TSP White Paper

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If you have been following my Blog, some of this might seem a bit familiar to you, but in light of several recent events, some of which that appear to be innocent enough but aren't, I thought it wise to condense things into one article to include these events.

Let's start from the beginning. If you have your TSP money in the "C Fund", "S Fund" or "I Fund", you are gambling in the stock market. Gamble you ask? Well every month I speak to thousands of federal employees about their pre-retirement goals and strategies. What amazes me the most is that many of your fellow federal employees are unaware of the fact that in 2008, they lost up to 42.43% of their Thrift Savings Plan (TSP) asset value due to adverse economic conditions and the ensuing stock market "correction".

To put that in perspective, if on January 1, 2008 you had $200,000 of your TSP money in the "C Fund", "S Fund" or "I Fund", on December 31st 2008, your $200,000 was reduced to around $120,000. That's gambling your retirement away in my humble opinion. Remember, numerous federal employees that planned on retiring at the end of 2008 are to this day still working as a result of that "gamble".

If you have ever had the chance to read my articles five years ago when the Dow Jones Industrial Average was 13,000, you would have seen a very Bullish Vince Bono. But in December 2014, when the Dow hit 18,000 (and has been languishing there ever since) I went into full retreat. This retreat was predicated upon 40 years of investing and meticulously studying financial trends, plus the luck of having very knowledgeable contacts who see and experience things from the top down and not the bottom up.

A Huge Misconception: Many federal employees think that the "C Fund", "S Fund" and "I Fund" are "Well Managed" funds. Please read the next five paragraphs and tell me what you think.

Black Rock Institutional Trust Company, N.A. manages the C, S, and I Funds in your TSP and they are invested in order to replicate the risk and return of their benchmark stock market index. In no way, shape or form are they "managing" your money in those funds to avoid personal risk aversion or capital appreciation. Black Rock's job is simply to ensure that whatever stocks are in those "Indexes" are in those particular funds. Nothing more, nothing less.

For example The C Fund's objective is to match the performance of the S&P 500, thus it is Black Rock's job to make sure that all of the stocks in the S&P 500 Index are in the C Fund. These funds remain invested regardless of the performance of the securities markets or the overall economy, meaning that Black Rock doesn't manage the fund to maximize profit or minimize losses. That's why it lost 37% in 2008.

The S Fund's objective is to match the performance of Small to Medium-Sized Companies that are in the "Dow Jones U.S. Completion TSM Index". Again it is Black Rock's job to make sure that all of the stocks in that Index are in the S Fund. These funds remain invested regardless of the performance of the securities markets or the overall economy and again Black Rock doesn't manage the fund to maximize profit or minimize losses. That's why it lost 38.32% in 2008

The I Fund's objective is to match the performance of the "Morgan Stanly Capital International EAFE Index. These funds remain invested regardless of the performance of the securities markets or the overall economy and of course that's why The I Fund's lost 42.43% in 2008

Why the Dow reached 18,000

In 2009 the Federal Reserve initiated "Quantitative Easement" which is a nice way to say the government has been "printing money". In fact $4 Trillion Dollars of our $18 Trillion Dollar National Debt has been the result of "Quantitative Easement" which artificially keeps interest rates lower and conversely the stock market higher. Investors would rather take a chance on the Stock Market than earn 1.5% on their money.

Now let's talk about money. I love talking about money, because you can buy things with money and pay off your credit cards with it, but that gets me to my next topic. It is only a matter of time before the financial markets worldwide implode because of unsustainable and irresponsible fiscal policies, such as Quantitative Easing (printing money that doesn't exist).

The U.S.A stopped the practice November, 2014 after printing $4 Trillion Dollars of "funny money" since 2009, and now China and the Eurozone picked up where the U.S.A. left off. Think of it. China is printing "funny money" and lending it to us as if it were real. We are paying them back with our own "funny money". So when you go to pay your credit card bill next month, send Visa, MasterCard, American Express or Discover some Monopoly Money and see how that works out for you and your credit rating. Get my drift? Usually in the game of "Musical Chairs" there is someone left with a chair. That will not be the case with the Financial Markets.

More to Ponder: On Wednesday, May 6th, 2015 at an innocent enough ladies luncheon, Federal Reserve Chair Janet Yellen described stock price valuations as too high and "excessive". Ms. Yellen cited one reason stock prices were too high was the scant returns on bonds as a result of low interest rates (low interest rates her predecessor created by printing "Funny Money" I may add). This is a very bad sign. Ms. Yellen is giving you a warning to "get out of Dodge City", just like China gave to their markets in April when it relaxed the rules on "Short Selling". If you have read any of my prior articles you will see I have been talking about this for months. When the Federal Reserve Chairperson blurts out that stock prices are "excessive", why in heaven's name would you keep your TSP money in the C Fund, S Fund or I Fund, all three of which are directly linked to stock prices?

If that doesn't convince you try this: On April 29th, 2015, the Commerce Department announced that the GDP (Gross Domestic Product) for the First Quarter of 2015 was an anemic 0.20%. Think of it, with all of the Trillions of Dollars spent propping up the economy (I am not

blaming our President or anyone else in particular) the United States couldn't even squeak out a 1% growth in the economy and guess what, that number when revised next month, will probably result in negative growth. Do you know what they call two back-to-back Quarters of negative growth in the GDP? A Recession!

Still not convinced, what about this: We all know that the national debt is $18 Trillion Dollars. Currently The United States brings in $3 Trillion of "Revenue", so if the United States didn't spend another dime (impossible-interest on the debt payments to China alone are $73 Million a day) it would take 6 years to pay off that $18 Trillion Dollars. But wait, what about the $213 Trillion we owe in unfunded liabilities like Social Security, Medicare etc. That would take 71 years to pay off, again if the United States didn't spend another dime but this time for 71 years.

Okay, if you are still not quite convinced yet: Consider what would happen if there were a Cyber-attack or Terror attack on our Homeland. If IBM, Apple, Micro Soft, Intel or any Dow Component reported that they had tripled their profits for the year, what effect do you think that would that have on the Dow Jones Average that day? My guess is it would raise The Dow by 40 Points assuming all other Dow Components were flat for the day. Now let's go the other way. If a Cyber Attack hit one of our Power Grids or Wall Street, what effect do you think that would have on The Dow Jones Average that day? 500 points? 1000 points? 5000 points? Investing is about Risk Vs Reward. If you have your TSP Funds in the "C Fund","S Fund" or "I Fund", you are at risk of experiencing another 2008 melt down.

A bright spot? Every week I get nasty emails back from a few Federal Employees telling me that I don't tell the whole story here and they cite the Unemployment Rate which is now 5.5% but that 5.5% number is using the very narrow U-3 Rate. Any economist worth their salt uses the more expanded U-6 rate to measure true unemployment, which according to the Gallop organization is at a whopping 14.8%. The U-6 includes two components the 5.5% U-3 doesn't:

1. "Marginally attached workers" – people who are not actively looking for work, but who have indicated that they want a job and have looked for work (without success) sometime in the past 12 months. This class also includes "discouraged workers" who have completely given up on finding a job because they feel that they just won't find one.

2. People who are looking for full-time work but have to settle on a part-time job due to economic reasons. This means that they want full-time work, but can't find it thus they are Under-Employed!

Sorry, but it gets worse It looks like I am in some pretty good company relating to my prediction of a 2008 style Stock Market Correction. In fact, Ronald Reagan's Budget Advisor David Stockman has a much more dire prediction of "Gloom & Doom" than I do, as does the famous Harvard economist Harry Dent. Below are excerpts from a recent joint interview with them provided by "Economy and Markets Daily".

Stockman: "It's one of the scariest moments in our history, "No central bank has ever printed this much money this long, kept interest rates at zero, and fueled so much speculation . . . they've painted themselves in a corner, they're playing it day by day, and they're going to make a HUGE mistake!"

Dent: "The only way to correct this is to let this bubble burst". "The next crash is going to be worse than the last one." "They brought in the foxes — like Goldman Sachs — to look over the hen house!"

Stockman: "All the cheap money has stayed in the canyons of Wall Street where the speculators can access it day after day . . that's called arbitrage."

Dent: "Nobody is going to protect you, and nobody is going to stop this bubble from bursting because every single bubble in history has burst. And this is one of the biggest."

Economy and Market Daily Opines: "Harry Dent's concern is that the government's unprecedented intervention through Quantitative Easing and other measures is creating the worst case scenario. Considering that Dent is known worldwide for his uncanny boom and bust calls over the last 30 years, one should pay careful attention to his new warnings that the stock market will collapse by 70%, real estate will plunge by 40%, and that unemployment will spike up to 15% (24.7% U6).

"Greece is the word" If you have been reading my articles, you would know that I predicted that both Greece and Atlantic City, New Jersey are going to default on their debt and go bankrupt.

Today, Greece's finance minister Yanis Varoufakis warned that his country is weeks away from running out of cash. On Monday, Mr Varoufakis warned his country's financial situation was "terribly urgent" and the crisis could come to a head in a matter of weeks. The mayor of Greece's second city, Thessaloniki, revealed last week that he was forced to hand over their cash reserves in response to an appeal for money from the Greek National government. Right now Greece's Unemployment is at 25%, with youth unemployment at almost 50% and their Economy has shrunk by 25% since the start of the Eurozone crisis.

So why does this matter? The Eurozone is in crisis mode right now, without adding Greece into the equation. Spain's unemployment is at 25%, and they could be next to go under. If the Eurozone falls, the Euro will be extinct. Imagine what that will mean for companies in the United States who want to sell their goods and services overseas. As it is, the strengthened U.S. Dollar has crippled sales to Europe, because those companies were used to paying 60% less for our goods and services. This will hurt corporate profits even more and cause massive layoffs.

Next Week

Right now I am working on an article that will cover alternatives to the "C Fund", "S Fund" and "I Fund". Stay tuned!