The CJ Investment Newsletter

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Greenspan's Legacy

Purpose

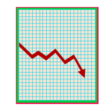
This is a reissue of previously disseminated information.

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.

Quick Look

Market	**Next Expected Move**
	

- Greenspan's legacy as Chairman of the Fed is discussed.
- Cal in the mass media!
- Market prospects going forward.
- Arthur Laffer's brilliant editorial in the Wall Street Journal 10/27/08 is shared.

Cal in the Mass Media

Last month's CJ Newsletter was so important and so long that I didn't have space to share some of my recent personal achievements. Here they are:

- On 9/2/08, the day I was stuffing and sending the 9/08 *CJ* and the day the *KC Star* published my article on pharmaceutical costs, I got a call from Fox Business Network (FBN) in New York. FBN was doing research into socialized medicine and my article (*see the article in the Media Archive of TCM's website*) popped up in one of their internet searches. The young lady working at FBN asked me if I would appear live on Fox Business the next day during Stuart Varney's mid-day show.

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The next time you think socialist policies put forward by *any* government are a good idea, remember this: *"You cannot strengthen the weak by weakening the strong. You cannot help the wage earner by pulling down the wage payer. You cannot help the poor by destroying the rich. You cannot help men permanently by doing for them what they could and should do for themselves."* - John Henry Boetker

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- Upon getting the required approval, I agreed and did appear the following day! With internet access, you can see the interview for yourself at http://video.foxbusiness.com/v/3876315. Fox Business Network is a competitor to CNBC. They are very professional and a little more balanced than CNBC in their presentation. If you want to hear more, please call me and I'll be happy to share more about the experience.
- I had another appearance on Fox Business on 9/18/08, again on Stuart Varney's mid-day show. This time I discussed gold and its future prospects. Unfortunately, the video was not put up on their website like my previous interview.
- I was quoted twice in *KC Star* front-page articles, on 10/13/08 and 10/19/08 regarding the ongoing bear market and investors' attitudes towards it, respectively.
- The *KC Star's* Business Department asked me to be one of a few money managers in the KC metro area to blog about the markets and the economy on their new business blog, *Dollars and Sense*. You can find my blogs at http://economy.kansascity.com. Once you're there, I'll appear most often in the "Bulls & Bears" or "The Big Picture" sections.

Greenspan's Legacy

Recently, as politicians are wont to do, the Congress started to "investigate" (read: absolve themselves of guilt for) the subprime meltdown, the housing mess, the credit crisis, and the stock market crash. In the process, they called Alan Greenspan, the former Fed Chairman, to testify before them. It warmed my heart to hear questioning, even *disrespect*, directed towards Sir Alan (The British Queen actually Knighted him a few years ago).

I'm not piling on here. Long time readers know I thought Greenspan's policies were dangerous and that his intellect was overrated for many years. I predicted his policies would cause a disaster, and they surely have. Here are a few quotes from old *CJ Newsletters*:

From 8/01 (My First Negative Comment):"At one time I thought Alan Greenspan was one of the best economists in history. No longer. However, based on his actions, it does appear *he* considers himself more knowledgeable about economics than arguably the finest economic mind in history -- von Mises. In my opinion, he's playing with fire, and we're the ones who will get burned. When the economy Alan built finally burns down, I only hope the liberal media does not manage to make the fault stick to Bush, when it belongs squarely in the lap of Greenspan, with assists by Clinton, Ruben and Summers."

From 4/02: "They are fighting the bear market and the overhanging recession "tooth-and-nail" with all the weapons they have. They'll worry about the consequences when they arrive. I suppose Greenspan figures he won't be around to have to clean up the mess he's making, so he's making political, not economically sound, decisions. Very poor decisions to my way of thinking. Then again, if they'd asked my opinion, I would have let the economy and market correct long ago, rather than risk the enormous upheaval they are through their policies."

From 5/02: "The only question is whether the Fed will decide to a) shut down its incredible creation of new money in excess of economic growth and let the economy correct by going into recession or b) risk inflation, maybe even *massive* inflation, and only delay the inevitable inflation/recession and make it worse. They have chosen the second path for the last 10 years, but have been particularly bad about it since about 1995. I believe they will opt for the second course and that Greenspan will go down as the greatest inflationist of all time. We very well could see a repeat of the economy of the '70's as a result of the policies of the '90's."

I've railed on "poor" Alan and his successor, B-B-B-Benny for years, warning their policies would create great pain. I could pile on with a lot more quotes, but you get the point. The sad thing is, if you understand the Austrian theory of the business (trade) cycle, this was easy to see coming. As I've said many times in the *CJ*, our government deliberately doesn't teach this kind of economics in public schools because Austrian economics states government intervention is, at the very best, bad. They teach Keynesian economics and its derivatives because those schools of thought agree government intervention is good, and that government has a legitimate place in manipulating the economy. Welcome to the result of too much government interference! Ignorance is NOT always bliss, is it?

Greenspan said he was "shocked" the management of the banking system didn't factor in risk properly and protect shareholders more. He stated that this was a "flaw" in his ideology and that he was "distressed by that." Naturally, he agreed with the Congress that the regulatory environment in banking was not adequate and that new regulations were required.

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Asset Allocation Percentages
CJ Current Suggested Ranges

Dow Theory Market Phase: **BEAR**
Appropriate Current Allocation: **DEFENSIVE**

Asset Class	**Conservative**	**Aggressive**
Money Market Funds	70-10%	55- 5%
Long Positions:		
Bonds & Bond Funds	30-60%	40-60%
RD Stocks	0-10%	0-10%
Growth Stocks	0%	0%
Gold Equities/Funds	0-20%	10-30%
Bear Market Funds	0- 10%	5-20%
Aggressive Positions:		
Shorts and/or Options	0%	0- 5%

Notes:
Income generating portfolios may not conform to the above guidelines. If income is the primary purpose of a portfolio, income needs are met *first*, then other allocations are made.

Up to 50% of bond/bond fund positions should be in international (non-US) bonds. Such bonds will provide higher interest paid on the face due to the additional *perceived* risk of foreign bonds, as well as providing hedging gains as the dollar declines against foreign currencies due to Fed monetary policies.

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What's truly sad (or funny, depending on your point of view) is that even when admitting his mistake, Alan was *still* wrong. Let me repeat: *Greenspan is admitting to the wrong mistake*. As I stated in last month's *CJ*, this was not a failure of capitalism or free markets; *this was a failure of government*. Management and investor actions, the housing boom & bust, and most, if not all, of the other effects were easily predictable, given the unnaturally low interest rate environment Greenspan promulgated. As the old TV commercial used to say, "It's not *nice* to fool Mother Nature."

This week, the government proved it is incapable of learning from the past as Bernanke's Fed lowered the overnight Fed Funds rate to 1%, exactly the low the Greenspan Fed reached a few years ago. While the reasons are different now, what makes Bernanke and the Fed think that taking more of the same poison that put us here will cure us now? Unbelievable.

The regulatory environment our now liberal, socialist congress (Nancy Pelosi, Barney Frank, *et. al.*) will now impose on the banking system will only impede and delay our ability to dig ourselves out of the market distortions and recession *congressional policies caused*. As a friend of mine said when we discussing this once, it's a power-grab, pure and simple. Moreover, it won't improve your life, unless, of course, you are a government regulator.

A Don't-Miss Read

The famed economist Arthur Laffer wrote a brilliant article published in the 10/27/08 opinion section of the *Wall Street Journal* entitled "The Age of Prosperity is Over." I don't know if it can be accessed on the *WSJ* online, but I heartily encourage you to read the article if you can get your hands on it. As you might guess, it's highly critical of recent (and past) government actions, especially the programs being implemented now to alleviate the problems their past policies created. It helps explain why the current actions are ill considered and lays out some of the future we can expect as a result of these policies. This article is reasonable, amazingly insightful, and deserves the time you take to find and read it.

The Market

The long and short of it is this:
- We are in a bear market most recently confirmed on 10/27/08, according to the Richard Russell. We have to act as if this is a bear market until proved otherwise.
- Gold is still in a bull market, but it is only hanging on by its fingernails.
- The direction of the US$ is unclear, and will be determined by the relative actions of the Fed and the other major central banks around the world.