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## Doing My Civic Duty

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Every three or four years, I get that letter in the mail about doing my civic duty. You know the one, jury duty! So I blocked off my calendar, followed the instructions and headed to Superior Court in New Haven. It's amazing that nothing has changed in all my years doing this.

They require you to be present by 8am, but then everyone just sits around doing nothing for 45 minutes. A court clerk introduces himself, describes the day. We watch a movie. A judge comes out to say hello and then they give us a coffee break for 30 minutes!

FINALLY, around 11:20am, the clerk announces the first group to be Voir Dire'd for a trial. 3 hours and 20 minutes of doing mostly nothing. It was a murder case that was estimated to last 15 court days. For me, that would have been a true financial hardship and I was excused as having served my one day. I am now free for another three or four

years!

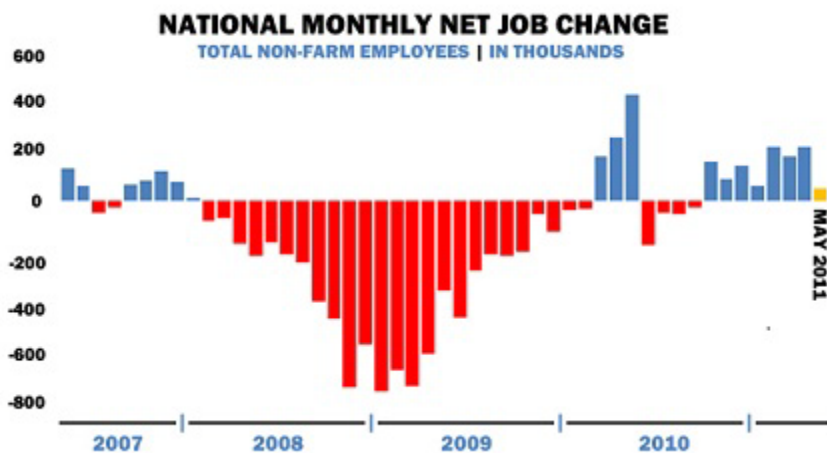
Maybe I am not the sharpest knife in the drawer, but it seems like our court system is so backlogged because it doesn't run efficiently enough. What a waste of human capital playing the waiting game. And isn't that just a microcosm of our government?

## The 5 Week Nap

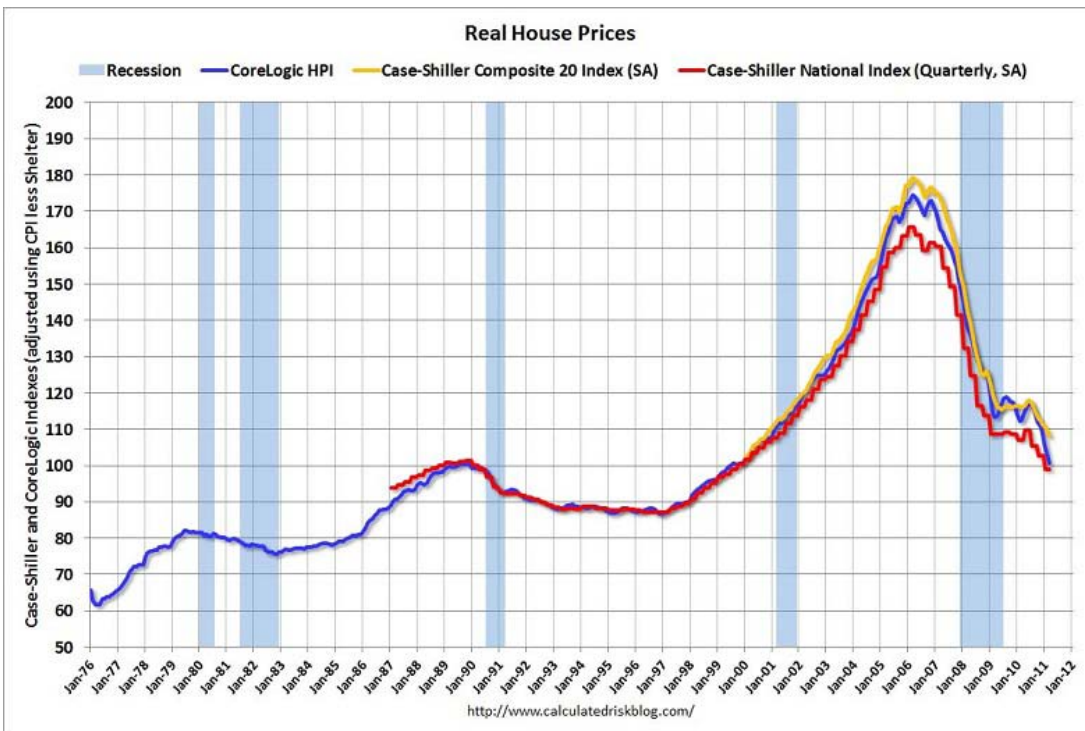
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Very early this morning, I did my monthly appearance on CNBC's Worldwide Exchange. Since they no longer archive that half hour, I can't share the link. I do have it on my DVR at home, but I cannot figure out how to copy it to DVD. If you know, please email me!

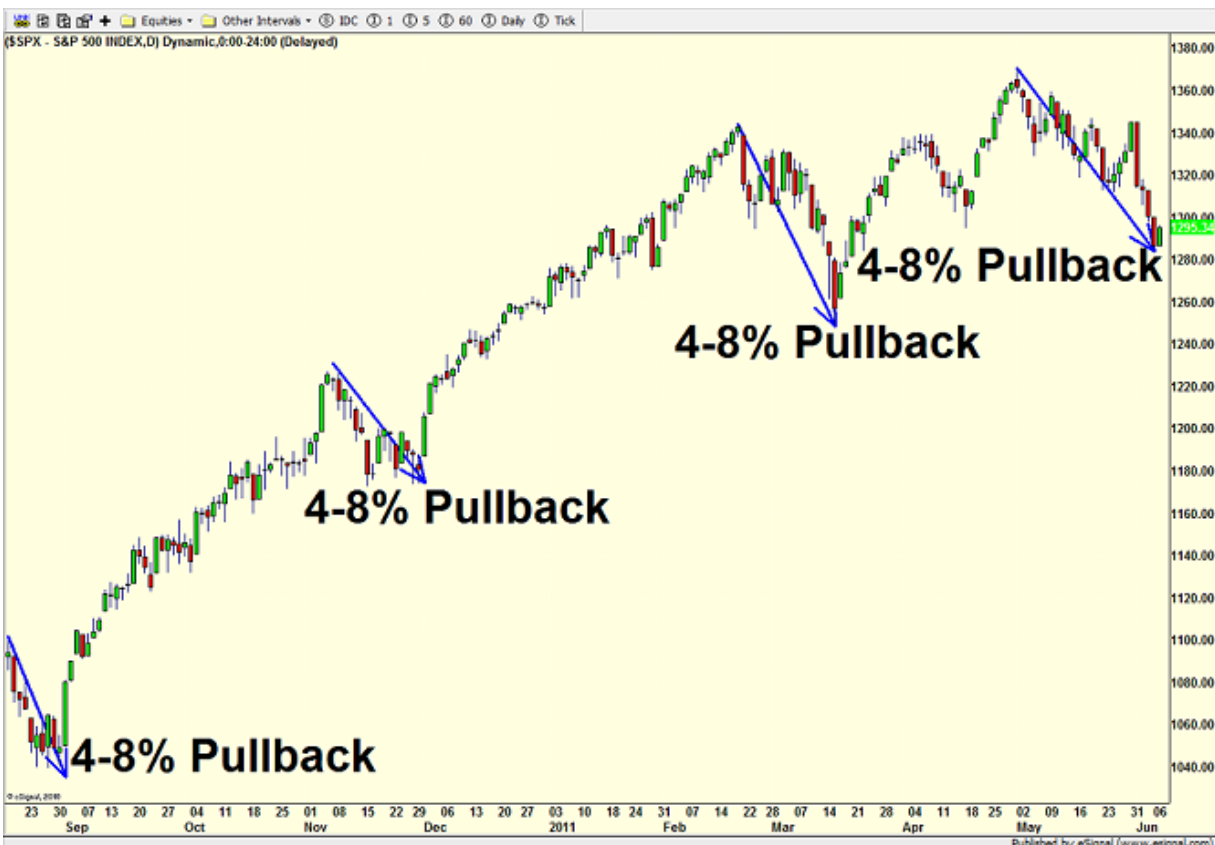
My comments were something like this. Imagine if you have been asleep for five weeks and just woke up. The stock market has declined five straight weeks, a rare occurrence. The sovereign debt crisis in Europe is percolating again with Greece, Ireland and Spain teetering. Last Friday's employment report, as you can see below, showed very few jobs being created in May with unemployment ticking slightly higher again. As I have mentioned before, if this was a normal recovery, job growth would be soaring right about now. Since mid 2010, we are more like hovering.



Bernanke & Company's QEII, which pumped \$600B into the system will be ending in a few short weeks. And the S&P Case Shiller Index of home prices just hit an eight year low. Yes, you read that right. Home prices, except the ones we are trying to buy, continue to make post crisis new lows and are back to levels not seen since 2002 and 2003.



You would be hard-pressed to "feel good" right now. One would have thought that stocks would be down 10-20% with this horrible backdrop. But they are not. From high to low, the stock market has pulled back 6%, yet another 4-8% pullback that I keep discussing.



If you add in the somewhat extreme nature of the selling wave along with the surge in investors buying protective put options, you have all the makings for at least a short-term low. I am going to stick my neck out and say that the bottom is not in place yet and will likely need one more selling wave to hammer in.

My theme for a while has been that there should be at least one more stock market rally left IF there is a big correction coming in Q3. I still believe that. All the makings are there. Failure to rally in the coming weeks would usher in some not so pleasant memories of bear markets passed. But we can cross that bridge if and when it happens.

As always, please don't hesitate to contact me directly by hitting REPLY or calling the office at 203.389.3553.

## **Painful Solutions to our Debt Crisis**

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Last week's contribution, [Inflation? I Spit in your Face!](#), drew an interesting question. How does our national debt factor into the equation of my non systemic inflation argument? The answer is an easy one and somewhat of a copout. It depends on how the government intends to correct our addiction to the debt problem and looming crisis. Debt in itself is inherently deflationary if you agree with the premise that it must be serviced and eventually repaid. The whole process of deleveraging, reducing the amount of debt, is anything but inflationary for individuals and companies as we saw in 2008 on steroids!

Let's walk through some scenarios on how Uncle Sam can attempt to fix the problem.

One way to eradicate ourselves of debt is print our way out. The Federal Reserve would monetize by essentially printing money and buying up all of the Treasury bonds, notes and bills. As you can imagine, that would flood the system with more money than it has ever seen and likely cause our currency to completely collapse, which would make all assets denominated in dollars (oil, grains and other commodities) skyrocket to crisis levels. It would also likely trigger more systemic inflation with money velocity soaring along with wages.

Think about the million, billion and trillion dollar Zimbabwe notes or the Weimar Republic post WWI with folks using wheelbarrows full of money to buy groceries from always bare store shelves. Dollars would be worth much more today than tomorrow so people would spend them as fast as they came in. Prices and interest rates would rise day after day, week after week and money after month until the crisis abated. The US Treasury and government would also lose credibility and investment grade credit ratings around the world for a measurable period of time. Our economy would likely collapse.

The opposite end of the spectrum would be strict austerity to cure our debt problems. In that case, government spending would be cut, cut and cut some more, triggering rolling recessions with intermittent periods of stability rather than recoveries. In an extreme case, as we've seen abroad, strikes, protests and even riots could fill our city streets. It would "feel bad" for an extended period of time, perhaps a decade or more, but the US would emerge with a very lean and competitive society at the end.

The best possible and most unlikely scenario to cure our debt problem would come from

organic economic growth. By growing the economy, the percentage of debt to GDP would be reduced, not to mention all the added tax revenue that would come in to the Treasury. I don't think anyone really thinks this can work now.

One proposal in Congress that I totally disagree with is to simply raise taxes on the wealthy to solve the countries addiction to debt. To begin with, I have seen study after study that shows decreased tax receipts from an increase in tax rates. Increasing tax rates generally hinders economic growth.

Additionally, roughly 75% of all discretionary spending (cars, travel, non staple retailers, leisure, etc.) is done by those making \$250,000 or more. How do you think that group would react to having their tax rates rise dramatically? In fact, many of those folks are small business owners, which our economy is built on, and run their finances through their personal tax returns. How do you think a sharp rise in taxes would affect their hiring?

Before someone responds by saying telling me to look at how well the economy did with higher tax rates under Bill Clinton, those were different fiscal times. We did not have a debt crisis or a structural unemployment problem. The ground was very fertile for growth in the mid 1990s following the S&L Crisis and recession of the early 1990s.

Look, in the 1940s, the top tax rate was more than 70%! And the economy grew like a weed. I can't imagine anyone arguing that our economy could survive rates even close to that today. It would be worse than the Great Depression. My belief is that trajectory is more important than the absolute rate. By cutting taxes from 70% to 60%, that is incredibly stimulative. By raising taxes from 30% to 40%, it is highly restrictive.

I have said for three years that we have run out of painless solutions. It's going to hurt! Pick your poison. If I were in Congress and not beholden to special interests (HA!), I would cut \$100B to \$150B from the Federal budget every year for the next 10 years. No area would be unscathed, including entitlements and defense. That would certainly curtail growth and make us look more like a European country than the US.

At the same time, I would completely revamp the tax system and broaden the tax base. Too many people have used gimmicks and loopholes to avoid paying taxes. We need to remove so many of the insane deductions and credits. The time has come. Sorry big oil, but you have made hundreds of billions of dollars over the past decade and your subsidies and tax credits are absurd. Sorry big corporate farms, but paying you not to grow crops is ridiculous when food prices are at all time highs. When we had a glut of crops and the farming industry was on the verge of extinction, I may not have agreed with the subsidy, but I understood. Now it's an embarrassment.

At the same time, we need to incentivize R&D in cleaner and greener energy, but not superficially as we've seen. We really need to make it appealing for entrepreneurs. Look at how many of the great companies were born during a recession in someone's garage. Anyone know of a company called Microsoft? The government needs to step up and allow that ground to be fertile again.

Finally, I would be naive if I thought this could get through Congress without any compromise. While I do not believe in higher taxes, especially in the corporate world where companies just park themselves offshore, I understand that there has to be some give and take. On the social security front, I would accept raising the tax rate and the amount where it is capped in return for also raising the age to 70 over the coming decade or so with further increases if life expectancy increases.

So in the end, I believe there is only one scenario where our debt crisis leads to systemic

inflation and I do not think that path is likely. We have become a country of instant gratification and whiners, me included. If America is truly going to solve our debt problems and reliance on foreign capital, we are all going to have to sacrifice over this decade.

## Upcoming Appearances

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CNBC's Worldwide Exchange - June 7 at 5:30am

CNBC's Squawk Box - June 13 at 6:10am

CNBC's Squawk on the Street - July 5 at 9:35am

You can view most of the past segments by clicking below.

## Media Appearances

(<http://www.investfortomorrow.com/InMedia.asp>)

## Investment Quotes/Adages To Live By

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"When in doubt, get out!"

"If it's obvious, it's obviously wrong."

-Joe Granville

"It's ok to be wrong, but it's not ok to stay wrong."

"This time is different."

"The markets require the patience of a dozen men."

-Robert Rhea

"Luck is the residue of effort."

"The most bullish thing a market can do is go up in the face of bad news."

"The most bearish thing a market can do is go down in the face of good news."

"The market can stay irrational longer than you can stay solvent."

-John Maynard Keynes

"Government is best which governs least" - Thomas Jefferson

Inflation is the one form of taxation that can be imposed without legislation.

-Milton Friedman

"You cannot legislate the poor into freedom by legislating the wealthy out of freedom. What one person receives without working for, another person must work for without receiving. The government cannot give to anybody anything that the government does not first take from somebody else. When half of the people get the idea that they do not have to work because the other half is going to take care of them, and when the other half gets the idea that it does no good to work because somebody else is going to get what they work for, that my dear friend, is about the end of any nation. You cannot multiply wealth by dividing it." - Dr. Adrian Rogers, 1931

"Bear markets seem to be divided into three phases: the first being the abandonment of hopes upon which the final uprush of the preceding bull market was predicted; the second, the reflection of decreased earnings power and reduction of dividends, and the third representing distressed liquidation of securities which must be sold to meet living expenses. Each of these phases seems to be divided by a secondary reaction which is often erroneously assumed to be the beginning of a bull market."

- Robert Rhea via Tim Woods

"Free enterprise is a rough and competitive game. Nobody too big to fail. Nobody too small to succeed. It is a hell of a lot better than government control." - Ronald Reagan via Dan Kennedy

"A government big enough to give you everything you want is big enough to take everything you have." - Gerald Ford via Dan Kennedy

"The problem with socialism is that, sooner or later, you run out of other people's money." - Margaret Thatcher via Casey Research

"Diversification alone is no longer sufficient to temper risk... You need something more to

manage risk well."

- Mohamed El-Erian

## Friends And Family Plan

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Finally, as you know, our firm and this newsletter continues to grow mostly from your referrals. If you know anyone who is interested in securing their retirement, planning for it or just plain worried about it, please send them here. As always, thanks for thinking of us with your circle of family and friends.

[Sign Up Here](#)

You can also forward this email to family and friends by hitting the "forward email" hotlink at the bottom of this email.



## To Your Financial Success,



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