The CJ Investment Newsletter

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One-trick Pony?

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

<u>**Market**</u>	**Next** <u>**Expected Move**</u>
	

- Have I become a one-trick pony?
- The recent market rally is discussed.

One-trick Pony?

I was recently having a discussion with someone who led me to think I might be writing virtually the same newsletter every month, retracing my steps, restating the same message, being redundant, saying the same things, taking the well-travelled road, going over the same ground, repeating myself, *etc*. Wow. *Moment of truth time*.

Rather than simply ignoring this thought, I looked inward at myself to see if I was actually doing this. (Don't worry. I'm not always that introspective, although I *wish* I was.) I reviewed my CJ Newsletters for the last year, paying particular attention to the major topics covered. Those appearing most often:

- Destruction of the value of the US$
  - why it (inflation) continues to happen (buying votes)
  - how it impoverishes us
  - how it distorts markets
  - Why DJI 12000 now is not the same as DJI 12000 in 2001
- What money, wealth and capital are

(Continued on page 2)

** Merry Christmas and Happy Holidays **

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(Continued from page 1)

- The Austrian trade cycle
- Why Keynesianism doesn't work and the government policies it fosters
- Why Fed policy isn't really helping us
- What investment risk is and how to deal with it

Wow. That's a lot of economics for an investment newsletter. Of course, economics and market studies both have the same overarching master trait, along with several other studies: *they try to make sense of human behavior in those contexts*. In many ways, they are "joined at the hip." It wouldn't *have* to be that way, but our governments (along with many of the other world governments) have inserted themselves into the process so deeply (dirty insinuation intended) that we simply can't ignore governmental behavior and policies when trying to analyze either economics or market investing.

Or, for that matter, any aspect of life in any modern society. For better or worse, government is in our houses, so we'd better learn how to deal with it. We brought it all on ourselves – asking our government to deal with our problems instead of doing so ourselves. As either Ben Franklin or Thomas Jefferson (it's been attributed to both men) said: "*Those who sacrifice liberty for security deserve neither*."

Additionally, I'm a prioritizer. I tend to focus on what I think are the most important current factors at work. It only seems natural for me to want to write about what I consider the highest priority items (which I'm actively looking into) at any point in time – and how I might be trying to deal with those things. Sometimes, those items change slowly, if at all. Clearly, the Fed's approach to dealing with problems hasn't changed since Alan Greenspan (and his clone, Ben Bernanke) took office in the early 1980's. That doesn't mean, however, that we can ignore what they do, given the impact Fed policy has on both the economy and the markets. Besides, it's unlikely my clients are the market geek I am; otherwise, you'd be doing your own investing.

I'm not trying to explain away my emphasis on government laws, regs and policies. I may have been too repetitive. If I've been so repetitive that you don't even read the *CJ Newsletter* anymore, then I apologize to you (even though if that's true, you aren't even reading this). In the future, I will try to give a nod, instead of a rant, to these things unless they are particularly egregious and important at a certain point in time, opening up the topics of discussion to other matters involving investing.

One final note: I try to write the *CJ Newsletter* so that each issue is somewhat self-contained. As a practical matter, that means subjects, ideas and terms I think most of my readers are either less familiar or not familiar with, I will devote space to explain. After all, this letter is not intended for academic journals – it's intended for folks who focus on other things. Sometimes, I refer back to previous *CJ Newsletters* if an explanation would take more than a few sentences. Still, with older *CJ Newsletters* available on www.trendcapitalmgmt.com, I may use this tool more frequently when exploring complex ideas in the future.

Weird November

Until Monday, 11/28/2011, the month of November 2011 was a very bad month for the US stock markets. After a heavily down 11/1, the DJI (market proxy) moved up for the next five trading days, peaking with a close of 12170 on 11/8. It proceeded to drop through the Friday after Thanksgiving, closing at 11232 – 938 points or 7.7%.

Beginning on 11/28, the DJI had consecutive daily gains of 291, 33 and 490 – a total gain of 814 points or 7.25%. This move places the DJI up for both November and for the entire year. The ostensive reason, based upon what I heard on CNBC and Fox Business, for the rally was that liquidity had been "freed up" by a collaboration of world central banks, including the Fed. Seriously?

(And after I just promised…) Let me get this straight: The central banks work out a liquidity producing deal that creates more fiat money (not wealth), making the current money less valuable (especially US$'s). This deal supposedly does ***nothing*** to deal with the sovereign debt problems in Europe. At least, the reports I heard said that. Understand? Nothing! Then, world investors (including our extremely well educated US investors) go wild with enthusiasm about how Europe's debt problems have been fixed and it's time to "get into" the market. OK! Got it!

This reminds me of the old anecdote about how people who don't know much about cars will turn up the radio when they hear a "funny noise" from the car. They hope if they can't hear the sound, then nothing will be wrong. Funny, but potentially deadly.

Seriously, if I gave you a handful of monopoly money, would you give me a, say, 1961 powder blue Corvette fuelie? You would? Well, I've got a big handful of monopoly money! And so do all the central banks!

(Continued on page 3)

(Continued from page 2)
Give me the car! While you're at it, give the central banks each one, too!

Perspective

Adding liquidity (money) to the money supplies of an economic entity rarely does more to an economic problem than "kicking the can down the road." After all, "adding liquidity" is an obscure way of saying "increase the money supply," which, as we all know (even Keynesians), does not create additional wealth – only counting units. Sometimes, if there is reason to believe an economy can improve organically before reencountering the "can," there may be an actual reason to do this. But, in the US's system, the price is always inflation plus an increase in the national debt.

If the Fed would ever actually *decrease* the money supply and place debt back into the marketplace, perhaps this would not be true. I'm only saying the Fed won't reduce the money supply, because, since Paul Volcker was Fed Chairman in the early 1980's, it's never happened in any serious way.

What happened the last three days demonstrates a few principles:

- Money is absorbed into economies almost instantly these days, due to instant computer communications technology and globalization.
- Therefore, Marshallian K theory happens at that virtually instantaneous speed, also.
- There are a lot of investors who don't understand the difference between "fix" and "delay."

You may recall that Marshallian K theory states that "excess" money in the money supply not needed to perform the traditional "blocking and tackling" of an economy will flow into the financial markets, inflating the price of financial instruments. In other words, *the prices increase for no fundamental reason*. Perhaps you should consider that idea while you're wondering why the Fed has kept the money supply so large and still increasing in a period of recession where the economy clearly doesn't need that much money.

Of course, the government and the Fed *will tell you* that they are increasing the money supply in order to lower interest rates and provide liquidity in order to "kick start" the economy. To *increase the aggregate demand*. How's that been working out for us since, say 2000? That's what I thought, too.

Yet, despite the economic "malaise," the financial markets, and, especially, stocks are at nominal levels in the same ballpark as at the beginning of the decade. Shouldn't they be lower, reflecting the actual state of the US and world economies? Is it possible, just *possible*, that the actual targets of the lower interest rates created by the overblown money supply are as follows:

- Inflate the prices (using Marshallian K theory) in the financial markets, especially stocks, in order to provide the *appearance* of a wealth effect?
- Decrease the debt service costs of the titanic government debt through lower interest rates, minimizing the tax increase(s) needed to service the debt?
- Decrease the actual *value* of the US$, so that debt denominated in US$, if and when it is ever repaid, the principal at that time will only have a fractional portion of the purchasing power of the money when it was borrowed?

Did you also notice that none of these effects would actually help the economy, or, more importantly, its citizens in "the long run?"

Briefly, the Technicals

Prior to the rally apparently caused by the world central banks increasing liquidity, November was looking like the stock markets would begin another serious bear (downward) leg. I don't believe this current rally will follow through, since it's not based on fundamentals. When the European bondholders are forced to write their bonds off by the issuing governments, the worldwide crisis will approach what happened in 2008.

Again using the DJI, even with the rally, there is an unbroken downtrend since late July, 2011. The massive top formed between 1/2011 and 8/2011 is still in play. The next important downward "markers" or critical points in my analysis are (around): 11400, then 10460. If 10460 is breached, significant support is not likely before 9700.

I wish conditions weren't so negative. Still, I'm pretty sure you want my honest appraisal of what I see out there. I treasure your confidence in me.

Despite the current troubles, I believe in America. Eventually, we will get through this, just as we always have before. I hope we don't get so discouraged by the current difficulties around us that we forget to celebrate what we *do* have: family and friends, food, drink and music, and life itself. Especially this time of year. Merry Christmas and Happy Holidays to you all!