



Knowledge is Power

A Registered Investment Advisor

www.bigwaveresearch.com

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The next major economic shift

Deflation to Inflation

There is no doubt that we are experiencing a deflationary environment within the economy. As massive deleveraging continues into 2009, the deflationary pressures will continue. Prices throughout the economy will fall, discounts and sales from retailers will increase and even Merrill Lynch has predicted \$20 dollar oil so gasoline should drop even further into the new year.

While deflation is on everyone's mind now, we are always looking ahead. All top investors and traders got that way by being a "lone wolf" out on the prairie. By this I mean they are all independent thinkers and never follow the crowd. Crowds make them nervous and they feel much more comfortable having ideas and strategies that 3 people agree with than 3,000. I feel the same way.

When it comes to investing, the crowd is usually wrong. For when the crowd finally recognizes the profitability of an investment idea, that signifies the top of the price move. The "lone wolf" that gets in early, before anyone else, maximizes profits and is the one selling their shares that they bought near the bottom, to the crowd at the top.

In looking at today's deflationary scenario, many, many economists and analysts are on board with forecasting this scenario. The crowd is definitely in the deflationary camp. Therefore, we feel it is time to go stand on the corner with the one or two people who are thinking about the next major event and that is the coming inflation.

With auto sales tumbling, payrolls falling and the economy contracting, the call for additional bailouts by the government is deafening. Some are calling for the government to pass out up to \$1 trillion in additional stimulus dollars. President-Elect Obama has already stated another stimulus package is coming and the dollar amount of this package continues to grow by the week.

The frightening thing about the endless government bailouts is how large they are. The numbers are so big that they are truly incomprehensible. A \$1 trillion dollar stimulus program would be bigger than the New Deal (\$500 billion inflation adjusted) the S&L crisis (\$256 billion inflation adjusted) and the Marshall Plan (\$115 billion inflation adjusted) combined. To propose such a plan before the true effects of all the other 105 bail-out plans is fully understood is not good policy. Last month the budget deficit for the month of October alone was \$237 billion. This is larger than most YEARS during the Bush Administration.

The bail-outs have already cost us over \$8.7 trillion and counting. This does not include the next stimulus package. The amount of money that has been created and pushed into the system is nothing short of Weimer Republic type inflation. The Federal Reserve's balance sheet has expanded by \$1 trillion billion just in the last 2 months. It is our view that there is no way that the FED will be able to contain massive inflation within the system when the results of all of these plans start to work and the economy starts to recover. The FED may try and withdraw liquidity at that time by initially raising interest rates before inflation starts to accelerate but we think that is a high wire act that they will not be able to pull off.

Citigroup recently wrote in a research report "the world is not going back to normal after the magnitude of what they (Treasury and FED) have done. When the dust settles this will either work and if it does, the money they have pushed into the system will feed through into an inflation shock."

We think the most critical investment decision you can make in 2009 is to recognize the coming shift from deflation to inflation. If you can recognize this shift very early in the game and position your portfolio accordingly, it could be the trade of a lifetime. The profit potential to a portfolio will be enormous and there should be nothing more

important to investors, pension fund boards, financial advisors and money managers to focus on it and move assets accordingly to capture the profit from it.

The investment game has changed in that doing your homework, studying your charts and indicators and doing extensive research will once again pay off. Bull markets make professionals lazy because every mistake and bad advice given is bailed out by rising prices. Money Managers and Advisors show their value added when markets such as these come around.

It is time to go to work. There is a huge opportunity ahead in 2009 and it is up to you to find a way to capture it early verses later. It is time to break away from the crowd and start thinking like the "lone wolf."

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