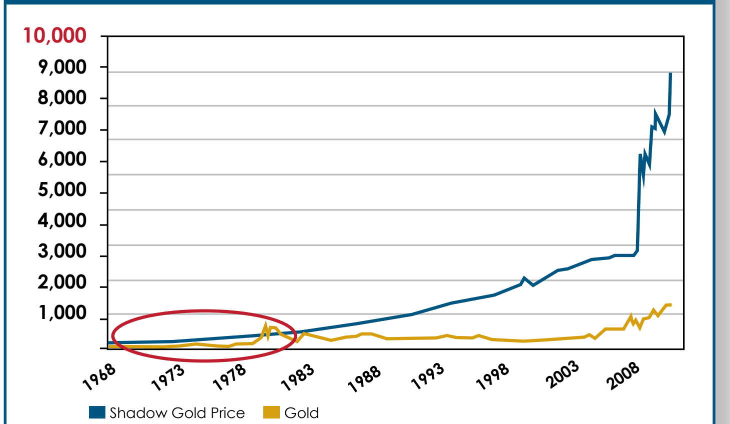
$10,000 Gold and an Emerging Gold Century

So the question that each of us must ask is … Am I prepared for the next, great transfer of wealth? If we return to a gold standard not seen since the Nixon Presidency we will surely enter a new, gold century.

With the era of paper currency coming to a close, gold will be re-monetized in order to serve both as a money base and a means of retiring existing debt. QB Asset Management wrote an outline on the re-introduction of gold into the monetary system that explains precisely how this would work in the US:

"The Fed would purchase Treasury's gold at a large and specified premium to its current spot valuation. The higher the price, the more base money would be created and the more public debt would be extinguished. An eight-to-10 fold increase in the gold price via this mechanism would fully reserve all existing US dollar-dominated bank deposits (a full deleveraging of the banking system)."

Shadow Gold Price



Source: QB Asset Management, Mike Maloney, Erste Group Research

The chart below illustrates precisely what the re-monetization of gold would look like. The Shadow Gold Price is the theoretical price of gold after the government inflates the supply of dollars to cover banking liabilities to not only weaken the economy-sapping effects of our national debt but to forge the path to $10,000 an ounce gold and a new GOLD CENTURY!

At Lear Capital, we know GOLD and this is an exciting time to get to know US!

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