

CAPITALISM | Everything is NOT fine

VIOLATIONS OF FREEDOM DAMAGE OUR SOCIETY

The bodies of most living creatures, including people, are holistic. We can study individual organs or organ systems to help understand them, but they cannot survive in the absence of the rest of the whole. If a critical part of the whole becomes too damaged, the entire entity dies.

Investing is a part of our economy, which is a part of our holistic society. In a free capitalistic society, certain political behaviors and beliefs that violate either freedom or capitalism can damage the health of the whole society. It's foolish to think we can change core beliefs or behaviors repeatedly shown through time to be necessary for freedom and capitalism and expect the whole to

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GUEST COMMENTARY

continue to work properly, or even survive.

Our society has been in a major upheaval for multiple decades. 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, weakens the foundation upon which our

society, economy and investing were built. Some of our "progress" is 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 appear. Freedom, ownership and control are undermined by government seizing (taxing) the private assets of producers to dispense them to receivers. What do

such seizures do to the future motivations of producers to continue producing? Altruism has never proven itself the motivator self-interest is.

An often-quoted proverb about the dangers of loose fiscal policy is as follows: "The American Republic will endure until the day Congress discovers that it can bribe the public with the public's money." Some of history's greatest thinkers would agree. Not to mention the signers of the Declaration of Independence and the U.S. Constitution.

What promotes a healthy investing climate? At a minimum, these appear necessary:

- 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 diminish rewards to the point that investors consider the risk of loss 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.

Especially since the Internet became ubiquitous, the first two are generally true. Since the advent of the U.S. income tax in 1913, the third bullet has been a failure, since politicians rarely consider economic cost when looking for additional sources of revenue with which to continue spending to buy votes. The fourth bullet has been a total train wreck for the U.S. since the creation of the Fed. 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 can anyone measure an investment's risk/reward with so much additional uncertainty?

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.

Callom B. Jones owns Trend Capital Management LLC, a registered investment adviser in Overland Park. A longer version appears as the May newsletter at www.trendcapitalmgmt.com.