

Outside The Beltstreet

August 2004

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Travels with Doug, Back to 'Bama'

Family reunions and an economics symposium. What a great combination! The first week of August proved to be a very rewarding time both personally and academically. Later in this edition, we'll go over a comment I heard at a family reunion that can teach us about the financial world. But first, I want to take you to Auburn, Alabama for a week at the Ludwig Von Mises Summer University and why it was extremely pertinent to today's financial markets.

It had been almost a quarter of a century since I had walked on the Auburn campus. It was almost surreal. In May 1980, I conducted various groups (from orchestra to jazz band) who played pieces that I had written for my senior composition recital. "Your music is so beautiful. You are so talented".... From the halls of higher learning and the accolades of college peers, how much a few days can change your perspective of reality. But this trip was not about music. I was back this time to learn from a group of college professors about various aspects of the Austrian school of economics. Admittedly, at times some of the lectures got too heady for my blood, yet I did find many of the classes extremely rewarding. Following, are a few comments that impacted my thinking and that I found very applicable to the "money game", right now!

History Lesson needed. In the 1910's and 1920's two economist would affect the thinking and practice of economics throughout the rest of the 20th century. One, Maynard Keynes, would follow the German school of the late 1800's. This school of thought proposed big government and bureaucracies, like central banks, as the solution for a "better" financial world. Ludwig Von Mises, one the other hand, was a proponent of the Austrian school. He wrote extensively on the need for less government intervention and bureaucracies while depending more on free trade as the better engine for economic success. Since most major universities have taught, and today teach, the Keynes view of economics, I found the introduction to the Austrian school through the Mises University of extreme interest.

Special points of interest:

- Austrian versus German
- Three classes on money
- Charts
- 15 % vs. 85%
- Balance Sheet Recession
- Losing ground?

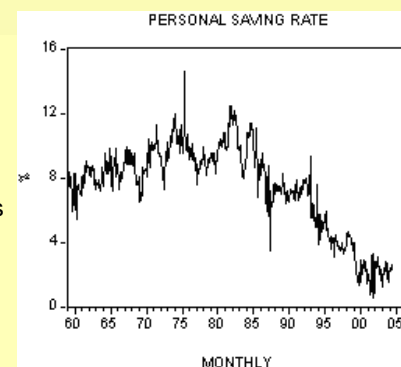


Travels with Doug, Back to 'Bama'

Dr. Roger Garrison, Department of Economics, Auburn University, garriro@auburn.edu and <http://www.auburn.edu/~garriro>

"Every...attempt to save money by reducing consumption will so affect incomes that any attempt necessarily defeats itself." **Maynard Keynes, 1936** (This came from a course called *Austrian Theory of the Trade Cycle*. I will talk in a future newsletter about this economic premise and its impact on money management theories.)

"When Greenspan lowers rates he does so by creating credit, allowing borrowers to borrow more even though no one has actually saved more."

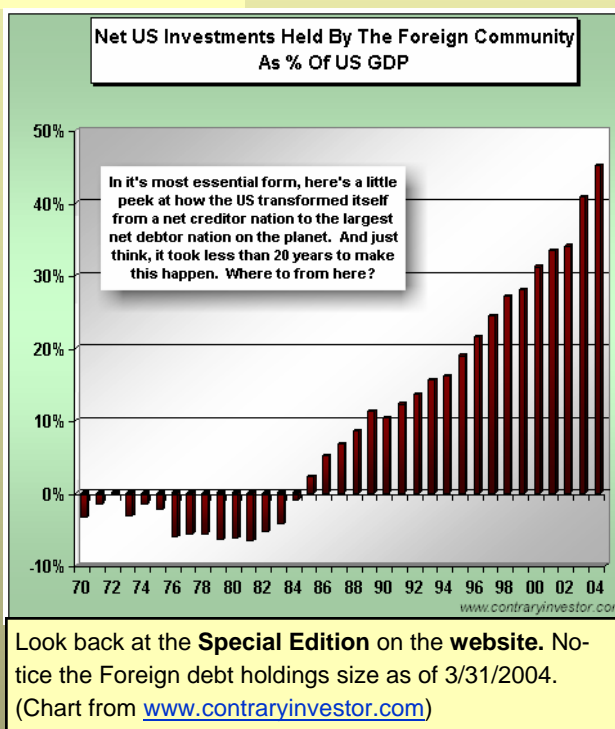


Americans have followed your advice, Mr. Keynes.

Dr. Joseph Salerno, Department of Economics, Pace University, jsale@earthlink.net and www.mises.org

In a talk on "*International Monetary Systems*" we learned about different types of money and their development since the late 1800's. At one extreme of the spectrum are Market-Supplied Money backed 100% by gold. On the other extreme of the spectrum are Government-Monopolized Fiat Money that would come from a World Central bank. This idea was purposed by Maynard Keynes.

So where are we today.? In 1933 Franklin Roosevelt made it impossible for Americans to go to the bank and convert their dollars into gold. This is still true today. Without a currency backed by gold, the Feds can increase the money supply (as long as people, businesses, banks and governments buy this new debt caused by expanding the credit), thus allowing for government increase in spending without raising taxes or reducing services. So what would happen if we got to a point where all these buyers of debt started becoming net sellers? The chart to the right reveals why this is a pertinent question **today**.



Look back at the **Special Edition** on the **website**. Notice the Foreign debt holdings size as of 3/31/2004. (Chart from www.contraryinvestor.com)

Dr. Jeffrey Herbener, Department of Economics, Grove City College, hmherbener@gcc.edu and www.mises.org

"Recent Monetary Crisis". The following is an historical account of what has caused numerous crisis in the world monetary system. (The German school of thought would not agree with this. You must decide yourself.)

"History has vindicated Mises's (Economist-1881-1973) claim that a gold standard is desirable because it limits the power of government to inflate money and expand credit. From the gold standard of the 19th century to the gold-exchange standard of the 1920's, to the post-war Bretton-Woods system, to the dollar-reserve system of the 1980s, government progressively loosened the bond of gold to more aggressively inflate their currencies and expand credit. The result has been an unprecedented decline in the purchasing power of these currencies, a world-wide mountain of debt, and international boom-bust cycles. Monetary crises of the last 20 years, from the collapse of the Japanese economy to the Mexican bailout, to the Asian financial crisis, to the U.S. boom-bust, are the consequences of abandoning gold and adopting an infinitely inflatable, fiat paper money system."

Technicals

Beginning of Bear (Wave I Down)		
	Date	Level
Dow Jones Industrial	1/14/2000	11,722
NASDAQ Composite	3/10/2000	5,048

Last Major Low (Wave II Up)		
	Date	Level
Dow Jones Industrial	10/9/2002	7,286
NASDAQ Composite	10/9/2002	1,114

2004 Highs (Start of Wave III Down)		
	Date	Level
Dow Jones Industrial	2/19/2004	10,753
NASDAQ Composite	1/26/2004	2,153

Current Levels (In Wave III Down)		
	Date	Level
Dow Jones Industrial	8/27/2004	10,195
NASDAQ Composite	8/27/2004	1,862

Public Confidence and Market Levels		
	10/2002	1/2004
Yale Consumer C. Index	85.5	95.5
Mich. Consumer C. Index	80.6 (10 yr. Low)	103.8 (15 yr high)

“Avoid The Popular” One of the ten maxims of Sir John Templeton

Anecdotes from the ‘Bama’ trip

Me: “Lew, why don’t most Americans know about this stuff?”
 Lew Rockwell, President of the Mises Institute: “Because the majority are usually clueless. It is usually the minority that influences things either for evil or for good.”

Compare these words spoken one evening at the Institute to the words spoken to Dr. Richard Koo, by his boss at the Federal Reserve Bank of New York in the 1970’s. (**Balance Sheet Recession**)

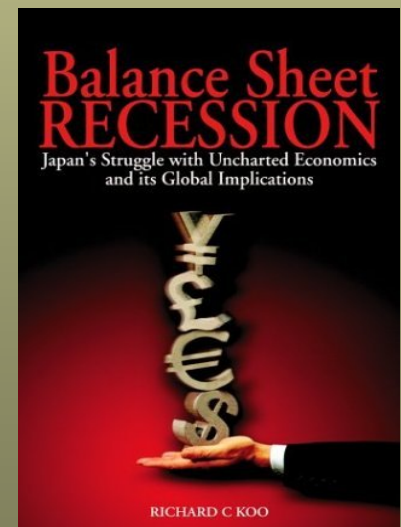
“In her opinion, only around 15% of investors at any time really thought about what they were doing; the remaining 85% were just sheep.” He goes on to explain that this was not because they were ‘stupid’ but because they “have their performance judged against a benchmark index.” (See also article on EFTs in the **June** newsletter.)



Atlantic sunrise. Man can’t make.

Photo by: Doug Wakefield

“It is usually the minority that influences things for evil or for good.”



Feel free to send any question you may have to: doug@genadv.com

Learning from Family Reunions - A Trip to Brazil

Comments from my cousin, Lee - "When we lived in Brazil in the late 70's we saw hyperinflation. It was so bad that people use to go into the bank on pay-day, get their checks cashed, and go straight to the jewelers' shops. They'd give them their cash and the jeweler would cut them off an equivalent part of a gold necklace in exchange. They'd then place this gold in an incision inside their belt. It was so commonplace in that day, even the prostitutes were doing it."

Compare his comments to Dr. Koos on hyperinflation in his recent book on Japan's recession and its affect on the yen.

"Like air, the trust people have in the Bank of Japan is so complete that no one is really conscious of it.... However, if the Bank of Japan should take such reckless action as to send everyone in the country 1 million Yen, the people's trust in the central bank will be lost instantly. Once lost their will be a mad exodus of Japanese funds into the U.S. dollar or the Euro.... Such a development would plunge Japan into a world of bartering and hyperinflation in no time." page 56, **The Balance Sheet Recession**, Richard Woo.

This is not meant to scare you, only to get us as a nation to understand what things could happen should foreign central banks decide not to be such large purchasers of our debt. This is not a time to be ignorant and take things for granted.

Three Questions you should ask your advisor(s) today. We HAVE already addressed these.

1- If my account declines, how long do you think it will take for the markets to bring it back up?

2- What strategies could I use to make money (NO, NOT REDUCE LOSSES) during a down market?

3- On 1/5/82 Fannie Mae was .6875(split adjusted). On 8/23/04 it closed at 73.27. Should I consider a rise of over 10,000% in value on a Government Sponsored Entity (GSE) speculative?

For REAL WORLD solutions in highly uncertain times, please drop me an email or call Ben and arrange a time we can talk. If you are doing the same thing you were doing when the DVD came out in February 2004, then I encourage you to address each of your "tools", and **how** they work in declining markets. (See chart,pg.3)

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