

## Witnessing History?

### Quick Look

Market	Next Expected Move	
	Month	YTD
DJI	0.65%	1.51%
COMP	3.90%	5.54%
SPX	1.91%	6.05%
Gold	5.64%	9.98%



- We find the recent policies and ad campaign for New York State amusing.
- We appear to be witnessing history, or, at least, historic change to the meanings of some economic terms and with that, a change in the way economics is perceived, reported and manipulated by world governments, especially the US Fed and government.

### Tax Breaks

Have any of you seen the commercials touting the benefits of starting a company or moving a company to the state of New York? They tout that New York is second in the US for some important measure like job creation or “business friendliness.” Here’s the kicker, though: The people on the commercial openly state that if you relocate or start a business in New York state, you will be exempt from certain business taxes for 10 years!

What’s wrong with this picture? To begin with, New York is one of the most liberal states in the US. To find ANY elected Republican, let alone a *conservative*

Republican among the NY politicians is very rare, indeed. I mean, we’re talking Chuck Schumer, Mrs. Clinton (when she was a senator), and so on.

Do you know what such politicians call such “business friendly” policies? *Loopholes!* Simply put, tax *loopholes* are tax incentives or abatements granted to some, but not all, taxpayers in order to encourage certain types of behavior by those taxpayers.

How many times have you heard NY and other liberal politicians rant on and on about closing tax loopholes? And why do they **say** they want to close them? Because they aren’t *fair*, of course. They give the *rich* an unfair advantage over the *poor* and the *middle class*. Be sure to notice that when the pols rant, **none** of the words italicized above are defined. So, like almost all pols, they are communicating with, but not informing, the folks listening.

It seems that virtually all politicians are dishonest and manipulative these days. It’s become expected. Still, the hypocrisy in this NY campaign was so egregious, I just couldn’t help bursting out laughing the first few times I saw their ads on TV. It takes a LOT of hubris to tout that you are now using the same tools/policies that for decades you mercilessly trashed your opposition for using. Nice to see at least some folks on one side of our political divide have a sense of humor.

### Economic Reporting

Two recent economic reports paint somewhat different views of the US economy. The “final” revision of Q1 2014 lays out a 2.9%

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contraction of the US economy for that period. The most recent jobs report from the BLS (Bureau of Labor Statistics) indicated that employment increased about 288,000 jobs for May, I believe. This number was significantly larger than forecast. Also notably good was the decrease in the unemployment rate to 6.1%, a new low since the recession began 5 years ago. Some of the other numbers in the jobs report were much less encouraging, but the headline numbers were quite encouraging.

If you read my October 2013 *CJ Newsletter (CJ)* entitled *Governmento Obscuro*, you may wonder what the meaning of these numbers actually were. I know I did. If you have no idea what I'm talking about, I suggest you re-read that issue of the *CJ*, which discusses in detail the methods used by our government regarding statistical data accumulation, calculation and presentation. Virtually all of that information came from a phenomenal book written by Chris Martenson entitled The Crash Course.

For now, let's suffice it to say that the government incorporates enough "fudge factors" in the calculation of their presented statistics that they can pretty much manipulate any reported numbers after 1960 or so to present whatever story they want to present with their reported statistics. From page 4 of the 10/14 *CJ*: "So, added to the \$1.6 trillion of imputed income, the total government adjustments to 2003 GDP (of \$11 trillion) were \$3.9 trillion, or 35% of the total reported GDP. Over 1/3 of the reported total was government adjustments!"

That last sentence still gives me nightmares.

In the context of what we are discussing now and in recognition that up to 1/3 of the reported amounts are essentially "fudge factors" built in to make the numbers look how the government wishes, WHY would the government report a 2.9% contraction in GDP for Q1 2014 for their third (and presumably final) revision number? A sobering question, indeed. WHY would they also report employment numbers, which indicate that the economy is expanding and creating jobs at the best pace it has since the beginning of the recession that began in 2008-9 (that we are still in)? Do those two not fly into each other's faces?

We already know they "cook the books." The best we can hope for is that they do so in a consistent manner so that observers and decision makers will have comparable, if not accurate, numbers with which to make economic decisions.

As an aside, does it not strike you as hilarious that the federal government can and does manipulate data in this manner when that same government would arrest and incarcerate any group or person for even attempting manipulations of this sort in any data reported to that government? Don't believe me? Try massaging the information on a *tax return* in this fashion, get caught, and see what happens to you.

Trying to get meaning from the GDP number is difficult. WHY did they report a contraction? WHY NOW? With all the fudge factors at their disposal, they could surely have reported positive GNP, no matter how small, for Q1 2014. It's hard to understand. The only thing we really know for sure is that reporting this contraction has political undertones. Why? Because you don't build a system in which 1/3 of the reported number can be manipulated for anything *other* than political reasons.

If they report a contraction now and another in Q2 2014, that would constitute the reporting of a new recession. I simply can't see how this administration would consider that something that would work to their advantage. Unless they have a sure fire plan to manage to blame the opposition party for the new recession and they KNOW they can make it stick.

The timing would be right. Show a new recession, blame it on the opposition, with about 4-5 weeks to hammer the message home before the November mid-term elections – and not enough time for the opposition to refute and react effectively. The risk to trying such a thing would be enormous, though. If they can't make it stick, the backlash could potentially destroy their own party.

### Witnessing History?

The larger issue is this: On a worldwide basis, the political and economic manipulation from governments and central banks threaten, through misinformation and misreporting, to kill the very economies and political systems they wish to control.

World governments shoving Keynesian economics and its derivatives down our throats as the "only legitimate" form of economics since 1937 changes the way we think about economic systems and security. In some ways, the postulations of equilibrium and the treatment of human beings as stimulus/response organisms alters our thinking about economics in a way that changes how we view economic activity of any kind – capitalism, socialism, communism, *et al.*

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Some of the implications of teaching for political purposes things that are not proven as true and misreporting information that is neither true nor accurate to the economic actors (us) are both far-reaching and sobering.

Economic actors will *not perform* at their highest levels without proper understanding of what they will be dealing with. Nor will they perform at their highest levels when given misinformation, as opposed to accurate information.

Decisions made from false premises and misinformation will result in higher *failure rates* in businesses, Successes will be less successful than they could have been. In other words, the economy would not thrive as it could under truthful teachings and information.

The previous paragraphs assume that the economic actors still act as if they are in a free market capitalistic system. The *thinking* of some economic actors will change as they realize the worlds they are living in are not as they have been taught and as reported.

The *behavior* of economic actors will change when they realize that the central bank manipulations, for the benefit of governments, not the actors themselves, have built-in mechanisms that cause the wealth the actors have earned to deteriorate over time through the “hidden tax” of inflation.

The *confidence* of entrepreneurs and the capitalists that fund them will deteriorate. Inability to keep wealth earned through the entrepreneurial process will lower entrepreneurial activity as both parties decide more often that a new enterprise or expanding an older one is “simply not worth the risk for such a small return.” Capitalists will be less willing to risk saved capital on entrepreneurial ventures as well. The long-term impact of this change will substantially stunt the growth of our economy and create higher unemployment, underemployment, and lower system satisfaction, including more social unrest.

Eventually, as central banks continue to target inflation as a continuing goal, money will have lost all meaning except as a government-mandated medium of exchange (fiat currency). Such “money” will no longer be a storehouse of value because of government overspending causing fiscal deficits that are enabled by a cooperative central bank that sacrifices currency value to pay for the government’s largess. In effect, money and wealth will no longer be synonymic in the actors’ minds.



## Recommended Reading

“The Delusion of Perpetual Motion” *Outside the Box*, 7/2/2014, John Hussman with an introduction by John Mauldin

[www.mauldineconomics.com/outsidethebox/the-delusion-of-perpetual-motion](http://www.mauldineconomics.com/outsidethebox/the-delusion-of-perpetual-motion)

John Hussman is one of the most famous market analysts and investors in history. If you watch CNBC or Fox Business regularly, you have most likely heard him and/or heard of him. He is not a cheerleader. He lays out his perspective for market returns for the next 5-10 years clearly and concisely in this article. Mauldin’s introductory comments are also well worth reading, although some of them are borrowed from Hussman’s article.

There are many excellent points and quotes in this article, but perhaps the most telling is this one from Hussman:

“It’s fascinating how investors come to forget that markets move in cycles and not in perpetual diagonal lines. As value investor Howard Marks wrote in *The Most Important Thing*, ‘Rule number one: most things will prove to be cyclical. Rule number two: some of the greatest opportunities for gain and loss come when other people forget rule number one.’”

Adam Smith himself said the minimum necessary requirements for prosperity in a capitalistic system were:

- Property rights
- Free trade
- Sound currency
- Modest taxation

In the United States, how many of those conditions are met today? We all have to decide for ourselves, and then vote accordingly.

Thus far, students of investing, economics and history that believe in free market capitalism have applied the lessons of history to stake out our territory in “this bull market is artificial and must correct” thinking camp. We are expecting the markets to correct to at least a realistic valuation, if not overshoot by a lot. The latter scenario is actually most likely based upon history. It should be easy to recognize when it happens, but, if an investor is not already positioned for the storm, exiting positions without incurring great losses is very difficult.

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But, that scenario is not where we may be witnessing history. What if the cumulative manipulation of our understanding of economics and money by government actions over the last 75+ years has actually changed the thinking and behaviors of a majority of investors, including professional investors?

- What principles logically follow from having money that changes value so fast, it has no innate value at all and this is accepted and expected by a large number of actors?
- What principles logically follow from expecting an introduction of worthless currency into the money supply will actually solve real economic problems? Further, what happens when it finally fails, as it eventually has to, most likely with a currency collapse?
- What rules will apply to pricing when the currency used for exchange is known to have no intrinsic value? How will this distort what used to be known as a free market exchange?
- Where will wealth be stored when it isn't stored in the currency of the realm? Will there be a substitute currency that does have value emerge? Is there an investable opportunity there?

Of course, there are many other things that would change in the investing, business and social worlds if enough people reject the "old" truths or were never taught them in the first place. Keynesianism was never accepted because it was proven right. It was accepted because it provided governments cover (permission) to exercise the power and control they had been desperately craving for decades or longer. So, governments used the power of the purse to control the educational system and "experimented" on citizens by teaching them that Keynesianism was the "gold standard" (pun definitely intended) of the economic world.

Control over the purse means control over the public education system. How many other things were we taught or not taught because of this power? President Reagan famously said, "It's not that our Liberal friends are ignorant; it's just that they know so much that isn't so." How much do we each believe is "true" simply because that is what we were taught?

From what I think I know from history, much of the "knowledge" our government has taught us will prove to be wrong – ESPECIALLY in the realm of science. Anyone who can use the term "settled science" is someone who doesn't even understand what science is. I was a scientist before I became a businessman. No REAL scientist would use such a term.

Getting back to point, there is nothing like losing money to make someone search for the "truth," that is, what actually *will* make money. False knowledge will continue to make a person err, and provide an impetus for him/her to learn what is "right," that is, what works because it's real. Having "skin in the game" tends to force someone to learn what is real – or it teaches him/her how to leverage political power to provide what he/she hasn't earned.

Right now, central banks around the world and, especially our Fed, are experimenting on us with economics that have never been proven. If they do know that the economic rules have changed, the Fed is not making the new rules readily available for all of us to examine, learn, analyze and use to make profits. As the top government economic and monetary authority, you might think they had an *obligation* to teach the new rules to us. They have not. **If** the old rules are still good, look forward to a bear market. If they are not still good, we may be witnessing a major historical event. Stay tuned.

### Purpose

The *CJ* Investment Newsletter deals with most of the spectrum of securities investing, including cash (money market funds), bonds, equities and derivatives. It will evaluate the overall investing environment and, from time to time, discuss the relative allocations (including avoidance) of these asset types, as well as strategies to implement them (individual stocks or bonds, CEF's, ETF's, open-end mutual funds, and derivatives). Essentially, it reflects what I'm actually doing with my clients.

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 consider important when investing may help you. I'd also love to hear any questions or comments you may have about my letter.

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 analyze the markets and economy, as well as 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 contact me for more information.