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Freethinking Investment Strategies

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Everybody Knows

Dear Guest

*Everybody knows that the dice are loaded
Everybody rolls with their fingers crossed
Everybody knows that the war is over
Everybody knows the good guys lost
Everybody knows the fight was fixed
The poor stay poor, the rich get rich
That's how it goes
Everybody knows*

*Everybody knows that the boat is leaking
Everybody knows that the captain lied
Everybody got this broken feeling
Like their father or their dog just died
...*

Lyrics from [Everybody Knows](#), a song written by Canadian singer-songwriter Leonard Cohen and collaborator Sharon Robinson, released on Leonard Cohen's album [I'm Your Man](#).



Source: Leonard Cohen's website [here](#).

Everywhere I go, and I've been to a fair few countries around the globe lately, people seem to have the same sort of overwhelming feeling that things are just not the same anymore or at least not the way they used to be and that something will have to change sooner or later. Yet, somehow, people carry on as if nothing has changed or as if everything was somehow going to be all right. Meanwhile, that feeling Leonard Cohen speaks of not only lingers on: it gathers momentum and strength. What to make of this?

I believe that despite what it may at first appear to be, this feeling is in fact the sign of a significant rise in human consciousness. Deep down we know our beliefs about money and debt are delusional and the day will come when the inevitable consequences of our collective delusion will manifest. But that day has not yet come to pass. And so, most of us still live in ignorance or are unable to come to terms with the basic facts of the situation and choose to or prefer to believe that the delusion can prevail.

Indeed, I have come to the conclusion that this overwhelming feeling in the world has much to do with what we have come to accept as our medium of exchange. Surely, how we all interact together must matter. Yet, we keep acting on a daily basis out of habit without ever giving any consideration to the very nature of the medium we so readily accept for our exchanges. If what lies at the core of all our exchanges happens to be dishonest money and we are not even aware of it, then surely we must collectively suffer the consequences.

We have abdicated our individual responsibility to think for ourselves when it comes to monetary matters and as long as we choose to do so, we will continue to pay the price. Cognitive dissonance theory offers in my view an elegant explanation of our predicament. Leon Festinger, who was an American social psychologist, first developed this theory in the 1950s to explain how members of a cult who were persuaded by their leader that the earth was going to be destroyed and that they alone were going to be rescued by aliens, actually *increased* their commitment to the cult when this did not happen. The dissonance of the thought of being so stupid was so great that instead they revised their beliefs to meet with 'obvious facts': that the aliens had, through their concern for the cult, saved the world instead (!)...

What has cognitive dissonance got to do with money? Everything! Since what passes for money today are irredeemable fiat currencies, it is essential that people maintain their *beliefs* about the ability of issuing states to pay their debts and central banks to preserve the purchasing power of their currency. In other words, confidence must be maintained at all costs. How do they maintain that confidence? This is achieved simply by perpetuating ignorance about money.

Central banking is like a cult. Believers have long been persuaded by the cult's leadership that it alone can decide exactly how much money there should be and exactly when and how to intervene in the system, to rescue it from an imminent banking collapse which we are told would of course have devastating consequences for all the rest of us. The sheer thought that this may actually not be true at all is now so unpalatable to the followers of the cult that they are quite prepared to accept instead that central bankers do indeed need to increase their interventions from now on. In fact, the cult's motto is now 'to do whatever it takes'...

Unfortunately, it appears some of the worst offenders or followers of this cult may well be the fiduciaries of all our collective savings in the financial system: investment managers, trustees and advisers. Until that sad state of affairs changes, all we can realistically expect is ongoing financial repression. At this point in time, dare I say that it even seems probable that it will indeed be aliens who come to save us all from ourselves...? Hey, maybe the Mayans knew something after all; we'll soon find out!



Source: Mayan Calendar [here](#)

Gold, Natural Law and India

I was in India in August, at the invitation of the Indian Association of Investment Professionals (IAIP), to speak in four of the major cities there (Mumbai, Hyderabad, Kolkata and Delhi) about the monetary disorder in the world and the role of gold. India was the 13th country where investment professionals and in particular CFA charter holders had invited me over the past three years to speak on this subject. In September it was the turn of The Netherlands and then Jordan. More to follow on my experience in Amsterdam and Jordan later...

It is said that people in India know what gold is. It is certainly a well-known fact indeed that India has had an insatiable appetite for the yellow metal for a very long time and so, it is widely believed that the biggest above ground hoard of gold bullion held in private hands is in that country. Also, the expectation or generally held assumption is that it is still the case today that people's demand for gold in India is very high.

Now, that may well be the case, but to my surprise I found that even in this incredible country the investment professionals were almost just as clueless about the true role of gold in the financial system as their peers continue to be in other countries around the globe. How could this be, I asked myself? The answer came from a participant at one of my lectures. He explained that in India, like everywhere else, they no longer teach what sound or honest money is or what the natural role of gold is human affairs.

The unfortunate result of this highly organised global education system is that, while it is still in the Indian people's nature to acquire gold jewellery, the industry professionals who act as fiduciaries of other people's investments and savings – either as advisors or managers of portfolios – seem to be suffering from the same ignorance when it comes to gold as other professionals elsewhere in the world. It's as if the whole world of fiduciaries is suffering from some sort of collective amnesia!

“One of the laws of nature is the true expression of what lies within for nothing in nature is concealed. This is known as the law of cause and effect. Conscious application of this law of nature is to speak the truth, but the major part of conscious energy is being spent in not disclosing the truth. The result is that everyone is trying to convince others of the truth of their inflated needs by minimising the natural needs of others. All this is being done by proposing new economic theories with total disregard to the laws of nature. One must understand the laws of nature first and then put them into practice on oneself before offering to others.”

~ Shri Shantananda Saraswati, answering a question from the leader of the School of Economic Science in 1982

The total disregard to the laws of nature, as eloquently expressed by Shri Shantananda Saraswati

in the above quote, is the essence of the problem. Academia has been hard at work for decades now in deliberately choosing to ignore the truth of the matter and, to use the words of Shri Shantananda Saraswati, devote the major part of their energy in “*convincing others of the truth of their inflated needs by minimising the natural needs of others*”. Even India, it seems, has not been able to escape from this doomed mindset of today’s false economic theories. The result is there for all to see.

Never mind that every single day I was in India, there was always an article in the daily newspaper about gold. Sometimes it was about its price, which had reached an all-time high the day I arrived and kept going up day after day (the rupee or INR has lost much of its purchasing power over recent times). But articles were also written about the supply and demand of the yellow metal, the new gold funds including ETFs that were now available, the rising interest of the younger generation when it comes to gold, a new jewellery brand about to be launched in India by the World Gold Council, etc.

Most noticeably for me though, were articles that referred to the rising level of gold smuggling. Apparently, the government there is trying to curb gold imports to improve the country’s trade deficit and hopefully also the purchasing power of the rupee. The result, of course, is a resurgence of smuggling, as there is no way of stopping Indians to buy gold. It is just one more example of a central government’s attempt at influencing human action with total disregard to natural law: it does not work!

Even the Reserve Bank of India is playing its part. It began a campaign recently attempting to discourage people from purchasing and hoarding gold, insisting that the country has to change its culture of buying gold because gold must be imported into the country and India has a current account deficit problem. It argues that India’s cultural interest in gold is attributable to a time when India was rich, but that today India is a poor country and so its people should stop buying gold (!)
...

I simply could not find a better contemporary manifestation of what Shri Shantananda Saraswati refers to in the above quote as a “*total disregard to the laws of nature*”. How sad that not only the world as a whole but even India, where so much wisdom once originated from, has come to succumb to this level of ignorance and be victimized by such untruth spoken with misplaced and misguided authority by the very people in who the citizenry has put their trust and faith to manage their economy.



“In economics, hope and faith coexist with great scientific pretension and also a deep desire for respectability.”

- John Kenneth Galbraith
(1908 – 2006)

Canadian-American economist and author of many books, including *A Short History*

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Fiscal Cliffs, Debt Ceilings and Fiat Money

“There is tragedy in the world because men contrive, out of nothings, tragedies that are totally unnecessary – which means that men are frivolous.”

- Henry de Montherlant
(1895 – 1972)

French essayist, novelist and one of the leading French dramatists of the twentieth century; above taken from his book [La Rose de Sable](#)

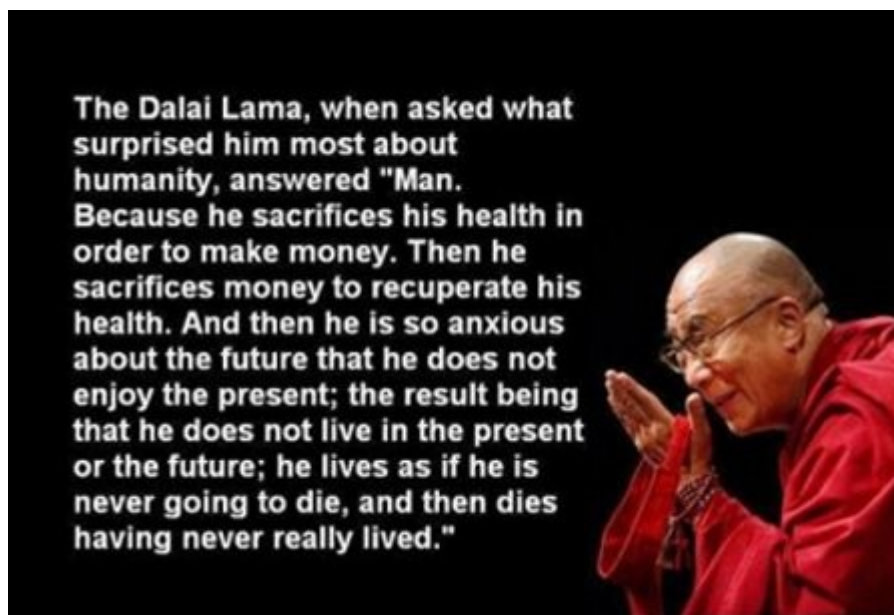
Here we are, perilously close to that fatidic date of the Mayan calendar. How do you feel knowing that, come 21 December, it could be the end of the world as we know it? Uncertainty in all matters, not just financial and monetary, seems to be peaking. Is uncertainty the new bubble? Is that what is going to burst come the end of 2012? Hummm...

When Jacques Rueff penned the following as part of his prologue for [The Monetary Sin of the West](#) in 1972, it is clear he foresaw even then that the new fiat dollar based global monetary system that had just been born in sin may well enjoy a longer life than anyone could envisage within reason:

“The art of monetary expedients has been refined to such a point over the last ten years that no one can predict what artificial devices can be generated by the fertile minds of experts.”

Indeed, here we are 40 years later and we are still operating globally under an unprecedented fiat only monetary regime, thanks to the endless innovations and refinements in the ‘art’ of deception by our high priests of monetary trickery and thanks to the collaboration of the investment industry in a sustained state of collective cognitive dissonance. There could not be, in my view, any greater human tragedy than that which we must now experience as a civilisation and this is all as a result of some men having contrived money out of nothing and humanity going along with it for so long!

The ‘art’ which Rueff refers to in the quote above now passes for science. But in truth the field of study called economics is more of the domain of philosophy than that of science. Its transformation into a dubious science may well have been our demise as a civilisation. There is simply too much uncertainty with respect to human actions to even pretend to capture the aggregate economic effect of all of those actions with measures like GDP. Worse still, is the unbearably arrogant attitude that future economic actions can be controlled by central planning and measured elastically!



We've been living in Bubbleland for such a long time that we can no longer remember what life was like before the arrival of Trustusweknowwhatwearedoingland. By now our society has become so addicted to the sugar coated false reality painted for so long by all these imposters pretending to be monetary scientists and able to solve the problems they themselves created, that the possibility that humanity has been conned for so long by such 'artists' is simply too hard to accept for too many who still depend on the very survival of a system that is now clearly doomed to fail.

Yes, I'm afraid that's why we can expect Yeswecanland and Nojailforthebankstersland to prevail for quite some time to come and for as long as the governors of this new reality can get away with it by making sure that the punchbowl is never taken away. Our salvation from this evil lies in *consciously* exercising our free will: in other words, waking up! Only once it is realised by a sufficient number of market participants that the price discovery process has been hijacked will we even begin to see the emergence of a truer picture of the actual state of our financial markets.

After all, all financial assets are simply claims on future cash flows of varying degrees of certainty. As such, their true *value* fundamentally depends on not only uncertainty about the future, but also on the time value of the fiat money or currencies in which all these assets happen to be denominated. Their price, on the other hand, is based on what are the prevailing beliefs of market participants with respect to those two fundamental concepts: uncertainty and time value of money.

Quite correctly, John Butler points out in his book, *The Golden Revolution – How to Prepare for the Coming Gold Standard*, that: "*Under a fiat currency standard, with legal tender laws enforcing its use and central banks setting interest rates, there is no free market in money.*" Well, as it happens, this is the crux of the problem (leaving aside uncertainty for the moment). Today, all financial assets are denominated in fiat money. This conveniently leaves all market participants at the mercy of central planners who are in a position to dictate what the time value of that money (in which the financial assets are denominated) is.

Time value of money, or interest, happens to be the central concept in finance theory. So how it is actually determined should not to be dismissed as trivial and is not without consequences. Under the current fiat currency standard we must all endure for the time being, interest rates are artificially suppressed by central banks by any means possible to ensure sovereign governments can continue to service their debt. This is because *that* debt (let us not be distracted by all the unfunded debt or liabilities) is fully securitised and has by now reached the infamous category of too big to fail as a financial asset.

You see, while there has not been a free market in *money* itself for quite some time now, there are millions of market participants who are still willing to risk the purchasing power of their hard earned savings in a financial system which is based on fiat money whose value is in fact uncertain to say the least. This includes at the core those very same sovereign government debt securities which are assumed to be 'risk free' or to have no risk of financial loss. Henry de Montherlant was

right: men are frivolous!

The US federal government debt which is subject to the 'debt ceiling' (you gotta love how they come up with these names, which are in effect tools of deceit!) stands at US\$16.3 trillion. The debt ceiling itself is US\$16.4 trillion, as was set back in August of last year when a deal was finally struck in the House of Representatives (remember THAT circus?!). By the time this gets published, I think the US Congress will have closed for business for the year. This means it will likely be early next year when the same absurd, idiotic, insane and unproductive political circus comes back to haunt us... unless it simply gets eliminated. Huh? Yep, that's what US Secretary of the Treasury thinks. Goodbye accountability!!

Treasury Secretary Timothy Geithner said Friday that Congress should stop placing legal limits on the amount of money the government can borrow and effectively lift the debt limit to infinity. On Bloomberg TV, "Political Capital" host Al Hunt asked Geithner if he believes "we ought to just eliminate the debt ceiling."

"Oh, absolutely," Geithner said.

"You do? Will you propose that?" Hunt asked.

"Well, this is something only Congress can solve," Geithner said. "Congress put it on itself. We've had 100 years of experience with it, and I think only once—last summer—did people decide to use it to threaten default on the American credit for the first time in history as a tool for political advantage. And that's not a tenable strategy."

Hunt then asked: "Is now the time to eliminate it?"

"It would have been time a long time ago to eliminate it," Geithner said. "The sooner the better" (!!...)

What else do people need to WAKE UP? This is the clearest, biggest admission if there ever was one by the ruling elite that there is no turning back. We are well past the point of no return and the endgame is quite simply debasement of all fiat currencies. The race to the bottom is accelerating. It is high time people, especially investments professionals, start re-educating themselves about MONEY.



Source: Bullion Management Group website [here](#).

Meanwhile, we are getting closer and closer to the other man-made or contrived tragedy of the day, the so-called 'fiscal cliff' in the US (another great name to delude the masses about the real tragedy). It certainly looks like the proverbial 'can' may well be kicked yet again down the road at the last minute or, as Rueff might say: the art of fiscal expedients has been refined to such a point that politicians will come up with just the right device or excuse to buy more time... when we're all away looking somewhere else.

If anything, the so-called 'fiscal cliff' is "*another hoax designed to shift the attention of policymakers, the media, and the attentive public, if any, from huge problems to small ones*", as very accurately pointed out by none other than a former Assistant US Secretary of the Treasury for Economic Policy (President Reagan administration) in a recent [article](#). Few men of his stature have his courage now and every day I pray he may inspire more and more to come out and speak the TRUTH! But I am realistic about that...

In any event, all this leaves us with **uncertainty** to deal with; in fact, a very high level of uncertainty. For sure, we cannot eliminate uncertainty from our lives. But I would argue that much of today's uncertainty can be attributed to not having had a reliable measure or standard of

measure for the value of money for quite some time. Indeed, how can we be certain of anything financial if the unit of measure used for all valuations is without definition?

To conclude, and remembering what insight into the real world could be derived after Heisenberg postulated the uncertainty principle – *that the act of observation itself determines what is and isn't observed*, I would now like to posit the following: that as more and more market participants choose to consciously observe the market and act accordingly, the day will come when fiat abuse will finally be seen for what it is and end. The golden constant will rise from the ashes and we will from then on only have those other and inevitable uncertainties of life to deal with!

*“There is no subtler or surer means of overturning the existing basis of society than to debase the currency. The process engages all the hidden forces of economic law on the side of destruction, **and does it in a manner which only one man in a million is able to diagnose.**”*

- John Maynard Keynes
(1883 – 1946)

British economist whose ideas have profoundly affected the theory and practice of modern macroeconomics, and informed the economic policies of governments (well... that's the polite description of the man by Wikipedia)

As suggested by Bill Buckler in his last issue of [‘The Privateer’](#) for this year:

*“It is safe to say that Ben Bernanke, his colleagues at the Federal Open Market Committee (FOMC) and his fellow central bankers all over the world are intimately familiar with this famous quote from John Maynard Keynes.
(.....)*

Currency debasement is very simple to “diagnose”. It is the creation by legal edict of units of money which have been pronounced the only lawful medium of exchange. It is the successful pretence that “something” can be created out of “nothing”. The “shorthand” term for it used to be inflation in the days when it was defined as an increase in the total stock of money. Those days are long gone. Today, officially, the concepts of monetary debasement and inflation have nothing in common - except wilful ignorance.”

And now, for the last word of the year:

“The illusion of freedom will continue as long as it's profitable to continue the illusion. At the point where the illusion becomes too expensive to maintain, they will just take down the scenery, they will pull back the curtains, they will move the tables and chairs out of the way and you will see the brick wall at the back of the theatre.”

- Frank Zappa
(1940 – 1993)

American composer, singer-songwriter, guitarist, recording engineer, record producer and film director

Your freethinking investment strategist, wishing you and your loved ones a Joyful Festive Season and looking forward to prospering with you in what will hopefully be the First New Year of the World After Curtains Are Pulled Back!

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