The CJ Investment Newsletter

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Even Keynes Wouldn't Approve

Purpose

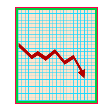
The *CJ* Investment Newsletter deals with the entire spectrum of securities investing, including cash (money market funds), bonds, equities and options. It will evaluate the overall investing environment and then discuss the relative allocations of these asset types, as well as strategies to implement within them. Essentially, it reflects what I'm actually doing with my clients.

These letters are not sent "cold." Either I know you or someone you know gave me your name. Yes, this letter *is* a sales tool. It communicates how I apply my investment strategies, so that you can decide, without any sales pressure, if my thinking is compatible with how you want your money invested. If you're not already a client, I would like to discuss your *becoming* a client. Please call me for more information.

However, that's not its only purpose. Even if you never become a client, if you want this information, I want you to have it – for a while, anyway. My hope is that providing this information and teaching you what I think is important when investing may help you. Please contact me if you have any questions or comments. I'd love to hear your reaction to my letter.

The CJ Growth Strategy (back page) has been an ongoing aggressive growth model portfolio since 1/98. Its results continue to be tracked herein.

Quick Look

Market	**Next Expected Move**
	

- The Fed lowered interest rates another 25 basis points. The overnight Fed funds rate is now at 1.00%, the lowest rate since the 1950's.
- Even Keynes wouldn't approve of the Fed's past actions at this point.

I imagine you are getting as tired of hearing me rail against Alan Greenspan and the Fed as I am at their deserving to be railed at. However, I ran across a very telling quote from none other than Lord John Maynard Keynes in The Worldly Philosophers by Robert Heilbroner, sixth edition, 1992. The quote, directly from Keynes's The Economic Consequences of the Peace:

> Lenin is said to have declared that the best way to destroy the Capitalist System was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate *arbitrarily.* ….Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose.

(Continued on page 2)

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(Continued from page 1)
What's really important here is that Lord Keynes was the first economist of any stature whatsoever to propose that governmental intervention through tax and monetary policy was necessary to pull economies out of depression. He ***postulated*** that there was no natural mechanism that would automatically spur business investment and, therefore, the overall economy in a depression. *(2011 note: While Lord Keynes may, in fact, be right about this (no one knows), he had to postulate it because he* ***couldn't prove it****. Keep that in mind when dealing with ideas and concepts in which postulation is used. It may or may not be accurate or real.)* Yet, in this passage, *he warns against the persistent intervention of a central bank into the economy*, and the potential consequences of stimulative policies over a long period of time. This central banking stimulative power is supposed to be used *judiciously*, not constantly.

I am certainly not proposing that I am "one man in a million," but I have been writing about this danger for quite a long time. It's nice to know that even Lord Keynes, who effectively gave this power to government in the first place through the publishing of his The General Theory in 1936, would agree that the Fed has been systematically destroying the value of the dollar for a number of *decades* now.

This does beg some interesting questions, at least to me:

- Why has the dollar not been declining against foreign currencies before now?
- Why have we not been able to see inflation in the common sense meaning of the word yet?
- Why hasn't the price of gold risen more?

I think the answer lies in the global nature of the world economy today. Keynes proposed that the *citizens* of the country would have their wealth confiscated away by excess monetary expansion and overstimulation of the economy. What's different now is that the *world* economy has been poor, with rare exceptions for many years now. Through most of the 1990's, the US economy was growing as a result of the "technology revolution." Some of the growth was overstated due to excessive monetary growth, but there *was* a legitimate growth component to the US economy.

Consequently, foreign investment poured into the US because it was believed to be the best place in the world to get an investment return. This much was true, although it was not nearly as good as the economic statistics suggested. Because of this massive influx of investment, a huge demand was created for US$ in order to invest in US equities, bonds, etc. **This propped up the value of the dollar in spite of the Fed policies**. *The key point – the wealth that was confiscated was not only that of the US citizens at the time, but included the foreign investors' capital that was flowing in from overseas. (Modified in 2011 by experience and greater understanding than I had in 2003 – CBJV)*

Amazing, huh? The problem, beginning last year, is that those foriegners are beginning to see what's happening and capital is not flowing into the US so much anymore. Certainly not as fast as we are importing foreign goods. Thus the long decline of the dollar finally begins. This can clearly be seen in the decline of the US$ against most major foreign currencies, and, especially, the Euro. *(2011 note – this almost seems laughable given the decline of the Euro and the onset of the Eurozone problems since 2009, but is accurate in 2003. Of course, we know now the groundwork had been laid for the destruction of the Euro by the PIIGS even at that time. Few if any, saw it coming then. I know I didn't.)*

What are the implications of all this? *Either I truly am "one man in a million" or the Fed, both the Clinton and Bush administrations, and the Congress are completely aware of what's happening.* Look, I'm a smart guy. But I have neither the education nor the experience of a Fed staff economist, much less that of a Fed governor or chairman. I find it virtually impossible to believe that Greenspan and his cohorts, the Administration and the Congress of the greatest nation to ever grace this planet do not know what I'm writing about here. What I don't know is *why* they would be doing exactly what they *know* will put us in "economic hell" *a la* the 1970's. Even their guiding light – Lord Keynes – wouldn't agree with what they're doing.