

**More Freedom  
Less  
Government**

**MCCARTHY PLANS  
TO REPEAL 87,000 IRS  
AGENTS - BUT HE  
HAS NO POWER**



**WHAT DO THEY KNOW?  
TEACH EM ABOUT  
CAPITALISM?**

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# THE UNDERGROUND

## Fractional Reserve Lending

Banks create money through fractional reserve lending. Banks didn't invent Fractional Reserve Lending, it evolved from free market trade when goldsmiths would issue paper notes for gold deposits. Eventually goldsmiths began operating like banks and would offer loans and other financial services. Some people believe banks just make secret deposits to create money but in this example we show how banks make loans and the money paid to the borrower is where money is created. When loans are paid off money is destroyed. The destruction of money is what creates a credit crunch. Here is our example.



**HMRose Goldsmith**

Visit [hmrosejewelry.com](http://hmrosejewelry.com) and get Michael to build you something of your own design.

Michael is a cousin of mine and a trusted member of the Underground Capitalist community.

Johnny inherits Grandpa's farm. The farm has a value of \$2M. Johnny goes to the bank and gets a loan for \$1M to pay the inheritance taxes. If the bank is out of reserves it can do to the discount window at the Federal Reserve Bank and borrow

from them. The Federal Reserve Bank creates \$1M by typing a one and a bunch of zeros on a computer. Johnny gets the loan and pays the tax bill and the government's bank balance increases by \$1M.

The bank is required to hold a reserve on the \$1M from the County. This reserve can be as high as 10%, depending on bank size and the whims of our overlords at the Federal Reserve Bank. Of course the FED dropped the requirement to 0% due to COVID-19, but we will use 10% in this example to keep the possible money supply from going to infinity.

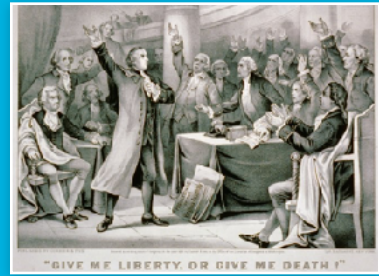
The bank holds a \$100k Reserve and loans \$900k to Bubba for his Bait store. Bubba buys \$900k of stink bait and the stink bait wholesaler deposits the money into his own account. The bank can now loan \$810k to another person, business, or government entity. This continues until the bank has \$10M in loans on the books.

In this example, when was money created? Money was added to the money supply (M2) every time a deposit was made. Most deposits are from other checking accounts so money is destroyed when the check clears. In our example the first deposit was from the Federal Reserve for new loan proceeds - New loans create new money. If the bank had enough reserves to cover the loan, the bank would have been recreating money that was destroyed when someone else paid off their loan.

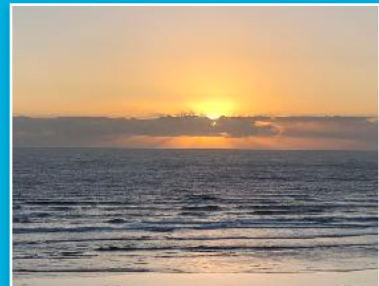
Every month we make mortgage payments. These payments are withdrawn from our checking account destroying money. The payment sent to the bank is deposited into the virtual vault and not counted as M2. The bank recreates that money when they make a new loan.

But what about the interest? If a mortgage requires \$1,000 payment with \$200 interest and \$800 principle, the \$1,000 payment to the bank is withdrawn from a checking account destroying money. Now the bank can make a new loan for \$800 plus \$180 (90% of the interest). The \$180 goes through the same process as above creating \$1,800 of new money. The net new money could be  $\$800 + \$1,800 - \$1,000 = \$1,600$ .

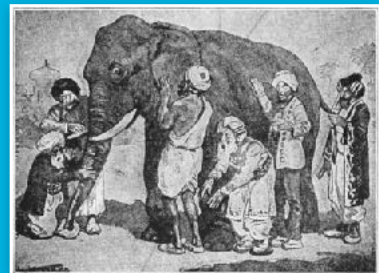
## First Principles



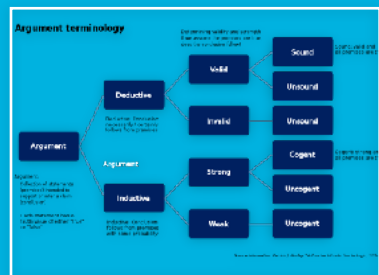
Courage



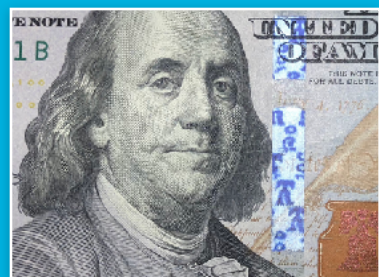
Faith in God



Knowledge



Critical Thought



Create Wealth

What happens when the bank forgives a loan? The bank has a balance sheet just like the rest of us. If they show \$1M of deposits and \$900k in loans and they are subject to a 10% reserve then all is well until someone defaults on a loan. If a client defaults on a \$100k loan then the bank has to borrow from the Fed. The bank has to repay that loan to the Fed, so when clients make loan payments to the bank that money can't be loans back out and the destruction of money supply begins. In our example the next \$100k (plus interest at the discount window rate) of loan payments goes back to the Fed.

When the bank begins paying back the Fed, businesses can't get new loans cover some necessary expenditures and a credit crunch begins. A credit crunch is the biggest problem in a recession. Without new loans it takes years to amass enough wealth to recover.

During the Obama presidency, the giant \$700B TARP and \$475B Dodd Frank acts served as a backstop by covering the defaulted loans. That should have immediately restarted the economy but it did not. Why not? One reason was the Dodd Frank Act created the Consumer Finance Protection Bureau (CFPB) to "Protect borrowers". The new CFPB was given wide and independent authority to regulate and charge banks as necessary. The banks had no idea what the new rules would be so they were forced to stop loaning money. It took several years before banks could digest the new regulations and the credit crunch continued. Sometimes government regulations are more detrimental than lack of money supply.

Here is some fun Math: You can use this infinite series to calculate the total money that can be created by banks when the FED buys securities from a commercial bank.

$$\sum_{i=0}^{\infty} D(1 - R)^i = \frac{D}{R}$$

Where D is the initial FED purchase and R is the reserve requirement. In our example the FED Balance Sheet is \$1M, and the Potential Money Supply with a 10% reserve is \$10M. So when the FED increased its balance sheet to \$9T our potential money supply is \$90T. Our current money supply is only \$21T because banks are holding excess reserve. The excess deposits held by banks

are so large they are making Reverse Repurchase Agreements with the Federal Reserve.

We are creating an internal receipt system. If you donate \$10.00 to the Tiny White Church we will send you a Tiny White Church Coin (TWCC). The TWCC is a Solana based token that you can use to trade with people in your economic circle. If you need your \$10.00 back you can send us back the token and we will send you your \$10.00. This function, if you choose to use it, transforms the \$10.00 donation to a \$10.00 loan to the church.

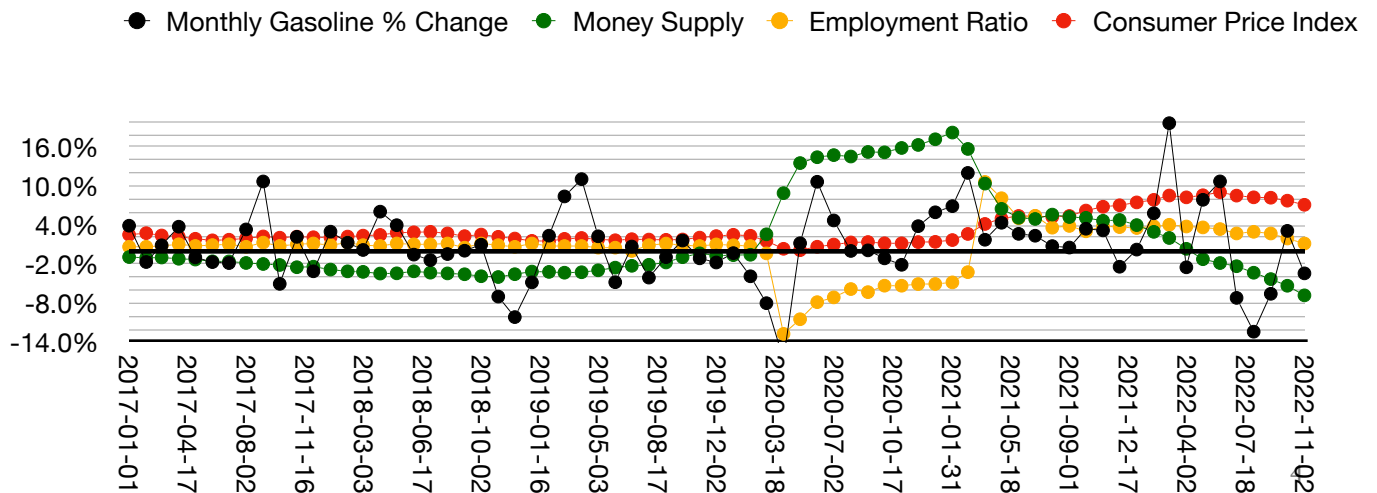
How will we pay the \$10.00 back? The church is buying real estate. The land will be held by the church and some of it will be leased to businesses for their approved use. The land rent paid by the businesses will fund bank operations. The value of the token will reflect the value of the underlying land value and cash held for token management.

As we just learned credit crunches occur when bank reserves run out. This can happen with loan defaults or an unusually high withdraw rate. To ensure the church always has enough money to cover requests for US dollars, it will maintain a target reserve of 20%. The church may drop below 20% as necessary to cover US dollar requests from time to time.

Contact us if you are interested in our TWCC coin or any other token operations that would suit you such as store credit functions etc.

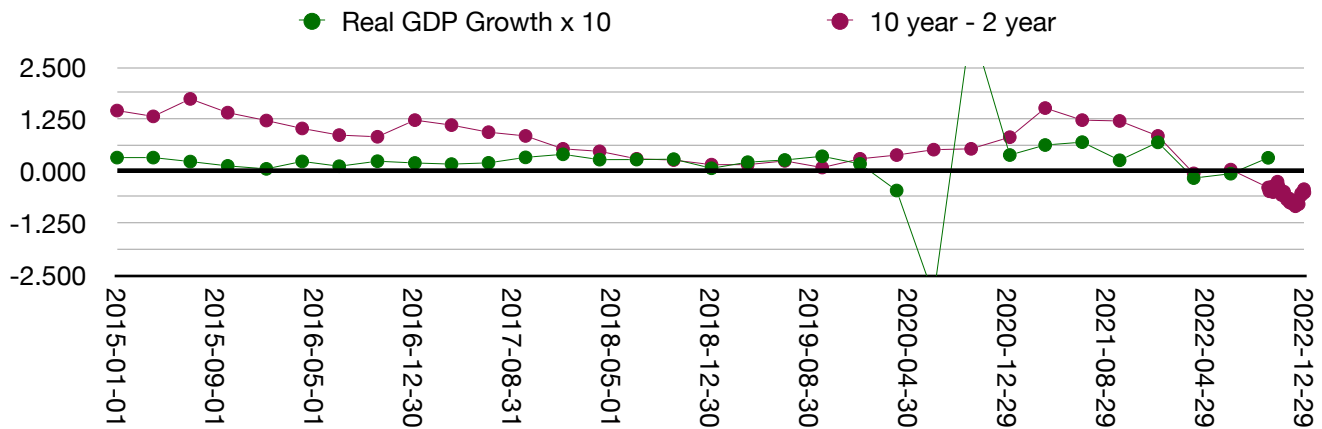
## Economic Dashboard

The CPI peaked in June yet the FED keeps digging. When will they put down the shovel? Our current prediction in March 2023. We expect two more rate



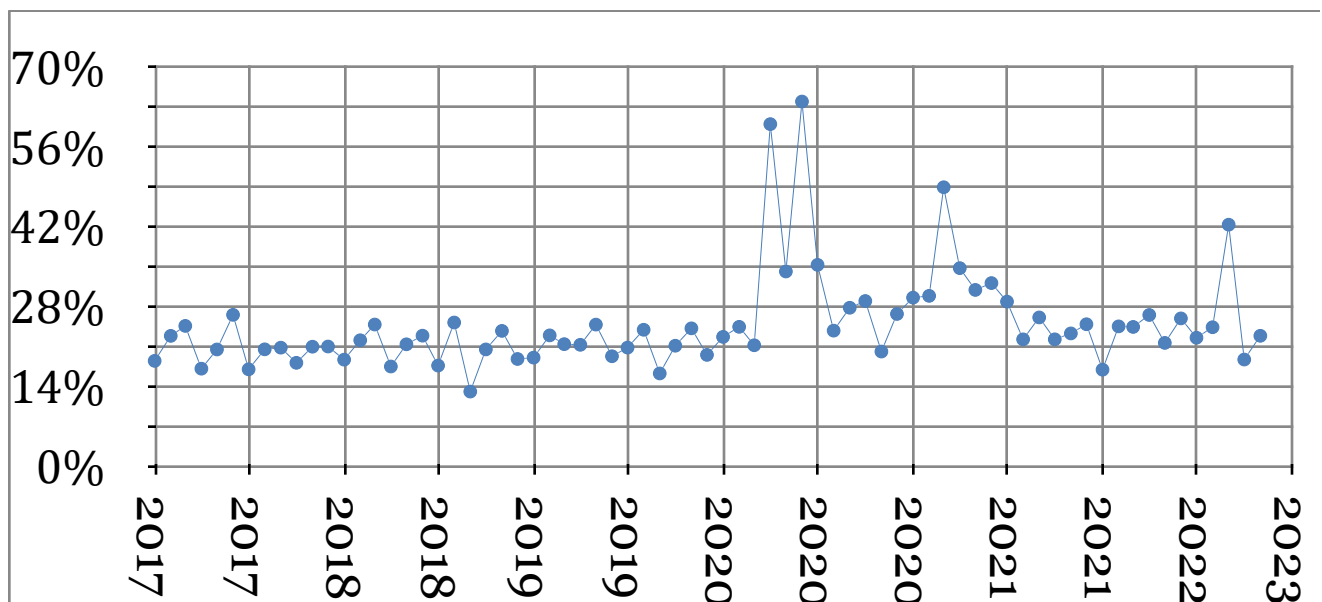
hikes 1/2% in January and February. But, since China has dropped its COVID restrictions they will start using more gas. Summer in America will also bring higher demand for Gas. With gas prices increasing the FED may find the shovel again in July. The FED has tightened the Money Supply since January and we expect that to continue.

Yield Curve continues to decrease going more negative but may have hit bottom on 7 December as the 10 year rate started to climb. We think that is an

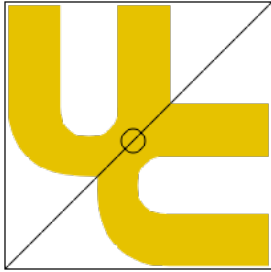


indicator that investors believe the coming recession may not force the FED to lower rates as much as previously expected at the end of 2023.

Government spending continues to be out of control at 22.7% of GDP. We expect this to continue for the foreseeable future. Less Government, More Freedom.

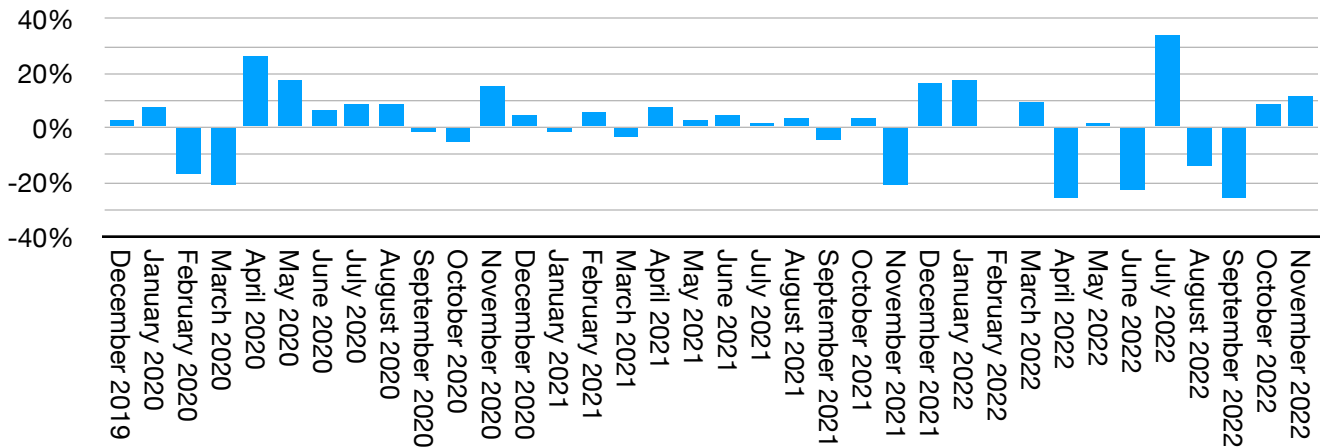


# Historic Returns



In November 2022 we earned 11.85%. Another big win. We expect next year to do well if the FED can put down the shovel but we will likely see rocky times until then.

A word about this investment: This is a risky investment and only meant for investors with a long time horizon - 5 years or more. We are currently invested in TQQQ and will continue in TQQQ as long as the investment reflects a strong National Economy. Socialism hasn't displaced us yet.



# Imparts

Underground Capitalist is very interested in your questions on our process, suggestions for Upcoming Thoughts, Additional Statistics and Reoccurring Sections we should include. Please contact us at ...

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