



GORDON T LONG
CO-FOUNDER MATASII.COM



Advanced Technical Analysis



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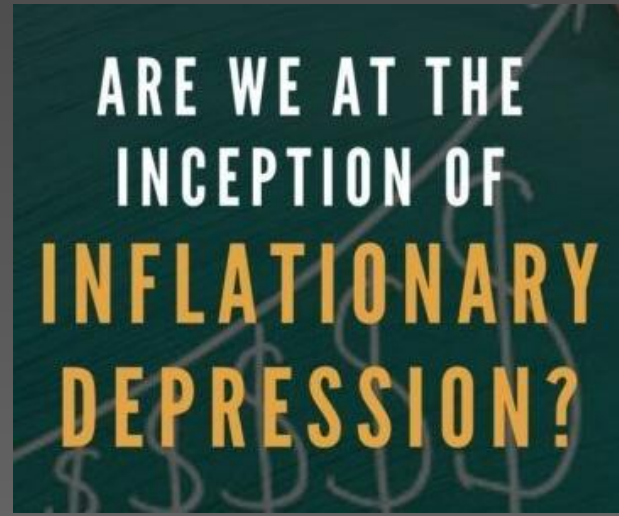
AN INFLATIONARY DEPRESSION??

THE INDIRECT EXCHANGE



AGENDA

- **AN INFLATIONARY DEPRESSION?**
 - HAS IT ALREADY BEGUN?
 - STAGNATION, STAGFLATION, DEBT CRISIS
- **POLITICALLY SPUN ECONOMIC REPORTING**
 - PHILIPS CURVE & THE SAHM'S RULE
- **ECONOMC REPORTING IN A CURRENCY REGIME**
- **BERNANKE'S "ENRICH-THY-NEIGHBOR"**
- **TIME VALUE OF MONEY USAGE**
- **INVESTING IN AN INFLATIONARY DEPRESSION**
 - THE INDIRECT EXCHANGE
- **CONCLUSION**
 - BLACK HOLES IN BOTH INFLATION & ECONOMIC GROWTH
 - CAPITALISM, CREDITISM & SOCIALISM



AN INFLATIONARY DEPRESSION

In a **Sound Money Regime** we can experience Depressions:

1. Unemployment
2. Bankruptcies
3. Falling Prices
4. Devaluing Asset Prices
5. Deleveraging as Collateral Values Fall

In a **Fiat Currency Regime** we can experience Inflationary Depressions:

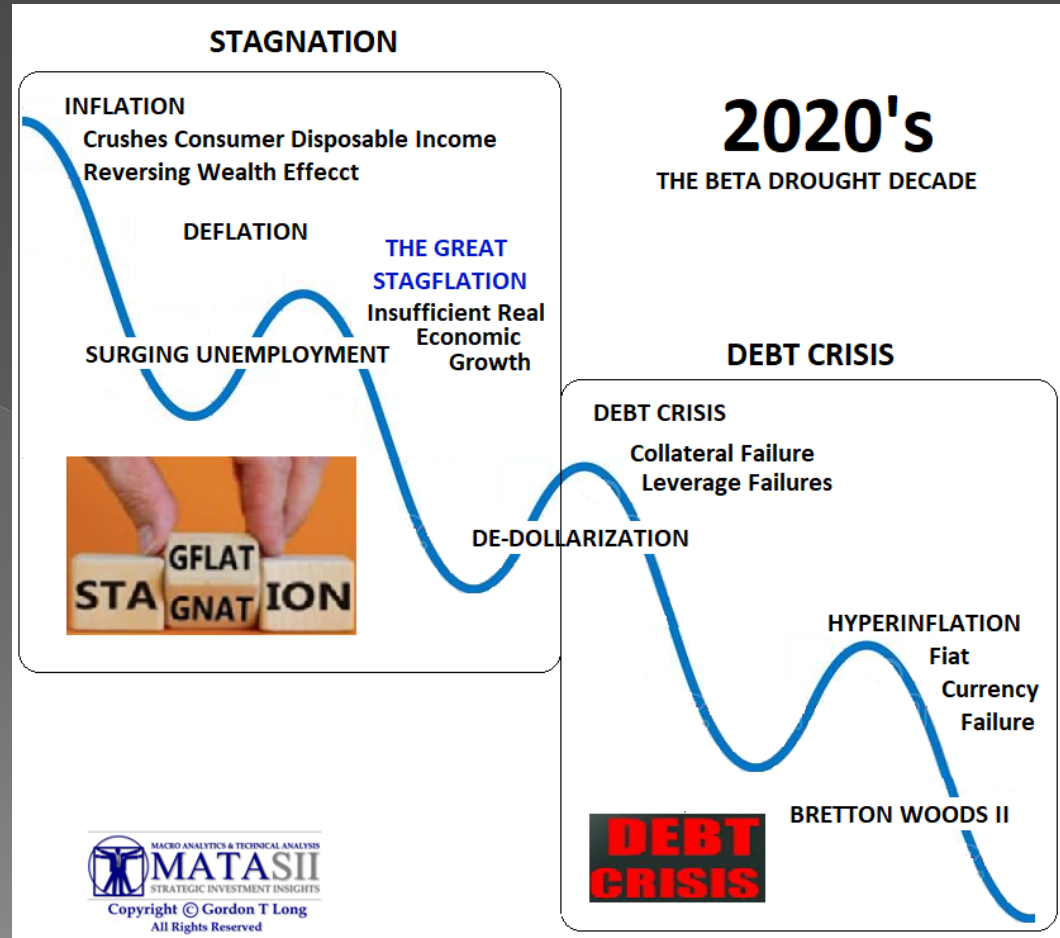
1. Lost Purchasing Power Devalues Asset Prices – i.e. Commercial Real Estate falls in Price due to falling Income, Falling Savings and Rising Costs (Taxes, Maintenance)
2. Rising Import costs
3. Falling Wealth - falling Housing Prices Affordability,
4. The standard impacts of Depression
(Unemployment, Bankruptcies, Falling Prices, Devaluing Asset Prices)
5. Financial Deleveraging as Collateral Values Fall

Additionally we have
"Inflationary Pressures Regulated
into Law":

1. Cost of Climate Change Programs and Initiatives
2. Cost of Sustainability & Green Programs and Initiatives

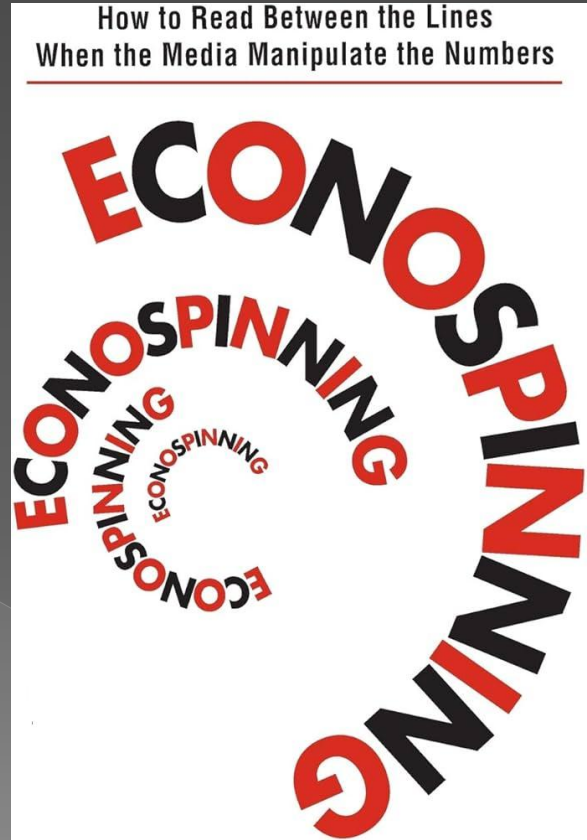
Leads to an unfolding
Inflationary Depressionary
Process:

1. Stagnation
2. Stagflation
3. Debt Crisis



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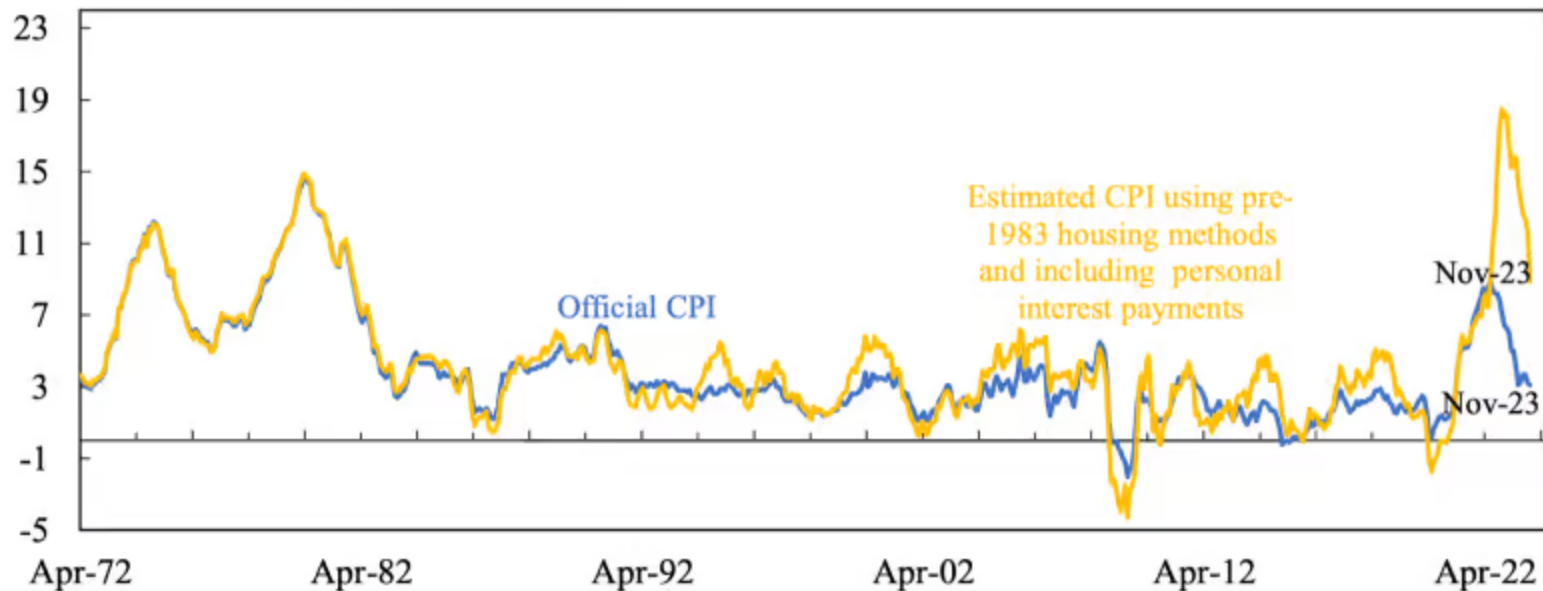
FALSE, MISLEADING & POLITICALLY SPUN ECONOMIC REPORTING

Today we are supposed to trust and rely on data that few professionals anymore believe is real.

- Consider that most economic models used through the 1970s, and still today, postulate that there is a forever tradeoff between output (with employment as a proxy) and inflation, such that when one is up, the other is down (Phillips Curve).
- Now we face a situation where the jobs data are profoundly affected by bad surveys and labor dropouts. Output data is distorted by history-making levels of government spending and debt, and no one is even trying anymore to provide a realistic accounting of inflation.

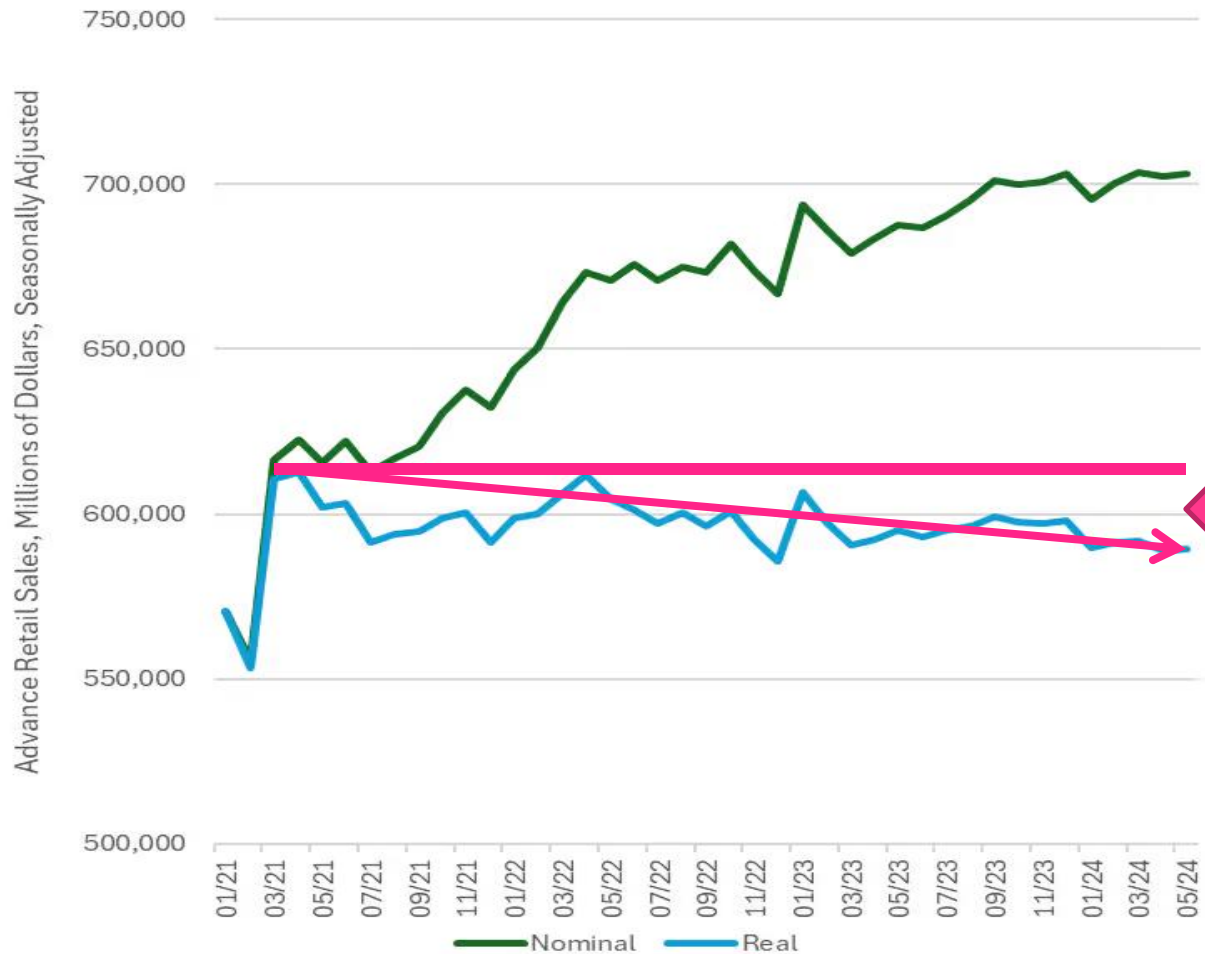
Official and Estimated CPI using pre-1983 housing methods and including personal interest payments, 1972-2023

Year-over-Year Change in the Price Index



Note: Personal interest payments exclude mortgage payments. See text for pre-1983 imputation procedure.

Source: Bureau of Economic Analysis; Authors' Calculations.



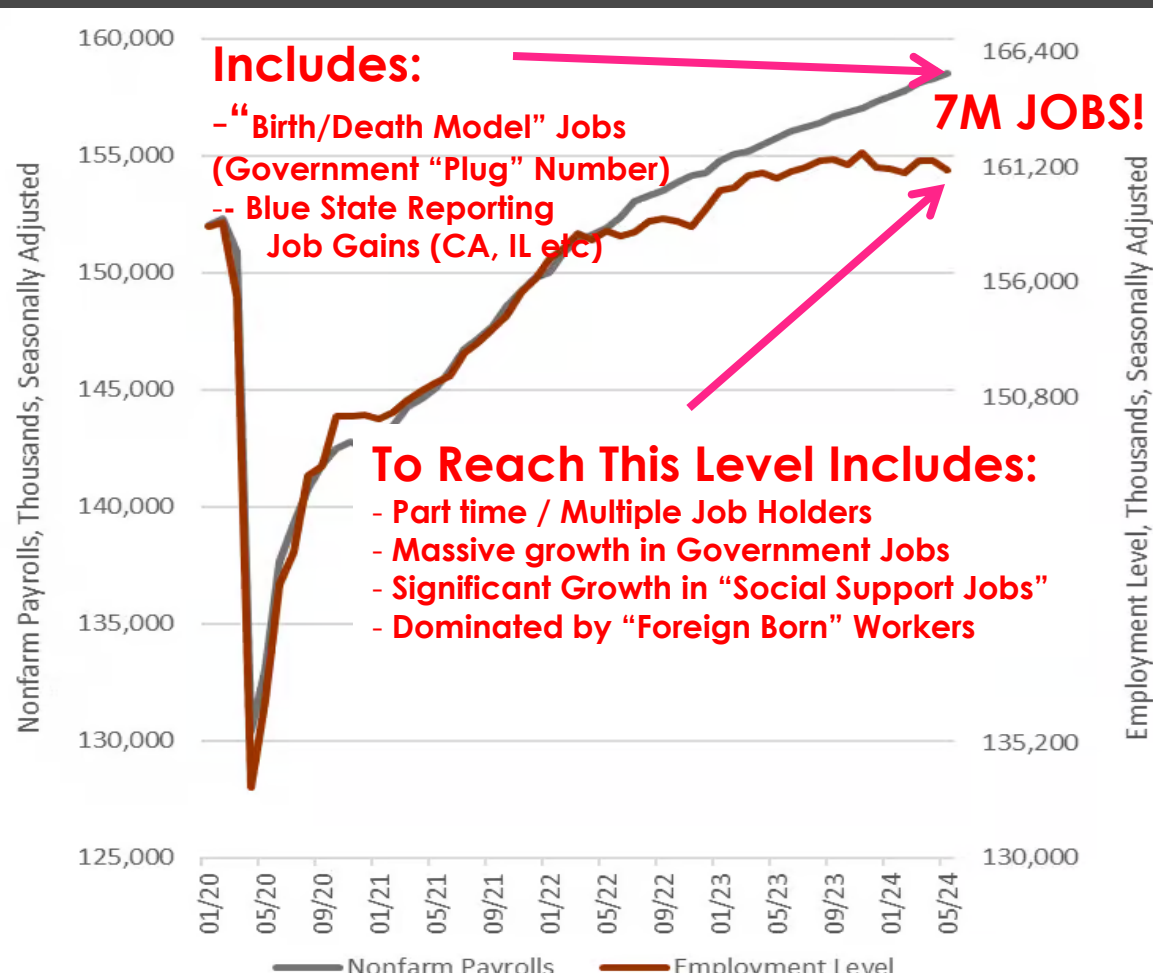
**NEGATIVE
REAL RETAIL
GROWTH**

Sources: Bureau of Labor Statistics, Census Bureau; Chart: @realejantoni

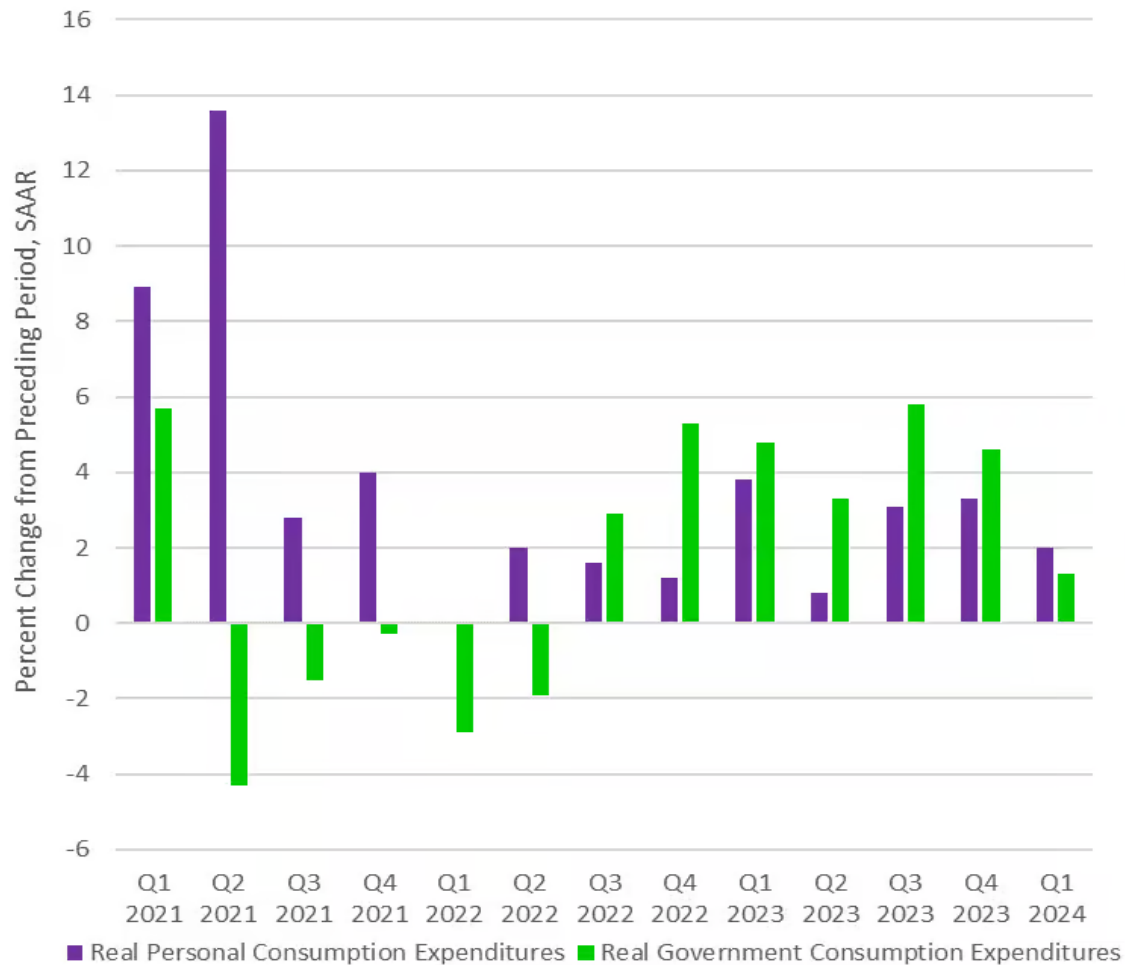


**NEGATIVE
REAL ORDER
GROWTH**

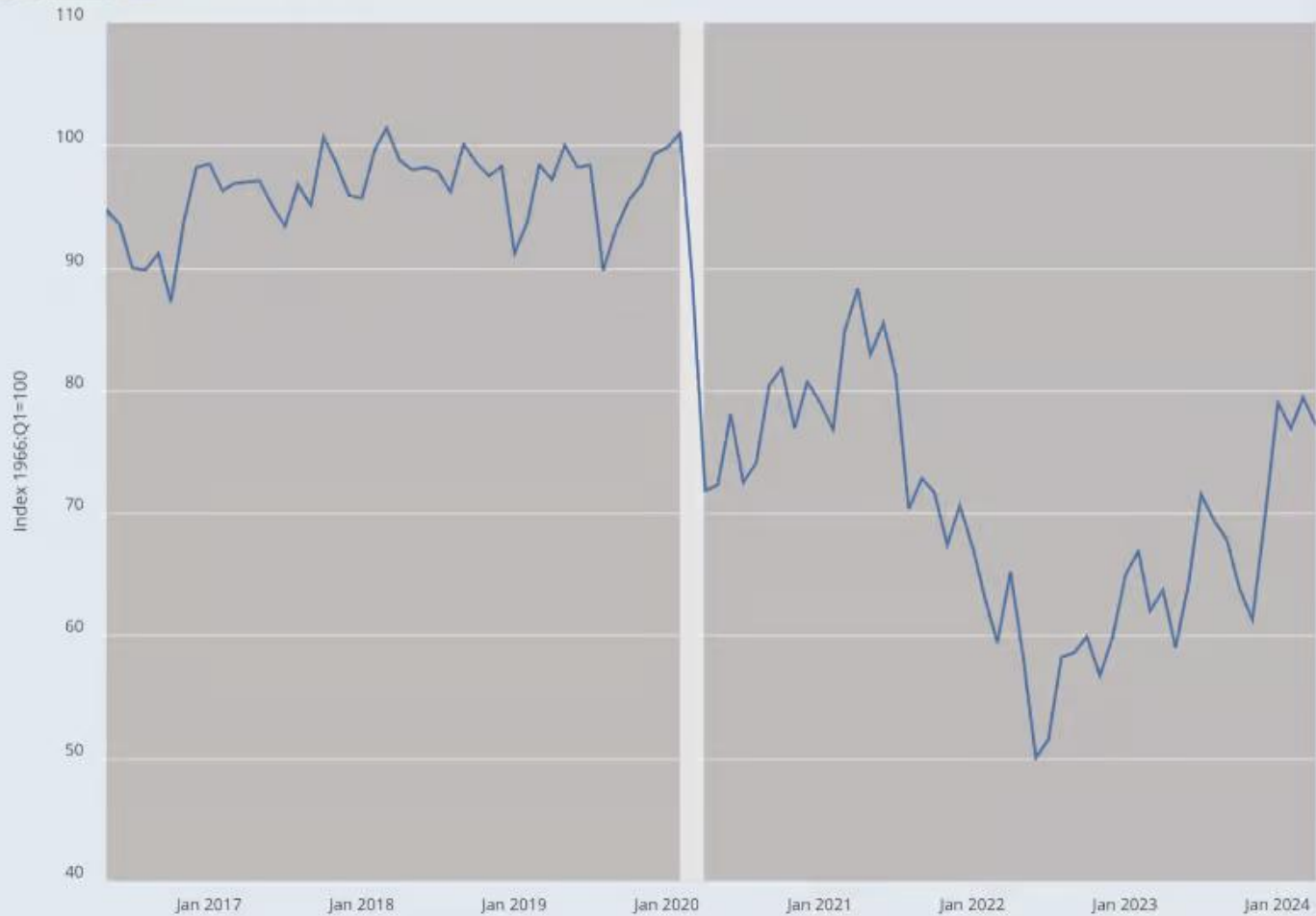
Sources: Bureau of Labor Statistics, Census Bureau, Dr. E.J. Antoni; Chart: @realejantoni



Source: Bureau of Labor Statistics; Chart: @realejantoni

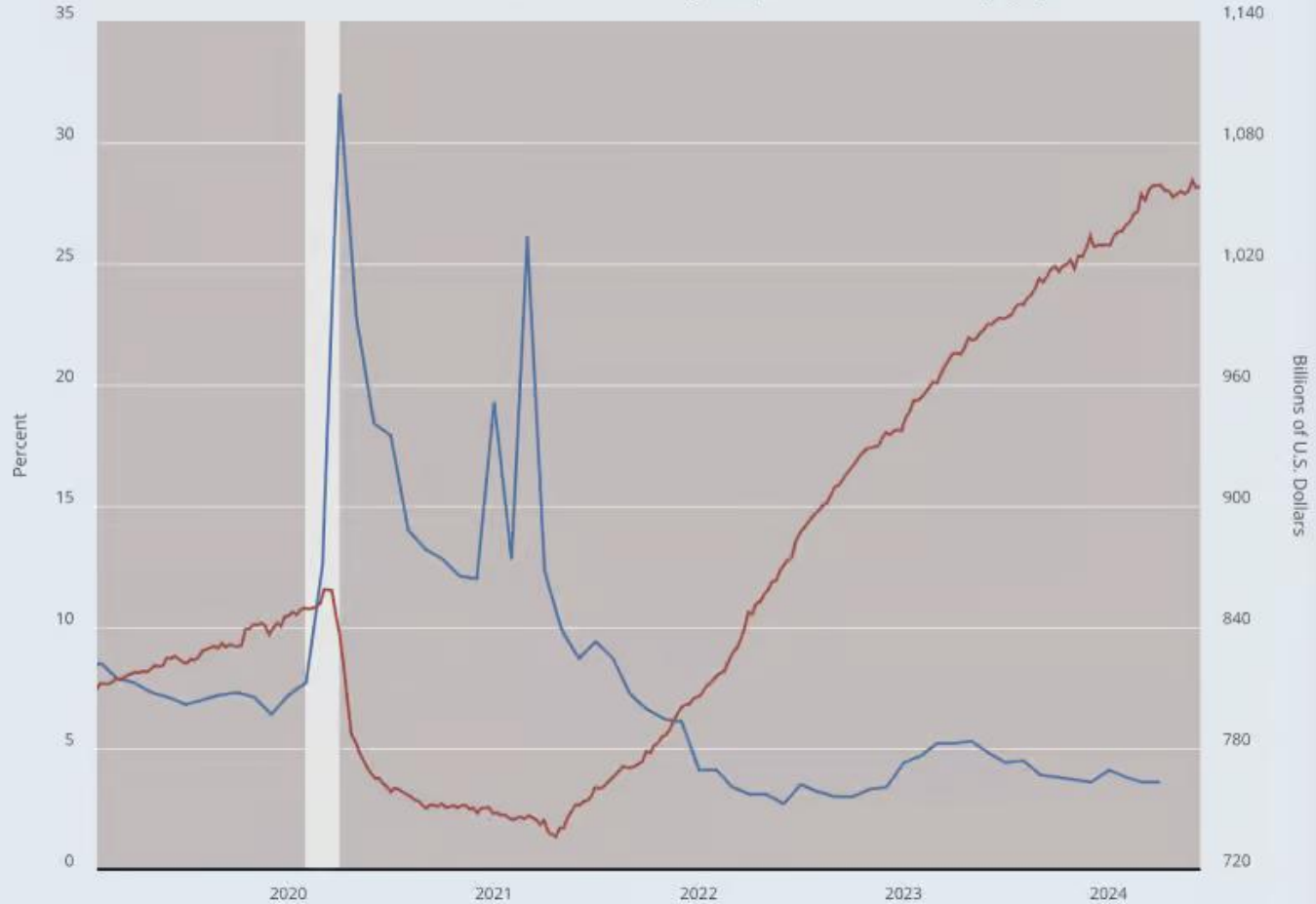


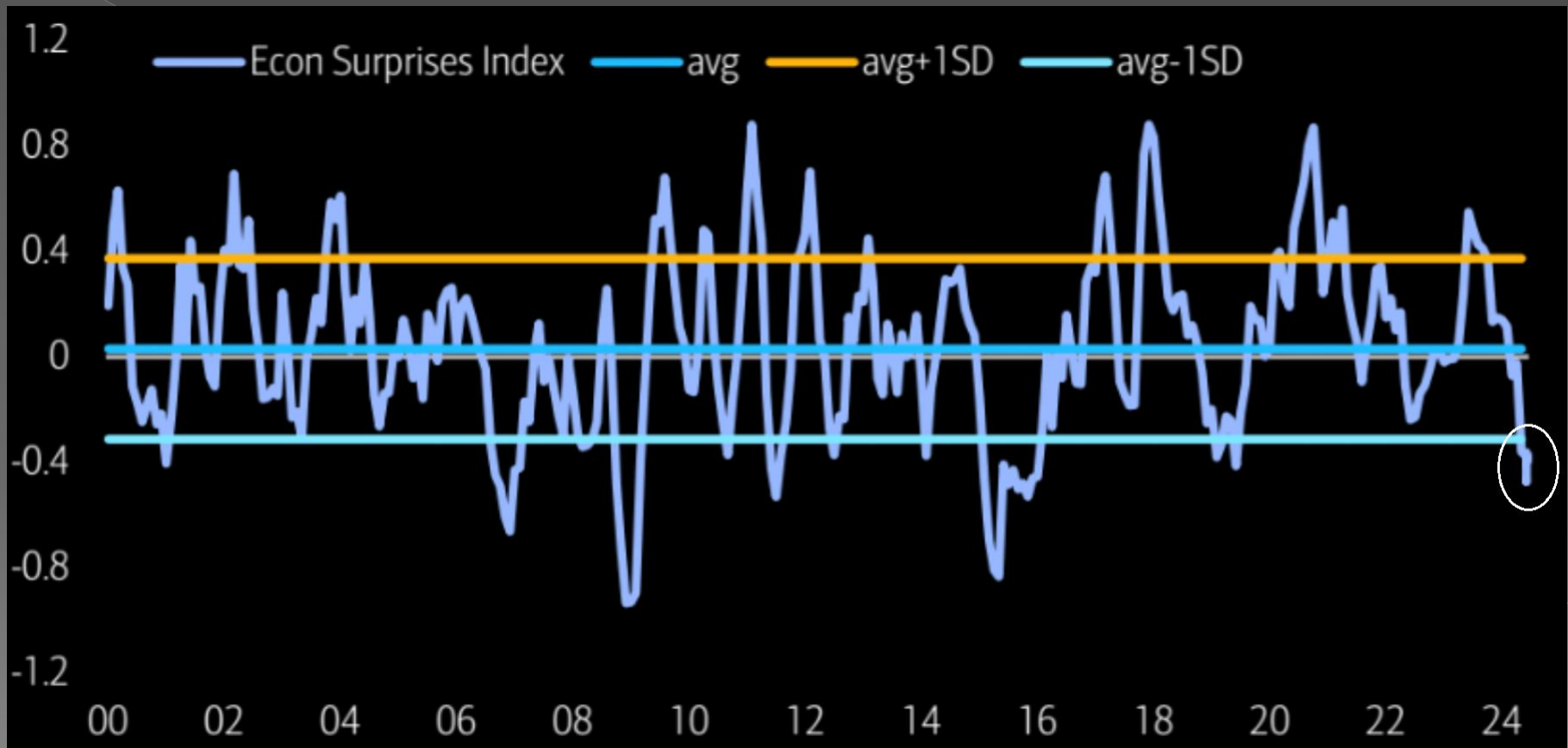
Source: Bureau of Economic Analysis; Chart: @realejantoni



— Personal Saving Rate (left)


— Consumer Loans: Credit Cards and Other Revolving Plans, All Commercial Banks (right)





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The illustration shows a stylized bank building on the left, a single banknote in the center, and a stack of coins on the right. Above the banknote and coins is a glowing symbol that combines the dollar sign (\$) and the Euro sign (€), with radiating lines around it, suggesting a global or modern currency system.

Fiat Money

['fi-ət 'mɑ-nē]

A government-issued currency that is not backed by a physical commodity, such as gold or silver, but rather by the government that issued it.

 Investopedia

FLAWED GROWTH IN A FIAT CURRENCY REGIME

THE DIFFERENCE

- A Recession is thought of as **CYCLICAL** and a few **QUARTERS** of Negative Economic Growth.
- A Depression is thought of as **SECULAR** and a few **YEARS** of Negative Economic Growth.

Is there a possibility we might already be there? Like Inflation which we discussed in the latest UnderTheLens video (The Inflationary / Stagflationary Black Hole) we showed the inflationary element is well entrenched when sound measures of inflation are used. But what about Economic Growth?

FLAWED GROWTH IN A FIAT CURRENCY REGIME

There are two major problems with the current reporting of Economic Growth:

- The **INFLATION DEFLATOR** used to report Real GDP,
- The **GDP FORMULA** itself in an era of Fiat Currencies, Creditism and exploding national debt where even the interest on the debt requires lending to be paid.

1- THE DEFLATOR PROBLEM - *A Flawed PCE*

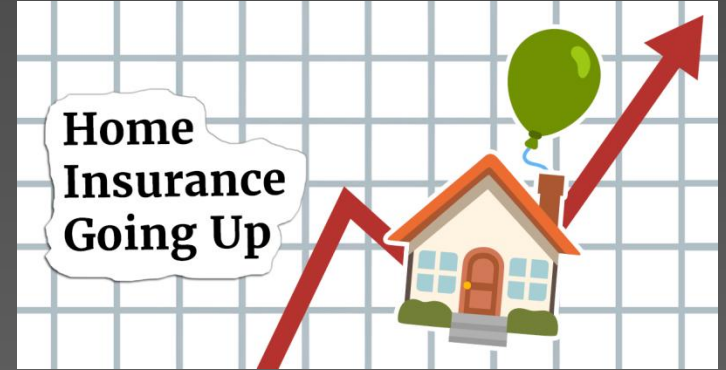
The Fed's preferred measure of inflation, the Personal Consumption Expenditure (PCE) is used as the deflator in adjusting nominal GDP to the Real GDP. The problem is the PCE under-estimates Inflation significantly.

The PCE doesn't include key services which are presently major inflationary expenses of most American households. These include:

1. House Insurance
2. Car Insurance
3. Child Care

1- HOUSE INSURANCE

- When you have a mortgage, you must carry insurance as a matter of contract, same as with car insurance.
- If you can't afford the insurance, you must sell to a cash buyer who doesn't have to have it.
- The culprit here is really the depreciation of the currency in terms of goods and services, plus the rising costs of all repairs of anything and everything.
- They are coming up with crazy figures on the cost side of some disaster, which is due to worker shortages, skills depreciation, and inflation of all materials.
- In addition, with the increase in housing prices, replacement costs rise in tandem, so, of course, insurance prices go up, too.
- Insurance premiums are merely reflecting the inflationary reality under the surface of the media reports.



2- CAR INSURANCE

- Something similar is happening to car insurance.
- Car Insurance has surged anywhere from 15-25%.
- Many cash strapped owners and fixed income seniors have been forced to increase deductibles to handle the increased rates.
- It is even more severe for those owning Electric Vehicles (EVs) which are hugely expensive to repair. It's the same with hybrids.
- The entire market for car repairs faced a blow with lockdowns, from which it hasn't recovered.
- Supply chains became a snarled-up mess with lots of bankruptcies and disruptions, and the labor market for repair experienced an exodus of workers who moved on to other industries or simply left town.



3- CHILD CARE

- According to Bank of America internal data, the average childcare payment per household has risen over 30% since 2019.
- A [brief](#) drawing of available data across 47 states show child care prices for a single child ranged from \$4,810 a year for school-age home-based care in small counties to \$15,417 for infant center-based care in very large counties.
- When adjusted for inflation, this equals between \$5,357 and \$17,171 in 2022 dollars. These price ranges were equivalent to between 8% and 19.3% of median family income per child in paid care.



3- CHILD CARE

• The [Economic Policy Institute](#) ranked the [top 10 states](#) or state equivalents with the highest child care expenses for preschool, infant care, and day care:

- Washington, D.C. (\$24,243)
- Massachusetts (\$20,913)
- California (\$16,945)
- Minnesota (\$16,087)
- Connecticut (\$15,501)
- New York (\$15,394)
- Maryland (\$15,335)
- Colorado (\$15,325)
- Washington (\$14,554)
- Virginia (\$14,063)

• Given the rising cost of child care, many parents are looking for ways to make ends meet without leaving the workforce.



The average weekly cost of child care per child in the U.S. in 2023:

For 1-2 Toddlers				
	One Child		Two Children	
	2023	2022	2023	2022
Nanny	\$755	\$701	\$764	\$726
Day Care	\$293	\$268	\$556	\$510
Family Care Center	\$219	\$217	\$416	\$413

For One Infant		
	2023	2022
Nanny	\$766	\$736
Day Care	\$321	\$284
Family Care Center	\$230	\$229

- For parents seeking an after-school babysitter, the weekly cost for one child is \$292, up from \$275 in 2022.
- For two children, parents would need to pay \$305 a week on average, compared with \$289 per week the previous year.

When just **MANDATED** mortgage and car insurance are added to the PCE we immediately see that the US has had

No Positive Growth in the last 3 Years!



Real Economic Growth Rate

[ˈrē(-ə)l, e-kə-ˈnā-mik ˈgrōth ˈrāt]

A measure of economic growth that adjusts for inflation.

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- **TRADE POLICIES:** A focus on **IMPORTS** through **TARIFFS, QUOTAS** or **SANCTIONS**,
.. thereby making imported goods more expensive and less competitive with domestic offerings.
- **CURRENCY POLICIES:** A focus on **EXPORTS** through **CURRENCY DEVALUATION**,
.. thereby making exported goods cheaper and more competitive versus other countries' exports.

Joan Robinson, a distinguished Cambridge University economist and disciple of John Maynard Keynes, came up with the phrase "beggar-thy-neighbor" to describe these restrictive Trade and Currency practices, symbolized by the Hawley-Smoot tariff approved by Congress in 1930.

ENRICH-THY-NEIGHBOR

- Federal Reserve Chairman Ben Bernanke argued with the introduction of Quantitative Easing (QE), that a supporting policy of Enrich-Thy-Neighbor would allow for a strong US Dollar and the avoidance of Tariffs thereby fostering international trade.
- The secret was a managed, coordinated, rotating weakening of G7 Fiat Currencies, which removed any currency advantage but allowed cheaper interest rates through QE to increase trade for all yet not be as visibly inflationary and economically destabilizing.
- The policy worked extremely well with the critical assistance of a Bank of International Settlements (BIS) policing ~\$700 TRILLION OTC Currency and Interest Swaps market (*only reported and visible to the BIS*).
- The G7 central banker met monthly / quarterly in Basel, Switzerland with the BIS to ensure ongoing coordination efforts worked.

REDUCED PURCHASING POWER IS INFLATION

- This approach was highly successful during the era of QE in the area of Currency Exchanges. It's Achilles Heel is the difference between Purchasing Power (Domestic), Purchasing Power Parity (PPP) (International) and Currency Exchange. Mistakenly many think of all three measures as being the same. They are not and in fact are increasingly diverging.
- **Purchasing Power (Domestic):** The actual value of the currency after being reduced by inflation.
- **Purchasing Power Parity (PPP) (International):** The difference in the purchase of the exact same goods or services between different countries.
- **Currency Exchange:** The value of two currencies as traded (exchanged) against each other

There has been an Increasing focus on Purchasing Power Parity v (Trade Weighted) Currency Exchange, but little media focus on shrinking domestic purchasing power of the currency. People see CPI and PCE as Inflation. They are measures of inflation.

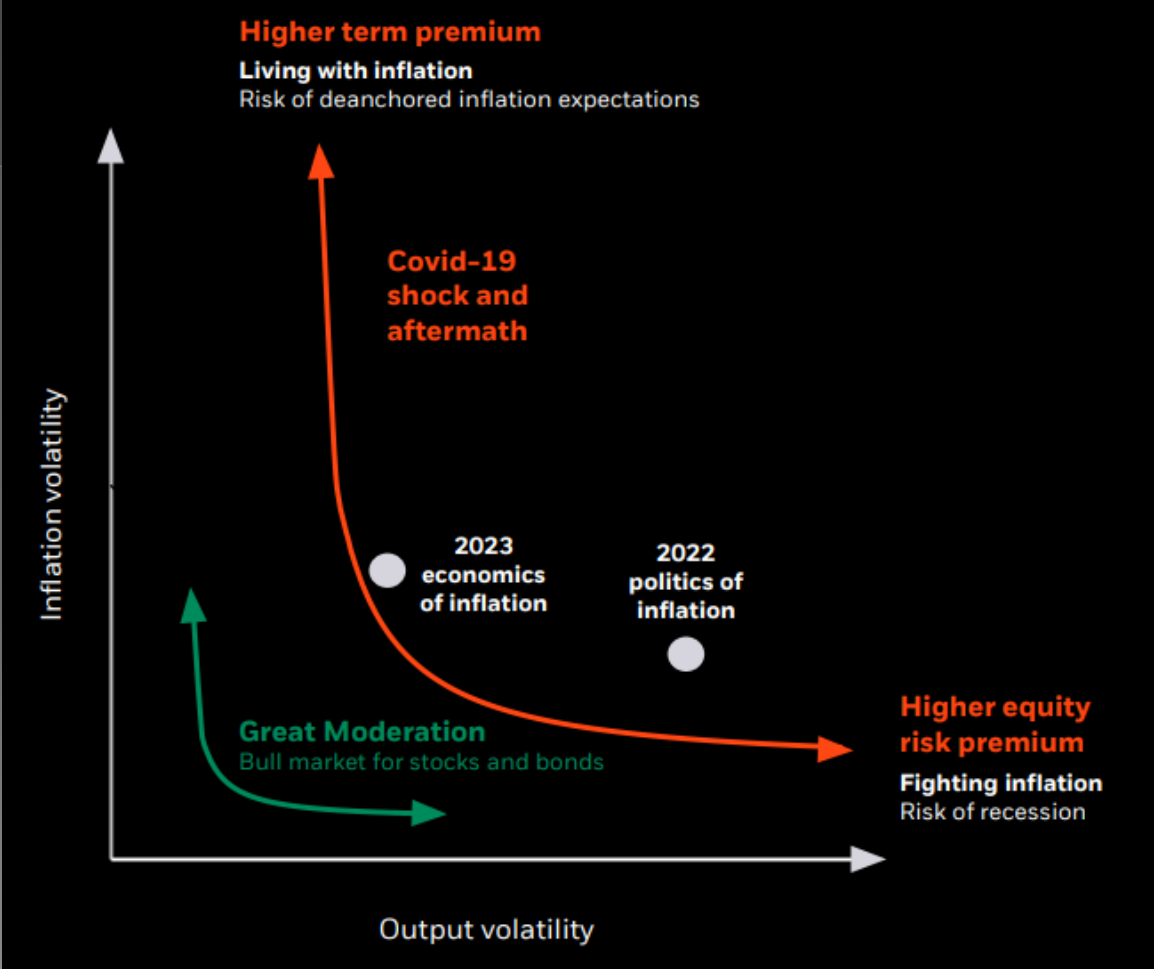
INFLATION IS THE LOSS OF PURCHASING POWER.

To understand this is to better understand how the Time Usage of Money works in a Fiat Currency System.

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Fundamentally, increases in money supply set in motion an exchange of nothing for something.

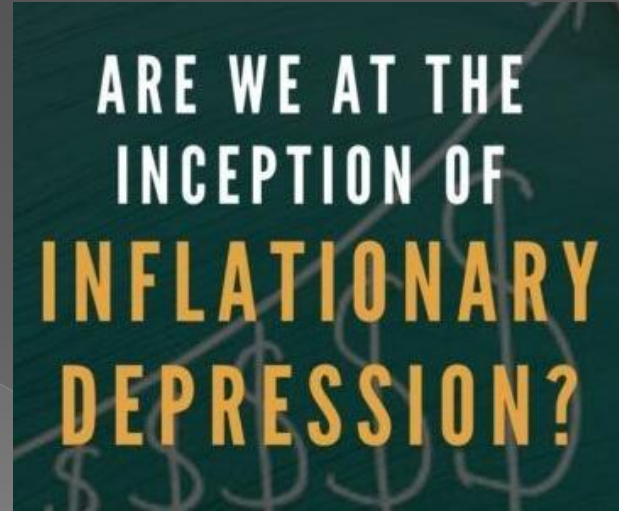
This diverts real savings from wealth generators to non-wealth generators.

Consequently, this weakens the wealth-generation process and in turn the pace of economic activity. Now, when money enters goods markets, it means that we have more money per good, that is the price of goods has risen.

Hence, what we have here is the increase in goods prices and a weakening in economic growth. This is what stagflation is all about. The outcome of the monetary pumping is always stagflation. It is not always visible, though. As the pool of real savings comes under pressure, the phenomenon of stagflation becomes more visible.

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SOLUTION: THE INDIRECT EXCHANGE

- Exchanging NOTHING for SOMETHING.
- "Something" is not Consumption nor the purchasing of non-Durable Goods.
- "Something" is an Appreciating Asset (Collateral Wealth).
- "Something" has the attributes of:
 1. Scarcity
 2. Sustainable Demand - Shelter, Food, Water, Energy, Security (Retirement, Healthcare)
 3. Cash Flows positive
- "Nothing" is Present Value of a Currency Expected to Lose Purchasing Power.
- You must exchange that (worthless) paper claim for "Something".

EXAMPLES


WHY BUFFET BUYS INSURANCE COMPANIES

MACRO ANALYTICS

Macro Analytics
March 12th, 2013

WARREN BUFFETT: Master of the Indirect Exchange

UNDERSTANDING
THE AUSTRIAN ECONOMIC TERM
"THE INDIRECT EXCHANGE"



Dave Coverly
www.dilbert.com

MACRO ANALYTICS VIDEO:

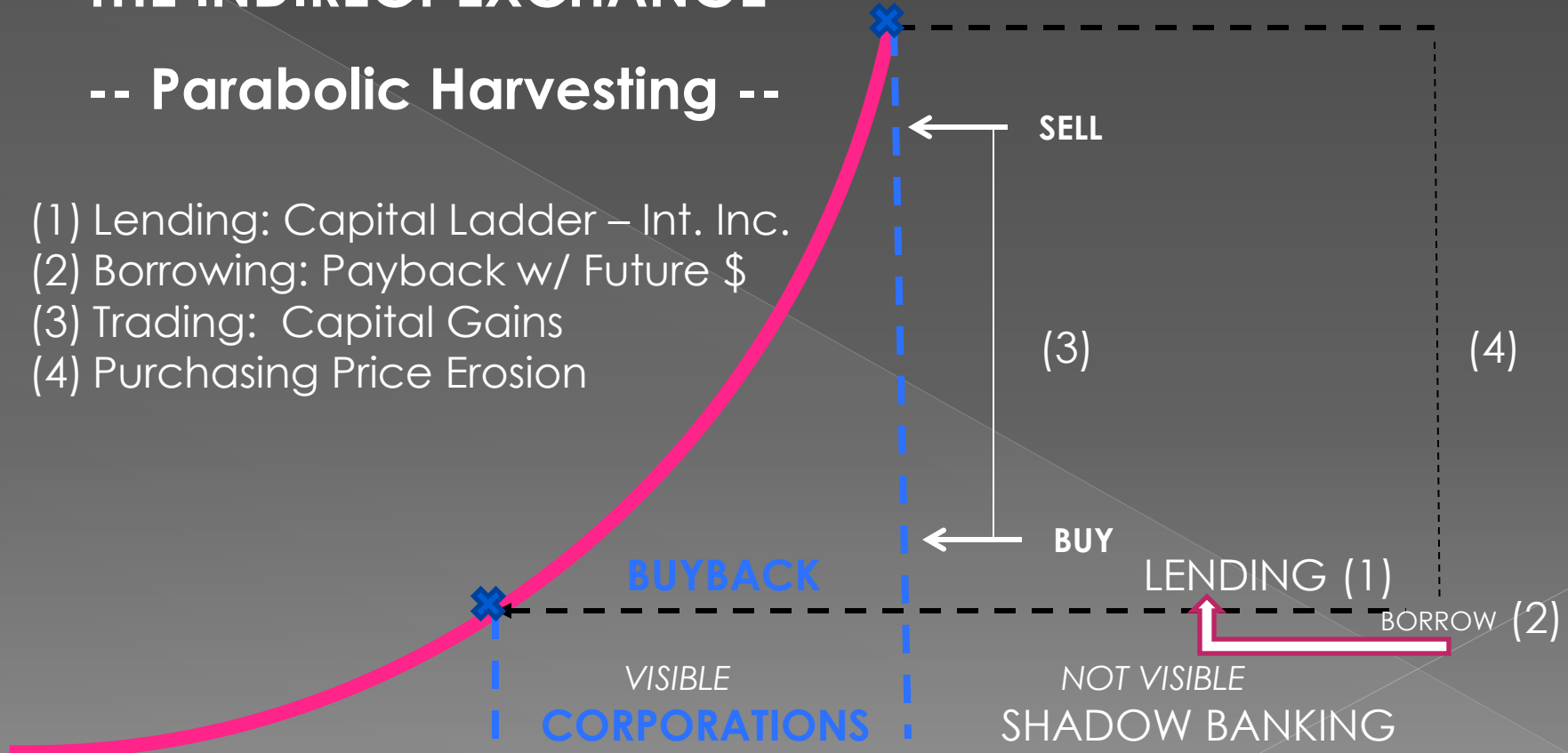
<https://www.youtube.com/watch?v=i65UkiY1TQ0>

WHY BLACKSTONE (& PRIVATE EQUITY) IS BUYING RENTAL HOUSING

THE INDIRECT EXCHANGE

-- Parabolic Harvesting --

- (1) Lending: Capital Ladder – Int. Inc.
- (2) Borrowing: Payback w/ Future \$
- (3) Trading: Capital Gains
- (4) Purchasing Price Erosion

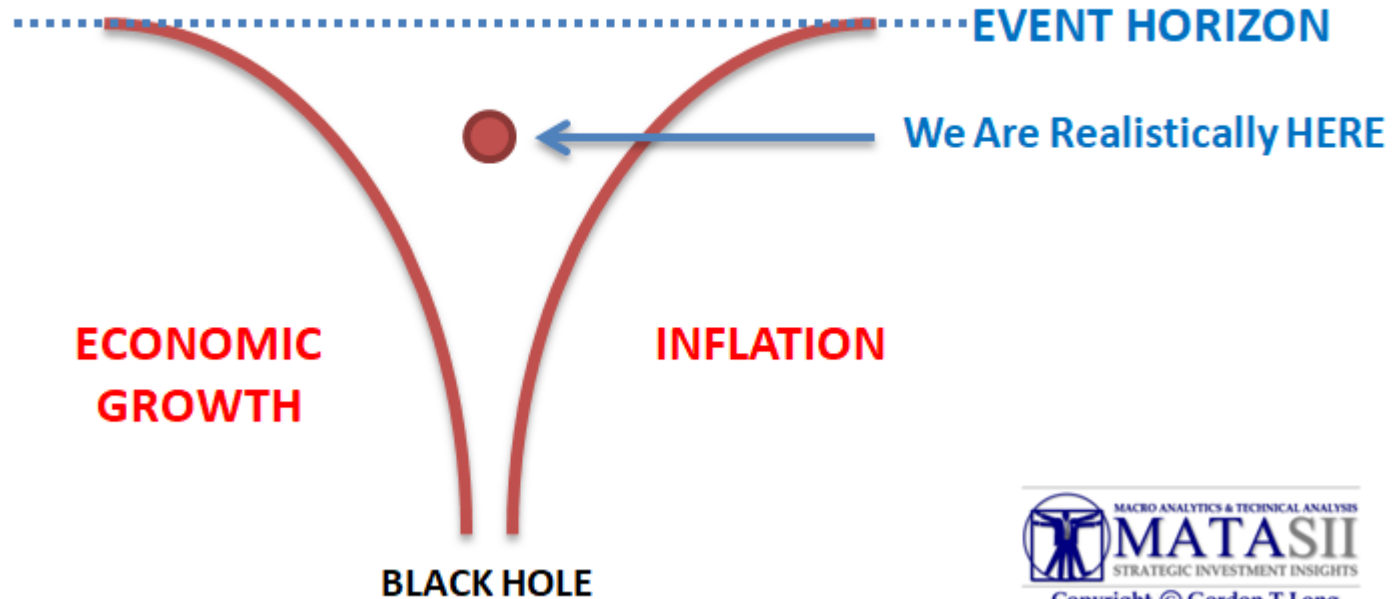


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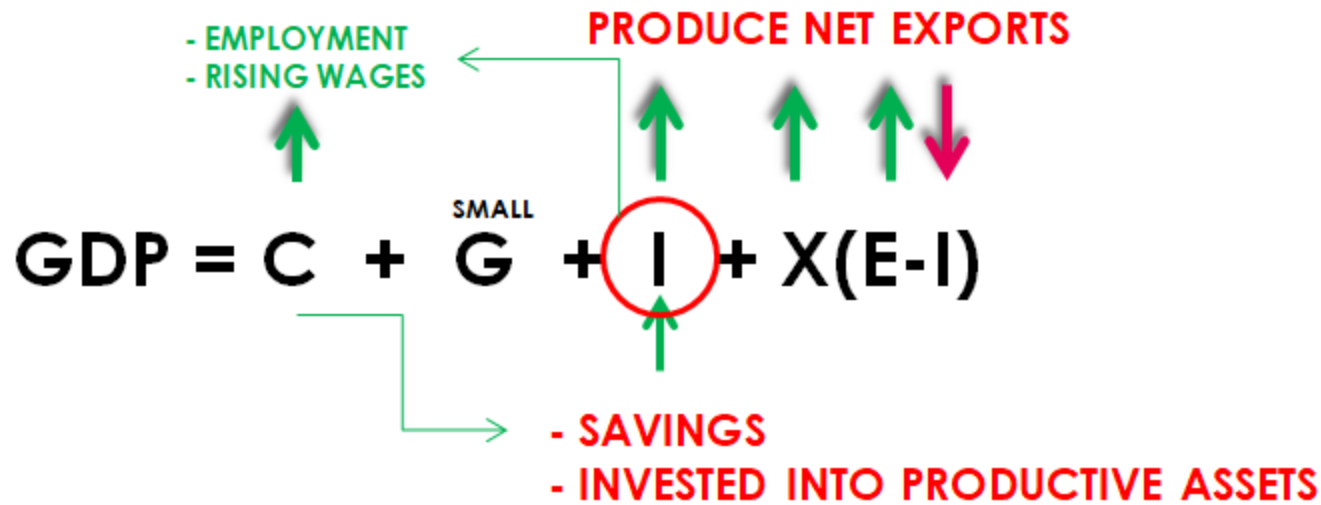
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WHAT A FALSE INFLATION (CPI) & GROWTH (Deflator) HAVE WROUGHT

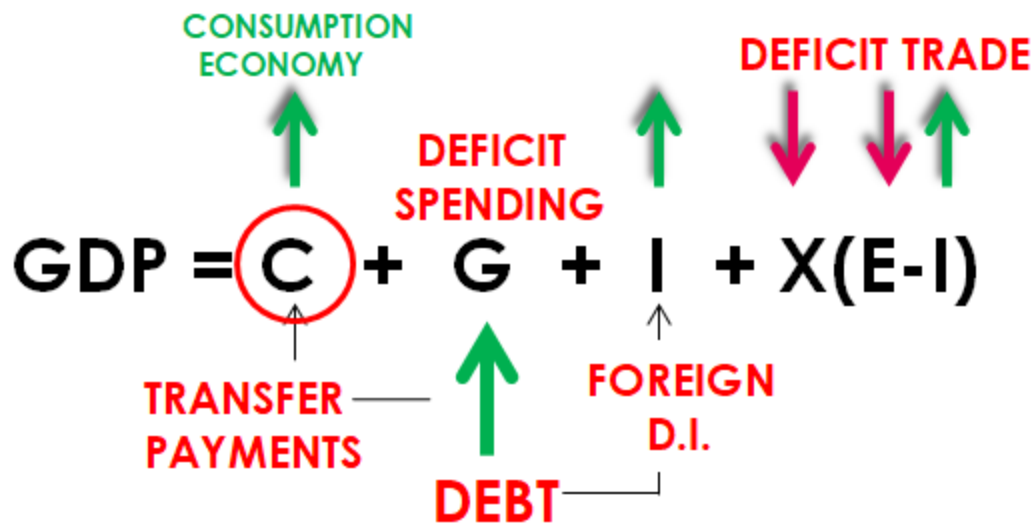


CAPITALISM



- Consumers Get More for Less,
- Standards of Living Rise

CREDITISM



- Consumers Get Less for More,
- Standards of Living Stagnate or Fall

TRANSITIONAL STAGE

SOCIALISM

GOVERNMENT IS THE ECONOMY

$$\text{GDP} = \text{C} + \text{G} + \text{I} + \text{X}(\text{E}-\text{I})$$

MONETIZATION

- Consumers Get What The Government Determines, Awards or Rations
- Standards of Living Is Universal Except for Government Officials

ADMINISTRATIONS CHANGE – BUT THE PRINTING NEVER DOES

DON'T WORRY, THEY WILL PRINT THE MONEY!

EVERYONE IS NOW IN PLACE & READY!!



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