

Bastiat the Genius

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



- We discuss Frederic Bastiat, the brilliant French economist from the early to mid-1800's. I think he will surprise you.
- While having given up some ground this week, stock market indices, as well as precious metal prices, in general, are at or close to multiyear highs.
- We discuss the newly rising blowback in the media against US government economic policies.

Next

Expected Move



Frederic Bastiat

Bastiat was a Frenchman born in 1801 who lived (unfortunately) only until 1850. You may hear about him as a "pamphleteer" or a "minor economist." No truth in advertising there. The man was exceedingly brilliant in both his theoretical contributions and his astounding communication skills.

By far his most famous book is titled, simply, The Law, first published in 1850. I read this short book many years ago. What he described was, to many, the ideal relationship between people, their governments, and the law. In addition to presenting his philosophical foundation based upon his understanding of past philosophers and his own thoughts, he holds out the then young United States as the most perfect earthly expression of this

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"Life in general has never been even close to fair, so the pretense that the government can make it fair is a valuable and inexhaustible asset to politicians who want to expand government." – Thomas Sowell, Jewish World Review, 6/26/2012

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ideal relationship.

Of course, the US then wasn't perfect, either. Bastiat didn't condone slavery or any of the other imperfect aspects of it, but, on balance and philosophically, he believed the US was both the best expression (so far) of how a country should be constructed and felt America was the hope of the world for the future. Since then, America has changed greatly, with both gains and losses concerning what many consider ideal.

Clearly, Bastiat was a great fan of liberty, personal responsibility and our founders. I'm pretty sure he was aware of Ben Franklin's famous quote: "People willing to trade their freedom for temporary security deserve neither and will lose both." Franklin's quote comes in many permutations as he reiterated it over the years, so you may have heard the quote presented slightly differently. The Law fleshes out the proper relationship between people, government and law in a clear and most understandable way. Given how hard it is to convey these ideas, especially briefly, his communication skills were truly astonishing.

Since The Law was primarily a book on political philosophy and because it is considered his masterwork, many, including myself until recently, were unaware of the scope of his incredible contributions to economic thought.



Recommended Reading

Bastiat, Frederic, The Law, Ludwig von Mises Institute (2007)

Bastiat, Frederic, The Bastiat Collection, Second Edition, Ludwig von Mises Institute (2007)

You can download many, if not all, of Bastiat's works free on www.Mises.org. In fact, there is an enormous library of brilliant writings available for free downloads on the site. Hundreds of volumes. Most books are available as both .PDF and .epub (iBooks) files. They are yours to use free electronically, but they have been crippled for printing purposes. After all, they don't want you making money off their gifts to you, as well they shouldn't.

Bastiat's thoughts and writings predate the entire Austrian school founded by Carl Menger (theory of marginal utility and pricing) in the late 1800's. Menger's Principles of Economics was originally published in his native German in 1871. Bastiat was

also a contemporary of Marx (about 20 years older than Marx) but died decades earlier.

In addition to reading The Law, I suggest starting by reading That Which is Seen, and That Which is Not Seen and What is Money? from The Bastiat Collection. If you do, please contact me and let me know what you think of his writings!

Before leaving this topic, I have a personal story related to Bastiat. When I used to teach Camp Enterprise for Rotary Club 13 in the late 1990's and early 2000's, one year we had a foreign exchange student from France. I assumed (and you *know* what that means) that the student was familiar with the famous Frenchman. Wrong. He had never heard of him. I told him about Bastiat and suggested he learn more for himself. I don't know if he ever did.

After my conversation with the young man, I reflected that night on why he would be completely unaware of one of his country's greatest and most famous minds. Finally, it hit me: France was a *socialist* country. Not socialistic; socialist. *Of course* their educational system would not want to teach their students about freedom, personal responsibility, limited government and the other ideals taught by Bastiat. Why introduce such *radical* thoughts into the populace? It could only mean trouble for the reigning socialist government. Understandable from the government's point of view, but such policies deprive their own people of what some of us would consider their birthrights.

Then the truly frightening thought hit me: what is our *own* government avoiding teaching us about our own history, ideas and heroes? People are people; politicians are politicians. Examples abound regarding specific ideas and philosophies being chosen from a much larger group and being taught to us at the exclusion of the others. Evolution in biology and Keynesianism in economics come to mind. My public school education never included any alternate ways of thinking on those topics. Please review the Franklin quote above in this context.

The Markets, the Economy & the Election

After almost breaking below the 12000 level in early June, 2012, the DJI, along with the SPX and COMP are all close to or at nominal highs since the March, 2009 low. The Fed's recent "QE Infinity" announcement seems to have buoyed the markets again, with investors reacting like Pavlov's dogs instead of assessing what the moves mean.

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Additionally, while he has the political “cover” to take such actions, not since Greenspan’s actions (that many think threw the election to Clinton in 1992), has a Fed Chairman taken such a major action with such clearly predictable partisan results. People with different consciences would have waited until after the election so as not to sway it towards one candidate. Draw your own conclusions about Bernanke’s character, as well as his economic judgment.

Even being buoyed by the troubles in Europe, China and the Muslim world, the US\$X is below 80 again, after having risen to over 84 (intraday) in July, 2012. The “all time” low is around 71, so the US\$ is still not acting strongly against even such weak competition as the Euro and the Yuan. It’s not clear to me whether this downtrend will continue and set a new low in this move. If the US\$ was truly strong, it should be breaking to new multiyear highs in light of its major competing currencies, but that’s one of the prices of infinite money printing without comparable real wealth being created to keep the currency value stable.

The only reasons I can see that we are not experiencing massive inflation due to government and Fed actions are that the multiplier and the velocity factors of the various money supplies have “cratered” in the words of a senior bank official with which I recently spoke. Both measures are hovering around all-time lows across the various money supply measures. Even if our government doesn’t understand, many Americans know that they need to conserve assets and limit spending in a period of recession and uncertainty in order to assure (as much as possible) that they can survive until times become better. Their survival instincts have limited the velocity and multiplier factors that contribute to inflation. Thankfully.

Similarly, the price of gold and precious metals has risen from its May, 2012 closing low below \$1550/troy oz to around \$1770/troy oz currently. This move was a bit of a surprise to me, given my studies of the money supplies and the forces acting on them. My technicals don’t suggest this should have happened either, so I’m having a hard time trusting this move enough to place client (or personal) funds at risk, hoping the move will continue. It looks more like a “knee jerk” reaction to the Fed’s pump priming, deficit-spending-enabling policies. Once the participants realize there’s no real economic gain (only a false nominal gain – see last month’s *CJ Newsletter*) to be had, they’ll exit these trades as quickly as they jumped in and look for means to realize actual purchasing power gains.

The Rising Blowback

I had a recent discussion with a friend of mine who wisely wishes to go unnamed. He asked me if I was aware of the increase in the number of voices expressing what folks like me have been saying for years: alarm at governmental and Fed actions that we believe to be the root cause of our economic problems. Apparently, evidence of the negative consequences is becoming obvious, even to some who originally disagreed with my beliefs and theories, subsequently causing some of them to change their minds. Consequently, more are voicing those opinions in the various forms of media, causing a rising blowback against these damaging policies.

My friend is a voracious reader and follower of books, investment newsletters, and news. While I keep up with major trends, my reading is primarily focused upon sound investment theory (of all types) from which I can apply proper thinking to the underlying conditions. This helps me limit risk and provide my best chance of realizing income and/or gains. Much of my time is spent studying and doing basic proprietary research, then applying those ideas to real data, which I accumulate from a variety of resources. It makes for some interesting and informative conversations between us.

Follow-up on the September CJ Newsletter

One of my non-client readers criticized my September *CJ* (*The Nominal vs the Actual*). Two weeks later, this article appeared in the 9/16/2012 Wall Street Journal: <http://online.wsj.com/article/SB10001424052702303561504577497442109193610.html>. Written by five senior fellows at Stanford’s Hoover Institution, these folks, unlike me, have impeccable economic and policy credentials. As my friend and I discussed this article, he commented that either they or I could be accused of plagiarism for parts of each article. I’d worry, except last month’s *CJ* came out first. Whew! After criticism from one source, it was heartening to be confirmed by so many qualified experts.

Still, I learned a lesson many years ago in the investing business. Opinions abound and they often conflict. Rather than argue pointlessly when someone disagrees but doesn’t want to hear the other side, sometimes the best answer is to simply say, “Only one of us is right. Time will tell.” Let’s hope the price we pay if I’m right isn’t as drastic as those experts and I fear it might be.