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"Insanity is doing the same thing, over and over again, but expecting different results."
Albert Einstein

"Sometimes I wonder if the world is being run by smart people who are putting us on or by imbeciles who really mean it."
American Satirist, Mark Twain

How long will it be before the governments and their respective central bankers around the globe hit the wall?

There are lots of people who would whole heartedly take exception to even posing such a question. But I'm a simple guy and common sense would dictate that we can't continue to bail out the "system" by going deeper and deeper into debt. Sooner or later, the proverbial straw that breaks the camel's back will come to pass. When will that be?

Our Finance Minister, The Honourable Jim Flaherty, has recently cautioned his counterparts during a G7 Conference in Marseille France. He has warned of the risks of piling on more debt suggesting that "kicking the can down the road is fraught with danger." I couldn't agree more.

Canadians are well aware of the risks of Federal Government debt accumulation. We were punished for living beyond our means back in the late 80's and into the 1990's (one might recall how low our dollar traded until after the turn of the century). We took our medicine and tightened our belts and as a result were well prepared to face the financial meltdown of 2008/09. Deficit reduction was achieved by keeping our spending in check, increased government revenues and by being fortunate enough to provide goods and services that were sought after by our trading partners. We were the benefactors of rising oil and commodity prices.

We as a nation are in a far better position than most. Our deficits and accumulated debt are manageable, there are real investments in our national pension plan, and we are blessed to be endowed with essential natural resources and a climate that allows us to grow a good portion of the food we require. Energy and fresh water are abundant.

Dumb and Dumber

We recently witnessed a near debacle in the United States as the Congress and Senate were at odds on how they were going to increase the national debt ceiling by over \$2 Trillion. It was painful to watch this political posturing, leaving the ultimate passing of the bill to the eleventh hour. It was shameful but a true indicator of how dysfunctional the system has become and it's no wonder that the public is becoming more cynical of their politicians and governments generally. Again the can gets kicked down the road to be dealt with by the next batch of politicians after the elections in the autumn of 2012.

The over indebtedness of America is further away from being fixed today than it has ever been. The number of mortgages that are "upside down" (that's where the amount owing is greater than what the current value of the

house is) continue to grow and the “official” unemployment rate issued by the government continues along north of 9%. Talk about hedonism, the real rate of unemployment is significantly higher. John Williams’ *Shadow Government Statistics* suggests the real unemployment rate is above 15%. If you’d like to learn more about government statistics and how they have been massaged and manipulated, check out his website at www.shadowstats.com .

But if you think the mess in America is dumb than I think our old genius buddy Albert Einstein would find the mess in Europe dumber. Seems the “have nations” such as Germany and France have been doing their absolute best to stave off a default by the Greeks....yes, that “Greece fire” is still burning and this time it looks like it’s out of control. Someone noted the endless bailouts are like trying to fill a bath tub without plugging the drain!

You might remember back during the crisis in 2008 that I used an analogy of sticking a dry sponge into a mud puddle. Initially the sponge would get wet at its base but ultimately the whole of it will be wet. The problematic debt was most prevalent in the PIIGS nations (Portugal, Italy, Ireland, Greece and Spain) but has now spread like the plague to Germany and France. It threatens the whole of the European Union as the exodus of less financially stable nations may soon come to pass.

Golden Bubbles

I’ve had calls lately on the lofty heights the price of gold has been hitting. At writing, gold had recently traded at all time highs in the + \$1,900 area.

Most of you have been with me for many years and we have gone through many highs and lows. There will be pull backs in the price of precious metals along the way and I guarantee you I am not smart enough to determine with any consistency when these peaks and valleys will happen.

But I can tell you that I am still absolutely convinced that we have not seen the worst of the world's credit problems and by extension I would suggest that it is still very prudent to continue to carry precious metal investments in any portfolio. I have time on my side. I cannot think of an investment that has carried value for over 2,000 years and has been worth something everywhere, always.

Can it go down in value?

Of course it can and it will. But I have more confidence in the purchasing power of gold over the next 5 or 10 years than I do in U.S Dollars, Canadian Dollars, Euros, or any other currency you might like to name. Gold is money. It always has been and will continue to be.

In Support Of Our Troops

I don’t usually promote such things but recently it was brought to my attention that a 5K and 10K walk/run to help support our brave men and women of the Armed Forces is just around the corner. The event was organized specifically to raise money for London Military Family Resource Centre and The Essex and Kent Scottish Regiments. The event is being held on Sunday, September 25th and is located at the Tilston Armoury at 4007 Sandwich Street. For more details, please go to the following site: www.trotwiththetroops.com.

House Keeping

I will be out of the office till Friday September 16th as I am away on quick mini vacation to Traverse City Michigan where I am taking in the NHL Prospects Tournament.

My next scheduled date out of the office is in late October from the 22nd till November 2nd as Cathi and I are headed to Prague Czechoslovakia and ultimately headed along the Danube to Budapest. It will be interesting to hear the locals talk about the European situation.

I am also contemplating a return to the San Francisco Hard Asset Conference gathering at the end of November as well as a few seminars in Toronto prior to year's end.

Closing Remarks

The summer months have seen a return to heightened market volatility and at these times investors have a tendency to become fearful. The headlines in the business pages, often sensational, talk about the massive declines in the "markets". But what's interesting from my perspective is that my client's asset allocations and how we mitigate risk tends to really smooth out the bumps in the road. If anything, we have a knack for avoiding the massive downturns that one might expect from a market based portfolio. Call it winning by not losing; outperforming in bad markets helps to preserve hard earned savings and makes it a little easier to sleep at night.

That's what we're here for, to guide you through sometimes troubled waters and maintain a course that will keep you on track to your destination in a timely and safe manner. We will continue to stick with a strategy that has an emphasis on security, necessities of life, and diversity of assets.

So if you find yourself speaking with your loved ones who are "beside themselves" when conversation turns to financial markets feel free to put them in touch with us. We'd be happy to be of assistance to the people you care about most.

On behalf of myself and Erin Hooper, I'd like to sincerely thank you for your continuing support. We're truly grateful for your business and if there is any way we can be of service to you or your family and friends, please feel free to contact us.

Here's wishing you a pleasant autumn.

Sincerely,

John Davies, CFP
Investment Advisor

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