THE "YOU MAY NOT KNOW REPORT"™

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Consequences of Easy Money

Notice: This issue of The "You May Not Know Report" is the September and October issue. Beginning in November, we will return to a monthly schedule.

As I've discussed in the pages of this report previously, home prices are not included in the official inflation rate calculation. Additionally, the official inflation rate, as reported by the Consumer Price Index, is adjusted for hedonics (pleasure), substitution, and weightings are manipulated to make the published inflation rate seem more palatable.

No amount of data manipulation or gaslighting changes the reality though. The easy money policies pursued by the Federal Reserve have created inflation. Additionally, the trade deficit brought about largely by increasing energy independence over the past few years, also adds fuel to the inflation fire.

There are many areas where Fed easy money policies have affected markets. One of those areas is housing.

Past radio show guest Mish Shedlock recently commented[1]:

- The $150,000 home purchased in January 1988 had a mortgage payment of $1,076 reflecting a mortgage rate of 10.38 percent.
- In 2006, the home was worth about $403,634 up and the mortgage payment was $2,086 reflecting a mortgage rate of 6.52 percent.
- If you bought at the end of 2020 when the Fed clobbered interest rates to a record low of 2.68 percent, that same home that cost $150,000 in 1988 would have cost $502,649. However, due to Fed "affordability" magic, the mortgage payment was only $1,605. Thank you Fed!
- However, if you want to buy now (May 2024) that $150,000 1988 home will set you back a mere $707,499. Your mortgage payment would be $3,662 at a mortgage rate of 7.06 percent. Oops and Ouch!

It's Worse Than Described Above

Mortgage rates are slightly higher in practice.

Also, prices do not include property taxes or insurance.

Mess Entirely of Fed's Making

This is a mess entirely of the Fed's making. And it's what happens when the Fed, and economists in general do not count home prices as inflation.

Home prices are not directly in the CPI or PCE. The latter is the Fed's preferred measure of inflation.

Economists consider home prices a capital expense not a consumer expense. *The problem is simple: Inflation is not just a consumer price concern!*

The Fed ignored obvious inflation in the Great Recession and did so again in the Covid recession.

Existing Home Sales Drop 5.4 Percent But Median Price Hits New Record

Existing-home sales declined 5.4 percent in June. It was the 23rd decline in 29 months. But the median price hit a new record.

Existing home sales are about where they were in December 1995 and May 1979!

Only price-insensitive buyers, the newly rich, or those who just sold their previous house, can afford to buy.

All-cash sales accounted for 28% of purchase transactions in June.

Housing, Rent, CPI Indexes Jan 2020 vs May 2024

Housing	212 to 323	+52.4 Percent
Rent	187 to 231	+23.5 Percent
CPI	153 to 185	+20.9 Percent

Since January of 2020, the official inflation rate has prices up 20.9%. Yet, over that same time

frame, housing costs are up more than 52%.

Inflation remains a problem and now that the economy is sputtering and the financial markets are beginning to react, there are more calls for more easy money from the Fed.

Mark my words, should the Fed cut rates, and I believe it's only a matter of time until they do, stagflation will intensify.

Meanwhile, housing remains unaffordable for many American families. Zillow reported that in more than 100 American cities, the price of a starter home now exceeds $1,000,000.

This[2] from "Yahoo Finance":

The price tag of a starter home is now over $1 million in more than 100 cities and towns across the country, according to new data from Zillow, another sign of the ongoing affordability challenges in the housing market.

"When affordability gets strained, people want the cheapest thing," Orphe Divounguy, a senior economist at Zillow, told Yahoo Finance in an interview. "And as people wanted more and more starter homes, the growth rates in the price of starter homes basically skyrocketed."

According to Zillow, the average starter home nationwide is priced at $196,611, within reach for a median-income household. Zillow defined starter homes as those in the lowest third of home values in a given region.

However, starter home prices have soared 54.1% over the past five years, exceeding the 49.1% rise in the price of all homes during the same timeframe.

At least thirteen states nationwide now have at least one city or town that has a starter home worth $1 million or more. California leads with 71 cities, New York with 11 cities and Washington with eight expensive housing cities. Florida, Maryland, and Virginia also made the cut with at least one high-cost housing town.

The persistent housing shocks of soaring home prices, high mortgage rates, and a lack of inventory have left many prospective buyers on the sidelines. As a result, home ownership is falling further out of reach for young Americans. The median age of homebuyers hit 35 last year, a year older than 2019.

"People are delaying homeownership, and they're doing so because it takes longer to save up and to get on the first rung of the housing ladder," Divounguy said. There are "a lot of people that want to buy a home. They're out there, but unfortunately, they're constrained by affordability challenges."

First-time homebuyers are a dominant group being squeezed out, according to Dovounguy. The share of buyers who bought a home for the first time fell to 29% in June, down from 31% in May, the National Association of Realtors reported.

Over the past year or so, I have been stating my opinion that housing is in a bubble and poised to correct. John Rubino, past guest on RLA Radio, agrees. Here is an excerpt from one of his recent substack posts[3]:

The current housing bubble features three new players, all of whom are about to switch from "buy/hold" to "panic sell." They are:

- *Boomers forced by declining health and/or shrinking stock portfolios to sell their McMansions.*
- *Wall Street private equity "landlords" who gorged on houses and apartment buildings (sometimes buying up entire neighborhoods at above-market rates) forced by the coming recession to shed massive amounts of inventory.*
- *And — the subject of this post — Airbnb landlords who discover that their rosy cash flow projections were fantasies. Many will have to liquidate their portfolios to avoid bankruptcy.*

From today's Zero Hedge:

Shares of Airbnb plummeted in premarket trading in New York after the company reported disappointing second-quarter earnings, falling short of Wall Street's expectations, and issued a warning about slowing demand from US vacationers. This development comes amid rising recession risks in the US, with the consumer downturn worsening for the working poor and middle class due to elevated inflation and high interest rates.

Airbnb warned that it is ***"seeing shorter booking lead times globally and some signs of slowing demand from US guests."***

In a ***consumer downturn****, vacation spending is some of the first discretionary spending households cut to preserve cash. The problem is, as we've already cited numerous Goldman notes, explaining low/mid-income consumers are under severe financial stress. Airbnb's earnings and dismal outlook are ominous signs that the consumer slowdown will likely worsen through the end of the year.*

Airbnb's ***shares plunged 15% in premarket trading*** *early Wednesday. If the intraday declines exceed 16%, shares would record the* ***largest-ever intraday decline****.*

Airbnb's earnings report just confirms that the ***consumer downturn theme is gaining momentum****.*

It's only a matter of time before Goldman tells clients to start shorting stocks with exposure to upper-income folks. The bank's analysts have already told clients to short companies with low/mid-consumer exposure.

As these three new real estate players (Boomers, private equity, Airbnb landlords) start selling, they'll be confronted by potential buyers who simply can't afford anything at current prices.

That's when the panic selling erupts, as property owners try to get something, anything for their rapidly depreciating assets. You can bet that as this is written, they're watching Airbnb's stock and formulating plans to get out while the getting is, if not good, at least possible.

Central Bank Gold Buying Accelerates

Interesting that many of the central banks of the world, the organizations that control the issue of fiat currency, have been on a gold buying binge of late. This[4] from "Money Metals":

Despite central bank gold buying slowing moderately in the second quarter, it set a record through the first half of 2024.

Central banks globally added a net 483 tons of gold through the first six months of the year, 5 percent above the record of 460 tons in H1 2023.

In the second quarter, central bank gold demand totaled 183 tons, according to the latest data compiled by the World Gold Council. That was up 6 percent year-on-year, but about 39 percent lower than the Q1 buying pace.

With gold at or near record price levels in most currencies, it's unsurprising that central bank buying slowed in the second quarter.

China primarily drove the Q2 slowdown in central bank demand. The People's Bank of China reported no additions to its gold reserves in May or June and only officially added 2 tons in April.

Prior to the pause in May, China had increased its gold holding for 18 straight months.

Many analysts believed the Chinese paused officially adding gold to their reserves in an effort to push gold prices lower.

When the Chinese reported no changes to their official reserves in May, it precipitated a panicked gold selloff. Despite the kneejerk reaction, it seems unlikely that the Chinese are finished adding gold to their reserves. There is also some speculation that China is adding a significant amount of gold to its reserves off the books.

Even with the pause, China still added nearly 30 tons of gold to its reserves through the first half of 2024.

Turkey was the biggest buyer through the first half of the year, adding 45 tons to its gold hoard. The bulk of its buying was in Q1, with the pace slowing to 15 tons in the second quarter.

The Turkish central bank has bought gold for 12 straight months after liquidating 160 tons of gold in the spring of 2023.

India ranks as the second-biggest gold buyer through the first half of the year. The Reserve Bank of India has added gold to its reserves every month this year totaling 37 tons.

In 2022, the Indian central bank added 33 tons of gold to its reserves followed by a 16-ton increase last year.

The Reserve Bank of India has been buying gold since 2017. Over that period, the RBI has increased its gold holding by over 260 tons.

An Indian economist told the Times of India that the push to accumulate gold was based on both political and economic reasons. He said that the "reliability" of the U.S. dollar has "diminished." He noted the "noticeable decline" in the confidence in U.S. dollar assets.

Another economist told the Times, "It makes a lot of sense (to invest in gold), given the increased volatility in the FX market, elevated interest rates in the U.S., and, of course, also as the central banks in each economy would like to diversify the asset classes in which they are parking their reserves."

India recently transported 100 tons of its gold from the UK back to India.

Poland was the biggest gold buyer in the second quarter, increasing its holding by 19 tons.

The country currently holds about 13 percent of its reserves in gold. At a news conference in early June, National Bank of Poland Governor Adam Glapiński reiterated his plan to increase gold's share of total reserves to 20 percent.

Poland was the second-biggest gold buyer in 2023. The Polish central bank bought 130 tons of gold last year, increasing its holdings by 57 percent, to 359 tons.

In 2021, Glapiński announced a plan to expand the country's gold reserves by 100 tons. The central bank reached that goal in September of '23 and kept buying.

When he announced the plan to expand its gold reserves, Glapiński said holding gold was a matter of financial security and stability.

"Gold will retain its value even when someone cuts off the power to the global financial system, destroying traditional assets based on electronic accounting records. Of course, we do not assume that this will happen. But as the saying goes – forewarned is always insured.

And the central bank is required to be prepared for even the most unfavorable circumstances. That is why we see a special place for gold in our foreign exchange management process."

If world central bankers are continuing to add to their precious metals holdings, shouldn't you be thinking about doing the same thing?

Dow to Gold Ratio Update

I have long believed that to get an accurate measure of the true value of stocks, one should look at stocks measured in something other than the US Dollar, such as the Dow to Gold ratio

The current value of the Dow to Gold ratio is 16.16. If one takes the value of the Dow which is 39,497 and divides that value by the price of gold per ounce, currently $2,445, you get about 16.16.

In other words, it takes 16 ounces of gold to buy the Dow.

The first analyst to introduce me to the Dow to Gold ratio was Mr. Ian Gordon who did a lot of work with the indicator. It is something that I now track weekly, although the value of the Dow to Gold ratio doesn't dramatically change week-to-week.

David Skarica, also a past guest on RLA Radio, recently wrote a piece that echoes how I view the Dow to Gold ratio. Here is a bit from the piece[5]:

One of the oldest and longest-term ratios when it comes to Gold is the Dow to Gold Ratio. This ratio simply states that when it takes roughly only 1 ounce of gold to buy the Dow Jones Industrial Average it is time to buy Stocks and Sell Gold. This extreme has only been hit two times in history. Once in 1980 and the other time in 1932. Both times end up been generational lows for stocks. The Dow bottomed at under 40 in 1932 and rose to 1000 by 1966 a gain of 25 fold (gold was frozen at 35 dollars an ounce during that period) and the Dow rallied from 800 to nearly 40,000 in the 40 plus years that followed the 1980 bottom.

I have enclosed a 54-year chart of this ratio which shows this ratio going back to 1970. As

we can see in the 1970s gold vs the Dow was on a decade long bull market which saw the ratio go from nearly 25 times gold to 1 to 1 in 1980. As gold soared from $35 to over $800 an ounce and the Dow fell in price.

Then in the early 1980s stocks started a nearly 20-year bull run against gold with the Dow trading at 45 times gold during the peak of the dotcom bubble in 2000! Then we began another decade long outperformance for gold as the Dow fell to 6 times the value of gold as gold rose from $250 an ounce in 2001 to nearly $1900 in 2011 while the Dow again fell during that time period.

From 2011 to 2018 we saw the Dow again outperform gold as gold fell to as low as $1050 during this time period and the Dow rose to over 25,000 the ratio went to about 22 to 1 at this intermediate term high. Slowly since 2018 Gold has outperformed the Dow as it is up over 1000 percent from its 2018 lows whereas the Dow is up about 50 percent.

The way I view this is I believe 2000 was the start of a multi decade outperformance of Gold Versus the Dow 2011 to 2018 was a 7-year consolidation (these are extremely long term cycles we are talking about). Gold has slowly outperformed since 2018 and I feel the ratio will ultimately hit one to one again.

The question is where will they meet? If we have hyperinflation maybe they meet at a million! If deflation maybe at 10,000. I think the truth will be in the middle. I see a stagflationary environment where the Dow may do nothing for another decade and Gold will rocket so maybe they meet in the 20,000 to 40,000 area. Whatever the case if we continue the super cycle in this ratio I expect gold to trade higher while the Dow lags it. Finally, what is interesting about this super long- term cycle is that since 1970 gold has actually outperformed the Dow returning 6,800 percent to the Dow's 5,400 percent during that time period!!

Skarica then posts a chart of the Dow Jones Industrial Average priced in US Dollars and gold priced in US Dollars with a chart of the Dow priced in gold. The Dow priced in gold simply gives the ratio of how many ounces of gold it takes to equal or to buy the Dow.

Here is that chart:

Mr. Skarica published a chart of the Dow to Gold ratio going back to 1971. I'm publishing a chart here taken from macrotrends.net of the same ratio going back to 1915, shortly after the Federal Reserve was formed (see below).

Notice from this chart that there is a series of higher highs and a series of lower lows. I've drawn trendlines on the chart for reference.

Based on these trend lines that go back about 100 years, it's not unreasonable to expect the ratio to go lower than one.

Skarica makes a great point. Where the Dow is and where the price of gold is nominally, priced in US Dollars, no one knows.

It likely depends on the future action of the Federal Reserve. But it's also reasonable to assume that gold will be higher when priced in US Dollars. If you're a long-term investor, it pays to keep that in mind.

76% of Personal Tax Revenues Now Go to Pay Interest on the Debt

We knew it would have to get to this point.

The collective group of politicians in Washington have been engaging in massive levels of deficit spending as the interest rates have been rising.

The official national debt has now exceeded $35 trillion and 76% of the income taxes you pay now goes to pay interest on that debt. This[6] from "Fair Tax":

> *The vast majority of Americans' income taxes are now being swallowed up just to pay interest on the country's national debt, new numbers show.*
>
> *Economist E.J. Antoni reports that based on the Fed's June numbers, interest on the national debt is the equivalent of 76% of all personal income taxes collected by the government.*
>
> *"Interest on the federal debt was equal to 76% of all personal income taxes collected in Jun – that's the Treasury's largest source of revenue and three-quarters of it gets consumed just by interest; does Congress know? Do they even care?"*
>
> *Antoni says the cost to service the federal debt has exploded 33% in a single year, and set to get worse.*
>
> *The economist also reports that interest on the national debt was the single biggest expense for the government in June, far outrunning other critical public services, and the Treasury expects it will break the $1.14 trillion level this fiscal year.*

This problem may become bigger as it is becoming more apparent that the economy is slipping into recession. During a recession, tax revenues typically fall. That means interest on the debt will consume a larger percentage of personal tax revenues. And don't forget, Washington is still not operating with a balanced budget.

Now you know one of the many reasons, as we discussed above, central banks are accumulating gold.

IRS Clarifies Inherited IRA RMD Rule – Finally

If you inherited an IRA after December 31, 2019, the Internal Revenue Service has finally clarified how you are to handle the inheritance. This[7] from "Zero Hedge":

The new rules apply when the deceased IRA owner was old enough to be making required minimum distributions (RMDs) of their own before they died. Currently, that requirement starts at age 73, but in 2020, it was age 72. It's scheduled to rise to age 75 in 2033. (Yes, we're only in the second paragraph and things are already getting knotty. Bear down.)

Good news: The new requirements do not apply to spouse beneficiaries, who will still be able to take over the inherited retirement plan assets and have them treated as if they had always been theirs. There's also forgiving flexibility for so-called "eligible designated beneficiaries," such as those who are disabled or chronically ill, minor children of the deceased owner, and others who are not more than 10 years younger than the deceased owner.

Other beneficiaries, however -- such as an adult child of someone who was of RMD age -- are now condemned to mandatory distributions over a 10-year period, with requirements to draw money out each year. It's not one-tenth of the account per year -- rather, the amount is driven by an IRS life-expectancy table. Those who miscalculate the amount, or who neglect the chore altogether, will be penalized 25% of the amount that should have been withdrawn, but wasn't.

The hassle springs from December 2019's SE-

CURE Act, which, among many other retirement-account tweaks, killed the so-called "stretch IRA" -- which previously let beneficiaries minimize distributions by spreading them out over their life expectancies. The new law requires most non-spouse beneficiaries to completely empty an inherited IRA by Dec. 31 of the year containing the 10th anniversary of the account owner's death. For example, an adult child who inherited an IRA from a parent who died in October 2021 has until Dec. 31, 2031, to take all the money out.

When the law was first passed, tax professionals and financial planners assumed that people covered by that "10-year rule" would be able to take out as little or as much as they wanted until the 10th year, when the entire account would have to be emptied. However, in 2022, the IRS caused an uproar when it said it would force withdrawals every year. The agency then took about two years to reconsider its stance, only to end up imposing the same complex requirement via final rules posted in July.

The new provision applies to those who inherited an IRA from someone who died in 2020 or after. Between the SECURE Act's passage in 2019 and this summer's announcement, countless beneficiaries were subjected to a multi-year, rolling bureaucratic fiasco, unsure what they were supposed to do. In a rare display of mercy, the IRS said it wouldn't penalize anyone who didn't take a required distribution in 2021, 2022, 2023 or 2024.

In 2025, however, it's game-on, and affected beneficiaries will have to start taking RMDs. There's no need to "make up" for the years when the IRS waived the penalty, and the 10-year clock is still based on the year of death. (Remember, if you inherited an IRA from someone who died in 2019 or earlier, these new rules do not apply to you.)

Time Deposit Rates

At the time of publication,
these rates were valid in most states:

1-Year	5.00%
2-Year	5.35%
5-Year	5.60%

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Why You Need to Consider Adding Precious Metals to your Portfolio

Gold and silver have always been real money.

As inflation rages and fiat currencies like the US Dollar lose purchasing power, gold and silver can be a great way to preserve purchasing power.

Look at this example.

When Richard Nixon eliminated the convertibility of the US Dollar to gold in 1971, an ounce of gold sold for $35 per ounce and the average cost of a new home was $25,000. At that time, you could buy a new home for $25,000 in cash or 700 ounces of gold.

Fast forward to the present. The average cost of a new home is $380,000. The $25,000 that once bought a home fifty years ago is now not even a down payment on an average new home.

However, the 700 ounces of gold that used to buy a new home now buys 4 average new homes.

Given the current rampant inflation, doesn't make sense to consider metals in your portfolio? IRA, Roth and even 401(k) funds may be used. Visit Densmore.PreciousMetalsBuyersGuide.com to get a free precious metals investing guide.

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