

Rewardless Risk

Everything we do carries risk in the investment world. The safe stuff even has risk, the risk that inflation will erode your buying power. CD's, savings, cash, etc. all carry inflation risk. When we move away from the fixed line, the risks change from inflation to capital risk, the possibility that you may lose part of your capital if the investment goes bad. This is an era in time where we will see many people look back to an era we're going to name rewardless risk. The risks baked into the financial system today are nuts, insane, like I've never seen before. I've never even read about a time like today where the rules of the game are encouraging financial lunacy.

Not only are asset prices too high almost everywhere, but governments are pushing a negative interest rate environment. We touched on this a bit last month but let's dig a little deeper it is very important what is going on and how to deal with it. Negative interest rates are purposeful tools used to attempt to weaken a banking system within a country. We're seeing negative rates in Europe, Japan and places where the economy is not well, but just barely slogging along. We're not seeing any of this insanity in places like Russia or Brazil, they're actually doing the opposite and behaving like adults, they're raising rates, making traditional solid economic policy choices.

Countries who are pursuing the negative rate game are essentially punishing banks for not making bad loans. The more bad loans you do not make the larger the penalty will be for not making bad loans. If you make all the loans you can make based on your capital base there will be no penalties. The loans the bank has already made the bank believes to be good loans and ones they plan on getting paid back on. These loans have been properly underwritten and based on solid economic data. If the bank had more good loans to make nobody would need to twist their arms to make them, which is the business they're in and they will automatically make all the good loans they can.

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Your Take

Here are a few great short stories. This one is Potato's, Eggs & Coffee Beans: Once upon a time a daughter complained to her father that her life was miserable and that she didn't know how she was going to make it. She was tired of fighting and struggling all the time. It seemed just as one problem was solved, another one soon followed. Her father, a chef, took her to the kitchen. He filled three pots with water and placed each on a high fire. Once the three pots began to boil, he placed potatoes in one pot, eggs in the second pot, and ground coffee beans in the third pot. He then let them sit and boil, without saying a word to his daughter. The daughter, moaned and impatiently waited, wondering what he was doing. After twenty minutes he turned off the burners. He took the potatoes out of the pot and placed them in a bowl. He pulled the eggs out and placed them in a bowl.

He then ladled the coffee out and placed it in a cup. Turning to her he asked. "Daughter, what do you see?" "Potatoes, eggs, and coffee," she hastily replied.

"Look closer," he said, "and touch the potatoes." She did and noted that they were soft. He then asked her to take an egg and break it. After pulling off the shell, she observed the hard-boiled egg. Finally, he asked her to sip the coffee. Its rich aroma brought a smile to her face. "Father, what does this mean?" she asked. He then explained that the potatoes, the eggs and coffee beans had each faced the same adversity— the boiling water. However, each one reacted differently. The potato went in strong, hard, and unrelenting, but in boiling water, it became soft and weak. The egg was fragile, with the thin outer shell protecting its liquid interior until it was put in the boiling water. Then the inside of the egg became hard.

However, the ground coffee beans were unique. After they were exposed to the boiling water, they changed the water and created something new. Which one are you, he asked his daughter. When adversity knocks on your door, how do you respond? Are you a potato, an egg or a coffee bean? Moral – in life things happen around us, things happen to us, but the only thing that truly matter is what happens within us. Which one are you?

"Shake off your problems":

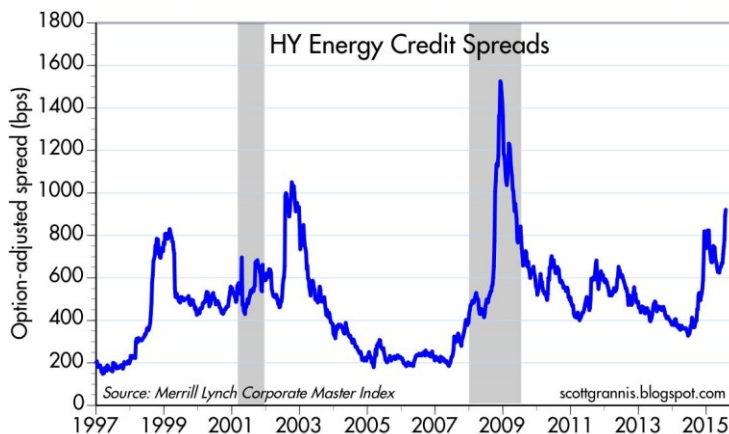
A man's favorite donkey falls into a deep precipice; He can't pull it out no matter how hard he tries; He therefore decides to bury it alive. Soil is poured onto the donkey from above. The donkey feels the load, shakes it off, and steps on it; more soil is poured. It shakes it off and steps up; the more the load was poured, the higher it rose; by noon, the donkey was grazing in green pastures. After much shaking off (of problems) and stepping up (learning from them), One will graze in GREEN PASTURES.

Your Take, Continued on page 3

Historically banks were always asked to be good stewards of the money they managed as they were a key part of an economy. They were not only asked but forced to do so, solvency and capital requirements mandated that banks needed to behave properly or the government would come in and shut them down and sell them to a competitor for pennies on the dollar.

Today we have the rulebook written to incentivize incendiary behavior that will result in the banks going up in flames if they follow the guidance and attempt to avoid the fines. We're not asking banks to be safe and only make good loans, we're asking them to loan all they can or else we'll penalize them, like punishing a child for not behaving. You cannot make this up, this is the world we live in.

The backdrop of the credit cycle we're in today isn't pretty. High Yield loans (junk bonds) are rolling over, which means people are fearful that many loans will not be repaid that were speculative in nature. The money printing mania of the past few years has pushed up prices across the board to levels we've never seen before. This chart is of the high yield credit market in the energy complex the credit spreads. They are starting to do exactly what they did in 2009. We may not get to that extreme level, but the clear trend is up and it has been now since 2014. All of the money printing in the world doesn't stop credit from eventually having to be repaid.



Despite the current credit environment negative rates are being pursued. Ironically the Fed's mandate is to stabilize the banking sector and what is likely to unfold is that the actions of the Fed's of the world will be to unglue the very thing they were supposed to support. Negative rates in a weak credit cycle is very destabilizing. The goal in reality has been that of political gain, whether it be for a sitting elected official, an edge for a country, etc. My hope is that our Fed doesn't follow in this folly and they continue to raise and normalize rates. The economy doesn't warrant it, but the safety of our financial system does. I am concerned that as markets and the true economy start to roll over, they will too and follow into negative territory.

The Fed Charade

The Fed raised rates for the first time in almost 10 years in December and now we see them boxed into a corner with what to do now. They initially claimed they were going to raise rates 4 times this year and the whole idea is to "normalize" monetary policy. The problem we have is that the underlying economy is just okay 8 years into a recovery and the "recovery" was supported by the government printing trillions of dollars of money into the global economic system. Now the charade is how do they get people to buy into the economy is strong enough to work on its own without life support of the Fed crack it has become addicted to.

So far the public is buying the story, but the public is being suckered. Fed policy isn't anywhere near normal, it's as weird as ever with twists, although not the big "operation twist" of a few years ago. This is all uncharted waters and not just for our Fed but central banks across the globe are doing things we've never seen before. We've never had 0% rates for many years, we've never had negative interest rates, banks have never kept billions in reserves at the Fed before 09.

The unconventional monetary policy started with the collapse of Lehman Brothers. This was where the Fed's emergency lending program came into being creating large quantities of reserves. After that to keep the lending from undermining policy targets, the Fed started paying interest on reserves placed with the Fed. When the economy continued to weaken, the Fed then created more reserves for the banks to hoard to "shore up" their balance sheets. The old saying that when nothing can fail everything has failed is really where we are today. Prior to 2009, excess reserves on the Fed's balance sheet rarely approached the 2 billion dollar level. Today there are 2.9 Trillion dollars in excess reserves sitting there.

To return to normal we must see 2.7 Trillion dollars exit the Fed's balance sheet and get back to where it belongs. Is that what the Fed has been doing in the promise to "normalize?" Not a chance, in fact they've done just the opposite but what people see is rates have come up from 0 so we're on the right track. Rather than shrinking the balance sheet the Fed has been lifting them with a slick trick called "overnight reverse repo's."

It was reasonable to do some unconventional policy decisions in the depths of the financial crisis to keep people from losing faith in the banking system. It was very wrong not to allow financial firms to fail, not to punish executives for legally bilking billions from corporations and leaving shareholders and taxpayers to foot the bill. It was a big mistake to bail out the auto makers, the solar company and to pour billions into expanding government programs. The country has more than doubled our national debt in 7 years, clearly poorly run and completely unsustainable.

In America apparently if you're a high level executive or a politician you can break the law and get away with it. We have yet to deal with the final stage of what started in 2009, it's coming soon to a theater near you! Will you be prepared? We are and have been waiting patiently for its arrival.

- Congratulations to Jim Napoli on his new job running the Long Island Region of Tire!
- Our condolences to the Harkness family on the passing of Helen, a wonderful mother, wife, woman, sister, aunt, grandmother and friend.
- Our condolences to the Samples/Nikora families on the passing of Roger, a wonderful man, husband, brother, uncle, grandfather and friend.

Question & Answer

Ask any financial question you have and we'll address it here.

Q: Why are some states stopping unions from automatically enrolling people in the unions through union employers as they always have?

This is very interesting and with the recent ruling in West Virginia to end forced unionism we're seeing a crystal clear trend start to emerge. What this means is employers can no longer automatically take money from employees paychecks to be part of a union if the worker doesn't want to be part of this union. Workers no decide if the union can deduct dues from their paychecks. This has been a problem for many people over the years lately as not many younger people agree with what unions are doing. There is a strong following of unions with many people but it appears the scale has started tipping in the direction of right to work for the good old US of A.

States with these right to work laws (unions are voluntary not mandatory) have been creating jobs at twice the rate of forced union states. We're seeing unions who lose this forced right to take money out of workers' paychecks stop their political activity 90% of the time. This is something we hear a lot about as well when unions try to tell their members how to vote, which isn't something they should be doing in the first place.

This most recent action in West Virginia shouldn't be a huge surprise, they're a huge coal mining state that has been historically unionized but the current administration has decimated the industry, and a plethora of jobs inside the industry. No big surprise they've lost the support of the tens of thousands of people who have lost their union jobs and in many instances, the businesses are gone or in financial straits and trying to survive.

West Virginia has joined a few other surprising states who have gone right to work in the past few years including Indiana, Wisconsin and Michigan. It's no surprise when unions kill businesses the members turn against them. Detroit was once the wealthiest city in the country and now it looks like a war zone thanks to unions bankrupting the big 3 auto makers. Expect this same thing to come to the only union strongholds left, city, country, state and federal jobs. These are the only operations who can afford to pay for the mandates put on them, but they're really not affording it, they're borrowing it from taxpayers on a completely unsustainable level.

Unions have done a lot of good for millions of people. Today the environment is very different and things need to be reasonable, demands that are not reasonable will result in drastic changes. I was blown away when Hostess closed because unions wouldn't accept a pay cut. They're rather have no jobs for their members than a pay cut? Hostess has since reopened under new management and is now a non union company. Go figure!

"Everyone has a Story":

A 24 year old boy seeing out from the train's window shouted...

"Dad, look the trees are going behind!"

Dad smiled and a young couple sitting nearby, looked at the 24 year old's childish behavior with pity, suddenly he again exclaimed...

"Dad, look the clouds are running with us!"

The couple couldn't resist and said to the old man...

"Why don't you take your son to a good doctor?" The old man smiled and said..."I did and we are just coming from the hospital, my son was blind from birth, he just got his eyes today.

Every single person on the planet has a story. Don't judge people before you truly know them. The truth might surprise you.

"The Elephant Rope":

As a man was passing the elephants, he suddenly stopped, confused by the fact that these huge creatures were being held by only a small rope tied to their front leg. No chains, no cages. It was obvious that the elephants could, at any time, break away from their bonds but for some reason, they did not.

He saw a trainer nearby and asked why these animals just stood there and made no attempt to get away. "Well," trainer said, "when they are very young and much smaller we use the same size rope to tie them and, at that age, it's enough to hold them. As they grow up, they are conditioned to believe they cannot break away. They believe the rope can still hold them, so they never try to break free."

The man was amazed. These animals could at any time break free from their bonds but because they believed they couldn't, they were stuck right where they were.

Like the elephants, how many of us go through life hanging onto a belief that we cannot do something, simply because we failed at it once before? Failure is part of learning; we should never give up the struggle in life.

Nothing easy is worth doing and nothing that is worth doing is easy. These are the messages we need to get our kids and loved ones to internalize. Everyone is capable of great things, we just need to apply all of our being to what we're passionate about!

Money Quiz



This month's challenge is to analyze gasoline, the beauty of lower prices for our fuel tanks. The average price of a gallon of gas as of 1/29/16 was how much? In 1966 it was 32 cents, adjusting for inflation it should be \$2.38 in 2016 dollars. Last month's quiz was won by Joel Nahari, there are now 62.9 births per 1000 women today. This is a far cry from the 122.4 we had in 1957! Winner goes to Ruby Tuesday on us! 02/01/16:13

The Naming Game!

We all like games in America, this is why athletes make more money than most others, the draw is so good that the owners of the sports franchises win bigger than what they're paying the athletes. Think of an athlete in the same vein as an actor, it's a similar business model, entertainment and people love it!

The name game I'm thinking of is laws and how they are named. There needs to be no truth in the naming of laws, most of which are cool acronyms that could be much simpler. In 1956 the Federal Aid Highway Act was created to build our interstate highway system. That's great it is named well and it did what it was intended to do, we all enjoy that bad boy today. Moving back further in 1934 the Federal Reserve act created the Fed and was straight forward. Perhaps the Fed has gone too far lately but the name was very fair at the time.

Fast forward a few decades and lets look and see how laws have changed in the naming category.

1981 Reagan Tax Cut act, fairly named it did what is said it was going to do.

1985 Balanced Budget Act, also fair, did the job but had no staying power. Now they apparantly run a no budget or infintely out of balance budget and that is all okay in 2016 America! ☺

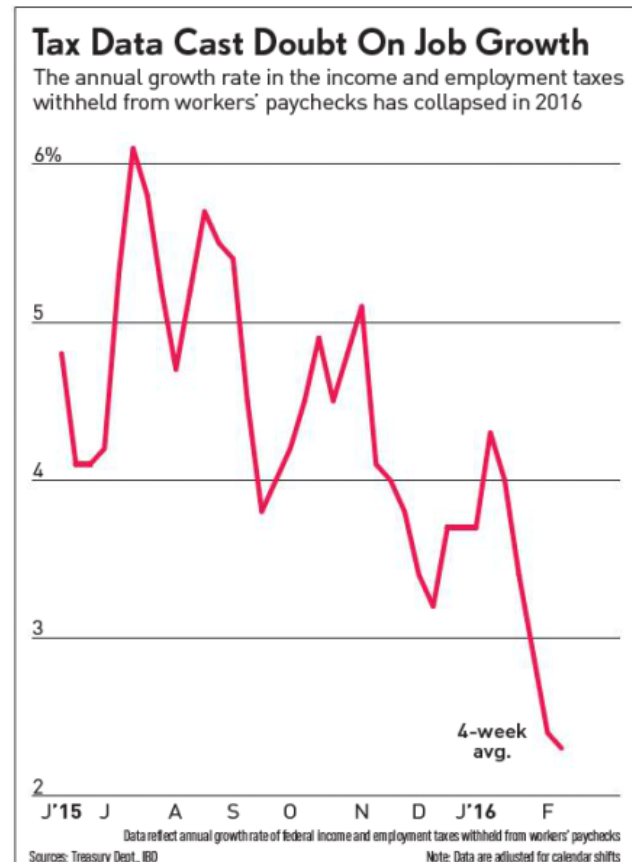
1996 Welfare Reform Act –great name did its job we need a new one as they've spent 20 years weakening the original one. Expect one soon, the current system of handouts is completely unsustainable.

2009 Stimulus Act – very fair, stimulated what could have turned into a depression. Should have cut it off in 2011 but it was just so good they kept it going by other names such as "operation twist" etc.

2010 The Affordable Care Act – now we're getting way off track. Absolutley nothing about this law has made anything affordable in fact costs have skyrocketed under it. Premiums are way up (some get subsidies so they may feel less of it) and Docs have bene hammered. We now have ½ of the Obamacare exchanges now officially bankrupt. What's really bankrupt are the morals of the policial class!

Job Growth?

We're all hearing the great news on how strong the economy is and how jobs are back and employment is now at levels not seen since 2005. Interesting to see the narrative we're being told by the media but with that in mind, why is the underlying data looking particularly negative? Below feast your eyes on a recent data point signaling a weakening jobs scenario, not a strengthening one. This is clearly happening despite record numbers of people on disability, states enacting higher minimum wage policies and governments operating at huge deficits each and every year with no apparent end in sight to that behavior.



The real story here is that what the data shows on the surface is only a small portion of what is going on under the covers and the global economy is a very complicated animal. Bottom line is the Fed has fueled a speculative behavior in people that has essentially pulled demand forward from a point in the future. It's like paying your bills today with money you'll earn tomorrow. I think the cartoon when I was a kid where the guy said "I'll gladly pay you Tuesday for a hamburger today." We're of course talking much bigger things than burgers but the point is the same. Governments have sold people on the idea that it's okay to move on and spend and do what you want on the backs of a massive debt bubble across the globe. We're hoping you didn't fall prey to this message because now it's coming home to roost. The Fed just raised rates as the tax deductions from people's checks have essentially fallen 5% in a year, but unemployment is below 5% so all is good! ☺ Don't drink that Kool Aid!

Inspirational Quotes

- Everything that irritates us about others can lead us to an understanding of ourselves, Carl Jung
- They say that time will change things, but you actually have to change them yourself, Andy Warhol
- Just remember when you think all is lost, the future remains, Robert Goddard
- Abundance is not something we acquire, is something we tune into, Wayne Dyer
- As soon as you trust yourself, you will know how to live, Johann Wolfgang von Goethe
- People do not decide to become extraordinary. They decide to accomplish extraordinary things, Edmund Hilary



We can piece the puzzle together and make your money work for you!

Kids Korner

How do we help our kids become well rounded and productive members of society? How do we get them to be self-starters and to go after what they want? If we could just package a pill to accomplish this we'd all do it but it's never this easy. Many of our youth are enamored with the idealology of a perfect world, equality and other things that we'd all like but are simply not possible in reality. Getting the kids to cross the barrier from an ideal world in their heads to the reality the rest of us live is sometimes a challenge.

One of the keys is to get the kids to see through the lens of reality and not just the lens of a perfect world. We need to make them self-sufficient, not expecting someone else to take care of everything. They need personal accountability and responsibility, and that starts with us showing them how we do it. They learn far more from what we do than from what we say. Our message must be consistent with our actions or they'll see right through it.

We need to push them but not over riding and hovering. The kids don't need to go to college to be successful, they can be mechanically or artistically gifted and do very well for themselves. Sometimes the parents can get in the way of kids doing well by pushing them too hard and expecting the kids to do what the parents wish they did or were in capable of doing. 😊

If anyone you love or care about would benefit from receiving our newsletter, tell us who they are and they will be included on our mailing list. They'll certainly appreciate you thinking about them and having their best interests at heart!

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