



Napa Wealth Management's The Sensible Investor

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Busting Financial Myths—Part 2

By Tim Ayles, Chief Investment Officer



Last month I began my series by busting the myth of the U.S. dollar losing 96% of its purchasing power.

You can go to our web site and review it at www.NapaWealth.com.

This month let's look at MYTH #2 - 'The U.S. will collapse because the US is printing money. As everyone knows, printing money does not produce wealth.'

Let's pretend we start a useless government agency (not hard to pretend, I know) which hires 10,000 people to do nothing more than pick their ear and report on their experience. I agree, this in fact is useless and non-productive, a seemingly waste of money. The government prints money to fund this agency and pays these useless workers. Is that money wasted and gone forever, and wealth never to be created?

The example I like to give is that the Sovereign U.S. Government can start this totally useless agency, yet the money will eventually flow to those who create wealth. Therefore, printing can eventually lead to wealth creation. Sounds absurd, I understand, but keep reading. Money is demanded by capitalists in the current monetary system because it allows them to stay out of jail for not paying their taxes in dollars while at the same time providing a better lifestyle for their family.

How will the "wasted" money get into the hands of the wealth creators? If the new ear pickers go into their communities and spend it at local businesses, the printed money goes from useless employees into the accounts of productive businesses (of course the producers get less after layers of tax bites). So the act of spending printed dollars itself will get those dollars into the hands of businesses that are able to create wealth.

By true wealth creators, I am talking about the modern day alchemists, who turn something worthless like oil, into something valuable like gasoline.

Printed and worthless money eventually flows into the hands of those who create wealth, but, because of taxes and misallocation, it is not very efficient on the journey there. Is it fair? Absolutely not! Is it wrong to start an agency like this? Absolutely!

But to argue that government spending is all a waste and the money spent ends up being vaporized, is wrong. Government spending, even wasteful spending is someone's income. Food stamps become the income of Safeway and Albertson's. Employees who work there get paychecks, and the shareholders get dividends. That money ends up being spent as well. Again, not fair to some who are productive, but also not a total waste. If you run a productive business, chances are you too have received some of this "stimulus" money.

Take a look at any defense contractor. They are all cash cows, and most all of them get over 90% of their revenues from government spending. They spend money on stuff that kills people and blows things up. Not very "productive".

Yet, those businesses are gushing cash. Other businesses and investors lent these contractors money by buying their bonds, which in turn are paid back by government spending—government contracts create the income these companies use to pay the interest and ultimately, the principal back to the bondholders (lenders). So that lent money is now those investor's income, which comes from government spending. These defense companies buy technology and metal from somewhere to make their weapons. Therefore, those that sell technology and metal to these companies get paid from revenues that come from government spending. There are 412,000 people who work for 4 companies I analyze. Assuming they average \$50,000 per year in income, that is about \$20.6 billion in income. Where does that \$20.6 billion go? Some goes to taxes, of which some gets "wasted". But those taxes pay teachers, build roads in neighborhoods, pay for

police, etc. That "waste" gets spent at the local grocery store, hardware store, invested in other companies (which produce and employ). Another \$2.5 billion is paid out in dividends from these 4 contractors. [Our clients get some of that money]. Those dividends get spent somewhere in our local community. How about the pay of the 2.3 million soldiers we have? Is that "wasted" government spending? Maybe, but it is also income for those 2.3 million soldiers. That is roughly \$100 billion these soldiers will use to buy from local businesses and productive parts of society. So the spending ends up in the hands of businesses.

So the hard answer, as much as I hate it, is yes, government spending does end up flowing through-out the economy.

I agree with most, that we need to focus more on seeing that money flow into the hands of the citizens, rather than Wall Street, who blow it taking large risks. There are reforms that need to happen as well on Wall Street. If you read some of my past articles, I am VERY against Permanent Open Market Operations (POMO) and the manipulation going on in our markets. I say use that \$600 billion and give it to Main Street. Don't just prop up asset prices "higher than they otherwise would be" (Fed member quote) as they are doing now.

The government should spend more - AND TAX LESS! (Yes it is possible - we will look at that next month). Each political party gets it half right, and half wrong. Build roads with the money, instead of paying 99 weeks of unemployment insurance for people to sit around and watch TV. Pay unemployed workers to go to school so that they can improve their skills and become productive for society again.

Find ways to manufacture things HERE, not China. A lot of what happens now is the government spends money here, and then that money flows to people who send it to China by buying Chinese goods.

Government spending is not always bad. Unfortunately, with the plutocracy we are heading towards, the spending gets filtered through the Wall Street crooks first, and not Main Street. Spending does not need to stop, per se, but what it gets spent on needs to change.

Tim

Update from Your Team

Jim officially steps in as the Napa Rotary president starting July 1st. Jim has been a Rotarian since May of 2006 and has grown in popularity due to his naturally giving nature and (some say) emerging comedic talent. Last month Jim was the spokesman for the Cycling for Site event in Napa where there were approximately 2,000 riders. The event concluded with live music and vendors at Justin Sienna High School.

Brandi is embarking upon earning her Certified Paraplanner designation from the College for Financial Planning. Her online course work begins this month and culminates with an exam testing her knowledge of the financial planning industry and the role of the paraplanner. Brandi falls under the mentorship of our two Certified Financial Planners, George and Jim, which is required by the college to complete the course requirements. The Certified Paraplanner program prepares the graduate to enter into the field of financial planning by being introduced to different product categories, essential terminology, and general concepts applicable to financial planning.

Tim continues to write for SeekingAlpha.com. He has been spending the majority of his spring diving into Modern Monetary Theory - the idea that the national currency is created by our government and money is created through our government's spending.

In February **George** was asked to serve on TD Ameritrade's (TD) advisory panel for a 12-month term. George was on TD's inaugural panel from 2000-2001. TD's advisory panel meets several times throughout the year to give feedback to TD's president, Tom Bradley, and his management team. Agenda items cover a spectrum of topics facing wealth managers and brokerage firms like TD. Topics include; the current regulatory environment, initiatives from TD to improve service to advisors, questions about topics advisors want TD to highlight at national conferences, and more. The group is made up of 40 wealth managers throughout the U.S. The panel's next meeting is scheduled on June 14 in Miami, Florida.

Coinciding with the panel meeting in Miami is TD Ameritrade's Elite Advisor Summit. This is an invitation only event to a distinguished group of TD Ameritrade's elite advisors with whom we are privileged to be associated. Speaking at the Summit is General Stanley McChrystal, retired four-star general who fused the intelligence and operations as the commander of U.S. and international forces in Afghanistan. He is credited with helping to drive the capture of Saddam Hussein. With the recent news of Bin Laden's death, this should prove to be a very intriguing speech by General McChrystal. In addition to hearing from Fred Tomczck, CEO of TD Ameritrade and Tom Bradley, President, we will hear from TD Bank's Chief Economist, Craig Alexander. You never walk away from this audience with a sense of disappointment. Stay tuned.