# Don't Trust Bearded Bald Guys in Fancy Suits

*-J. Kevin Meaders, J.D, CFP®, ChFC, CLU*

**December 29, 2010 -** Imagine that you and your four best friends suddenly find yourself in Vegas—at a fancy casino, playing poker with some bald guy with a beard who looks vaguely like the bouncer—'certainly the same tailor' you think to yourself.

The dealer is woefully unhelpful, save a lone guttural noise you interpret as "nothing wild." You quickly forgive him as he deals you a great hand: "Ace, Ace, Ace, King, King." Sweet. The top full house.

You're familiar enough with poker to know there are only four aces in a deck of cards, so you bet confidently. As you lay down your hand your friends marvel at your brilliant showing. Finally, the bearded bald guy lays down his hand and you can't believe your eyes! "Four Aces!? How can that be?!" you exclaim as the dealer corrals your chips.

"He brings in his own aces," the dealer answers with annoyance, as if it were obvious. "But you try that and Rocko over there s'gonna break your legs," denoting the well-dressed bouncer. You and your friends leave that casino and try another, then another. In every case you discover that there is one lone player at the table who can simply bring in his own aces at will, and some muscle to ensure that no one else does. Sound familiar?

Hopefully you recognize the analogy to the Federal Reserve and central banking in general. The value of an ace—or a dollar—becomes less and less as more and more reach circulation.[1] The Fed Cabal and politicians know that many Americans don't like the idea of just printing money, so they use other more nebulous phrases like "adding treasuries to the Federal Reserve's balance sheet," or the favorite all-American FDR-sounding "buying Treasury bonds." Sounds good. After all, grandpa bought Treasury bonds, especially during the war.

A *60 Minutes* interview with Ben Bernanke, the Federal Reserve Chairman, on December 5, 2010 provides the quintessential specimen of this Orwellian doublespeak:

> *"One myth that's out there is that what we're doing is printing money. We're not printing money. The amount of currency in circulation is not changing. The money supply is not changing in any significant way. What we're doing is lowering interest rates by buying Treasury securities."*[2]

Scott Pelley, the *60 Minutes* interviewer, failed to ask Bernanke where the money comes from to actually buy those Treasury securities. In a way, Bernanke's telling the truth—they don't actually

[1] Note that I use "circulation" not "creation". In 2008 we had lots of creation but little circulation. Creation alone does not cause inflation, it also requires circulation.
[2] CBS – *60 Minutes*. "Fed Chairman Ben Bernanke's Take on the Economy." Dec. 15, 2010

print dollars to buy Treasuries—nowadays it's all electronic entry. But he knew the substance of the question, and I'll let you be the judge of the substance of his answer.

In fact, you can go back and get the answer from Bernanke himself. During a rare slip of truth on March 15, 2009, Bernanke appeared on the exact same show, with the exact same interviewer, and discussed the logistics of lending money to a bank:

> *"To lend to a bank, we simply use the computer to mark up the, uh, the size of the account that they have with the Fed. So it's much more akin, uh, although not exactly the same, it's much more akin to printing money than to borrowing."*[3]

It's one thing to read his contradictory quotes on paper, but downright eerie to see his straight-faced, direct-eyed responses. I strongly encourage you to watch the two segments back to back. Jon Stewart of the Daily Show did a concise—and funny—job of this. Google "Daily Show Bernanke" and you should see some links to the December 8, 2010 episode entitled "The Big Bank Theory." It will be worth the four minutes of your time. If you can stand it, go back and watch both *60 Minutes* Bernanke interviews in their entirety. Just Google "60 Minutes Bernanke." Honestly, you don't know whether to laugh or to cry. I did both.

Well, so much for proving the point that Bernanke lies—I think most people knew that already—the question on my mind is "so what can we do about it?" If you read my last two letters, hopefully you'll already know some answers. In case you forgot, here's a quick summary of our plan of action:

1. As interest rates rise, bond prices will fall. Longer term bonds will be more dramatically affected. Thus, we are shedding longer term bonds and migrating to high quality ultra short bonds and floating rate bonds.

2. As the Fed "buys Treasuries," more fiat money[4] will be created and at the disposal of the Treasury. As the Treasury spends its fiat money, your money will become less valuable. Thus, cash and near cash instruments will lose significant value. Changing currencies will not save you, and thus our commodity satellite positions: gold, silver, agriculture, basic materials, and energy have seen remarkable gains. This is a trend that will continue before it eventually crashes.

3. Until then, there will be significant growth in emerging markets, specific hot spots like Brazil, India, Singapore, Cambodia, Vietnam, and Polynesia, and general growth sectors, particularly domestic small and mid cap stocks.

4. Municipal bonds are not in favor so much now that Obama has agreed to a two year extension on the Bush tax cuts. We will continue to hold these of certain states only, and will avoid national Muni funds.

5. The Euro Zone is a mess and there will be more problems to come. No one has even begun talking about Italy yet. We have been out of the Euro Zone for the last three years and aren't looking to enter anytime soon. We hold none of their bonds, and very few of their stocks. This is unlikely to change. Some Eastern European countries with non-Euro currencies, however, may provide some opportunity.

---

[3] CBS – *60 Minutes*. "Ben Bernanke's Greatest Challenge." June 7, 2009
[4] The *American Heritage Dictionary* defines fiat money as "paper money decreed legal tender, not backed by gold or silver"

6. We will sell our TIPS (Interest Sensitive Treasuries) at the appropriate price and migrate to floating rate bonds and other opportunities as conditions dictate. This is because TIPS use the Consumer Price Index as a measure of inflation, a bogus government formula that excludes energy and food—since apparently no one eats or heats their home. The price of cotton is up over 100%[5] in the last 12 months, but the CPI is up only a fraction of a point in the same time.[6] Note that Congress also decides whether to pass a cost of living increase to Social Security recipients based on this index. In the last two years the COLI was suspended—because the CPI was flat—but Congress got *their* increase.

I've spent a lot of time in the last year talking about inflation—so much so that you're probably sick of hearing about it. But it is a very real thing, and it punishes savers and people on fixed income—like retirees. Can you think of anyone you know who fits that description? Me too. Like a few hundred. So the issue is very personal for me.

But remember, inflation is caused by monetary circulation not just creation. We have had much creation, but circulation is just now beginning. Our research indicates that it takes about 18 months from the time the Treasury spends (i.e. enters circulation) its newly created money (or until banks lend out their reserves, or both) until inflation rears its ugly head—officially at least. Contrary to what Bernanke says, he will not be able to stop inflation in time, and it will run away. The Fed will raise rates and tighten the money supply, again, and that will crash the bubble…yet again.

Also, just as Ludwig von Mises postulates, printing money creates a boom, for a while, and then inevitably a bust. The boom is coming and we need to capture as much as we can. But be warned now, a subsequent bust is inevitable—it's only a matter of timing—and we need to prepare to conserve as much growth as possible to protect our future retirement income. Just as in 2000, 2002, and 2008, this is when we really earn our fee.

One of the bubbles we're going to have to deal with sooner or later is gold. "[George] Soros, who made $1 billion betting against the British pound in 1992, called gold the 'ultimate asset bubble' at the World Economic Forum's January meeting in Davos, Switzerland, when the price of gold was at $1,087.10 an ounce."[7] On December 22, 2010, an ounce of gold was priced near $1387.

With world governments racing to devalue their currencies in order to keep pace with the U.S. dollar—inflation will be imported to every corner of the globe, and gold and silver and other tangible assets will become ever more valuable in nominal terms—that is, vis-à-vis the dollar or other paper currencies.

Nonetheless, though it is currently impossible to see what might precipitate a drop in the price of gold or silver, and though they are indeed unique in the fact that they are a proxy for real money, all rallies eventually over-allocate resources, which necessitates a correction. There will be one here, too, though we may yet be far from the high before the fall. That goes for pretty much all the commodities.

In the short term, we expect some more problems with the Euro Zone and certainly an eventual return to high volatility as these problems surface and are then swept under the rug. The next few years could decide the fate of our global economy. If the Fed continues to create money—we will have massive inflation—and other world governments may abandon the U.S. dollar as a reserve. This could effectively double the price of oil, since currently oil is priced in dollars. Many, including China, have already started down this path—shedding dollars and buying gold.

---

[5] National Cotton Council. www.cotton.org. December 21, 2010
[6] US Dept of Labor Bureau of Statistics. www.ftp.bls.gov . December 15, 2010
[7] Bloomberg. "Soros Gold Bubble." December 20, 2010

The fakes at the Fed think they can drive down long term Treasury rates by buying more—and normally that would work, except that world demand for long term U.S. Treasuries has fallen so much that the Fed, by buying more—printing more—keeping rates at historic lows—has undermined the very demand they sought to stimulate. Less demand → bond prices fall → rates rise. At the end of day, the Fed's probably the only net buyer. When you keep pulling aces out of your sleeve, eventually no one wants to play with you.

You can't plan an economy, and manipulation of *any* market helps the friends of the manipulators at the expense of those who aren't. Remember what Nathan Rothschild said back in 1838, "*Let me issue and control a nation's money, and I care not who makes its laws.*"[8] And so it would seem.

I know it may sound a little pessimistic to predict another crash—perhaps worse than the one we're recently endured—but the facts present themselves very clearly, and no amount of wishful thinking can change that. That's the bad news.

The good news is that we can see the bust coming even before the boom has run, and that puts us in a 'heads up' position to protect ourselves. We have learned from Mises and his pupils like F.A. Hayek and Murray Rothbard how an economy really works, and we have learned from history what telltale signs to look for—signs that a Keynesian scholar or casual investor might not consider significant.



[8] Amsel (Amschel) Bauer Mayer Rothschild, 1838, In a letter to his New York agents.

## About J. Kevin Meaders

kevin@magellanplanning.com

Kevin Meaders graduated from Oglethorpe University in Atlanta with a double B.A. in Philosophy and Political Science, and then obtained a law degree from Georgia State University College of Law, focusing on estate planning and trust law. He has earned the designations of Certified Financial Planner (CFP®), Chartered Financial Consultant (ChFC) and Chartered Life Underwriter (CLU). He holds a General Securities Principal and Registered Representative registration and Investment Advisor Representative registration through ING Financial Partners (member SIPC).

## About Magellan Planning Group

www.magellanplanning.com

Magellan Planning Group was established in 2000 to provide a service uniquely tailored to the needs of our affluent Atlanta community. We concentrate on *personalized* retirement planning through tri-disciplinary coordination:

- Financial planning with our Certified Financial Planner™ to prepare a retirement plan that takes into account your needs and expectations. We are a fee only asset management firm with a $500,000 minimum relationship.

- Estate planning with our in-house Attorney-at-Law to determine and prepare the documents needed to minimize family liability and maximize privacy. (www.magellanlegal.com)

- Tax planning through a relationship with our in-house CPA to manage tax obligations throughout the year and prepare a tax return that takes into account current tax laws. (www.magellantax.com)

Our relationship doesn't begin and end with the preparation of a plan and the appropriate documents. We establish close personal relationships with our clients and their families and maintain those relationships through regular 'check-ups', market commentaries and educational Lunch & Learns.

4170 Ashford Dunwoody Rd. NE, Suite 480
Atlanta, GA 30319
404-257-8811