The CJ Investment Newsletter

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Economic Law

Purpose

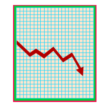
The *CJ* Investment Newsletter deals with the entire spectrum of securities investing, including cash (money market funds), bonds, equities and options. It will evaluate the overall investing environment and then discuss the relative allocations of these asset types, as well as strategies to implement 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**
	

- Why don't our politicians believe in and follow economic law? What will be the consequences?
- The bear is back in place (above). I believe the bear market rally, after 15 months, is over.
- Oops! I corrected the CJ Model results from April and present May results.

Economic Law

Obviously, this is a huge subject and we won't be discussing all aspects of economic law here. Still, as I was turning ideas over in my head and catching up on my reading, I tumbled to the idea, once again, of how our governments, but especially our federal government, violate economic law repeatedly. What they have done and want to do much more of (Cap and Trade, Financial "Reform," "Comprehensive Immigration Reform" and God knows what else) will, in my opinion, cause us decades of effort in undoing what they "accomplish." It will also risk our preeminent position in the world and, perhaps, even our viability as a country. Can America be the ***America*** that changed and saved the world if it's nothing but a large France, Britain or Germany?

Strong, sad words. Let me support them.

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Much as I hate to refer to my own work here, some of my *CJ Newsletters* and newspaper articles support my case and save space I'll need to cover this while still respecting your time. Should you want to review or read the original articles, I will provide them to you upon your request.

I discussed Say's law in the 1/2009 CJ. This article was later condensed into a smaller version for the *KC Star*, which published it 1/27/09 as "Government is Just a Buttinsky."

Say's law simply states what should be obvious. *Production creates supply and, therefore, demand.* Even more simply, in a *free* society where there is *freedom* to negotiate economic exhanges, one must have or create something of value in order to be able to exchange it for something of value from the other party. Your ownership of something of value gives you the *right to demand* in the economic sense. If you have nothing to exchange, you have no *right* to demand anything from anyone. Any contention to the contrary simply nullifies any pretense of economic freedom in the society, not to mention protection of *personal* property rights, a crucial right in a free, capitalistic economy.

In 6/2009, the *CJ* talked about the destruction of the US$. No, not the potential destruction. The destruction. Essentially, the Fed is destroying the value of the US$ through poor money management policies which I've discussed *ad nauseum* in these pages over the years. More on this below.

In 7/09, the *CJ* discussed the destruction that would be wreaked upon our economy by the "Cap & Trade" bill passed by the House in 6/09. At the *KC Star's* request, I condensed the article, which they then published it 8/4/2009 as "Energy Bill Would Zap Consumer." At any time, this is a unsupportable bill based on unproven science. During a recession with 10% unemployment, it could crash our economy.

In 9/09, the *CJ* weighed the moral hazard created by government policies, especially through the "PPT" or the actions of Fannie Mae and Freddie Mac purchasing loans from unqualified borrowers the government forced legitimate lending institutions to make through threatened sanctions if they didn't.

The government (except for Ron Paul of TX) doesn't believe or even discuss anything about Austrian economics or sound money, because it doesn't give them permission to micromanage, and therefore, take over (socialize) our economy to bend its resources towards *their* goals (getting votes and maintaining power) and away from the personal goals of the individuals in the population. By some estimates, more than 50% of our productive resources are now controlled by the federal government, which has its sights set much higher.

More regulation by the government provides neither more freedom nor protection. All the euphemisms they use to describe their actions boil down to this:

- They steal from those few with resources (the "rich') in order to buy the votes of the numerous poor, which they never elevate beyond poor. "You deserve" is code for "If you vote for me, I'm going to steal from that rich guy and give you something you haven't earned."
- No one has the real freedom any longer to act except the government itself. Private property rights are an illusion. Government of the people and for the people no longer.

But, the worst of their policies involves the destruction of the value of the US$. Their denial of the principles and responsibilities of sound money creates what Keynes himself so famously said, "*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 can diagnose*."

Here's a primary reason why. We all labor under the assumption that a US$ is worth *a dollar*. The deficit spending done by the federal government and the enabling behaviors of the Fed allowing the government to deficit spend create constant devaluation of the US$ through time. Sometimes it's worse, sometimes it's better, but it's always there. Our currency is constantly debauched by the Fed to support the government's profligate deficit spending. This current group in power is by far the worst in history by about THREE times.

I believe that, combined with the same behaviors by other governments worldwide, the constant changing and cheapening of all major currencies has made solid economic decision making very hard, including, investing decisions.

Assume you're making an entrepreneurial decision about providing a good to meet a perceived need. You analyze the situation and find that you should be able to make a 3-4% profit. Provided the need is great, that could amount to a lot of money. Wal-Mart has

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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. I expect 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 if the dollar declines against foreign currencies due to Fed monetary policies.

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become the largest company in the world by some measures by making many small profits from selling an enormous amount of goods. But, what if a US$ isn't a US$? What if the Fed changes policies, raising interest rates, eating up that profit or more? Worse, what if they implement inflationary policies that hide the destruction of the currency at a rate faster than you make the profits? Your decision is no longer economically viable and capital for both the company and society will be destroyed.

Even when the US$X (US$ Index) improves, in today's context it simply means that the US$ is being destroyed slower than the competing basket of currencies in the US$X. Sadly, this does not mean the destruction of the value of commodities or goods. It generally means the destruction of the earnings power of people, both rich and poor. Obviously, this is more meaningful to the poor.

My point: By violating economic law, governments make currencies move around from constant sources of value (gold and other specie and commodities). Economic and investing decisions become harder to make and more likely to be wrong. Wrong decisions create capital losses to the detriment of both individuals and society in general. The current capital market troubles may reflect the losses of confidence in the value of investments being exchanged. If my read is right, my strategies may allow my clients and I to reasonably preserve assets despite the storm.

In my quest to be brief, I know I'm leaving out a lot. Please call me if you want more details.

Oops!

I made a reporting mistake in last month's *CJ Newsletter*. In my hurry (no excuse, I know) to get the newsletter out, I overlooked reporting the quarterly management fees ($3,482 for the *CJ Model*) instead of commissions and fees on transactions.

Consistent with good accounting practice, I went back into my records and made what amounts to a prior period adjustment for the *CJ's* April's results, which were:

	As Reported	Actual	Difference
Balances			
Month End	$625,951	$622,469	$3,482
Gain/(Loss) Percentages			
Month	1.14%	0.58%	(0.56)%
Year-to-Date	(1.75)%	(2.30)%	(0.55)%
Since 1/1/06	21.02%	20.35%	(0.67)%
Since 1/1/01	58.23%	57.35%	(0.88)%

Changes in the "Difference" column are the results of rounding and the manners in which percentages work as the divisors change, as well the obvious change in expenses from my original failure to include the fees.

Page 4 is now accurate again to the best of my knowledge. Page 4 now reflects the correction of the prior month's errors and all statement amounts and percentages are properly stated for and through May, since the full deduction of the Quarterly fees is done in advance, as is actually done in *Trend Capital's* real practice.

Additionally, the law requires that the CJ Model assess fees at the highest rate in the contract rate grid (2.25%/year or 0.5625%/quarter on the previous quarter end balance), although a client account this size would not incur fees at this rate.