

CAPITALISM REIGNS

The Obvious

Jesse Livermore is one of the *Greatest Legends* on *Wall Street*. Rightfully so.

From him and from experience I am have learned one of the most important things a *Participant* can ever learn in *Markets*:

The Big Money is never made and kept on the “*Obvious*”.

David Copperfield

If you’ve ever seen *David Copperfield* or any other Talent in his League, ask yourself what is critical to “*The Performance*” ?

Your Perception.

This *Ambit of Perception and Performance* exquisitely illustrates how *Economic and Political Power* is exercised in the real World.

The Right Questions

To get on the road to finding the “*Right Answers*” you have to start with the Right “*Questions*”. So let me ask you this first:

If it was clear that Stocks, Bonds, Commodities, Real Estate and Cash (in anything other than the Dollar) were all going to have a substantial loss of value going forward, who would be “Buy” side of anything ?

Now ask you self this, if the *President* said to *Corporate America* – and to all the multi-nationals doing business in the US :

“I want you to Lower your Prices across the board to help the average Consumer and stimulate growth long term for the US”, do you think they would ?

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And if the *President* also said to the *Public*,

“Anyone whose wealth has grown in the 100’s of percentage points, I want you to send that extra wealth back to the Government to pay for all the Debt Obligations we are incurring”, do you think they would ?

The Wisdom of the Four Way Crossing

Have you ever been in the *Big City* at a four way light that has gone out ?

If so, you understand why there is indeed amongst the “*Elite*” as loosely defined, a *Collective of Power*. *And thank God*.

Without them, *Civilization* fails. I don’t know who they are – and I don’t need to.

I know this: *America’s* long History demonstrates they are there in every *Generation* – and what must be done, will be done – like it not, no matter who pays.

Now just what is that ? The “*Answers*” are found in Mathematics.

Intellectually Honest Mathematics

Like questions, Mathematical Answers are derived from the right *Metrics of Measuring* a given factor. In fairness to *Participants*, there are a million statistics, numbers and data points generally.

But the pieces of the puzzle can be reduced to just a few large ones – and they are as clear as can be.

For the *United States* the greatest threat to the *Fiscal House* lay not in “*Unfunded Liabilities*” or the *National Debt* per se, but rather in two aspects:

Interest on the Debt and Demographics.

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What are *US Government* sponsored *Debt Obligations* in reality ? They are claims on the future productivity of the *United States* – and without any question, these obligations are *Long Term* – not *Short Term*.

And as in any transaction, past performance is relevant to the question of future performance on any obligation. So let's look at Past Performance – not Opinion – and a 20 % tax rate on GDP, to get a view on the ability of the *United States* to meet its *Long Term Debt Obligations*.

Let's look at GDP over the last Century in the US at the following marker points:

<u>1920</u>	<u>1950</u>	<u>1980</u>	<u>2010</u>	<u>2040 ?</u>	<u>2070 ?</u>
88b	294b	2,789b	14,728b	49,191b	164,297b
	+ 334%	+ 948%	+ 528%	+ 334 %	+ 334 %

Annual Tax Receipts:

10 Trillion

33 Trillion

That's only assuming the low-end of 30 year growth in the *US Economy*, and assuming a sub-par *Depressionary/ Deflationary Period* in 2010-2020, just as in the 1930's.

We see a lot of numbers thrown out focusing on the “*Unfunded Liabilities*” and other “scary” numbers of US Government Debt Obligations all of which are based on past growth of those Obligations – *but we have yet to see any numbers on the other side likewise showing the same as to US Growth potential based on past growth.*

Based on this it is reasonable to suggest that by 2040 the US Government will be taking in *yearly* is today the *entire US Debt*, and by 2070, the US Government will take in yearly 1/3 of the “*Unfunded Liabilities of \$ 100 Trillion*” that some are projecting by that time.

When you apply this *Intellectually Honest Math* – based on *valid and demonstrable Past Performance* - an entirely different picture of the US future emerges – one far from what the *Doomsayers* would have everyone believe.

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America is truly a great Nation – it should be no surprise that it has great problems as well. *America's* past performance – *Politically* and *Economically* has given every reason to have Confidence in it's future, no matter how things appear to some today.

For those who think otherwise, take a close look at the *Years 1863, 1932 and 1968*.

What must Happen will Happen

The five central keys to the *US Fiscal Future* are:

1. The *United States* needs to refinance its Debt long term, but at sub par rates.
2. The *United States* needs to prevent any further *Demographic Diminution* of its *Revenue Base*, and at very least, substantially slow it.
3. The *United States* needs to contract its Economy to the point where *Secular Growth* can again be generated through ***Long Term*** Inflationary Monetary Policies, as in past decades;
4. Restructure the *Energy Complex* in the US to redirect that *Capital* fully back into the US Economy with a multiplier; and finally
5. Gradually *Excise or Neutralize the Profit Element* from the *HealthCare* system so as to prevent exponential growth of *HealthCare* costs as a percentage of GDP.

Controlling those five elements ensures the *Economic Continuity* of the *United States* as we know it. So how are the first three items accomplished? In one word: *Deflation*.

Deflation will force substantial Capital into *Long Term Treasuries*, and create an environment where *Long Term Low Rates on Treasuries* will be accepted. As a direct and concomitant result of this alone, the US will reduce the *Debt Growth* by \$ 5-10 Trillion based on these *Lower Interest Rates* – thus making a substantial portion of the recent spending a wash from a 10-15 year fiscal perspective.

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Think of sub-par rates as a reverse compounding - allowing Debt to increase yet ultimately end up about the same as it would have been with Lower Debt - but Higher Rates. In essence, through Deflation, they are transferring future *Interest Payments* to finance today's Higher Deficits.

What really needs to be controlled here and now is the Interest on the Debt – not the Debt itself.

And it will be controlled - The *Doomsayers* fail to grasp that *America* can and will, as *Protectionism* unfolds, *Fully Fund its own Treasuries* – even with *Trillion Dollar* plus deficits. *Will Rogers* explained beautifully in the 1930's the psychology that will facilitate this:

*“ I am not interested in Return on my Capital; but rather **Return Of my Capital**”.*

This will also have the effect of *Deflating the Stock Market* – and returning P/E's to their mean and likely below – creating a key component of the true foundation of the next 20-30 year *Bull Market*. That in turn will substantially slow the *Demographic Diminution* of the *Tax Base*.

These circumstances, will create the Social and Economic backdrop for the fundamental shift to longer employment through a rise of 5-10 years in the *General Retirement Age*. That however will not only help in the short run - but also in the Long Run these *Higher Retirement Ages* will have a dramatic and exponential effect on the so-called "*Unfunded Liabilities*" - both by reducing them generally - and greatly increasing the revenue pool to support them. In short, people will work longer, pay more in, and receive less.

The fiscal ramifications of these factors cannot be understated - America is not going bankrupt and never will. What must happen will happen.

As "*Protectionism*" begins to rule the roost and concomitantly *China Implodes* – both manifested in the *Dollar Bull Market* – the economic stage will be set for exponential *Long Term Growth* to occur. We will see then who really has the *Tiger by the Tail*.

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What will a 10-20 Trillion run up in the National Debt in the next Ten Years matter if by 2040 we have an Economy that can generate \$ 10 Trillion in 1 year in Revenue ?

Deflation and Protectionism are the only means by which that can be accomplished. Remember the first questions ? If Ben Bernanke were David Copperfield, then November 2002 would be his “Piece de Resistance”.

Bull Market in Self-Delusion

First of all, let's look at the *Circular Logic* and dominant *Market Psychology* throughout the Financial World. They are going wreck the system through *Hyperinflation* ? Commit *Political* and *Economic Suicide* to prevent *Deflation* ?

Participants want to believe this because they ALL, part and parcel, really only know one side of the Markets – ALL Markets – *Long*.

And they must believe this – Remember the first questions ?

What are the timeless attributes of a “*Bear Market Rally*” ?

A Sudden and Massive Rally of proportions that astound most Observers and Participants;

The Rally is led by the previous Bull Market Leaders and the stocks that were hit hardest in the decline;

The Rally moves forward on diminishing Volume; and

Many claiming that a new Bull Market has been born, based on myriad reasons, indicators, etc.

There has been no true *Bull Market* led from the ending of a *Bear Market* by the Leaders of the previous *Bull Market*. And why is that ? *It's a Mathematical and Historical Imperative.*

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A true *Bull Market* is led by stocks that can appreciate *10-20-30 times in Value*. The leaders of a *Bull Market* are never known in advance – *they are born in the Bear Market*. *This is not Opinion, but a Historical and Mathematical fact.*

So then we are to believe that AAPL will be worth \$ 3 Trillion (*almost the entire Chinese Economy*) in this *New Bull Market* ?

There are countless indicators, and so-called “technical’s” that have been and always can be construed to support any Position, *Long or Short*. They ALL share one Key Attribute:

They ALL prove to be Wrong a Critical Point.

The principal lessons of *Jesse Livermore* are timeless – and that is that *Common Sense* and *Human Behavior* are the most reliable indicators of all. *Be there any doubt – look to them.*

The basic attributes of a *Bear Market Rally* are all present today. The belief that they will wreck the system to protect the *Participants* is purely *Self-Delusion*. In the *Zero-Sum* game of Markets, ask 100 *Participants* if they will be in the 1% ?

The *Self-Delusion* is *structural* and *foundational* - there from the very outset. *Self-Delusion* is the operative manipulative tool. As *David Copperfield* will tell you, no “*Conspiracy*” is necessary – your response and behavior is already known in advance. It’s only a matter of the cues.

A true Bear Market bottom is marked by *Disgust* and *Aversion* to stocks – and which is manifested in an “*L*” – not a “*V*” – and importantly is a time where most commentators and pundits have been discredited – both *Bulls* and *Bears*.

A bottom has never come where 2 months later the consensus – most Bulls AND most Bears - claimed it was the “*Secular Low*”. As Jesse and History itself - teaches, *Bull* and *Bear Markets* never end in a “*Bang*” – but rather a quiet whimper – and never with such a Contemporaneous Clarity.

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Applying the ‘*Common Sense*’ indicator solely, if the “*Dot-Com*” process took three years from top to a *final bottom*, only a fool could believe that this current process bottomed out in ½ that time – and on a Worldwide level at that ! Likewise, there is a tremendous amount of wisdom in the old axiom: “*Misery Loves Company*”.

To think that *Wall Street* is going to continue to enjoy and pass around “*The Horn of Plenty*” – while *Main Street* wallows in misery, is *Denial* and *Delusion* in full form. *Structurally High Unemployment* guarantees that the latter will continue on for some time to come. The *Socio-Political* backdrop for a true bottom is not present either.

When *Markets* finally have their harsh break to the downside as *Deflation* reaches it’s full bloom, then we will see the true *Bear Market* bottom – along with palpable *Disgust* and *Aversion* – from which a true *Bull Market* will be born.

And the final and most important aspect of all will be present:

Most Participants will be busted out – because ultimately this is a Zero Sum Game – and too many are still standing for the end to have already occurred.

Dollar Bull is Born

The *World Economic System* is dependent on the *Dollar* more than any other time in History. *That is Power*. Unlike the *Stock Markets* however, all the attributes of a *Bear Market Bottom* are present in spades in the *Dollar*. And one fact is more important than all others:

Dollar Obligations far exceed the actual Supply of Dollars.

This fact – as *Deflation* unfolds here – is the *Secular Driver* of the *Dollar Bull Market* that is in it’s infancy. The foundation of the *Yen*, the *Euro*, the *Pound* and the *Mexican Peso* are having tectonic shifts underlying them which could topple them – and at minimum severely weaken them. *Greece* marks the beginning of the end of the *Euro*. The only question is whether it will be sooner, or later ? Couple that with the *China Fallacy* – and you begin to see just the scenario that drives investors running to “*King Dollar*”.

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“*Globalization*” is over. It reached its zenith in 2007 – that being the point where the underlying economies had been cannibalized to the maximum differential point. The “*Rally of 2009*” is no ‘Conspiracy’ by the *Government* – but rather abject ignorance and greed – and in time will be called the “*Selling Opportunity*” of a lifetime.

“*Protectionism*” can be broken into three words: *Jobs, Jobs and Jobs*.

We are rapidly approaching the critical inflection point where that realization will be widespread – the so-called “*Recovery*” is *the Nexus* - into *Jobs* forcing *Protectionism* to become a *Political Imperative*. That’s the real takeaway from *Massachusetts*.

China Implosion and Dollar Bull Market ?

The vast *Majority of Market Participants* have it wrong – and are wrongly *Positioned*. Imagine the “*Wiley Coyote*” moment when it becomes clear all the *Principal Investment Themes* across *Asset Classes* are dead wrong.

Capitalism Reigns

What is *Capitalism* at it’s core:

Capitalism is the Voluntarily Transfer of Wealth from the Hands of the Many to the Hands of the Few – where anyone can become one of the “Few” – and some do – no matter how unlikely.

That is working just fine, as it always has. Because it is based and played on the unchanging elements of *Human Behavior*:

Greed, Fear, Hope and the most crucial, Self-Delusion.

Here’s again, *Jesse*’s words of wisdom are instructive – and applicable to “*Capitalism*” as a whole. The “*Mark-Up*” (the long slow *Inflation*) is the set-up – the but the real Money is actually made on the downside as it is liquidated (the *Deflation*) – contrary to popular belief.

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Deflation is how wealth is truly consolidated to *The Few*. *Inflation* is the “*David Copperfield*” that permits this, again and again.

How” *Capitalism* is manifested shifts like a Pendulum, and in *America* that is from “*Left*” to “*Right*”. In the early 1980’s so-called “*Conservatism*” ushered in a period where the *Corporations* share of the *Economic Pie* observed a *Secular Rise*. *That was the Inflationary Period – and drove Asset Valuations*.

Now the Pendulum has shifted to a period where the *Corporations* will see a *Secular Decline* in their share of the *Economic Pie* in what one might call “*Liberalism/Socialism*”. *This is the Deflationary Period – and a Secular Decline in Valuations is the Payback*:

One that is necessary for the Continuity of the System itself.

US History is replete with this swinging of the Pendulum back and forth.

Did you really believe Assets would not revert to the mean – or just in somebody else’s Lifetime ?

The most important *Secular Reality* that *Participants* fail to understand here – and the Driver of it all is this:

Either Wages must Rise or Prices must Fall.

And anyone with a lick of sense understands perfectly the former is impossible now – thus it has to be the latter. *Remember those first Questions ?*

Across the spectrum in Markets, *Participants* at every level and in every corner in the World all have the same question: *Where is all the money going to come from to pay for it all ?* Nobody offers an *Answer* – yet they all continue on in their myriad *Long Positions*. *That is the Answer*. The old Warren Buffett saw is most apropos: *If you don’t know who the “Patsy” is – YOU are the “Patsy”*.

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The money needed to pay for it ALL is already on the Balance Sheets of Participants Worldwide – and there is plenty to go around.

There's a lot of talk of "Fairness" and "Value" in "Capitalism" – and the pedestrian postulation of it's death in many quarters. Perhaps they can tell us where the "Official Rules" can be found. *Capitalism* has many faces and many names.

Suckers and Fools step forward, because I've got something for you to "Buy".

"Puzzled by the nature of my Game" ?

As with the "Guns n Roses" melodies in "Sympathy for the Devil", you might have guessed my name.

Capitalism Reigns.