

Logical Consequences

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.

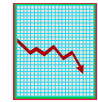
Quick Look

Market



Next

Expected Move



- What are the logical consequences to the health care industry in America as a result of the 6/28/2012 SCOTUS decision?
- My 16th (I think) article was published in the *Kansas City Star* on 6/26/2012. It is a condensation of the 5/2012 *CJ Newsletter* and is included in your mailing.
- I doubt Chief Justice Roberts read the quote below prior to deciding to vote for the Affordable Health Care Act. Perhaps he should have.

A Rally, Despite Uncertainty

In spite of the uncertainty created by the Supreme Court's decision to uphold Obamacare/The Affordable Tax Act (the Act) yesterday, the stock markets rallied heavily, as evidenced by the DJI's 277+ point increase, putting the DJI at 12880+.

The extent of this rally is hard for me to understand. It also represents over 50% of the entire increase YTD for the American stock markets. Certainly, no real uncertainty was resolved yesterday and the Eurozone is still in great danger.

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"The Constitution is not neutral. It was designed to take the government off the backs of the people."

- William O. Douglas (1898 – 1980) Supreme Court Justice (1938 – 1975)

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I believe that Europe and the US combined still represent more than 50% of the world's economic activity, so what happened to make so many investors put so much money at risk today? Perhaps the answer will become clear in time...

I will study this rally to determine if it is only temporary or will follow through with "legs." Sometimes the markets will rally for reasons that don't become apparent until later. Should it look to have staying power ("legs"), I will look for solid stock candidates for appreciation from both the fundamental and technical points of view, with the intention of taking profitable advantage of a significant upward move.

The Reality

The Supreme Court (SCOTUS) has affirmed the constitutionality of the Act by declaring the individual mandate contained in the Act a tax, rather than a penalty. As a penalty, it would be outside the enumerated powers of the government under the Commerce Clause in the Constitution, *i.e.* unconstitutional. As a tax it *is* constitutional.

I know you'll be inundated with facts and opinions regarding the Act in the days and weeks that come. It also appears to be a rallying point for those opposing this law related to the upcoming election. You probably already know how I think about both the Act and the SCOTUS decision, so I won't add to the pile you're already having to experience.

The reality is this:

- If you're a liberal/progressive, it's highly likely that you agree that the freedom and self-reliance lost (to government control) through this Act is worth the *collective* benefits to the society and the additional cost taken from the "rich" to pay for the poor's benefits. This would be true regardless of how "rich" you are as an individual. It's all about the group, not the individual.
- If you are a conservative/libertarian, you feel like it is NOT the government's place (at least in a supposedly free country) to take control of choices that belong to you, confiscate *your* assets to pay for benefits others will realize, and buy their votes in the process. You are willing to forego the government "safety net" in order to insure your rights and choices as an individual are unhindered by the government.

It's pretty simple, really. Virtually all of the

conversation you will hear from the media will be to persuade and convince those who have already made their choice.

Before leaving this section, please note that informed people on both sides understand that, barring a QUICK change in controlling parties in the next election, the upholding of this law means it will be the law of the land for, virtually, forever. The freedom and choice lost here will be lost forever, barring a revolutionary war against our OWN government this time. If you don't believe this, study your US history since the first term of Teddy Roosevelt, and see how many freedoms lost since then have been regained. I think you'll find the answer is zero, barring freedoms lost during times of war that were returned following the wars' ends.

Logical Consequences

What we will explore instead is the logical sequence of events that will likely occur as a result of the confirmation of the Act as US law. Hopefully, this will provide both reasonable and expected outcomes from the provisions of the law, as well as a rough idea of whether or not any investible opportunities will present themselves along the way.

During this exercise, it will be extremely important to keep in mind that companies and stocks are valued by informed investors primarily on the basis of profitability and future profitability, rather than simply on revenue growth. Revenue growth without proportional profit increases actually diminish the financial strength of a company. Pushed to extremes, unprofitable revenue growth can bankrupt a firm.

Some will suggest that because of the large increase in individuals with healthcare benefits due to the Act that healthcare companies of all kinds will become much more profitable and, therefore, appreciate in value. As mentioned above, this may or may not be true.

Whenever the newly covered citizens come onstream, will the healthcare system be structured to handle the additional load at all, let alone profitably? What will happen when an additional 10% of patients suddenly flood into the system? How will the new system deal with that? The same is true for all of the healthcare resources such as: nurses, techs, chemical processing labs, drug manufacturing facilities, medical device manufacturers, hospital facilities and a lot more businesses in the healthcare industry not enumerated?

Firms are structured to handle a certain volume of

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business in a profitable manner. Suddenly adding a large amount of business introduces extra costs incurred to accommodate the additional volume. This can diminish profitability, sometimes even creating losses on the additional production if the firm is unable to increase their selling price(s) to cover the shortfall. This doesn't even consider the additional costs incurred by their "upstream" vendors experiencing the same problems. In a free market, the market will decide if the firm can raise prices or not, should they so choose. It depends on the circumstances and the strength of the demand.

But this "market" will be under government control, *not* the free market. Will the government force producers to sell their wares at prices in existence prior to the massive influx of new demand? If so, don't expect producers to go to the additional trouble to meet the new demand, maybe running themselves out of business in the process. How will either scenario succeed in both meeting the additional *demand* (a very misused economic term in our modern society) from new patients and in keeping costs down? Will the government be as "fair" in its decisions as the shifting of the demand and supply curves from the decisions of multiple participants in a free market? (Hint: Which choice would buy elected officials the most votes?)

What about the providers that are people? (Doctors, nurses, techs, lab techs, office personnel, and so on. Herein after called HCP's) Will they have to work longer hours to deliver healthcare to the expanded base? If so, will they make more? Enough more to justify working those extra hours? For how long? Who gets to decide? One would suppose that, given the enormous control already exerted over the providers by the government, it would only be a matter of time before the government would assert direct control over the direct providers. History says they wouldn't make as much money, be much less satisfied with their jobs, and some would eventually drop out of delivering health care.

Let's see: less money, less control over your business and your personal life, more people looking over your shoulder, more risk, less freedom. Many of the incentives to become an HCP have been lost or diminished. What kind of person would want to become a HCP under such conditions? *How will the government insure we have enough HCP's?* Will they *force* existing HCP's to continue delivering health care? Given that becoming an HCP is no longer nearly as desirable, how will they insure a steady supply of qualified HCP's over the long term?

How about the profitable management and needed expansion of hospital/clinic facilities? Decisions about the size and placement of such facilities are not short-term. It can take years and many millions (billions?) to make these facility decisions. In order to meet the expanded need in the short-term, will the government force hospitals to put three patients in two-patient rooms, similar to how they put 2,400 high school kids in a school built for 1,600 when I was in high school? What will they do?

Who will make the short-term and long-term decisions as to the facilities needed to deliver our new health care? How much control with the government exert over the services provided, location, design, size, and, ultimately, the cost of our medical facilities? Who will take the risk to build or expand without government guarantees under such conditions?

I haven't seen anything yet that would "bend the cost curve down" as the pols contend. Forcing providers to accept less than a fair market price for their time, products and facilities by government edict doesn't change the real costs. It simply hides them and forces the providers to suffer losses. Or to lie about their costs. Or to recover them from some other division of their businesses. Or not put their capital at risk in the first place.

The Endgame

It's not hard to see the direction this is going. The Act was a first step. By taking away freedom, profitability and satisfaction from the HC system, the Act eventually destroys the existing system as the participants, one by one, leave. This leaves a void that must be filled by – who else? – the government. If you haven't already done so, now would be a good time to read Atlas Shrugged by Ayn Rand.

The single provider system was probably always the endgame for the Act. The implications of the single provider system, especially as provided by the government are staggering. 1/6 of the US economy is healthcare, if what I hear is true. It simply won't work with the government making all the decisions and "private industry" taking all the risks. Private industry isn't stupid. They know when NOT to play the game. That's one reason they're still in business.

A single payer system brings about the monopolistic pricing model. I suggest you review how "cost effective" such a model is. Who wants the healthcare system to deliver healthcare with the loving care and sparkling efficiency of the DMV? The TSA?