NATIONAL INFLATION ASSOCIATION

Preparing Americans For Hyperinflation

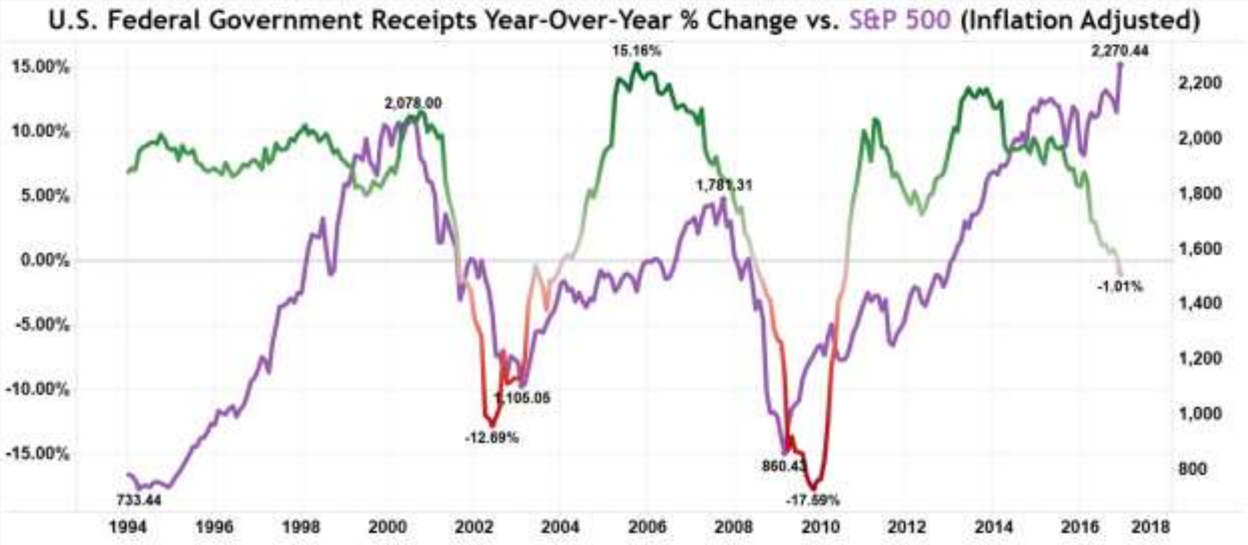
NIA

2017 U.S. Debt Crisis/Asset Bubble Report

January 18, 2017

Major New Recession Warning Signs the Mainstream Media is Ignoring

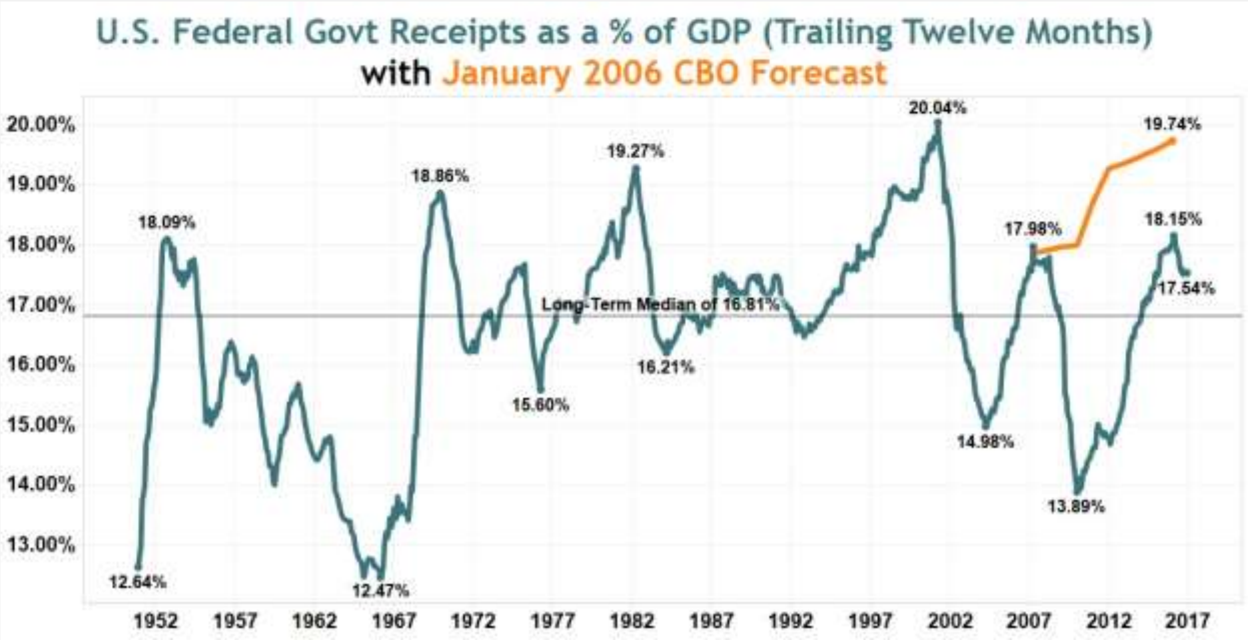
In December 2016, U.S. Federal Government Tax Receipts declined -8.76% to $319 billion from $349.631 billion in December 2015, its largest year-over-year decline in 7 years. For the full calendar year of 2016, **U.S. Federal Government Tax Receipts** ***declined -1.01%*** to $3.242 trillion from $3.275 trillion in calendar year 2015.



Historically, when the year-over-year change in trailing twelve month tax receipts experiences a decline into negative territory, the **S&P 500** almost always ***crashes*** shortly afterwards.

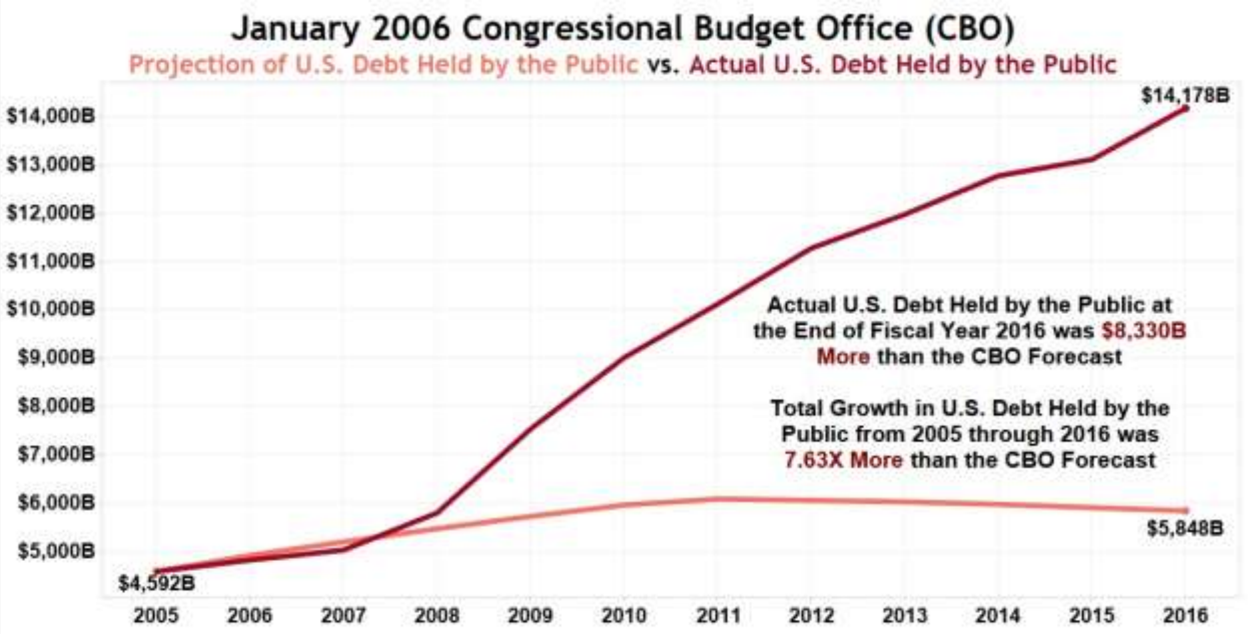
When the year-over-year change in trailing twelve month tax receipts declined into negative territory in July 2008, the S&P 500 was trading for 1,381.74. ***Over the following 9 months, the S&P 500 collapsed by 51.04% to 676.53.***

When the year-over-year change in trailing twelve month tax receipts declined into negative territory in September 2001, the S&P 500 was trading for 1,416.26. ***Over the following 13 months, the S&P 500 collapsed by 45.15% to 776.76.***



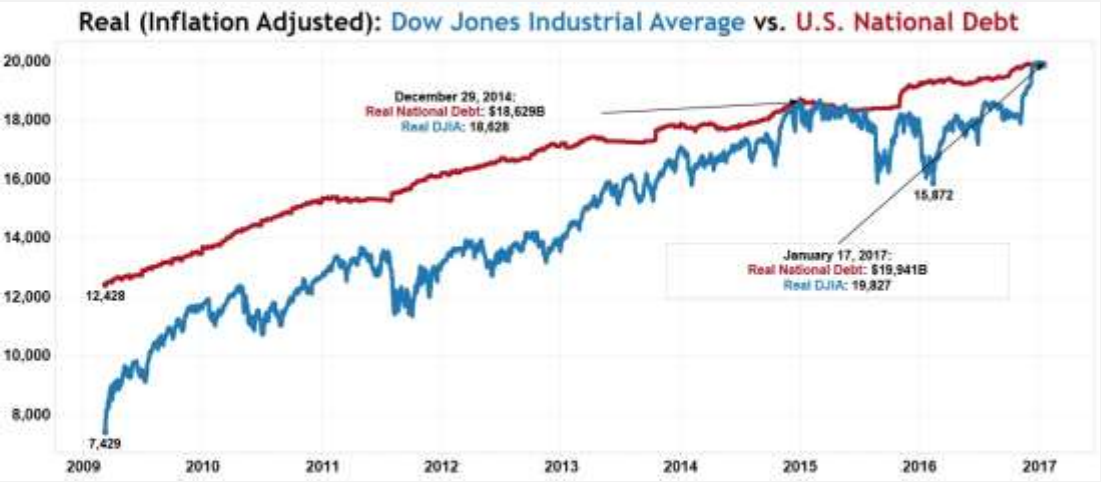
In January 2006, trailing twelve month U.S. tax receipts were equal to 17.98% of GDP and the **Congressional Budget Office (CBO)** issued its **10-year budget outlook**, which projected for **receipts** to continuously ***trend upward*** and reach **19.74% of GDP** in 2016. The CBO was way off, with receipts ***crashing*** during the financial crisis to **only 13.89% of GDP** – before rebounding to finish 2016 at 17.54% of GDP.

The enormous gap between projected receipts and actual receipts as a percentage of GDP, helped cause the public portion of the U.S. national debt to increase 7.63X more than the CBO had forecast.

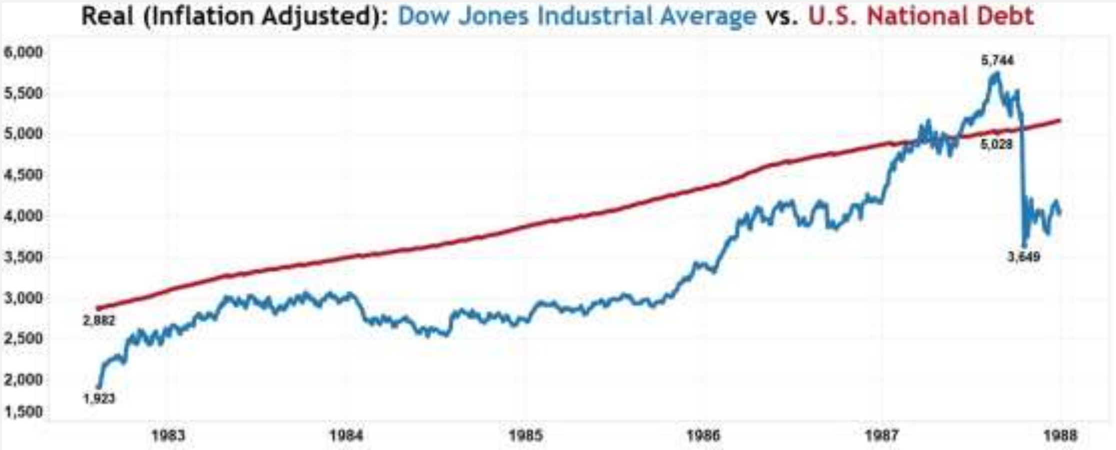


The Race to Dow 20,000 vs. $20 Trillion National Debt

While the mainstream media continues to hype up how the **Dow Jones Industrial Average** at the start of 2017 is approaching the key milestone level of **20,000** – it totally ignores how the **U.S. national debt** including intragovernmental debt holdings, is about to reach **$20 trillion**.



Historically, during periods of a rapidly rising national debt, any time the Dow Jones has risen above the national debt – it ended up in hindsight being a **major warning sign of a stock crash being imminent**. This October will be the 30-year anniversary of the **Crash of 1987**, and it is very interesting how closely the recent chart of the Dow Jones vs. the National Debt resembles exactly what occurred just prior to the October of 1987 crash that saw the ***Dow lose 22.6% of its value in a single day!***



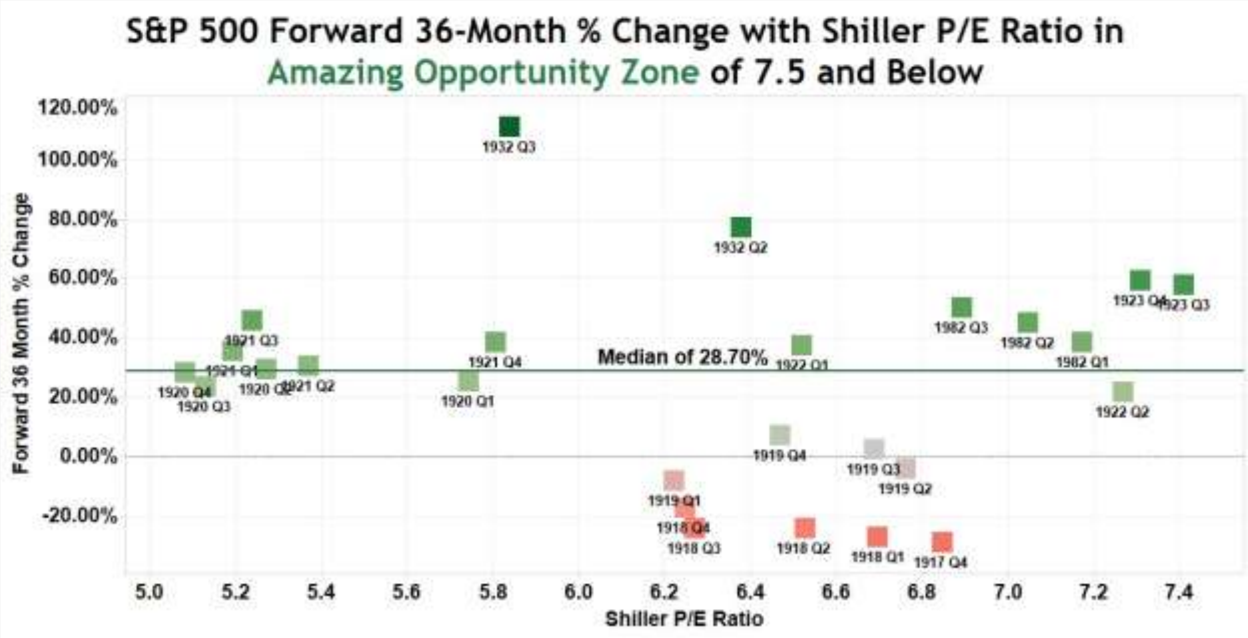
Stock Market Bubble Set to Burst in 2017

One of the most accurate fundamental indicators to value the U.S. stock market over the long-term has been the **Shiller P/E Ratio**. Currently, the S&P 500 is trading with a Shiller P/E Ratio of 28.08, making it ***dangerously overvalued***.

Historically, the S&P 500 has been dangerously overvalued any time the Shiller P/E Ratio has reached a level of 27 or higher.

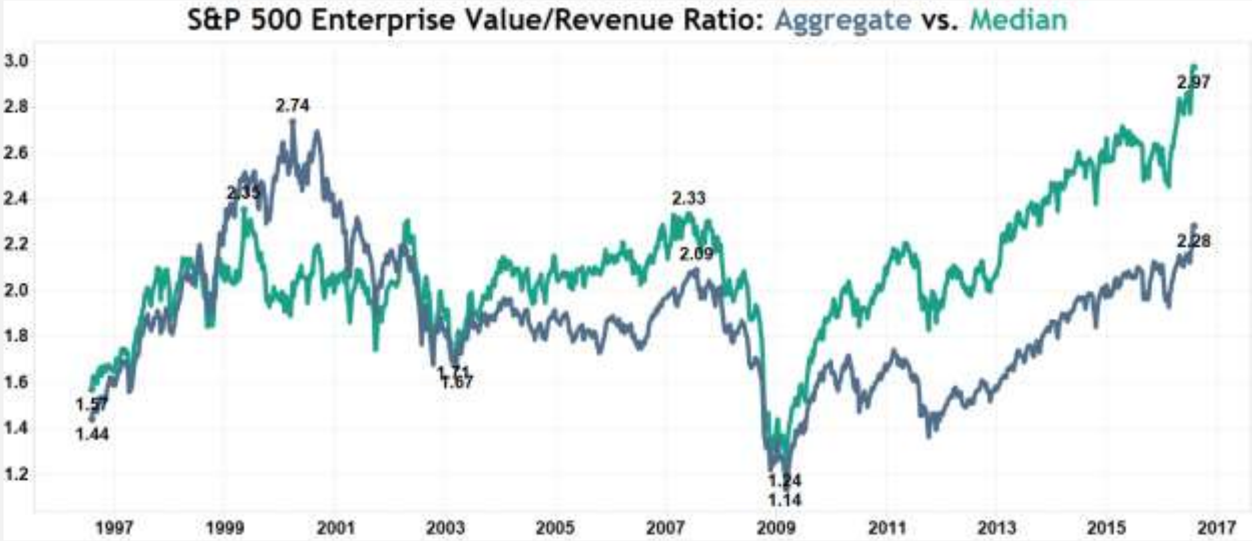
With a Shiller P/E Ratio of 27 or higher, the **median return for the S&P 500 over the following 36 months** has been a ***decline of -16.43%***.

The S&P 500 only becomes an **amazing buying opportunity** when the Shiller P/E Ratio declines to 7.5 or lower.

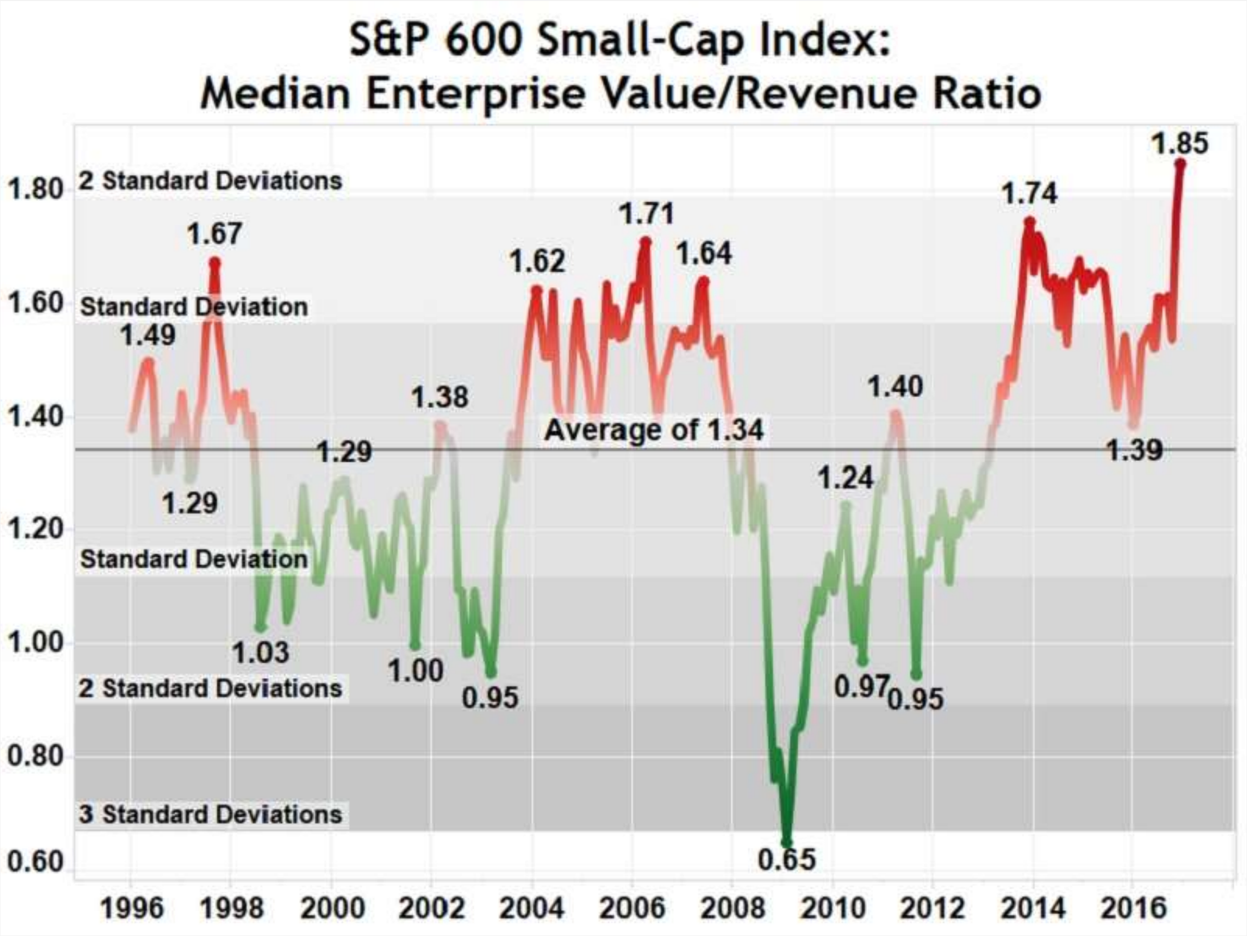


With a Shiller P/E Ratio of 7.5 or lower, the **median return for the S&P 500 over the following 36 months** has been an ***increase of 28.7%.***

If we instead look at the stock market's valuation using revenue multiples, the S&P 500 is currently the most overvalued it has ever been in history. S&P 500 companies are currently trading with their highest median enterprise value/revenue ratio in history at 2.97 vs. peaks at the top of the last two stock market bubbles of between 2.33 and 2.35.



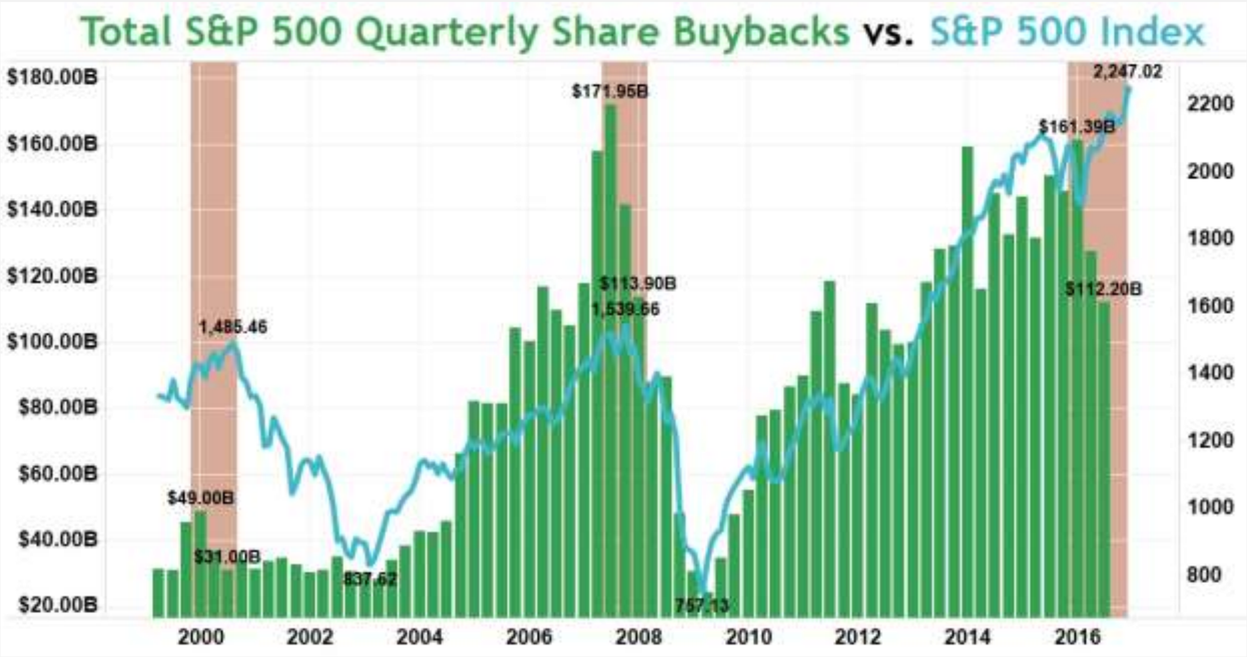
Small-cap stocks are also trading at their most overvalued levels in history. The median enterprise value/revenue ratio for S&P 600 small-cap companies is currently 1.85, a stunning two standard deviations above the long-term average of 1.34. Small-cap stocks are now overvalued to roughly the same extreme as they were undervalued in March of 2009!



Bursting Share Buyback Bubble

President Obama's wasteful government spending and destructive economic policies together with the Federal Reserve's manipulation of interest rates and debt monetization, allowed corporations to recklessly borrow money at artificially low interest rates for the sole purpose of buying back their own stock. This fueled phony/fake EPS growth and artificially high share prices - triggering huge bonuses for management even as net income and cash flow remained flat.

With the **Federal Reserve** finally beginning to *raise* the **Fed Funds Rate** as global bond values collapse, the share buyback bubble has finally peaked and is now beginning to burst. ***In 3Q 2016, S&P 500 share buybacks declined to an 8 ½ year low of $112.2 billion, down 30.48% from a 1Q 2016 peak of $161.39 billion.***

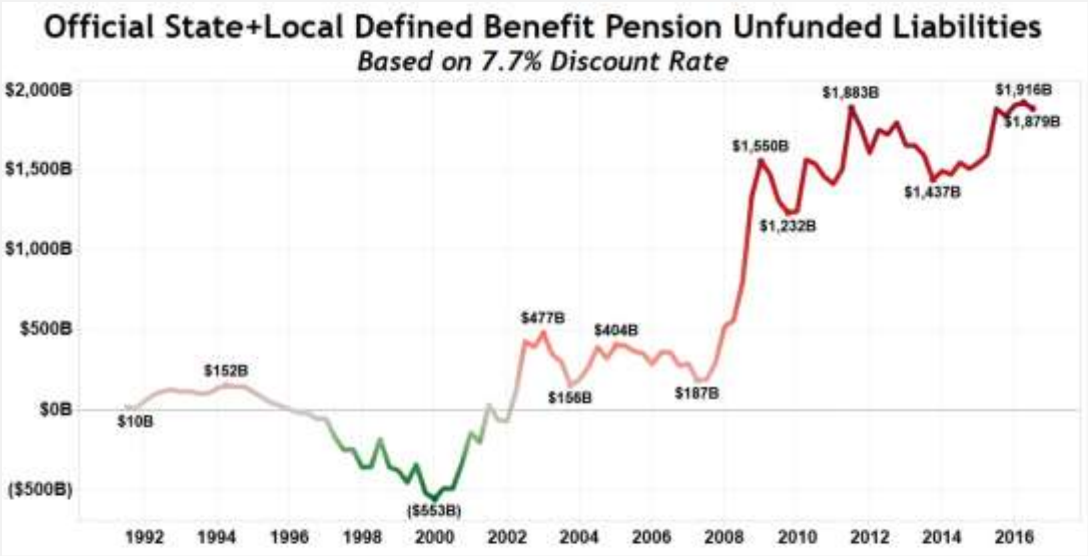


This is very similar to what occurred between 3Q 2007 and 1Q 2008 when buybacks declined -33.76% over a two quarter period to $113.9 billion – right after setting a record high of $171.95 billion. ***Over the following 12 months, the S&P 500 lost nearly 50% of its value.***

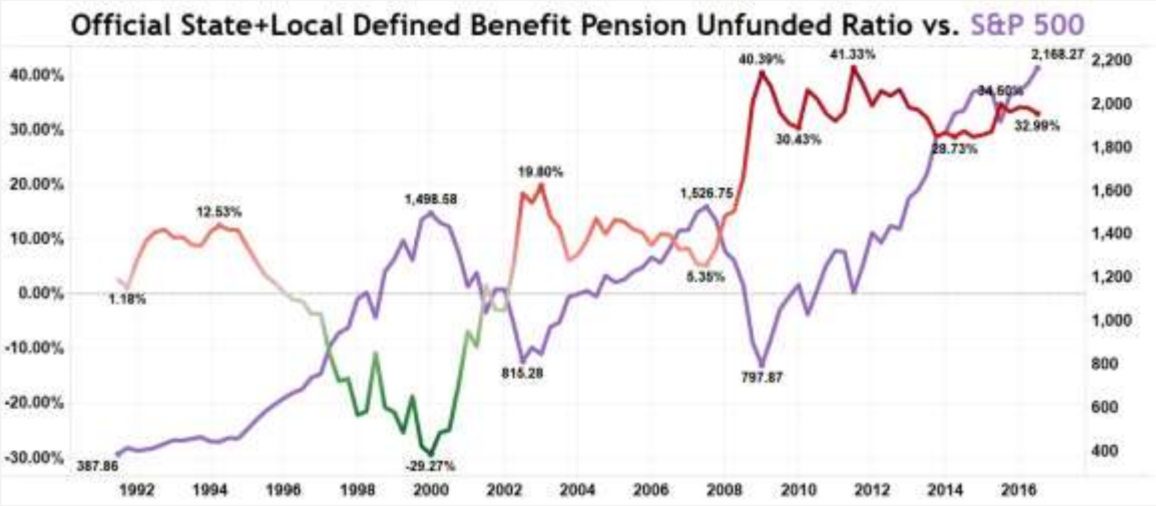
Although buybacks didn't play as large of a role in the 2000 stock market bubble, there was a dramatic share buyback decline of -36.73% just prior to the S&P 500 losing over 43% of its value as the 2000 technology/dot-com bubble burst.

U.S. State+Local Pension Fund Crisis

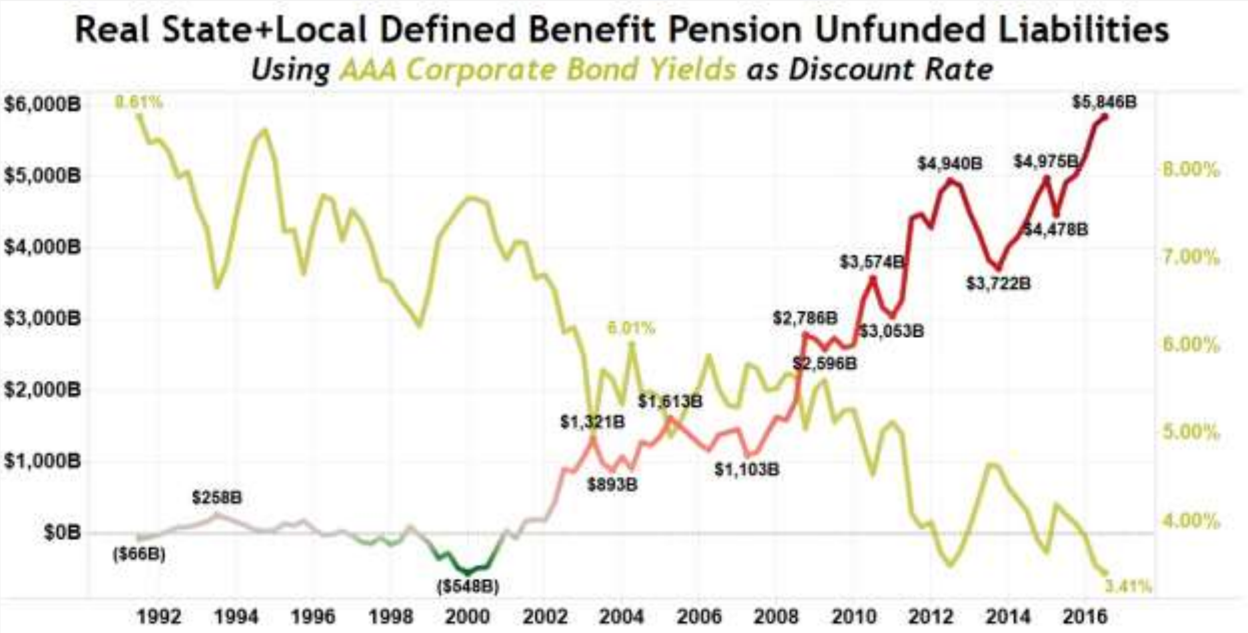
If the stock market doesn't continue to rise by about 10% annually, the **U.S. state and local pension fund system** will ***collapse***. Already, state+local defined benefit pensions have an official **$1.879 trillion in unfunded liabilities**. This is based on a 7.7% discount rate, which assumes an annual investment return on current assets of 7.7%.



U.S. state+local defined benefit pensions have an official **unfunded ratio of 32.99%**. ***When the stock market inevitably declines from these current bubble valuations, the unfunded ratio will immediately explode upward.***



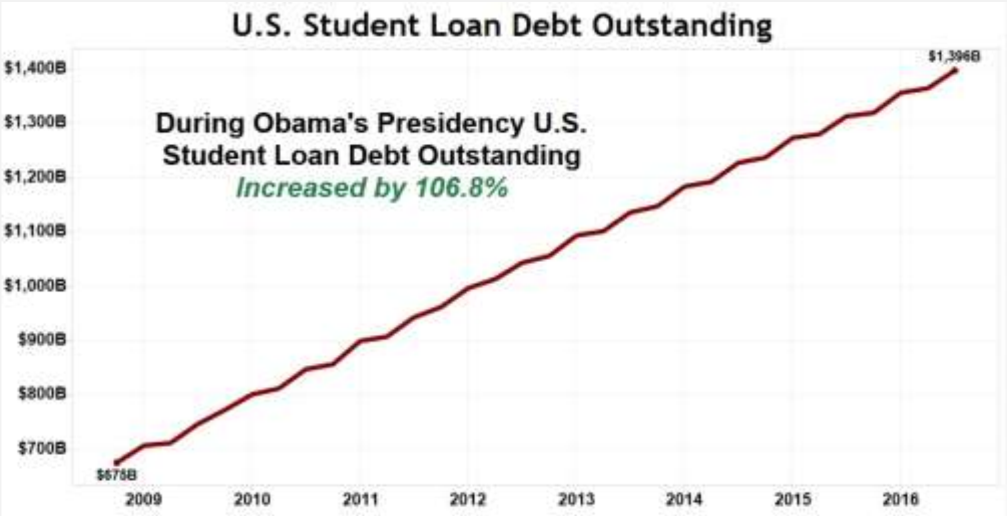
Notice how historically, when the stock market experiences a dramatic decline – the unfunded ratio explodes upwards, and when the stock market bounces back and recovers, the unfunded ratio remains high.



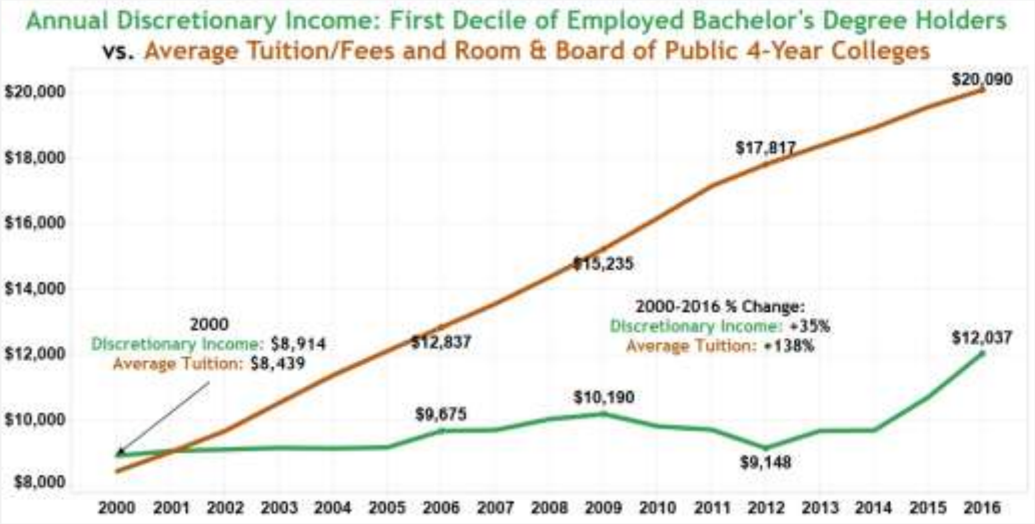
The real level of unfunded liabilities using a risk free discount rate, based on investment grade corporate bond yields is currently $5.846 trillion!

Obama Destroyed America's College Education System

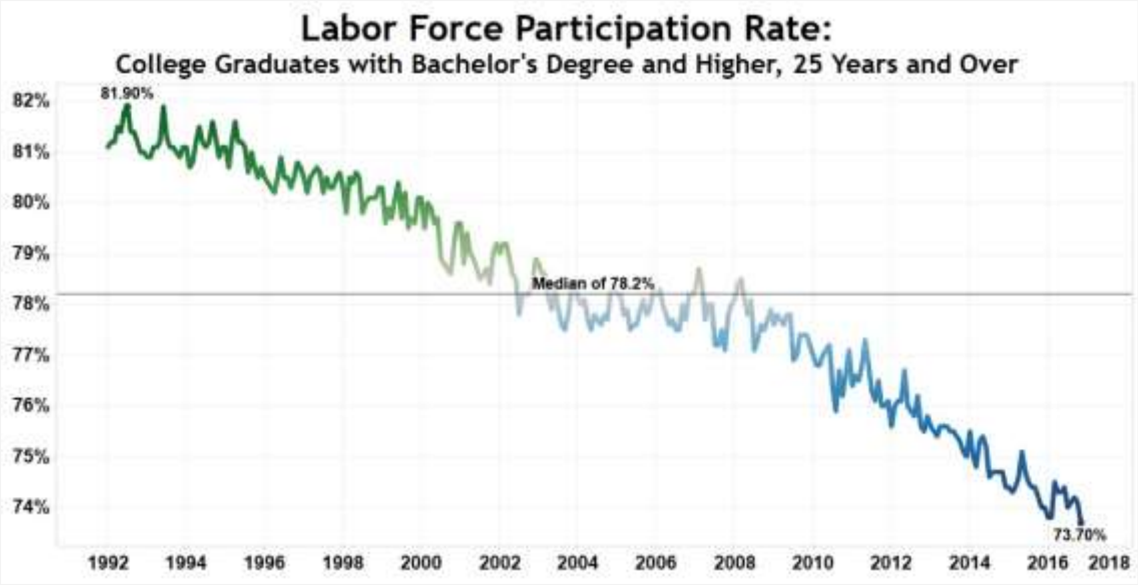
During Obama's eight years as President, **U.S. Student Loan Debt Outstanding** has gone straight up, experiencing a ***shocking increase of 106.8%*** to **$1.396 trillion**.



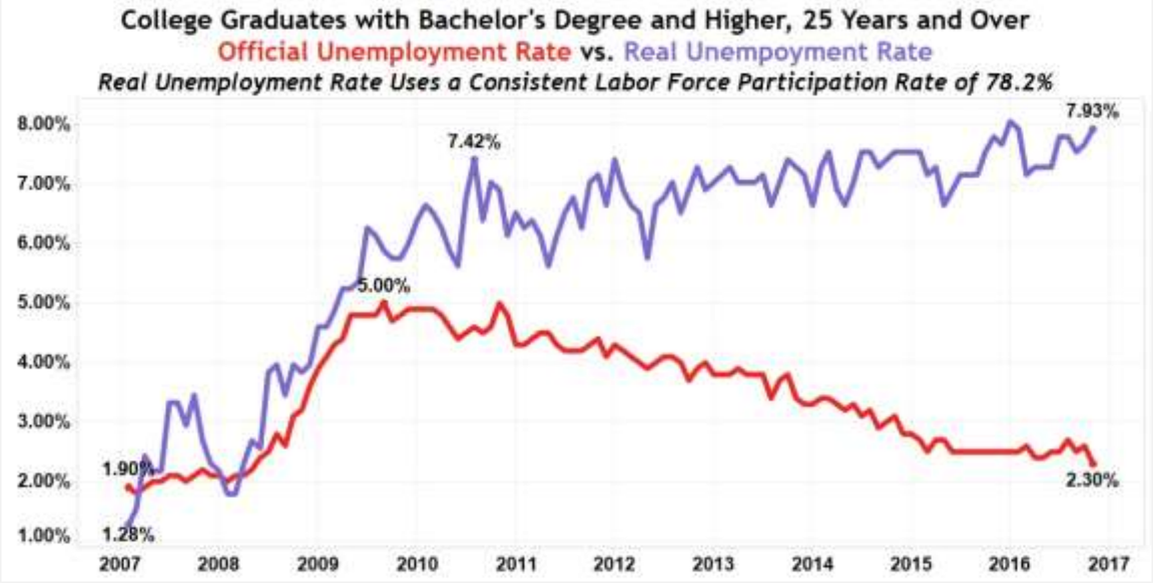
By guaranteeing easy access to student loans for all Americans, the average tuition and fees with room & board at public 4-year colleges has increased since year 2000 by 138%. In comparison, the annual discretionary income for the first decile of employed bachelor's degree holders has increased during this time-period by only 35%. ***College tuition has increased by quadruple the wages of college graduates with bachelor's degrees!***



The **Labor Force Participation Rate for college graduates** with a bachelor's degree and higher, finished last year at a **new all-time low** of 73.7% - with absolutely no bounce occurring during Obama's phony/fake recovery!

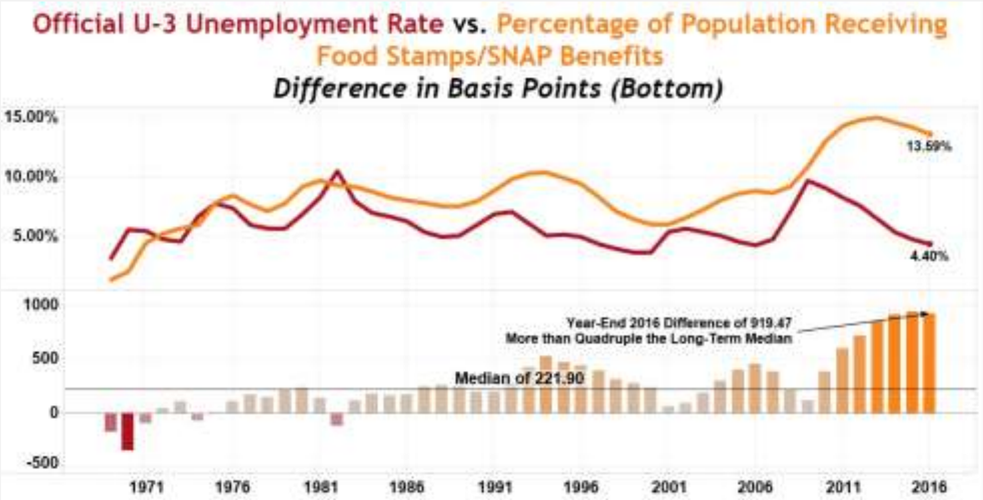


Based on the long-term median Labor Force Participation Rate for college graduates with a bachelor's degree and higher of 78.2% - the real unemployment rate for college graduates is 3 ½ times higher than the government's phony/fake artificially manipulated number. Obama wants people to believe that he cut the unemployment rate for college graduates in half since 2009, when the labor market for college graduates has actually deteriorated further.



The Food Stamp Truth

If the current official U-3 unemployment rate of 4.4% was to be believed, only 6.62% of the U.S. population would currently be receiving food stamps (SNAP benefits). ***The shocking truth is, 13.59% of the U.S. population is currently receiving SNAP benefits.***

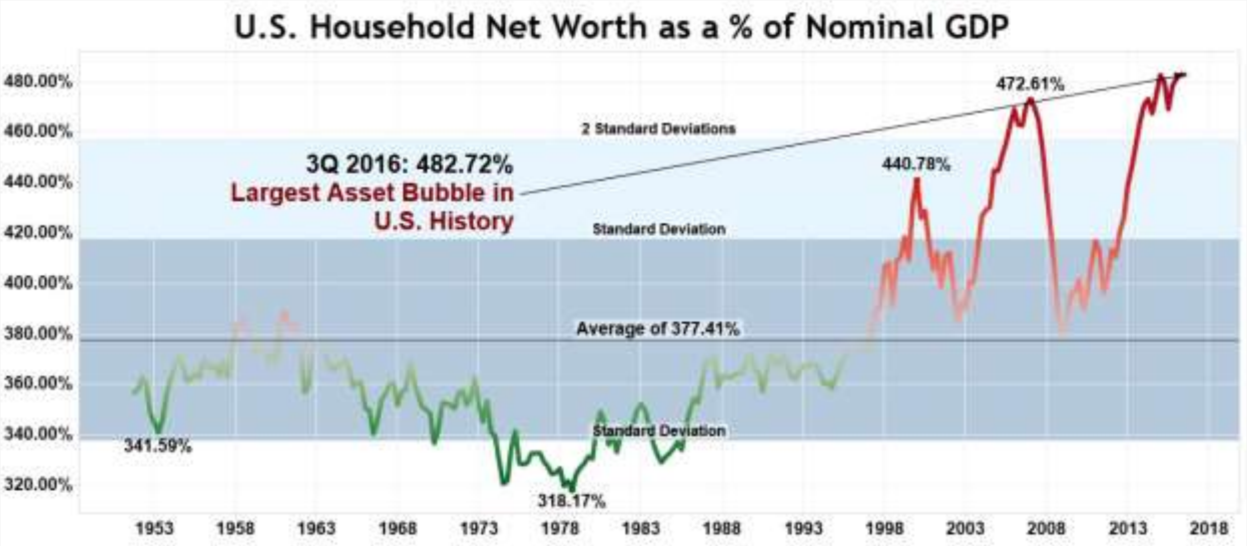


The difference in basis points between the percentage of the population receiving SNAP benefits and the official unemployment rate is currently 919 or more than quadruple the long-term median difference of only 222.

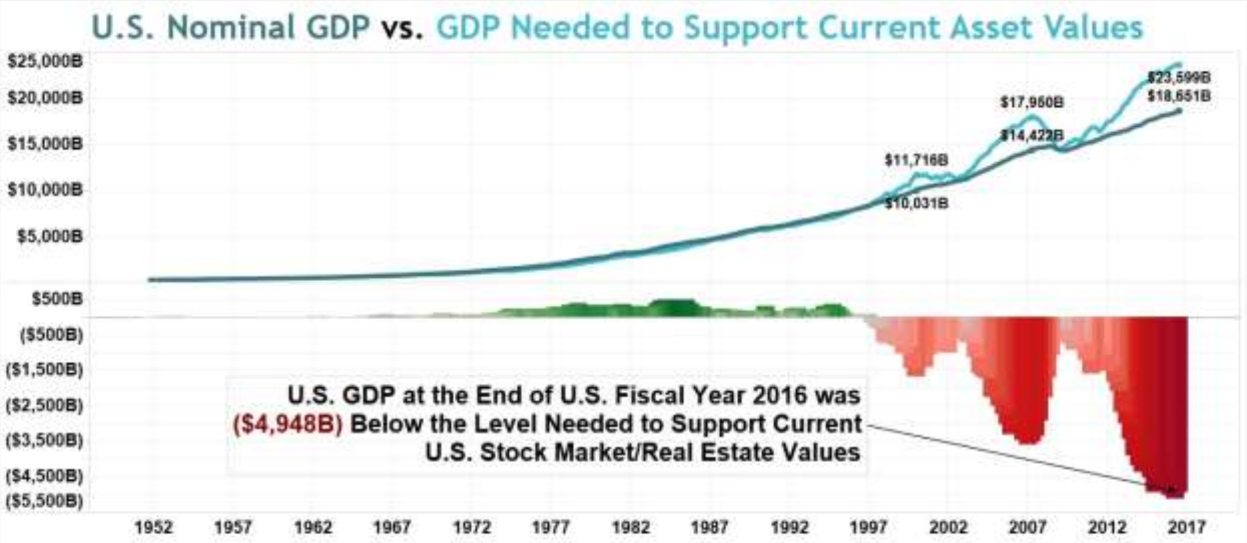
When the official U-3 unemployment rate last declined to 4.4% in 2007, 63.4% of the U.S. civilian non-institutional population was employed vs. only 59.7% being employed today! From 1989 through 2010, an inverted U.S. employment/population ratio maintained an extremely strong correlation with the U-3 unemployment rate. Since 2011, they have experienced a ***dramatic divergence*** – proving that the **official U-3 unemployment rate** has become a totally ***fake and worthless*** **economic indicator**.

Trump is Screwed

Donald Trump is becoming U.S. President at the worst possible time in history. Trump is taking office at the **very peak of the largest asset bubble in U.S. history**, with U.S. household net worth now equal to a record high 482.72% of U.S. GDP or 2 ½ standard deviations above the long-term average of 377.41%.



U.S. GDP is currently $4.95 trillion below the level needed to support current stock market and Real Estate values.



During the Obama Administration, nominal U.S. GDP experienced median year-over-year growth of only 2.82%, less than half of the 1961-2016 median growth rate of 6.02% and 1961-2008 median growth rate of 6.77%.

Based on Obama's nominal GDP growth rate, ***America's asset bubble has borrowed from 8.21 years of future economic growth!***

Even if Trump is successful at bringing nominal GDP growth back up to the long-term median of 6.02%, it will take Trump's <u>entire first term as President</u> for the U.S. economy to grow into current asset values! This makes ***Trump a likely one-term President.*** Trump's best hope to become a **two-term President** would be to ***purposely burst*** America's massive asset bubble in 2017. ***Trump must force the U.S. economy to endure a long overdue recession/depression.*** If Trump can get the pain out of the way quickly, he can then make the tough economic decisions necessary to begin turning the economy around by 2020.