

ISSUE:

SEPTEMBER
2009

HELPING YOU
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INFORMED INVESTOR

YOUR EXCLUSIVE MONTHLY

Economy Report

\$49.75 USD

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Reported by:

Mike Lathigee

CHAIRMAN & CEO
of Alliance Investor Solutions
& the Freedom Investment Club



September 2009 Economy Report

Tuesday, September 8th, 2009

Investigate before investing - draw your own conclusions

over the summer I've been reading many reports by economists making predictions of what was going to happen in the economy. In case after case many of these predictions were proved wrong, yet these economists were giving guidance to people based on their bad predictions. I can only surmise that these economists have some interest in selling their point of view.

Investors must remember that a prediction is simply a guess of what will happen in the future. Be aware that if you're only hearing good news about an investment, there's probably some bad news that you need to hear.

This is why I make every effort to give balanced information. I talk about the positive factors impacting the economy and I also talk about what I see as negative economic indicators. I want you to understand how those factors combine - either supporting each other or canceling each other out.

There are just too many influences on a world economy that can cause economies to change direction, which is why I believe it is irresponsible for financial advisors to give guidance about what people should do in the future.

I believe advisors can only look at current market indicators and talk about what is happening in the market right now and give guidance based on those indicators. Anything beyond today is a "prediction" and a prediction has an equal likelihood of being right or being wrong.

All summer I read reports from economists and financial advisors full of advice on how to profit from some possible future as if that future were already a fact. Some of these reports frightened me because much of the information was inaccurate and the advice simply wrong-headed.

For example, I reread all my notes from a June 2008 economic summit and every prediction made by a speaker (most of whom were touted economists) was either proven wrong or so filled with inaccuracies that their prediction weren't even feasible. I don't know what indicators they were watching or how they reached their conclusions. I can only surmise that they had some agenda in mind to get it so wrong.

Remember a prediction is simply a guess of what will happen in the future and it is easy to put together a compelling argument for any opinion. For instance, I can give you many reasons why the price of gold will rise and I can give you many reasons why the price of gold will fall. The same holds true for the arguments that we will see a recovery soon or that another relapse into a recession is pending. I've read strong arguments for both views. Yet these opinions should only be

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“I expect you to also read material on why you should not invest in Las Vegas and even challenge me...”

based on the market indicators of today; not on what the writers think will happen tomorrow.

Of course, the whole realm of investing is based on probability of success with associated risk. Just keep in mind that there is a big difference between a prediction and a conclusion. My advice is for investors to remain skeptical. Do not think that just because an economic guru has written a well researched paper about a possible future that that possible future will actually play out.

To use my earlier example, when considering investing in gold you must read both why the price is going up and read other reports on why the price of gold is going down. It is only then that you are an informed investor to understand the risk and the probabilities and draw your own conclusion.

Take your time... set emotion aside and apply reason

The danger of letting so-called experts call your shots can't be over emphasized. I have spoken at hundreds of public events and I've watched so-called economic gurus talk about their favorite investments. They talk about all the reasons this is a fabulous investment at this time, but little time on the down side. Now, these presentations are

generally very well done and give accurate facts – as far as they go. But you must realize that you are only hearing one side of the story.

After hearing some of these presentations, I've seen hundreds of audience members running to the back of the room to buy this investment opportunity. Yet they have not read anything about it or determined why they might not want to invest. They've let emotion make their decision for them.

Okay. I want to include myself in this scenario for just a moment. For example, Members know I have talked and written extensively about my reasons to invest in Las Vegas. However, I expect you to also read material on why you should not invest in Las Vegas and even challenge me with your thoughts. That makes me happy because you have done your homework and that's what I want you to do.

As an educator, my goal is to train you to see both sides before you invest. I don't want you to believe anything anyone says without doing your own research and coming to your own conclusions. Here's why. An investment might be perfect for one person and perfectly awful for someone else. They might have completely different investment needs. Should they both buy that investment? I don't know. I do know that investors must respect and trust themselves enough to investigate before

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“Here is the quick update: Consumer confidence - which drives two-thirds of the US economy is improving slightly. However it is being held back by the large job losses.”

they invest in order to reach the correct conclusion for their own situation.

Okay, I think I've made my point. Investigate before you invest and draw your own conclusions.

On to business. I have a positive outlook, so here are the positive market indicators I'm seeing at this time.

Looking at the positive indicators...

1. The biotech sector is leading the markets and is on fire. The last time this sector moved this powerfully was in the late 1990s. This is a great area for investors to pay attention and hold one or two positions or possibly a biotech exchange traded fund to capitalize on the momentum in this sector.
2. The market overall is holding steady. Job losses in August were 216,000 and that was better than the 233,000 that were expected.
3. Economists are generally in agreement that the global economy is recovering. The International Monetary Fund forecasts the world economy will shrink by 1.3% in 2009 before growing by 2.9% in 2010.
4. As I've been stating for several months now, I see the credit crisis is over as banks and financial institutions have repaid their TARP loans. These repayments would not have been possible if we remained in a credit

crisis. More good news on this situation - the US government made \$4 billion in profit on the repayment of those TARP loans. So far American Express, JP Morgan and Goldman Sachs have all repaid their loans in full - and Bank of America has applied to pay back.

5. Since I am an optimist I will consider Consumer Confidence as a positive at this time, but it could just as easily be interpreted as a negative. Here is the quick update: Consumer confidence - which drives two-thirds of the US economy is improving slightly. However it is being held back by the large job losses. Like I said - it's a positive and a negative - depending on how you want to view it.

6. The Chicago Purchase Manager Index, which is an indicator that companies are buying product again, finally hit 50 - higher than it has been in a long time. Anything 50 or above on this index is considered good news. So, although this is only slightly positive - the trend has been positive the last few months.

7. The other index that I watch in the ISM (or Institute of Supply Management Index). This index is also improving over the last three months. This indicates that US manufacturers are far more optimistic about domestic and global economies than they were three months ago. Still, most expect revenue to be flat or down over the next 12 months.

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“I have lowered my ownership in gold to purchase Real Estate properties that I am buying for \$30,000 in Las Vegas, for rental properties that generate \$700 in monthly cashflow.”

I know some of you tend to zone out a little when I start writing about these indexes, but it is important for you to understand that these indexes give a strong indication of the general health of the economy. This is part of your “investigate before you invest” homework.

8. US housing prices year-over-year are slightly higher. Prices in select markets are not soaring, but slowly improving. Of course the concern is that foreclosures remain very high. In fact, I remain in Foreclosure Central here in Las Vegas.

9. The gold and silver sectors remain very hot and gold is at its highest level in months. The reason that precious metals are breaking out is because of concern about the huge US debt along with the lack of confidence that the US can maintain this level of debt. Also, there is now discussion that the US may need another stimulus program and that will send gold prices soaring. In addition, the US will continue to create money supply as it wants to push some inflation so that it does not go into a deflationary tailspin like Japan.

Members are aware that I have discussed weighting 10 to 15% of your portfolio in gold since January 2004. Traditional financial advisors will typically advise 2 to 3%.

Obviously, if you had followed my teachings you would have done very well.

I remain bullish on gold and silver as a hedge against the decline of worldwide fiat currencies. However, precious metals have had a very strong run and although I believe there is still a strong probability of them going much higher, I am looking at other asset classes to provide better returns. Therefore a weighting of 6% to 10% in gold stocks, ETFs and physical bullion seems more prudent at this time.

For example, I have lowered my ownership in gold to purchase Real Estate properties that I am buying for \$30,000 in Las Vegas, for rental properties that generate \$700 in monthly cashflow. I believe gold remains a great place to park money as a hedge, but with America on sale I think investors can find better investments look elsewhere. That is the reason I have reallocated my holdings in gold and silver from 15% to under 10%. It has been a great run, but it is time for a change.

10. Small Cap companies are showing much more liquidity. Small caps are public companies with a market cap of less than \$1 billion. This liquidity is a sign that retail investors are back in the stock market again.

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*“...take your gains
and be cautious.*

*Keep in mind
that September
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two of the worst
sell off months in
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stock markets.”*

11. We are seeing a positive inflow of monies into the capital markets. For the first time since the Recession started funds are showing increases in fund capital instead of net outflows.

That's the story on the positive indicators as of today. But I'm not doing my job if I don't talk about a number of negative indicators that cause me concern.

On the negative side...

1. The US unemployment rate is 9.7%. In my opinion it is impossible for the US economy to have a recovery with unemployment rates this high. This high rate will have a direct impact on consumer spending due to lack of jobs and this will prevent a recovery anytime in the near future.

The unemployment rate is actually much higher than this reported rate. These numbers don't include the millions Americans who have simply stopped looking for work as they are discouraged. The Bureau of Labor Statistics determines that an officially unemployed person must have actively looked for a job at some point during the preceding four weeks. It also doesn't include workers who have

taken part time jobs or are underemployed. If the unemployment rate were expanded to include all marginally attached workers the unemployment rate would have exceeded 11% in August.

2. In the stock markets the Price to Earnings ratios are very high and frankly, this optimistic market is ahead of itself at this time. As the fall earning announcements are announced we will see if the earnings justify the high stock prices. If earnings are disappointing, be prepared for a possible huge market selloff of up to 20%. The market is looking for an excuse for a sell off at this time. So, take your gains and be cautious. Keep in mind that September and October are two of the worst sell off months in the history of the stock markets. Just last September marked the collapse of Lehman Brothers, the takeover of Merrill Lynch and the bailout of American International Group.

3. The Retail Sector is driven by consumer spending. Retail sales are disappointing and I believe with unemployment rates so high – retail is definitely a sector to avoid. Budget orientated giants like Wal-Mart will continue to hold steady, but avoid investing in discretionary high-end retail luxury chains.

4. Demand for oil remains weak, which is an indication that the world wide economy is still in a slow recovery.

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5. For Alberta this weakness is very bad. Natural Gas continues to collapse and there remains a huge worldwide inventory that is keeping prices down.

6. China last week had a selloff in the stock market that exceeded 10%. In my many trips to China I have found when interacting with the Chinese that the stock market is more a place they gamble than invest. In other words, I believe there are some cultural factors that drive the Chinese stock market that are different from the North American Markets. With China now a world player even in the stock markets, their markets could lead the markets worldwide lower.

7. Japan is still one of the largest economies in the world. However, it continues its massive deflationary spiral. In my opinion, there is nothing the Japanese government will be able to do to stop this negative economic growth.

Japan's primary problem is its aging population. Corporations around the world are not going to locate or expand into a country with an aging demographic and a declining population. The birth rate per family is the lowest in the industrialized world and the unmarried rate is the highest in the industrialized world. Currently, 15% of Japanese men 50 or older have never been married and 7.2% of Japanese

women 50 or older have never married. In vain the government is now offering \$3,600 to the parents for each child born, but this does little to help.

As a result of these demographics Japan has moved from a creditor nation to a debtor nation and in the future will cease to be a dominate superpower. In my opinion, to remain competitive Japan must change its immigration laws.

Overall, wealth will go to youthful populations like Brazil, Taiwan and Singapore. Even China has taken note of the problems of Japan and is abandoning its one child policy, because of its concern about an aging population. This could lead to a new baby boom in China, which will give it another advantage toward becoming the next superpower.

8. Although housing is showing some stability and we are even seeing small price increases in some areas - a new phenomenon is happening that may cause another wave of housing problems: America's most credit worth borrowers are defaulting on their loans faster than those with poor financial records.

These prime loans make up 80% of US banks' exposure to mortgages and credit cards and

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“Governments are now placing restrictions on some ETFs such as oil, gas and gold because they are powerful financial instruments that regulators around the world believe are artificially manipulating the price of product they buy...”

these new problems with prime borrowers could replace subprime borrowers as the biggest headache for US banks. The problem is that many Prime borrowers have now lost their jobs and can't keep up with their mortgage payments as the job market remains weak.

Nationally 9.24% of all mortgages are at least one payment behind. At this time the delinquency rate for prime borrowers is 6.4% and subprime borrowers is 24.4%. However, the delinquency rate for subprime borrowers has stabilized while the delinquency rate for prime borrowers is increasing. This is definitely a trend we will have to closely monitor.

If we see a large increase in Prime Loan delinquencies then we will see another major problem with the banking system. This could possibly lead to talks about another bailout. Should this occur, it will be bad for the financial sector and good for precious metals.

For a long time I have been very positive on buying Exchange Traded Funds due to their high degree of flexibility that give daily values and very low management fees. However, it is disappointing that new rules make these investments now less attractive.

Governments are now placing restrictions on some ETFs such as oil, gas and gold because they are powerful financial instruments that regulators around the world believe are artificially manipulating the price of product they buy, sell or short. As a result many are not taking in new funds and many are now shrinking. This is a development that I am watching closely and will keep you updated.

Moving on to geopolitical impacts...

During the worldwide Recession countries typically tend to stay focused on domestic issues and so they are not trying to create any international tension.

But there are some tensions. With his current focus on the health care plan, Obama has for the most part been quiet on economic issues the last several weeks. The tension around the healthcare issue is due to the fact that no one can quite figure out how he expects to pay for it.

Obama will speak to Congress this week to try and reinvigorate his push for healthcare reform. Investors in the insurance industry must be concerned because the insurance industry objects to a proposed government run health insurance plan and investors are unsure what this public

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“In Canada the Liberals keep threatening to take down the government on a non-confidence vote if they do not get more concessions from...”

option would mean to corporate profits. If Obama is able to sway public opinion then investors in the insurance sector are likely to see a sell off.

Iran has been busy trying to crush the uprising resulting from its rigged elections. Iran has a large youthful population that wants closer ties to the West. The youth were not happy how the election was carried out and have been protesting. Many of these young leaders are being rounded up and executed. When a government executes its own people - this is always a sign that the current system is coming to an end.

In Canada the Liberals keep threatening to take down the government on a non-confidence vote if they do not get more concessions from the Conservatives. Harper is standing up to this extortion. We are likely to see another election again in the Canada in the near future with a likely Conservative Minority and a Canadian population that is tired of constant elections.

What can investors do in the current environment?

- Be cautious buying stocks until earnings season gives us an indication if the economy is recovering. To enter the market with earning season so near would not be prudent.

- Remain with weightings in gold and silver in your portfolio due to US debt and market uncertainty.

- Use caution when owning financial stocks. If Prime borrowers default in larger numbers we will see a new round of bank problems. We are also likely to see more banking problems due to commercial real estate foreclosures and defaults.

- Ride the current biotech wave and consider the purchase of a biotech ETF.

- Sit on the sidelines and do your investigating and due diligence through September and October as these tend to be the two worst months for the market. Wait with cash to buy on an oversold market.

- Look for real estate that generates cashflow. Do not buy real estate based on expected appreciation. Generally there is no guarantee of capital appreciation in the real estate market anytime soon. It is rather more possible that we may see a sideways trend for a few years - and possibly for several years in certain cities. Therefore, any decision to buy real estate for investment purposes now must be based upon cashflow only.

And on the subject of real estate...

For Canadians it is prudent to look outside of

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*“If you can’t make
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Canada for real estate. Canada never had the housing collapse the USA experienced, because the lending criteria remained strict and mortgage fraud non-existent.

However, in the USA many markets were overbuilt and many borrowers who did not qualify for prime mortgages bought homes beyond their ability to pay using subprime mortgages. When these mortgages reset at higher rates the borrowers could not afford the higher payments.

This and other factors that have weakened the economy have led to a glut of inventory in many markets in the USA. It is this glut of inventory that has led me to focus on Las Vegas.

Many members who joined me on the Vegas fieldtrip are very happy and are buying condos for less than \$40,000 and renting them out for \$650 to \$950 a month. These are cashflow investments unlike anything I am aware of in Canada with regard to buying single units. In fact, it is hard to get these quality cashflows in most areas of the USA.

If members want to learn more about the next Las Vegas, our next fieldtrip is on September 25 and 26. Not only will you be well looked after with food and entertainment - but most importantly -

you will learn why I believe Las Vegas remains the best Real Estate Market in the USA for cashflow.

We have a fantastic booking rate for the Stratosphere Hotel between \$49 and \$95 per night. The regular booking rate for the fieldtrip is \$997 per person and \$497 for spouses.

However, for those who wish to take advantage of our September special rate the cost is \$497 per person until September 25th any upcoming fieldtrip.

If you can’t make our September fieldtrip we also have fieldtrips scheduled for October, November and December. So even if you can’t make our trip three weekends from now, book your reservation for the October, November and December tours today and you’ll still get our Live Call rate of \$497 per person.

I stand steadfast in my belief in the performance of this market and have a proven track record to show that Las Vegas remains the best area for cashflows in the USA and the best Real Estate Market to make money right now.

I began this newsletter recommending that you investigate any investment before you commit to it. That’s what these field trips are all about. Join us for one of our fieldtrips, do your own research and let me know what you find.

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“I have seen some very workable deals in Las Vegas. Of course, keeping the opportunity off the public radar is a good thing for the investors...”

I find it amusing to read the many media articles that talk about how bad it is in the Las Vegas Real Estate Market. In fact, Time Magazine just ran a cover story in late August called “Fabulous Less Vegas,” which told of the collapse of the Las Vegas Real Estate Market and the rampant mortgage fraud.

These articles scare many people, but you need to remember that the popular media has always used fear to sell papers. I’m not saying Time Magazine made stuff up just to sell papers. They wouldn’t do that. But every publisher knows that dramatic headlines sell papers.

Still, fear doesn’t help the situation. These articles can’t possibly explain the whole story because the whole story is too complex. This means they have to simplify things, which usually means they focus on just the bad aspects of a situation and ignore what is working.

Folks, I have seen some very workable deals in Las Vegas. Of course, keeping the opportunity off the public radar is a good thing for the investors who take the trouble to investigate the situation.

To give you an idea of how great this market is, my close friend Kevin Kelly has bought listed and sold 51 properties profitably in Las Vegas in the last 9 months.

Many of you will remember Kevin from Investfest. He has made money on every single deal with

profits in the millions. I doubt those magazine and newspaper reporters have closed any real estate deals in today’s market.

So.... do you want to listen to people who speak from no experience or to people who are doing what it takes and making money?

Listen, it is good to be cautious. That’s why I’m offering these field trips. You can ask every question you want and see whatever you need to see to help you reach a conclusion.

I’m sure you can find plenty of articles listing all the reasons the market is weak in Las Vegas. But if the opportunity I’m talking about is as good as I say it is, don’t you owe it to yourself to at least investigate its potential for profit?

This Recession has generated dire consequences for many investors and after any Recession, the last thing most people want to do is invest. I understand totally. Believe me, I do. I was almost completely wiped out personally during the recent credit crisis due to leverage. However, I am quickly rebuilding my wealth with real estate investments that generate cashflow. I want to bring along as many people as possible. Many of you have invested with me side by side in Las Vegas and are very happy you did.

In my opinion, Las Vegas remains the best place to build the largest pool of wealth in the shortest amount of time. This is due in part to many small cultural differences that exist in Vegas that do not exist anywhere else in the USA and which have

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“I am absolutely delighted to announce that Investfest 2010 will be held in Las Vegas. It is being held at the 5 Diamond Hotel and Resort...”

created an abundance of opportunities. Let me explain.

Nevada has the lowest high school completion rate of any state in the USA and that is the hint as to why outsiders can come in and quickly mobilize on opportunities that locals do not see.

The other thing is that this is a town built on connections. It's all about who you know. The time frame to get connected here was shorter than in any other major city I've been to.

You can find one of my initial research reports on this market in the FEBRUARY 2009 NEWSLETTER.

In addition to the Real Estate Tour – which is the focus of the field trip - you will learn some of the history of Las Vegas - from its time when it was an original Mormon Settlement -- to its transformation into a lawless railway town -- to the days when gangsters ruled the town – to today's modern corporate Las Vegas.

You really have to come and see why you can make so much money in this marketplace. Our last fieldtrip sold out and I know that hundreds of you are still planning to come. That's why we've scheduled several tours and are offering you such an affordable rate.

Now, I know I tell you not to succumb to time pressure or get-rich-quick promises – but you do need to know that this window of opportunity

won't be open forever. That's just a fact. Get down here and check it out yourself.

If you decide Las Vegas cashflow real estate doesn't fit into your investment plan, then you've had a great vacation and made some new friends. If you conclude that Las Vegas offers you what you need, then it will have been a valuable investment of time and money.

Investfest update and preview

Before I get back to the economic outlook, I just want to report that Investfest 2009 was a huge success with 853 attendees. This event is owned by FIC Members and the FIC Group of Companies made enough income from the event to support several months of operating expenses. That's good for us and good for you.

Members, to see a short video of highlights from Investfest 2009 go to www.investfest2010.com.

So far for Investfest 2010 we have an incredible roster of quality economists, financial analysts and investors who are making millions - and in some cases - tens and hundreds of millions of dollars in the marketplace.

I am absolutely delighted to announce that Investfest 2010 will be held in Las Vegas and hence the name Investfest Las Vegas 2010. It is being held at the 5 Diamond Hotel and Resort Green

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“Even though the USA is creating non-stop money supply, we are much more likely to see a deflation problem than an inflation problem.”

Valley Ranch Resort, which is only 8 minutes from the strip. Rooms at this 5 diamond resort average \$400 a night and the rate that we have been able to book through our connections will average about \$99 a night.

Members, Investfest will be worth attending this year solely on the fantastic rate at a 5 Diamond Resort. I was blown away frankly that we were able to get this and when I say we tapped into our local connections that is exactly what we did.

Now if you go to Investfest2010.com right now you will see a rate of \$299 till June 30, 2010. That rate has since gone up to \$399.

However, those of you who book right now can capitalize on our mistake and get the rate of just \$299. Just think - you will not only attend a world class event that you own, but you will also be able to enjoy a 5 Diamond Resort at budget rates.

In addition we have read all your feedback forms and we have arranged for the Green Valley Resort to have lunch right outside the room each lunch and dinner. In other words, no more scrambling and rushing to have lunch and dinner. You will have a 5 star dining style servings right outside the room in a relaxed environment.

We already have sold more than 500 tickets for Investfest 2009 and this year will be our biggest event yet. Support Investfest in every way that you can, because as members you own Investfest

go to www.investfest2010.com to book your ticket for \$299.

Recover we will, but it will be slow

We must remember this has been the worst Recession since the Great Depression and it will take time to recover. I believe we will see a long period of slow growth even after the Recession officially ends. I believe it will take a few years for the unemployment rate to get back to a level that allows robust consumer spending.

Even though the USA is creating non-stop money supply, we are much more likely to see a deflation problem than an inflation problem. To preserve profits most firms will continue to cut costs instead of fueling production, which in turn will continue to cause more labor problems.

Due to the huge loss of worldwide wealth consumers are not going to fuel a quick new economic boom. It is much more likely people will save more money as they have suffered huge capital losses in the housing and stock markets. The balancing act for the US government will be to create economic stimulus while trying to balance the national debt.

The expanding national debt

The national debt now stands at \$11.4 trillion or about \$37,000 for each American citizen. Interest payments on the debt alone last year were \$452 billion. Interest paid on debt is the largest federal

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*“...you can't hold
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US dollars and
must own gold in
your portfolio.”*

spending category after Medicare, Social Security and defense.

The only way to solve the situation is to raise taxes, which is an unpopular idea and will jeopardize reelections. The more likely process will be to reduce benefits and services. That will impact anyone who relies on any kind of entitlement program.

The debt soared with the wars in Iraq and Afghanistan and the economic stimulus under President George W. Bush and now Obama. This year's deficit is estimated to be about \$1.85 trillion.

According to the Treasury Department the debt as of today is \$11,518,472,742,288 --- which is 80% of the annual output of the entire US economy as measured by GDP.

The largest holders of US debt are China, Japan and Persian Gulf oil exporters. As the US spends trillions to stabilize the economy, investors need to be aware that it becomes less attractive to hold all your investment assets the US dollar.

If foreign buyers stop buying US notes, interest rates would immediately skyrocket, which would send the US economy into another Recession. The situation looks even bleaker as Baby Boomers retire and begin collecting Social Security and Medicare benefits.

It is not a case of IF but a case of WHEN

The scariest thing I've heard comes from the Peter Peterson Foundation, which was established by a former commerce secretary and investment banker. According to the Foundation, the \$11.4 trillion dollar debt figure does not take into account roughly \$45 trillion dollars worth of unlisted liabilities and unfunded retirement and health care commitments.

Once again this is why you can't hold all your assets in US dollars and must own gold in your portfolio. When rating agencies downgrade the US debt from AAA to AA interest rates will soar, the dollar will collapse and gold will skyrocket.

Now I am sure everyone understands the importance of at least holding some gold in your portfolio. Credit Rating Agencies such as Moody's are a farce at this time - by giving the US debt a AAA rating - in the same way they were a farce when they gave AAA ratings to mortgage backed securities filled with subprime borrowers.

The mortgage fraud game has been shifted to a national debt fraud game.

Besides government debt, we are looking at consumer home mortgage debt still estimated at \$11 trillion and commercial real estate debt that is estimated at \$3.5 trillion. I believe that with the problems with prime borrows and the collapse of Commercial Real Estate in the US market place, the banking industry will be hit by successive loan

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“As this type of story leaks out, the US will lose credibility among those nations that buy and support US debt. As far as I am aware the Fed does not have audits done.”

defaults. All the more reason to avoid the financial sector, as an investment prospect.

What is also concerning to me is the fact that the US government will continue to run massive deficits going forward. Some economists predict these deficits could reach \$3 trillion per year between 2011 and 2013.

The Treasury's shell game

We need to talk about the latest game the US Feds are playing. At a recent US Treasury Auction the US government had a terrible day trying to sell \$39 billion worth of 5-year Treasury notes to fund the US debt. However, the very next day the government was able to sell \$28 billion in 7-year notes.

According to an article I read - the primary dealers bought the 7-year notes and then sold half of them to the Fed. But that transaction was not announced. In other words, the Feds were simply buying their own debt. This is certainly an attempt for the US government to hide its quantitative easing practices.

I can understand the US government's concern. If the Treasury auctions don't go well then the debt cannot be funded and this could trigger more bad treasury auctions and a total loss of confidence in the US dollar.

However, we must now be aware that the US government will do whatever it takes to fund its own spending and hide its tactics from its citizens. As this type of story leaks out, the US will lose credibility among those nations that buy and support US debt. As far as I am aware the Fed does not have audits done. Thus, we as citizens never know about these types of transactions until it is too late, if ever.

In the end it is the taxpayers that pay for this charade. It is for this reason that the Feds deduct taxes at source. If they allowed wage earners to take in all their money and then send in a check for taxation you would see a whole different attitude of the US population. Citizens would demand much better management from the government or possibly a call to arms.

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