The CJ Investment Newsletter

Callom B. Jones, V Investment Adviser Representative

December, 2009 *One Hundred Forty Fourth Issue*

The US Government Shows Its Economic Impotence

Purpose

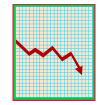
This is a reissue of previously disseminated information.

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
?	

- Money supply controlled by the Fed continues to expand dramatically. Higher order money supplies contract somewhat.
- Monetary velocity/multipliers are at all-time lows. Adjusted reserves now exceed 50% of the monetary base.
- Some technicals indicate the US$X might rebound somewhat in the next few months.
- Is gold entering the speculative third phase of its bull market or is this a "blow-off" top? Should we take a "safety position?"

We Are Still in Recession

While corporate earnings have had pockets of increases recently, especially as compared to Q3 2008, employment data and other critical indicators keep shouting we are still in recession. We may be there for a very long time. While very preliminary, "Black Friday" sales appear to be down from last year and certainly didn't meet needed expectations. Black Friday is the Friday after Thanksgiving and is generally the busiest shopping day of the year, often putting retail businesses "in the black" (profitable) for the year.

(Continued on page 2)

** Merry Christmas and Happy Holidays **

Trend Capital Management, LLC

9717 W 121 Terrace ▪ Overland Park, KS 66213 ▪ O (913) 897-7576 ▪ C (913) 568-9916

e tcm@trendcapitalmgmt.com ▪ www.trendcapitalmgmt.com

(Continued from page 1)

From John Mauldin's recent "Thoughts from the Frontline", "Why I am an Optimist," 11/28/09 (http://www.frontlinethoughts.com/article.asp?id=mwo112809): "The headlines said that initial claims dropped to 466,000 here in the US, finally falling below 500,000. This was greeted with proclamations of recovery. First, let me say that 466,000 people filing for unemployment is still way too high. That is a lot of people losing their jobs, and when we first crossed over 450,000 a few years ago that level was seen as a sign of recession.

"Second, the headline number was a seasonally adjusted number. The actual number was 543,926. What is happening is that we are coming off of wickedly high numbers in 2008 and a seasonal number that was much lower in the preceding years. It is another part of the Statistical Recovery. And this trend is likely to keep on for the rest of the quarter. My friend John Vogel, who analyzes the unemployment numbers for me each week, shows pretty convincingly that the average for this current quarter will be over 500,000 per week on a non-seasonally adjusted basis. This is less than a 10% drop from last year for the same quarter. Job losses are continuing to mount, and we are on our way to an 11%-plus unemployment number by next summer. Statistical Recovery, indeed." (CBJ note: These unemployment figures do not include the *under*employed and those who have given up looking for employment.)

Government efforts to ameliorate the economic contraction (don't you love the term "negative growth?") have been ineffective, despite their proclamations that things would have been much worse had they not intervened. Of course, there's no way to prove them wrong or right; they're counting on trust from the populace they clearly don't deserve to make the improvable stick. The lie becomes the "truth" when repeated often enough.

As I've laid out in many previous *CJ Newsletters*, especially in the last year, the government violates virtually every economic law of Austrian economics in the way in which they handle the economy, beginning with Say's Law (*CJ*, 1/09). The results show how impotent this handling has been. There is no solid body of evidence to date that the recession has ended or will end soon. No date for the beginning of the next expansion is even discussed seriously.

Further, while the rest of the world worries about its stores of US$ losing large amounts of its value, our government continues to seriously discuss and actually pass legislation that is akin to not only putting the final straw upon the camel's back, but tossing 50-pound weight discs upon it. The Stimulus Plan. Cap & Trade. Health Care. They treat our economy as if it were some massive giant that could never be overloaded by the weight of too many vastly overblown and poorly engineered government programs and the taxes it takes to fund them. Or, as we suggested in last month's issue, perhaps they *do* understand and they *wish* the giant to collapse.

Have they never read Atlas Shrugged by Ayn Rand? If you have never read Ayn Rand, I suggest you read at least Atlas Shrugged and The Fountainhead. These are tomes, but well worth the reading effort. While she was not a person of impeccable morality herself, her shining vision of capitalism in America provides a unique understanding of capitalism and her own world philosophy, objectivism. Through her fictional vehicles, she shows how badly society needs capitalists and entrepreneurial leaders in order to simply survive, let alone thrive. The long soliloquy by John Galt in Atlas Shrugged is worth the price of the book alone – and the time to read it.

More from Mauldin (referenced above): "Long-time readers know that I think we are in the midst of a secular bear cycle, much like 1966-82. *The next decade is likely to produce less than average growth, due to structural problems and the bad choices we have made with personal and government debt. I am perfectly cognizant that unemployment will be over 10% for a protracted time.* (My italics – CBJ) That is tragic for those unemployed and underemployed. I realize the entire developed world has huge and seemingly insurmountable pension and medical obligations over the next few decades, which we cannot possibly hope to meet. The level of angst that we will live through as we adjust will not be fun."

Austrian trade-cycle theory assigns responsibility for recessions to central bank easy credit policies used over long periods. Of course, some of those easy credit policies are intentionally inflationary in order to pay off government deficits with cheaper US$ in the future than the US$ originally borrowed. Other reasons for protracted easy credit are to "manage" the economy. Of course, the risk of bubbles and their collapses becomes increasingly likely with continued Fed manipulation, as current circumstances amply demonstrate. As I've said before in the *CJ Newsletter*, the only possible excuse for the government bailouts of the last couple of years is that government and Fed policies played more than a minor role in creating the circumstances that created the crises in the first place.

(Continued on page 3)

Asset Allocation Percentages
CJ Current Suggested Ranges

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

Asset Class	**Conser-vative**	**Aggres-sive**
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.

(Continued from page 2)
What the Fed Has Done to Our Money

We've been relatively statistic-free so far, but we need to review some statistics to understand what the government and the enabling Fed have done to the value of the US$ since 2001. Here we go:

- The monetary base is greater than M1, a supposedly higher order money supply. In that vein, Adjusted Reserves is greater than 50% of the Monetary Base.
- My calculated multipliers for currency through an estimated M3 are all at all-time lows.
- (7/1/09)
  - M3 Velocity = 112.85%
  - MZM Velocity = 153.49%
  - Close to all-time lows.
- Dow statistics 11/30/09:
  - DJI = 10309.92
  - DJI/US$X = 7732.44
  - DJI/Gold Index = 2535.77
  - Gold Index: 8/13/01 = 100.00
  - Gold Index: 11/30/09 = 406.58

What does all this mean? In a nutshell:

- Such high adjusted reserves means that banks aren't lending and people aren't borrowing.
- The bullet above is confirmed by the low multiplier and velocity numbers.
- Therefore, new business activity is being depressed by lack of lending from banks and lack of borrowing from entrepreneurs and businesses seeking expansion.
- The US$ has lost massive amounts of value in real terms, approximately 75% based upon the change in the value of gold in US$ since 8/13/01. After all, an ounce of gold hasn't changed since 2001, only the number of units of currency it takes to buy it.
- Once expansion starts, the Fed will have to rein in massive amounts of money to avoid serious inflationary pressures. What are the chances of them doing that during a nascent recovery?

Gold

I have clearly missed part of a large move in gold and gold equities since we sold our gold positions in 8/09. I don't feel good about it, but you can't win them all. The question now is: Do we get in and for how much?

From the 11/20/09 Richard Russell daily letter: "…I think it's OK to increase your total position, but I'd hold off on buying more gold now.

"The reason I say that is the P&F chart below. Gold is rather "stretched" at this point, as you can see on the chart. The latest move took gold from the 1040 box to the 1150 box without so much as a three-box correction. If gold continues higher, that's fine with me, but I'd hesitate to buy it now. Gold is overbought, it's on A "high pole," and it appears overdue for a correction."

My charts agree – a correction is due, as do the recent Commitment of Traders (COT) data. Still, if gold is entering the third (speculative) phase of its bull market, chart indicators may not work. Other things being equal, we should be able to enter gold cheaper by being patient. The risk is that there may be no correction. We may enter a ½ position in a gold metal ETF as a means of insuring we're in and add to the positions later when appropriate. Until Cap & Trade is officially dead, the miners still appear too risky to me.