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I know you like these

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Fed out of bullets! Recovery falling apart! Time to go "all-in bearish"!

Dear *Safe Money* Subscriber,

Albert Einstein famously defined insanity as doing the same thing over and over again and expecting different results. But apparently the message hasn't gotten through to the folks at the Fed's Eccles Building in Washington. Because the Federal Reserve is at it again!

Yesterday, policymakers met in D.C. and decided to fire up the printing presses. Led by "Helicopter Ben" Bernanke, they pledged to buy new Treasury securities whenever old Treasuries or mortgage securities matured over or were paid off.

That means instead of shrinking its \$2.05 trillion portfolio, the Fed will maintain it by purchasing an estimated \$10 billion to \$20 billion per month in Treasuries. It's focusing on securities with maturities between two years and ten years.

The stock market was impressed by the move — but only for a couple of hours! Then equities fell again. Why? Because investors know ***the LAST, even BIGGER round of "quantitative easing" (QE1) was a dismal failure for the real economy!***

So why should "QE2" be any different?

You see, starting in early 2009, the Fed vacuumed up \$1.25 trillion in mortgage backed securities (MBS) ... \$175 billion in Fannie Mae and Freddie Mac debt ... and \$300 billion in long-term Treasuries. The stated goal was to ease credit conditions, make mortgages and other loans cheaper, support economic growth and boost employment.

But lenders still aren't lending. Consumers still aren't borrowing. And businesses sure as hell aren't hiring. The economy shed another 131,000 jobs in July on top of a massive 221,000 jobs lost in June. Private hiring missed forecasts, and the "all-in" unemployment rate, including those forced to accept part-time jobs or giving up entirely, held at a whopping 16.5%.

Heck, ***the Fed itself all but admitted its efforts have been a dismal failure***. In the post-meeting statement on Tuesday, the Fed said: "The pace of recovery has slowed in recent months. Housing starts remain at a depressed level."

The statement went on to say that household spending "remains constrained by high unemployment, modest income growth, lower housing wealth and tight credit."

In other words, the economy is rolling over! And, in one of the most UNDER-reported stories of the year, researchers at the San Francisco Fed just announced that there's a "significant" chance the economy will tip back into recession.

Yet despite all that, Bernanke and his merry band of mad monetary scientists expect us to think *another, smaller* dose of funny money will do the trick? Seriously? What planet are these guys living on?

My take? ***The QE2 plan smacks of desperation!***

Look ...

Policymakers can't cut the federal funds rate below 0%, where it's essentially already ...

And they've already pledged to keep rates low until the cows come home, so more rhetoric on that front is also meaningless.

What about the suggestion that cutting the rate the Fed pays banks on idle reserves from 0.25% to 0% will somehow unleash a flood of lending? That's one of the dumbest things I've heard out of Washington in a long time — and that's saying something!

What nobody in D.C. will tell you ... but I will ... is that a big economic slowdown is already baked in. There is nothing the Fed can do ... nothing Congress can do ... nothing the Obama administration can do ... to prevent it.

The massive, reckless credit bubble that built up over the past couple of decades needs to be unwound. If you prefer the jargon term, it's "deleveraging" — and it's something we're just going to have to get used to.

In recent months, I've recommended you pare down your equity portfolio to nearly zero to prepare for these trying times. Plus, I've gone several steps further — giving you recommendations designed to RISE in value as stocks FALL. Now it's time to go "all-in bearish" by adding even more inverse ETF exposure.

Specifically,

1. Add another 50 shares of the **ProShares Short Real Estate (REK)**, an inverse ETF designed to rise 1% for every 1% decline in the Dow Jones U.S. Real Estate Index. This will bring your total allocation to 100 shares.
2. Double your allocation to the **Short S&P500 ProShares (SH)** — from 100 shares to 200 shares.

Keep in mind these quantities assume an overall model portfolio of approximately \$100,000. You can adjust the number of shares you buy, depending on your particular goals and risk tolerance and in accordance with the actual size of your portfolio allocated to *Safe Money* recommendations.

I also recommend that you ...

1. Cut your holdings in the **ProShares UltraShort 20+ Year Treasury (TBT)** down to 25 shares from the current 75.
2. Peel off another round of your gold profits by selling another 25 shares of the **SPDR Gold Trust (GLD)**.

The reason: We could see Treasury prices continue to rise, and gold prices roll over, as the economy weakens and deflation fears increase.

Precisely when and how you act is, of course, up to you. But I would urge you *not* to delay. If we're heading into a double-dip recession, as I believe we are, stocks are almost certain to fall swiftly. I would not be surprised in the least if the major averages eventually retest the March 2009 lows. That's almost 4,000 points lower on the Dow.

Best wishes,

Mike Larson

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