

MONEY NEVER SLEEPS

THE NEWSLETTER FOR THE INFORMED INVESTOR

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“WITH APOLOGIES TO DRUNKEN SAILORS”

“The fact that we are here today to debate raising America’s debt limit is a sign of leadership failure. It is a sign that the U.S. Government cannot pay its own bills. It is a sign that we now depend on ongoing financial assistance from foreign countries to finance our Government’s reckless fiscal policies. Increasing America’s debt weakens us domestically and internationally. Leadership means that, “the buck stops here.” Instead, Washington is shifting the burden of bad choices today onto the backs of our children and grandchildren. America has a debt problem and a failure of leadership. America deserves better.”

Source: Senator Barack H. Obama, in a March 2006 floor speech to Congress

The President is required by law to have an annual budget officially put upon the nation’s stage by the first Monday in February. It is nearly the end of March as I write, and he still has yet to deliver one. But then again, the Senate is required by law to have a budget prepared annually and they have not passed one for four years now.

We are 40 days past the date when the President’s budget was due, and during that time, the USA has accrued just barely less than \$6.45 billion in new debts each and every day. At 35 days past the Presidential budget deadline the USA had accrued \$225 billion in new debts, at 40 days, \$258 billion. Per capita, per person, they are adding \$20.55 in debt every day, weekends included.

A family of four is going into debt to the world at the rate of \$575 per week. This current administration is spending money like drunken sailors.

One can only stand in awe at this debt explosion. And what has been the return? Economic growth? Hardly, the current recovery is the weakest in history. Jobs? Once again, a swing and a miss. Unemployment was still at 8% at Election Day and remains stubbornly high. Infrastructure investment? That was the intention at one time, but never happened. This then brings us to entitlements. Bingo.

The growth of entitlement programs has exploded since 2009. There are now approximately 9 million Americans on

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some sort of disability. Half are there for such things as “mood disorders” or back pain. Now we know that simply feeling down can allow one to apply for and receive a cheque from the government. Between 1996 and 2011, the USA added 8.8 million non-farm workers to payrolls, but at the same time added 4.1 million to the disability rolls. That 2 to 1 ratio cannot continue.

In 1960, roughly 134 Americans were engaged in gainful employment for every officially “disabled” worker. By December 2012 that number was 16. This is no way to build a productive society and run the largest economy in the world in a globally competitive environment.

There are now approximately 80 million people out of a population of 314 million who are recipients of Medicare, Medicaid or Social Security payments, and that number is rising. Since the beginning of the Obama administration and the overt relaxation of qualifications for Social Security and other benefits, the numbers of Americans receiving benefits from Medicaid has risen from 47 million to 56 million. Let me put it another way, when he became President, the population of the USA was 307 million. On November 1st, 2012, it was 314 million, so while the overall population has grown 2.3%, the number of Americans receiving Medicaid rose 19%, or 8.3X fast than the population. For the same period, those receiving disability benefits rose from 7.5 million to 8.8 million (17% increase), food stamp recipients are up 47%!!! (32 million to 47 million or 20X the population growth).

Doing simple math, approximately 77 million tax payers are paying the full sum of taxes (both income and payroll taxes) supporting a culture of entitlements in the U.S. and that those income earners making more than \$50,000 per year are paying 50% of all the nation's taxes.

This big government mentality and the rising costs of that government needs to be overhauled and sooner than later. We know President Obama has aspirations to go into history as one of the greatest Presidents ever, but his big government approach is diametrically opposed to one President who already has a large legacy, Ronald Reagan.

Reagan took over a disastrous economy in the early 1980s, a weakened USA in international circles, and is still invoked as a visionary who lowered taxes, eased regulations, and downsized government big time. Like Obama, Reagan lost Congressional support in midterm elections, but Reagan's message was one of unity and hope. The economy exploded

higher under Reagan. GDP in the last 3 months of 1983 rose at 8.5% annualized. For Obama's first four years, the aggregate GDP growth was less than 1%.

The unemployment rate in December 2011 was 8.5%, versus 8.3% in December 1983 under Reagan. Yet joblessness dropped 2.5% in just 12 months 29 years ago, compared with less than 1% in all of 2011, and but 0.3% in all of 2012. The recession Reagan inherited was sparked by the high inflation of the Carter years, and interest rates were as high as 20% trying to curb it. Rate cuts started in June 1981 and by December 1982 were down to 8.5%. With current interest rates at virtually zero for years, this Administration can barely create a single job.

The presence of so much government debt makes companies and consumers reluctant to borrow, and banks reluctant to lend, no matter how low rates are. Every dollar the Administration spends is another dollar borrowed from overseas and is another dollar that has to be paid back one day down the road, but in the meantime carries a carrying cost (i.e. interest) and that comes right out of the current economy which could be used for infrastructure, defense, education or healthcare.

Americans in 1983 borrowed readily to buy a home, despite double digit mortgage rates. Housing was a big part of the Reagan recovery; it has yet to be so in the current cycle. And of course, defense spending, which rose from 4.9% of GDP in 1980 to 6.1% in 1983, helped Reagan's recovery. In the recent sequester-mandated spending cuts, defense spending was the hardest hit. Sometimes it's just on how you manage what you have to work with.

Consumer confidence under Reagan in 1982 to 1983 surged from about 65% to 100%. Under Obama (2010-2011), it has barely budged holding at about 50% and Reagan didn't have \$800 billion of Obama-Pelosi “stimulus” spending nor the QE to infinity of Central Bank support. Of course, most of that stimulus money was wasted on cronyism, but Keynesian economics decrees that what counts is spending the money, not on how efficiently it is spent. Lowering taxes, not increasing them, works best because it's a form of money supply growth that fills an intelligent citizens' pocket book that will inevitably put it to better use than any government program. However, this only works if the citizen believes the tax policy is real AND permanent. Eliminating excessive regulations creates openness and allows business opportunities for that cash to be put to work. Lower taxes, a

simple tax code, less regulation and less government are the ingredients for economic prosperity. Ronald Reagan knew that. It doesn't look like President Obama is learning that lesson yet, or perhaps just simply refuses to accept it.

The United States remains the dominant economic power in the world – for now – despite the need for fiscal, regulatory and educational reform. Canada, as the USA's largest trading partner, should benefit from that. While the USA's leadership status has slipped, hopefully its strong culture of innovation, entrepreneurship, and economic freedom will not be eroded under the current efforts of redistribution and big government.



QUOTES

"There are two ways to conquer and enslave a nation. One is by the sword. The other is by debt."

John Adams, 1826

"If you don't read the newspaper, you are uninformed. If you do read the newspaper, you are misinformed."

Mark Twain

"The inherent vice of capitalism is the unequal sharing of the blessings. The inherent blessing of socialism is the equal sharing of misery."

Winston Churchill

"The nearest thing to eternal life we will ever see on this earth is a government program."

Ronald Reagan

NOTES

WHAT COUNTRY LEADS THE WORLD IN NUMBER OF CARS PER 1,000? (SURPRISE!)

1. Brunei 691
2. Puerto Rico 678
3. Iceland 669
4. Luxembourg 650
5. New Zealand 641
6. Italy 614
7. Malta 558
8. Lithuania 547
9. Netherlands 547
10. Finland 530
16. Germany
26. USA

(Source: Gartner Report – 6 March 13)

AVERAGE NEW HOME SIZE IN THE USA

- 1973 – 1660 sq. ft.
- 1980 – 1740 sq. ft.
- 1990 – 2100 sq. ft.
- 2000 – 2434 sq. ft.
- 2005 – 2521 sq. ft (peak)
- 2010 – 2392 sq. ft.
- 2013 – 2150 sq. ft.

(Source: Gartner Report 27 Feb 13)

AVERAGE U.S. HOMICIDES OR DEATHS PER YEAR

- Rifles 453
- Handguns 6009
- Blunt Objects 674
- Knives 1817
- Auto Accidents 32,885
- Drunk Driving 10,839
- Hands/Feet/Fists 869
- Military Style Assault Rifles 18

(Source: Investors Business Daily 17 Jan 13)

AROUND THE GLOBE



CANADA (BUY)

- Outlook steady, employment gains keep consumers confident
- Expect GDP +2.0%
- Commodity sector very contingent on China and Canada would directly benefit from improvements in China and the USA

U.S. (STRONG BUY)

- Expect GDP +2.0%
- Better tone to housing, consumer confidence
- Washington is dysfunctional but if can deliver fiscal and taxation certainty, could be the catalyst for next upleg

EUROPE (SELECTIVE BUY)

- Great Britain GDP 1.3%, Euro 0.5%
- Still too much uncertainty and worries the recession will deepen first before recovery gets underway late in the year.
- Europe has probably achieved more than it has received credit for.

EMERGING MARKETS (BUY)

- New Brazilian government intervention is hurting foreign investment (GDP expected +3.5%)
- Japan GDP +1.5%, China +8.3%
- In China, central bank easing plus infrastructure spending offsets challenging export outlook
- Growth in emerging markets should continue to outpace advanced economies.



A SPECIAL WELCOME TO ALL NEW CLIENTS

WHO HAVE JOINED US

Thank you especially to clients who have mentioned our name to people they know. As a sign of gratitude, four times a year we'll randomly select a client who has introduced our services to a friend for special acknowledgement via a nice dinner at one of the finer restaurants in London.

PLEASE DON'T KEEP A SECRET FROM US!

We are very happy and proud of the clients we serve in our practice and we are always open to serve more clients just like you. Should you be talking to someone who is unhappy with their current advisor, or would like a second opinion we would be grateful if you passed on our number 519-675-2011 or 1-800-265-5911. Thanks for keeping us in mind.

Congrats, Pete V

Our winner this quarter!



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