

Moose Market **by Clyde Harrison**

One of my favorite quotes is, "Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for life." Today in order to teach a man to fish, you need two fishing licenses, a state boat sticker, OSHA approved life jackets, EPA approved weights and hooks, you pay a park fee, obtain a fire permit to cook the fish and an EPA permit to dispose of the waste. Thanks to the government, fish you catch costs 8 times as much as the fish you purchase in the supermarket, caught overseas.

George Washington said, "Government is not eloquence, it is not justice; it is force. Like fire, it is a dangerous servant and a fearsome master."

When I started in the investment business 35 years ago, the Golden Rule was "Do unto others as you would have them do unto you." In a few years it was corrupted to, "He who has the gold makes the rules." Today it has been totally corrupted to, "He who makes the rules gets the gold."

The definition of politics is the advance auction of goods that have not yet been stolen.

Why have we chosen socialism over capitalism when all history proves the choice to be a disaster? The government now seizes 40% of our income and has created a vast and costly and, unpredictable regulatory burden that is past the critical stage. It is halting new business from starting while others leave the country.

The trend is greater government control over our lives and our property - not only of how much we are allowed to keep of what we earn but how we're allowed to spend what we keep.

The voter chooses socialism because it gives people the ability to spend other people's money. It allows this because the word envy is twisted into the word fairness, resulting in legal theft. Socialism rids the voter of responsibility for his economic well-being. Finally it substitutes religion and right and wrong for what meets the group's acceptance. Most victims are victims of bad personal choices, preparation, attitude and tenacity. Individual liberty is being replaced with fairness.

Fair is the most dangerous word a politician utters. Whenever a government does something *for* someone, it must do something *to*

someone.

If expanding government were the solution, Russia would be paradise.

It would be a great improvement if the government respected individual's rights as much as they respect the rights of the caribous.

We have a two party system and what a party they are giving themselves. Since 1960 government spending has grown 8 times as fast as the GNP.

Republicrats borrow and spend. Democins tax and spend.

The government taxes and regulates success and subsidizes failure. The Government's motto, "If it ain't broke, fix it until it is." Whenever you contact the Government, you are met by one of two groups who work for the government. The first group is just out of college hoping to work in government for three years, learn who to talk to in order to get things done, then get a real job and triple their pay. The second group is much older. They couldn't get a real job after 3 years. Government has either no experience or no talent.

Today lawyers run the government. Seventy-three percent of the cabinet are lawyers. Eighty-five percent of the gang of 535, the Congress are lawyers. Lawyers are trained to redistribute income between plaintiffs and defendants, with a 30% cut for themselves. Lawyers train on the principle that when there's a solution to a problem, they stop making money. You know the system is corrupt when Congressmen spend \$6 million to get a job that pays \$150, 000.00 per year. They have no concept of the real world.

In 1987 the US signed a treaty allowing Japanese lawyers to practice in the US and US lawyers to practice in Japan. At the signing there were a total of 14,000 lawyers in Japan and 650,000 in the US. Two years later, Japan entered a depression. It has yet to recover. Just coincidence? Maybe.

Consider the following:

- o. The Lord's Prayer: 66 Words;
- o. The 10 Commandments: 179 Words;
- o. The Gettysburg Address: 286 Words;
- o. The Declaration of Independence: 1300 Words;

- o. U.S. Government Regulations on the Sale of Cabbage: 26,911 Words; and
- o. U.S. Income Tax Code - simplified: 1,607,000 Words.

The government is already too large and too expensive.

Bush Sr. simplified taxes. Now we only tax the living and the dead. Clinton promised to tax only the rich. Once in office, he defined rich as, "Those Americans with Indoor Plumbing."

God, who created everything, only wants 10%!

The demands of the majority are always greater than taxation alone can provide and that's where the FED comes in. The value of the dollar has depreciated 97% since the creation of the FED.

Guns and butter are returning.

Alan Greenspan and the FED are planning to drop money from helicopters if necessary to keep the economy from collapsing under the weight of the debt.

The last central banker to get it right was Joseph, in the Bible. Seven good years followed by 7 bad years. I thought central planning was totally discredited when Russia collapsed but Greenspan and the Fed keep trying. The Fed is like the post office giving out money instead of stamps. Faith in the Fed is based on elaborate mathematical models relying on the breathtakingly faulty assumption that human beings behave rationally. Greenspan, with the assistance of his invisible hand of intervention, has been playing a marathon round of global financial pinball. Each time the machine says, "game over", he inserts another \$25 billion. Greenspan, Rubin and Summers - these mighty super-heroes of finance have placed global prosperity on the rock-solid footing of over-speculation and market manipulation.

Greenspan's invisible hand of intervention is trying to keep interest rates as low as the world will allow. But the world is becoming a bit nervous. The US has borrowed over \$1 trillion from overseas. Some day it will be repatriated. The exchange of paper for wealth will go into reverse. We will get our paper back and have to return real wealth. Recently, the dollar has been rapidly declining against the euro and gold but at a much slower rate against the Asian Tigers.

Japan and China have purchased massive amounts of US treasuries to stem their decline. They loan us money to buy their products because they need the US as a customer. When will this end? When the Asian

Tigers develop a consumer credit system and their three billion plus citizens become the customer. At that point we will no longer be able to live beyond our means - the dollar decline will accelerate and interest rates will rise dramatically.

The dollar bears the legend on it, "In God We Trust." Placing your faith in the Fed could be a dangerous plan. Prior to the creation of the Fed, the worst bank panic caused 2.8% of the banks to fail in 1873. Following the creation of the Fed, almost 50% of the banks failed during the 30's. The Fed made a local problem national - now the problem is global, a brilliantly executed, bad plan. Someday, the dollar could fall to its intrinsic value. Denial is not just a river in Egypt. Currencies do not float, they sink at different rates. Currencies are abstractions not redeemable in any specific amount of anything, they are an I owe you nothing certificate.

If you're using government statistics to follow the economy, they're useless. The Bureau of Labor lies. It plugs in phantom workers from small business every month that are never found in the tax receipts. If you stop looking for work you're no longer unemployed. The GNP and the CPI are hideously weighted and stupidly adjusted. The government assumes that if the price of energy goes up we will burn computers to heat our homes because their price went down.

Last year if you didn't buy a home, didn't use energy, didn't eat, didn't see a doctor, didn't buy insurance of any kind, didn't have a child in college and didn't pay local or state taxes, your family price index agrees with the government's.

If you're using government figures to make investment decisions, you'll eat cat food when you retire.

Since the Fed's creation there has been deflation – deflation of the currency. It shrinks on average 2.5% to 3% per year. In the US, we have voters who are deep in debt. Deflation would crush the voter. Currency deflation will help the debtor. Expect stagflation - the value of the currency goes down while the economy goes nowhere; an, "L" shaped recession.

Prices will be lower for every thing that can be manufactured in China or serviced in India. Karnataka College in India produces 36,000 engineering graduates a year. Their average starting salary is \$5,500 per year. US public education in major cities has failed to give students the knowledge they need to compete in the world.

Prices will be much higher for what can only be made in the US; medical care, insurance, plumbers, trash collection, raw materials, real estate, and government.

In the next 10 years, the government will lie about the deflation of the currency so, (when the baby boomers retire) their social security check will be worth half of what they anticipated in real terms.

When the Fed fine-tunes, the orchestra gets fired. All soft landings by the FED have resulted in thousands of casualties. Ever since the earth was cooling the Fed was headed by a banker. Greenscam is the first economist. Carl Marx was an economist!

If you believe Alan Greenscam and the Fed guides the economy, you must also believe the twelve birds sitting atop the rhinoceros guide him through the jungle.

Currently the government is trying to boost the economy with one of the largest doses of steroids in history.

Today we have 1 trillion in fiscal stimulus from the budget and trade deficits. The monetary stimulus of tremendous liquidity and the lowest interest rates in over 40 years.

The peddle is definitely to the metal. The economy's improvement is sluggish considering the massive size of the stimulus because of the size of the debt we're dragging behind us.

The ocean of liquidity has created a lot of jobs. They're just not *in* this country.

The large job creation is in the third world; India and China. Following the collapse of Russia, the third world discovered capitalism. Capitalism is easy to understand, its nature with a balance sheet.

What investments will benefit from this major change? Where should you invest your SEC rebate check or your own hard earned money?

Interest rates are at a 40-year low. The FED is proposing dropping cash from helicopters if necessary. History suggests this might be a good time to be a borrower or at least have a short duration to your interest bearing investments.

The equity market now has 84 million individual investors. Over 50% of these investors liquid assets are in the equities, the historical average is 25%. Using the rules outlined by Graham and Dodd such as dividend

yield, PE Ratio, price ratio, price to sales ratio and price to assets, stocks are very expensive. They are over owned and over priced – a dangerous combination.

Who's recommending increasing equity exposure? Kudlow and Cramer – CN"BS" – which is a marketing program. It should be listed in the TV guide as paid programming like George Forman's cooker.

Who's recommending caution and much lower returns from stocks going forward? John Templeton, Carl Icahn, Allen Abelson, Mark Faber, Bill Gross, Warren Buffett and Jim Rogers are to name a few.

There has never been a ten-year period in history when valuations have been as high as they are now and where the broad stock market indexes out performed money market funds – never!

I expect a moose market, not a bull or a bear, but a moose, rhyming with the period of '66 to '82 where the market went nowhere.

I believe the paper bill market has ended and the stuff bull market has begun .

Between 1966 and 1982 equities gained nothing while the GNP gained 330%. The DOW went from 1000 to 875. From 1982 to 2000 the GNP gained 170% and the DOW rallied from 875 to 11,600. Currently the DOW is trading over 10,000, about a 30 PE. Between now and 2015 if the GNP gains 100% and earnings gain 100% the DOW could be at 10,000, trading at 15 times earnings. During the past 5 years the S&P is up 0%. And at that rate of compounding, you will have to work till you die.

During the last stuff cycle the DOW traded between 1000 and 575 numerous times. There were many 25% to 40% moves that astute traders and trading type mutual funds earned great returns from. However, if you bought and held an index fund, your 18-year return was less the zero. Paper, stocks and equity mutual funds were in a dead zone while stuff; raw materials, art and real estate had super returns.

In 1966 oil was \$2.90/barrel and rallied to \$28/barrel. Gold was at \$35/oz and rallied to \$450/oz. The average price of a home increased 180%.

In 1982 the stuff cycle ended and the great paper cycle began. In 1982, the public had 14% of their liquid assets in equities. The Business Week Magazine cover reported "*The Death of Equities*". The PE ratio was 7. Stocks were dirt-cheap and stuff was very expensive. Brokerage firms were selling real estate and oil and gas partnerships. 1982 was the

beginning of a great bull market in paper.

By 2000 the DOW was up over 10 fold. The cost of one dollar's worth of earnings (the PE ratio) has risen from \$7 to \$44, and the public had 57% of their liquid assets in equities. The Time Magazine cover featured " *The Committee To Save The World: Greenscam, Summers and Ruben*". Brokerage firms were selling tech and dot coms with no earnings. The paper bull market was ending. Paper was very overpriced and overowned. The Dow could be in a trading range of 7,000-11,000 for years.

Stuff, from 1982 to 2000, was in the dead zone. Oil went from \$28/barrel to \$26/barrel. Gold went from \$450/oz to \$280/oz. The average price of a house had increased 1.2% per year by '2000. Stuff was a bargain.

In the next 10 years, paper could be a trading market while stuff is in a bull or buy and hold market.

Wise investments are made by few and are usually safer than broadly accepted ones because their price does not reflect popularity . In the past, when an investment's price reflected popularity and not value, returns were rarely more than average.

The history of capitalism tells us that cycles are the norm; indefinite business trends simply are not. The stock market isn't any more likely to go straight up forever than it is to go straight down forever. Cycles occur because of temporary imbalances in supply and demand, imbalances that eventually correct themselves. 96% of the world's population lives in emerging markets. They have 26% of the GNP.

Peace put 2 ½ billion people in the world labor market. India and China alone contain over 2 billion consumers . Suppose each of the 2 billion people consumes a mere quart of gasoline per week as their economy booms; that's an additional 1.7 million barrels a day, new demand that is sure to increase price. Today, China is booming. They have declared the national bird to be the construction crane. Last year China's factory floor produced 50% of the world's cameras, 35% of the TV's and 30% of the refrigerators sold worldwide. In the last five years china went from exporting oil to the second largest importer in the world. The Chinese will go from walking to bikes, to motorcycles and to autos. They will need oil and gas, chemicals, forest products and metals. At 80 cents per hour they are deflating manufacturing costs, but as they become more successful, they will throw away their bicycles and buy motorcycles and eat better, increasing the demand for raw materials.

In the first 6 months of 2000, China's oil imports increased 100%. The

Chinese eat less meat in a year than we eat in a weekend. Raw materials are now close to their lowest prices in history. Tops and bottoms are creatures of extreme. Markets rise above all rational expectation and then go higher and then they fall farther than common sense suggests. The most desirable investments for the future might not be in cyber space, but back to the basics.

By the end of 1998 the only drilling rig in Texas not laying on its side was at the Midland Petroleum Museum. Oil in 1982 was \$28 a barrel. Allowing for 3% inflation, that would equal \$47 a barrel today. In 1981, there were 4,530 oil rigs operating in the U.S. Today there are 1,000, up from 500 in April of 1999. It takes a long time to add to capacity. Aggressive EPA regulations have so discouraged refinery construction that there is no major refinery operating today that is less than 27 years old.

New laws have locked out vast areas of the American West and Alaska, to oil and mineral exploration. The capacity to produce most raw materials has declined, dramatically in some cases in the last 20 years, while demand has continued to increase. As you climb the ladder of financial success, check to make sure it's leaning on the right wall. I believe raw materials will be one of the best investments for the next 10 to 15 years.

The paper cycle is over. The stuff cycle has begun. It will probably last until CNBC is doing live reports from oil wells and corn fields, and there's a bounty on caribou. Study the period from 1966 to 1982. The previous period of guns, butter and stagflation.

Long-term, the future is very bright because man has been succeeding in bringing about change for the better since he or she first emerged from the cave. Big problems usually disguise big opportunities. The Federal government and the Federal Reserve are completely incapable of stopping tomorrow from coming.

America remains the shining beacon to the world.

I'm optimistic about America's future because America is comprised of the best people the world has to offer - the dreamers, the doers, the workers. The world's optimist came to America and the pessimist stayed in Europe. Optimists move forward no matter how great the odds; 270 million Americans are working hard to overcome the obstacles and stupidity of the gang of 535, the US Congress. Optimism is America's greatest strength.