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The CJ Investment Newsletter

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# *Omnibus*

## Purpose

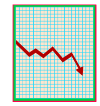
The *CJ* Investment Newsletter deals with the entire spectrum of securities investing, including cash (money market funds), bonds, equities and options. It will evaluate the overall investing environment and then discuss the relative allocations of these asset types, as well as strategies to implement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

- Why is the *CJ Newsletter* is being sent early this month?
- Omnibus? Are we in England?

The *CJ Newsletter* is being sent early this month (***without page 4 because there's no month-end data***) as my wife and I are taking a trip in which we didn't have complete control over its scheduling. The schedule meant that we would be gone when the *CJ Newsletter* normally would be written. So it's being written early for a variety of good reasons, not the least of which is the upcoming election.

As for the title "Omnibus" above, it harkens back to my accounting days when the FASB would issue an omnibus opinion or pronouncement. My Merriam-Webster dictionary app shows omnibus *the adjective* defined as: 1) of, relating to, or providing for many things at once and 2) containing or including many items.

While I usually try to be thematic and discuss important issues at some length, sometimes it seems appropriate to make a few important points for thought, rather than trying to explain something involved or to argue a case. This format may provide a broader, if shallower, perspective than the "normal" CJ Newsletters. On with it…

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Something people, but especially politicians, should take to heart:
*"Being powerful is like being a lady. If you have to tell people you are, you aren't."*
\- Margaret Thatcher

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### *The Stock Markets*

Since last week's short-term highs, the stock markets have dropped sharply, as evidenced by:

| | |
|---|---|
| Dow Industrials | ↓ 3.5% |
| S&P 500 | ↓ 3.1% |
| Dow Wilshire 5000 | ↓ 3.2% |

This seems unlikely behavior during an election season. Clearly, market participants are concerned about the elections' outcomes. I could speculate here, but that's all it would be. There's certainly not much sense in doing that, when at least some of the uncertainty should be resolved on election day – November 6, 2012.

Part of my point, though is that I don't intend to make any investing moves prior to the election. Such moves would be anticipating results from an event that is very much in doubt. That is more like gambling than investing. We don't do that here at Trend Capital.

There is one thing we can assert, however. It's axiomatic in investing that *capital flows to where it provides the greatest return*. For the last few years, the US has had the enviable position of "queen of the pigs." Capital has flowed here in spite of our governments' mismanagement of the economy, our assets and our currency *simply because we're not as bad as the rest of the world is*. Should our government manage to damage our economy and currency so that there is no advantage to investing here over the rest of the world, heaven help us. It would be bad – for the entire world and us.

On a US-only scale, if it becomes clear that the next government will likely be anti-business and anti-investing or that the "fiscal cliff" will not be dealt with, expect a major decline in the stock and bond markets and most other forms of investing as those assets are (properly and responsibly) liquidated and protected as much as possible by their owners.

If the next government appears to be willing to compromise, be both business friendly and deficit hawkish, there may or may not be a market rally. It depends somewhat upon how well the next government proves it is committed to dealing with the serious issues created by long-term deficit spending, which was enabled by the Fed's excessive currency creation. This has been happening at least since Alan Greenspan became the Fed Chairman in the 1980's. After all, are you going to believe an addict the first time he admits he has a problem and promises to clean up? Since some engage in a never-ending search for *fairness*, isn't it *fair* that they should have to earn back the trust of citizens and business after their long binge? Especially since September 2008 – the beginning of Quantitative Easing.

The second scenario may not play out as described above due to the excessive speculation present in the markets today. Too many speculators have profited from "getting out in front" of expected rallies, especially in expectation of more Fed easing. Previously successful behaviors that begin failing will often continue for some time as the extinguishment process for those behaviors plays out.

If we're very lucky and the government starts acting like a responsible adult, the markets may remain stable during the readjustment process, allowing for real gains and earnings to investors based upon something more than debasement of our currency (in which they're measured.)

### *Inflation (Slight Return)*

When pondering the newsletter and all the different subjects that surround successful investing, I was reminded of another example of just how much inflation is damaging our quality of life:

- In 1979, I bought a new Chevette in order to save gas over my old 1968 Charger RT 440. Gas had hit the incredibly expensive price of *$0.80 per gallon* and I could buy the new car, insure it, and actually save money because of the savings in gas and maintenance over my old car. (I was driving 250 – 300 miles a week to work and college.) While a cheap car even then, the Chevette cost about $3,300. Such a new car now would cost at least $12,000. (I hated getting rid of my old Charger.)
- Starting salaries coming out of college in 1981 starting at a "Big 8" accounting firm, were $16,800/year, good money for those days. At $8.08/hour (assuming no overtime – *ha ha*) that was barely over the current federal minimum wage.
- *Nice* Prairie Village Cape Cod homes sold from $65,000 to $70,000. Now they sell for more than $200,000.

The point is: the average person does *not* gain from inflation. If the person holding that Prairie Village Cape Cod sells today, do they make a profit? Not generally. Unless the neighborhood has become more desirable for some reason and the homes in it appreciated *in excess of the inflation rate*, no real profit was realized. If the new accountant starting out

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### *Recommended Reading*

John Mauldin, in his regular *Outside the Box* column introduces us to an absolutely amazing article by Dylan Grice of Societe Generale. Mauldin's title is the subtitle of Grice's article: *Memo to Central Banks: You're debasing more than our currency*. The URL: [http://www.mauldineconomics.com/outsidethebox/memo-to-central-banks-youre-debasing-more-than-our-currency](http://www.mauldineconomics.com/outsidethebox/memo-to-central-banks-youre-debasing-more-than-our-currency)

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today is making $50,000/year, is that person making more than I did in 1981? Not really. Are cars four times better or more valuable than in 1981? Is gasoline five times better? Bread? Electricity? Meat? Most of the stuff we need and use every day? No.

Some people believe that investments, salaries and wages have increased at the same rates as prices, so inflation doesn't matter. We have discussed the reasons many times in the *CJ*, but I do not believe that to be true. The brilliant Richard Russell (maybe the greatest Dow Theorist of all time) recently wrote: "*If stocks and gold go up in price, is Joe six-pack going to live a better life? Hardly. One problem is that the average family man doesn't own gold or a portfolio of stocks, and higher prices for food, gas, heat, insurance, medical and college tuition are just going to make life more difficult for him.*"

### *The "Fiscal Cliff"*

The so-called "fiscal cliff" was a phrase coined to describe the expiration of several tax laws and fiscal provisions that were enacted with sunset clauses. From the overview level, the entire use of sunset clauses for tax and spending is problematic. While sunset provisions can be useful in many cases, they introduce uncertainty into business planning that inhibits, if not extinguishes, business investment and expansion. This seems completely obvious to anyone who's ever tried to make a business decision.

Surprisingly, neither the governments nor the media seem to understand that breakeven analysis, make-or-buy decisions, net present value calculations and a host of other legitimate business tools used by responsible companies become uncertain or worthless when tax rates, government spending and the cost of money are not predictably rooted in sound fiscal practices.

The calculations used to evaluate potential business actions can change dramatically as tax and interest rates change – especially if they can change suddenly and/or arbitrarily. Prudent businesspersons will opt for the conservative course – that is, NOT to lose money – when deciding whether to undertake new projects or even new hires. The survival of their jobs, or even their businesses, may depend on it.

This level of uncertainty in the business environment will continue to inhibit business expansion, including job expansion, until the uncertainty is alleviated. Governments and the media love to blame business for it, but the businesses are being the responsible grown-ups here. After all, they have to *earn* your business and their profits in a tough, competitive environment.

Governments, on the other hand, simply *confiscate* your money. I've recently wondered: Why do so many people trust governments to do the right thing when they simply *confiscate* your money, as opposed to trusting businesses that have to *earn* your money?

*The governments created the problem, own the problem, and are the only ones who can solve the problem.*

Finally, why are governments, especially the federal government, having so many problems governing that didn't appear to be there in the past? Two things seem to be the root issues:

- **Partisanship** Prior to the mid 1970's, both political parties had a full range of political ideologies in them. Subsequently, the Democrats became almost exclusively liberal and the Republicans almost exclusively conservative. Therefore, what were once *parties* look more like *factions* today. Compromise is harder than before.
- **"Transparency"** Transparency is not always a good thing. Ask the naked emperor. In this case, the current, constant glare from the eye of the media may be prohibiting the compromises that lubricated creating legislation in times past. The vilified "smoke filled rooms" are gone – making the compromises done behind closed doors even harder than before. Since the *parties* are more like *factions* today and *compromise* can look like *betrayal* to a faction voter, the constant gossip portrayed as "news" today can easily cost a politician/party a seat if he/she is "caught" compromising. Definitely a disincentive.

Such conditions create enormous friction within governments. Why, then, are we surprised when our representatives can't seem to get things done?