The CJ Investment Newsletter

Callom B. Jones, V
Investment Adviser Representative

Everything is NOT Fine

Purpose

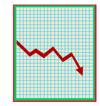
The *CJ* Investment Newsletter deals with the entire spectrum of securities investing, including cash (money market funds), bonds, equities and options. It will evaluate the overall investing environment and then discuss the relative allocations of these asset types, as well as strategies to implement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

This month's newsletter will be a little bit of a departure from normal. It will be written more in a "stream of consciousness" mode, rather than its typical "present an idea, make the case" format. I'm hoping to present more ideas and thoughts than normal, but, obviously, there will be less examination and evidence presented for each idea than normal.

In a sense, this will be more "newslettery" than my normal format. Please provide feedback as to whether you like this type of presentation and would like to see it occasionally, or even often.

Reading

Not too surprisingly, reading other writers provides much of the fodder from which I choose to write myself. Often it will provide me with new ideas or new takes on old ideas I consider of sufficient merit to share with you. In the process of "catching up" this month, I've come across many terrific articles from my favorite sources: Richard Russell, John Mauldin, Robert Prechter, Doug Casey, the PIMCo folks, Peter Schiff, Mises.org, to name a few.

(Continued on page 2)

"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)

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)

The predominant thoughts that keep occuring to me as I was priviliged to read all these brilliant people were:

- they don't believe (nor do I) the market will hold these levels
- they all focus on underlying issues which should or will be damaging future market prospects
- they describe at least one and, often, several reasons why the markets should not be at these levels
- they are clearly concerned with government policies, especially European & US government policies, as not only being unhelpful in the current situation, but actually producing conditions that should worsen both the markets and the economies of the world.

It's actually kind of surreal – almost like watching Ayn Rand's magnificent *Atlas Shrugged* played out in real life. The trouble is, unlike a work of fiction, real people either are suffering or will be suffering as many of our "leaders" disregard the tough lessons of the past to get votes for their own political gain in the short-term. Rand clearly laid out the results of ignoring these lessons in her writings. In the case of America, many of them are disregarding the ideas on which the US was founded and that made America the "light of the world," especially in the last half of the 19th and first half of the 20th centuries.

Social Change & Holistic Health

At this point, you may be asking, "What does this have to do with investing or even the economy?" Good question. The answer is perhaps not obvious, but is clear once revealed.

Investing is a part of our economy, which is a part of our society, which is a *holistic* unit. The bodies of most living creatures, including people, are also holistic. *We can discuss individual organs or organ systems in order to help understand them, but they cannot function in the absence of the rest of the whole.* If part of the whole becomes injured or sick, it can and, generally, will affect the other parts of the whole. If a critical part of the whole becomes so damaged it becomes nonfunctional, *the entire entity dies.*

If we are supposed to be a free capitalistic society, then certain political behaviors and societal (political) beliefs that violate either the freedom or capitalism can hinder or damage the health of the entire society. It's not hard to imagine that damaging the health of the entire society will funnel down into the economic system and further down into the investing organs. It's foolish to think we can change core beliefs and/or behaviors that have been proven through time to be necessary for either the freedom or the capitalism and expect everything to continue to work properly, or even for a free capitalistic society to survive.

Our society has been in a major upheaval since at least the 1960's, if not since WWII. Yet, we act as if all those changes have had only positive effects on our free, capitalistic, Judeo-Christian work ethic "body." As a good friend of mine recently said, "We continue to act as if everything is fine; everything is NOT fine." Our reach for a more egalitarian society through the adoption of socialistic principles, regardless of how humane and/or utopian it may appear, affects the values upon which our society, economy and investing were built. The truth of this becomes obvious through reading earlier philosophers and economists versus more modern ones, even if you're too young to have experienced it firsthand, as my generation has. Some of our "progress" is real and helpful; some of it is destructive to our societal "body."

Socialism and capitalism are not compatible within a single societal body. Introducing "too much" of one into a society that is primarily the other will "kill" the original organism. The lethal "dose" is not high, either. The belief in, work ethic and discipline required by a capitalistic society is undermined by the egalitarianism and unearned benefits dispensed by socialism, regardless of how humane those benefits are. Freedom, ownership and control are undermined by the level of governmental control required to seize the assets of the producers to dispense them to the receivers. This doesn't even mention what the seizures do to the future motivations of producers to continue producing. Altruism has never proven itself the motivator self-interest is. Actions have consequences; they are not always positive.

Ludwig von Mises wrote about this in a wonderful article he called *Laizzez Faire or Dictatorship* in 1949. It can be accessed through Mises.org at the following: http://mises.org/daily/814. It's a long, but incredibly informative article.

Even before Mises, the famous Alexis de Tocqueville, writer of Democracy in America (2 volumes, 1835 and 1840), was speaking and writing about the potential for the changes discussed here. A couple of quotes from de Tocqueville:

- "The American Republic will endure until the day Congress discovers that it can bribe the public with the public's money." from Democracy in America

(Continued on page 3)

(Continued from page 2)

- "A democracy cannot exist as a permanent form of government. It can only exist until the voters discover that they can vote themselves largesse from the public treasury. From that moment on, the majority always votes for the candidates promising the most benefits from the public treasury with the result that a democracy always collapses over loose fiscal policy, always followed by a dictatorship. The average age of the world's greatest civilizations has been 200 years."

I'm not trying to preach or to offend (I'll leave that to the politicians and the media), but some of the history's greatest thinkers believe these ideas are true. Not to mention the signers of the Declaration of Independence and the US Constitution.

Now we understand why not all societal policies and actions are beneficial in all circumstances. Certain changes in our attitudes, policies, laws and regulations can definitely be counterproductive to the continuation of what many still consider a free capitalistic society. Other changes can be productive, if they reinforce the ideas and values that made America great in the first place.

Yes, This Letter is Still About Investing

What promotes a healthy investing climate? Perhaps these do:

- Timely access of accurate information to all potential investors
- Minimal barriers to entry, such as transaction costs
- Taxes assessed upon net gains and losses that are not so high that they discourage investment directly or interfere with investors' risk/reward relationships. (In other words, diminish the rewards to the point that the risk of loss is no longer worth taking for the potential after-tax gain.)
- Sound money of consistent enough value that virtually all investors understand the actual risk they are taking through investment transactions

Societal values of honesty, trust and respect for others' property are also needed, but they are not listed because such values are needed for much more than just a healthy *investing* climate. Such values are also quite difficult to legislate and enforce. However, they are surprisingly easy to damage by using class envy and other such tactics to break down respect for these core societal values.

So, how does the US score on these four needs? Especially since the internet became ubiquitous, the first two are generally true, although there are still far too many cases of insiders with information not yet disseminated to the investing public. Certainly cheap transaction costs are easily available these days to someone with a connection to the internet.

Since the advent of the US income tax in 1913, the third bullet has been a failure, although less so since the "Reagan Revolution" of the early 1980's. Judging by their behavior, US politicians rarely consider the economic cost of anything when looking for additional sources of revenue with which to continue their profligate spending to buy votes. (See the de Tocqueville quotes, above. Here's your proof.) They simply don't understand or don't care that heavy taxation in this area will curtail investing behavior as the after-tax reward/risk ratio changes.

The fourth bullet has been a total "train wreck" for the US since the Federal Reserve Act of 1913. Rapid change of the value and cost of money requires either a complicit Fed or Treasury willing to print money to enable politicians to overspend (monetizing the debt) and to attempt altering the economy and investing through manipulation of the money supply and, by default, interest rates. By changing the amount of money and the cost of money (interest rates), the Fed introduces more uncertainty into transactions that already have plenty. How much harder is it to accurately price a purchase, sale or investment of anything when the value and cost of the money changes, often without the participants being aware of the extent and timing of either? How can you tell if your transaction or investment will be to your benefit *vis a vis* another transaction or even simply saving the money? Consistent with Austrian Trade Cycle Theory, the likelihood of capital loss is magnified enormously by such behavior. And with it, the likelihood and severity of recessions and depressions.

While changing America using both the best *and* the worst of our humanity, social and political changes may have made our society "sick" due to lack of understanding and care. I would love to invest as if there will be blue skies and clear sailing ahead. But, I believe the more responsible course is to position our portfolios to weather the storm (as I think I have) and continue to look for signs of lasting, positive changes that would allow for greater returns with less risk.

No, everything is NOT fine. I believe acting like it is will only cost us money now that could be used to make greater gains later, when times are better.