



## TANSTAAFL!

Commentary  
by Steve Henningsen  
January 2008

*"Facts do not cease to exist because they are ignored."*  
- Aldous Huxley

*"Everybody, sooner or later, sits down to a banquet of consequences."*  
- Robert Louis Stevenson

Yes, just as Joe Consumer wiped his chin with his napkin and was about to peruse the dessert menu, he was rudely interrupted by the waiter, who had come to deliver the check. The color drained from his face, as he had assumed for years that someone else was footing the bill. But, just as believing in fairytales outside of your child's bedroom is dangerous, so too is the lure of the *free lunch*. In other words, TANSTAAFL—*There Ain't No Such Thing As A Free Lunch*.

I will follow up on this in a minute, but first wish to point out that over the past few months, I have been the beneficiary from clients and friends of several favorable comments; many along the line of—*Wow, you must feel great now that some of the things you've been talking about for the past few years are finally happening*. I must apologize if I seemed bewildered, but I wear these compliments like a fuzzy wool sweater; warm but not quite comfortable. I don't take

<i>If your portfolio is down this much...</i>	<i>...you'll need this much to recoup the loss and gain 10%.</i>	
	Over One year	Annualized Over Two Years
5%	15.79%	7.61%
10%	22.22	10.55
15%	29.41	13.76
20%	37.50	17.26
25%	46.67	21.11

Source: Morgan Stanley

pleasure in other people's misery and it was never my intent to predict, but to *prepare*. Although gratifying, it is not about being right, but about limiting the damage should one be wrong. (See the evils of negative compounding on the chart to the left.) I have always maintained that my principal role is to minimize risks for clients, not to maximize returns. However, it just so happens that when one does the former, the latter usually takes care of itself. It is about possibilities and probabilities. Anyone who has read my

commentaries over the years knows that I tend to look at things from many angles and then make portfolio decisions based around the probabilities of various outcomes. In other words, I am simply a weatherman who looks at the environment and bases his decisions on the chance it might rain. Just because it fails to rain, doesn't make me a fool, nor am I suddenly a "genius" if it pours.

This doesn't stop me from taking a moment to feel very satisfied with our performance last year. We were fortunate enough to side-step (so far) the financial sector's meltdown and outperform our benchmarks by the widest margin in the past seven years. But 2007 is in the past, and now we must turn toward where the trail leads. But before we move forward, let me first thank

clients again for keeping the faith in my unorthodox investment philosophy. Trends take time, and the rarest commodity in the world is patience. As I was reminded recently, just because something is inevitable, doesn't mean it's imminent. A good example of this is found in my Commentary from April of 2004: *I have also become increasingly concerned with risk imbedded within the finance sector of the economy, especially banks and their use of derivatives... The extraordinarily low Fed funds rate has motivated everyone to leverage their balance sheets to the hilt, causing the finance-related portion of the S&P 500 to expand beyond 20% (remnant of the tech-sector's growth in the '90s).*

At that time, I made the decision to reallocate funds away from investment managers with high exposure to financial companies. It took *three years* for my concerns to be justified, however, even if these concerns were undeserved, I feel the decision I made then is what is expected of me as a fiduciary. Similarly, this past summer, after reviewing the growing problems surrounding commercial paper held in money-market funds, I made the decision to switch all client money-market accounts to the U.S Treasury money-market option. While the likelihood of losing money in a money-market fund is extremely low, and we will be giving up a little yield, my belief is that in times like these, return *of* money outweighs return *on* money.

In addition, the praise makes me feel itchy because I believe we still have a long way to go through this financial storm, and I don't know if we will continue to weather it as well as in the recent past. The real-estate market will take *years* to heal, and I believe the ramifications are just beginning to roll over into the credit-card, commercial and auto-loan markets, with many more bankruptcies to come. So please remain firmly buckled in your seats and hold back your praise until we get through the storm and land safely on the other side. Hopefully, I'll still be worthy of your kind words.

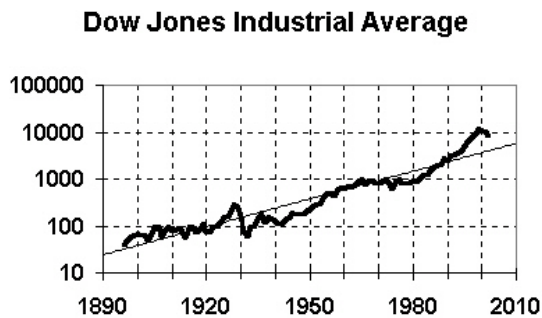
*"Don't know much about the Middle Ages, look at the pictures an' I turn the pages.  
Don' know much about no rise and fall, don' know much 'bout nothin' at all"*  
Wonderful World, Sam Cooke

I will talk more about how I attempt to balance risk vs. return in our investment portfolios in next quarter's Commentary, but as is traditional with the New Year, I would like to spend the remainder of this Commentary pondering about the past, present and future. (Cue the groans.) Yes, as many of you are painfully aware, while others try to predict what the Dow will do in the year ahead, I tend to reflect on history. I prefer to review trends and, although they tend to flow like a river, never straight and narrow, they are much clearer to me than trying to deduce the price of a stock. And there is no better time to do this than after spending the holidays watching the movies *A Christmas Carol* and *It's a Wonderful Life*, both classics in past, present and future. For those reading my Commentary for the first time, my intention is not to scare or create anxiety, but to enlighten and help keep our eyes focused on the destination that lies on the horizon. This is exceedingly difficult in a world focused on the path at its feet (short-term) and it may be difficult to see how any of this has to do with investments. But trust me, our investment strategy is woven into the fabric of the past as it meshes with the future. Perspective can be a little unnerving, but has its benefits as well.

## This Too Shall Pass!

*“Does history repeat itself, the first time a tragedy, the second time as farce? No, that’s too grand, too considered a process. History just burps, and we taste again that raw-onion sandwich it swallowed centuries ago.”*

Julian Barnes, author



If one were to simply look at this logarithm chart of the Dow Jones Industrial Index, one would quickly infer that the stock market has been in an upward trend for over a century. What this viewpoint hides, though, when pulled in for a closer look, is the fact that this chart is made up of many up and down cycles—time periods when investors had suffered to get through. Most did not make it, thrown off by the volatility of the ride or the lack of patience in waiting for the next bull

market to arrive. The other thing that this chart doesn’t tell you is that the majority of us can’t afford to wait out these cycles, as we have shorter time frames than 100 years. Therefore, it is important to pay attention to the short-term as well, and to try to estimate where one is in these naturally occurring cycles.

If you were to look at a long-term chart of humanity stretched out over several centuries, it would look much the same as the one above. Humans have made incredible strides and have achieved a level of prosperity and health unimagined even 75 years ago. Today most of us live a lifestyle better than the nobility of a few centuries ago, measured in life expectancy, abundance of food and the technology that makes our lives so much easier today. And I am optimistic that this trend will continue and that life will get better for most. However, as in nature and the economy itself, there will be setbacks along the way, and it is the short-term outlook that concerns me.

Due to the explosion of new debt markets (especially the credit-card industry), the 80s and 90s represent a time period where, for the first time in our nation’s history, there was little incentive to save and much desire to place wants above needs. Zero-down auto financing, adjustable-rate mortgages and teaser-rate credit cards were the Sirens’ call for Americans to begin living outside their means, while keeping their eyes shielded from the jagged outcrop of debt protruding from the water. As I stated in the beginning of my Commentary, this bill is now coming due. Unfortunately there were few observers left from America’s last grand celebration, the “roaring 20s,” to warn us of the payback that follows. To most, the depression era is distant history, which shall never repeat. After all, haven’t we learned from that experience? Don’t we have government officials, like the Federal Reserve, that can prevent this kind of catastrophe from occurring again?

*“There is no means of avoiding the final collapse of a boom brought by credit (debt) expansion. The alternative is only whether the crisis should come sooner as the result of voluntary abandonment of further credit (debt) expansion, or later as a final and total catastrophe of the currency system involved.”*

Ludwig von Mises

As most of you know by now, cycles interest me, whether they’re from nature or economics. A year ago I read the book *The Fourth Turning*, by William Strauss and Neil Howe. I meant to comment on it, but haven’t had the chance. Fortunately for us both, Doug Casey of *Casey*

*Research* summed up their book in his paper, *Foundations of Crisis* written in 1997 and paraphrased as follows: (The bold italic comments are *his* recent comments!)

Generational conflict has been recognized since ancient times. The twist here is the discovery of several things that have previously eluded observers. One is that the well-known conflict between fathers and sons is only half the story; there aren't just two generational types that alternate (e.g., liberal and conservative), but four. The reason for looking at it this way is that a human life can be conveniently divided into four stages: Childhood, Young Adulthood, Midlife, and Elderhood. Throughout all of history, a long life might be considered to be 80 to 100 years, with each of the four stages equaling a quarter of it.

Just as each person's life holds four stages of about 20 years each, each generation comprehends a group of people born over about 20 years. Members of a particular generation tend to share values and ways of looking at the world not only because their parents also shared a set of views (which the kids are reacting to), but because every new generation experiences a new set of events in a way unique to them. They hear the same music, see the same events, are exposed to the same books. Members of a generation share a collective persona. There appear to be four distinct archetypal persona that recur throughout American history. And throughout world history as well, although that's a bit beyond what I hope to explore here.

It also seems, throughout history, that there are periodic crises. About once every century, or about when each of the four generational types has run its course, a cataclysmic event occurs. It generally takes the form of a major war, and it generally catalyzes a whole new epoch for society.

The four mature generations alive today each represent an archetype. Let's review them from the oldest now living, to the youngest.

### **Hero Archetype**

The "GI" generation, born between 1901 and 1924, includes basically all living people in their mid-70s and older. They grew up and came of age in the midst of the most traumatic years in human history: the 1930's and '40s. This was a time of catastrophic financial and economic collapse, world war, political dictatorship, genocide, and virulent ideology, among other unpleasant things; a period of intense turmoil. The times required them to be civic minded, optimistic, regular guys who could be counted on to do the right thing, fit in, and see that everybody got a square deal. As a consequence of what they've been through, they tend to be indulgent parents. As kids they're "good"; as adults they're selfless, constructive, and communitarian. Hero archetypes encounter a Crisis environment in Young Adulthood; assuming they survive it, the odds are the rest of their lives will be lived in growing economic prosperity, leading to a leisurely retirement.

### **Artist Archetype**

Meanwhile, another generation was being born at the height of the Crisis - something that seems to occur roughly every 80-100 years - from 1925-42. This generation, the "Silent," watched these titanic events happen, but were too young to take part in them. They were relegated to being protected, while trying to be helpful in the limited ways available to them. They're overprotected as children, when they might be characterized as "placid"; they tend to underprotect their own children as a reaction. As adults they're sensitive, well-liked, sentimental, and caring.

### **Prophet Archetype**

Next came the group we call the "Boomers," born from 1943 to 1960. This was the first generation born after the Crisis was over, and they grew up in an environment where their parents (mostly GIs and early cohort Silents) felt obligated to protect them from all the trauma of the proceeding years, and were desirous of giving them all the things they never had. As kids they're seen as "spirited." Later in life they tend to be narcissistic, presumptuous, self-righteous, and ruthless. Born after a Crisis, their Childhood years coincide with a rebirth of society, and their Elderhood coincides with another Crisis. More on them below.

### **Nomad Archetype**

The fourth generational type is represented by today's "Generation X," born 1961-81, during what might be called an Awakening period when the Boomers were in the limelight. As a consequence they were overlooked, and a bit abandoned. Their reputation as kids can be summed up as "bad." They're oriented toward survival, which is partially a result of their being underprotected as children. When they become parents, they react and become overprotective. They tend to be savvy, practical, tough, and amoral.

The kids born between 1982 and perhaps 2002 should be another Hero archetype. My own experience with them is that they're shaping up that way. Represented by clean-cut, straight-arrow Power Rangers. Quite a reaction to the sewer-dwelling Teenage Mutant Ninja Turtles that were analogs for the previous generation. They're "can do" kids, programmed to do the right thing in a smoke-free, drug-free, eco-sensitive, politically correct world. Like all Hero types, they respect their elders, do what they're told without much questioning authority. That's just the type of person you want to have fighting a war for you, and that's probably just what they'll wind up doing. Just like the last Hero types, the GIs.

It's risky to characterize everyone born in a certain time frame as sharing a persona; after all, people are individuals, not ants or atoms, each like the other. But it's really no different than characterizing people by the country they're from. There's no question in my mind that people share characteristics by virtue of the milieu in which they live, and that's true of time as well as geography. Take a look at the people you know by age groups, and see if they don't roughly fit the brief descriptions.

The interesting thing is that through about 400 years of American history, it's possible to see these generational types repeating themselves. It's not an accident. The characteristics of each type shape the next generation, as well as current events. And events leave a further imprint on all of them.

### **Making an Example of the Boomers**

Just as every generation has its own persona, the character of each generation evolves as it moves through life. The Boomers are perhaps the most relevant example of this. First they were Mouseketeers and Beaver Cleaver clones. Who could have guessed they would mutate into Hippies and even Yuppies as they reached Young Adulthood, reacting against everything they'd grown up with, everything their parents worked so hard to give them.

They came of age during a period that might be called an Awakening, and it's recurred on schedule five times so far in American history. Awakenings are times of religious and moral ferment, when the youth tend to challenge prevailing cultural values pretty much across the board. Young adults were into New Age things this time around, in the 1960s and '70s. At the time it seemed utterly shocking and completely new, but that was only because nobody then alive had seen the previous Utopian Awakening, in the 1830's and '40s, the Pietist Awakening of the 1740s and '50s, the Puritan Awakening of the 1630s and '40s, or the Protestant Reformation of the 1530s and '40s.

Like all the generations before them that grew up in similar times, they eventually put away the things of their youth. But who would have guessed that their next mutation would be into Yuppies, whose motto is not "Peace and Love" or "Revolution for the Hell of It," but "Shop Till You Drop" and "He Who Dies With the Most Toys Wins" as they moved into midlife.

But even now the acquisitive mania that characterized the '80s is ebbing, now that the first cohorts of Boomers are crossing over 50. You can already see the signs of their next stage of evolution, in the judgmental behavior of people like William Bennett (*George Bush*) and Dan Quayle (*Ann Coulter*) on the "right," and Al Gore and Hillary Clinton on the "left." They did sex, drugs, and rock 'n' roll in the '60s. They believe they've fought the war of good against evil in both Vietnam and the segregated lunch counters of the South. They know they were the first generation to have traveled widely thanks to the jet, to have been brought up by television, and had the telephone as a given. They've been there, done that, and now that they're getting older, they're going to make sure that everyone else benefits from their wisdom - like it or not.

The Boomers are an archetypal Prophet generation, a type born after a secular crisis, just in time to create another one. Get the image of a grim elder, with a well-defined vision of what's right and wrong, calling down wrath and laying down the law for a troubled nation in chaotic times. That's the type of person who tends to lead countries into wars, as well as through them. Interestingly, the Boomers in America have their counterparts abroad today, especially in China, where they grew up during the Cultural Revolution. Two ideologically driven, righteous groups running two such powerful and alien cultures is almost a guaranteed formula for a millennial-sized crisis. Which should appear, coincidentally, sometime shortly after the millennium. (*We're right on schedule.*)

### **So What's Next?**

The real watersheds in history, crises which make or break a civilization, occur roughly every 100 years. The most recent ones in American history that will resonate without looking up the facts in a reference book are the Revolution, circa 1782; the Civil War, circa 1863; and WW II, circa 1943. We've had other wars, and they were traumatic enough; that's the nature of war. But the War of 1812, Mexican, Spanish, World War I, Korean, and Vietnam wars had nothing to do with the country's survival as an entity, as a civilization. They were optional wars,

sport fighting, if you will, by comparison. Wars that occur at a secular Crisis, a "Fourth Turning" to Strauss and Howe, when a Prophet generation is acting as elder statesmen, with Nomads as operational commanders, and Heroes as front line soldiers tend to be total wars that have an ideological underpinning. They're life and death struggles not just for the individual participants, but for the civilization as a whole.

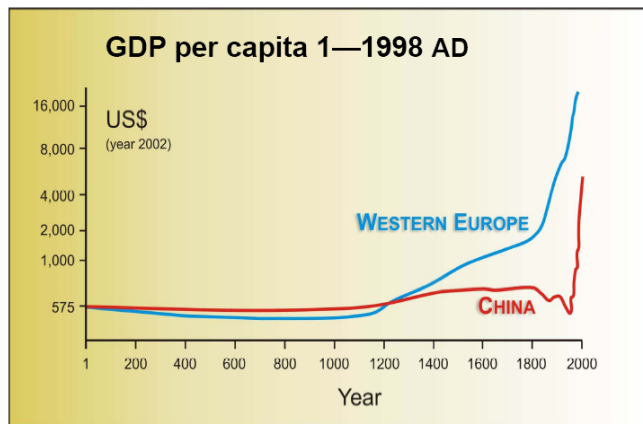
That major wars occur at such long remove from each other probably isn't an accident. Really catastrophic wars, from at least the days of Troy on down, have usually been the Great Events that resound through living memory. The Great Event of a century forms the thought and character of everyone alive when it happens, influencing them relative to the stage of life they're in at the time. Perhaps that's why a people will collectively do its best to avoid a repeat, at least while there's anyone still alive who saw the last crisis. *(It's been said that war is a force that gives life meaning. And I think that's true, although it's perverse that the most destructive and idiotic activity that it's possible to engage in would just have to be the most important. Maybe, after the orgy of self-indulgence and conspicuous consumption that has characterized the past couple decades, Americans collectively feel they need to prove something. There has to be some rationale for the current war hysteria other than pure stupidity...)*

In any event, the way the current generations line up relative to historical analogs, an excellent case can be made the U.S. is approaching another time of secular crisis, a Fourth Turning, with an expected due date of 2005 -- seven years from now -- plus or minus a few years in either direction. The Stamp Acts catalyzed the American Revolution, the election of Lincoln catalyzed the Civil War, the Crash of '29 catalyzed the Depression/WW II era. What might precipitate the elements now floating in solution? The answer is practically any random event that's sufficiently traumatic. Any of the theses of current disaster/action novels and movies will do nicely. Perhaps the accidental or intentional release of a super plague vector. The crashing of an airliner into the Capitol during a joint session. *(Close, but not quite.)* An all-out assault on the IRS computers by an armed group- or perhaps the computers just melting down due to the Year 2000 Problem. Perhaps a financial disaster that cascades into the Greater Depression. In any of these, or a hundred other scenarios, the federal government would almost certainly act precipitously and with a heavy hand, which would bring on a whole other set of consequences...

Casey goes on to say that Strauss and Howe don't offer up much for solutions, just to *learn to swim with the tide, diversify in all things so that everything won't go bad at once and set your roots with your family, because people you can rely on will be at a premium.* There are additional cycle theories that I won't address today.

*The bravest are surely those who have the clearest vision of what is before them,  
glory and danger alike, and yet notwithstanding, go out to meet it.*  
- Thucydides, 460-404 B.C.

(OK, Steve, now that we slogged through that and have our hand on the gun drawer, what's your point?) My purpose is only to build upon the foundation of your consciousness in the way that



Source: Angus Maddison, *The World Economy: A Millennial Perspective*, OECD

only history can and in a way that we have covered through past Commentaries. Things don't happen in the future exactly how they did in the past, but they tend to rhyme, as someone famously stated. And just because some "cycle theory" claims that we may be entering another defining period in history doesn't make it so. However, I do feel there are the ingredients in the air that *may* contribute to one of these turning points, be it natural resource scarcity (energy, food, water, etc.), geopolitical (economic power transfer from West to East [see chart]), the increasing inequality of wealth around the world, a broken financial system, a bankrupt U.S. government and the leadership vacuum that exists today. I will be keeping an eye on these trends as we move forward.

## Where did our Leaders Go?

*Let them fail; let everybody fail! I made my fortune when I had nothing to start with, by myself and my own ideas. Let other people do the same thing. If I lose everything in the collapse of our financial structure, I will start in at the beginning and build it up again.*

- Henry Ford, February 11, 1933

Speaking of leaders, I am tired of watching Wall Street executives do a lousy job, get fired—Oh sorry, I meant take early retirement—and get handed a multi-million dollar pay package on their way out the door. What kind of message is this sending to kids in business school—it pays to suck at one's job?

*The ultimate result of shielding men from the effects of folly is to fill the world with fools.*

- Herbert Spencer, English philosopher (1820-1903)

Meanwhile, the government spends our tax money bailing out corporations and citizens who made poor choices. Again, what lessons are being taught?

*"Talk of imminent threat to our national security through the application of external force is pure nonsense... Indeed, it is a part of the general patterns of misguided policy that our country is now geared to an arms economy which was bred in an artificially induced psychosis of war hysteria and nurtured upon an incessant propaganda of fear. While such an economy may produce a sense of seeming prosperity for the moment, it rests on an illusionary foundation of complete unreliability and renders among our political leaders almost a greater fear of peace than is their fear of war."*

General MacArthur, about the United States during the Korean War

Politicians continue to try to keep Americans in continued stress about threats outside this country, while our own infrastructure falls apart. This doesn't stop them from their orgy of spending future generations' money on their own pork projects, while no one—barring Comptroller General David Walker—has the guts to stand up and address this country's glaring problems with its future obligations (Social Security, Medicare and pensions). The younger generation is becoming more impatient, as singer John Mayer expressed recently, and I sense they are close to saying *no more* and demanding that government shrink itself and start down the road towards accountability.

*Now we see everything that's going wrong  
With the world and those who lead it  
We just feel like we don't have the means  
To rise above and beat it...*

*It's hard to beat the system  
When we're standing at a distance  
So we keep waiting  
Waiting on the world to change*

John Mayer, Waiting On The World To Change

I think it will be these youngsters that lead a tax revolt as well. Once they wake up from their *reality-TV, second-life-cyberspace*-induced coma and realize that the Baby Boomers will be raising taxes to pay for all the government entitlement programs, they will begin to come out in protest. As many states are suffering from revenue shortages and under-funded pension plans, my guess is that these states will likely be raising taxes as well. We may see a trend of younger generations moving to states without an income tax or with better balance sheets. It would not surprise me to see some of them move outside the United States in search of countries with better financial opportunities and a less onerous tax system. As radical as this may seem to some of you; as has been said, America is not a *place*, but an *idea*. Read the following creed by Dean

Alfange and ask yourself honestly if you could connect it with the thinking of many litigious, self-entitled Americans of today:

*It is not my right to be common - if I can.  
I seek opportunity - not security.  
I want to take the calculated risk;  
to dream and to build, to fail and to succeed.  
I refuse to barter incentive for a dole.  
I prefer the challenges of life to the guaranteed existence;  
the thrill of fulfillment to the stale calm of utopia.  
I will not trade freedom for benefice  
nor my dignity for a handout.  
I will never cower before any master nor bend to any threat.  
It is my heritage to stand erect, proud and unafraid:  
to think and act for myself,  
enjoy the benefit of my creations  
and to face the world boldly and say,  
this I have done.  
All this is what it means to be an American.*

### **Era of Tough Choices Ahead?**

This all plays into my thought that we may now be entering a period of difficult choices: Should we downsize our house? Do I really need a luxury SUV or the newest technological doodad? Should we retire outside the country where the cost of living is less? Can I afford this surgery and does my child really need a college degree? Decisions will not just need to be made on an individual basis, but by our government as well (tax increases or service cuts?). We can't have it all. Past promises will need to be broken in order to move forward. The time when politicians can pass the buck is ending. Where the 80s and 90s were about the "bling," I think people will be less ostentatious going forward, especially as wealth inequality increases. Due to higher costs of natural resources and energy, conservation may make its way back onto the American scene. People may begin to migrate away from the McMansions of yesterday and start looking for smaller, more energy-efficient housing that is more central to their job location.

*"We are continually faced with a series of great opportunities  
brilliantly disguised as insoluble problems."  
John W. Gardner*

So those are some of my thoughts going forward, but as I stated several pages ago, I believe that although there might be some tough sledding ahead, it's nothing we can't handle. I believe that we will come out of this in better shape and with a clearer understanding of what went wrong in our financial system. Technology will help mitigate some of our energy problems, politicians will have our expectations beaten into them and Americans will lead a more prudent and healthy lifestyle. How's that for optimism!

### **Portfolio Happenings**

*"Luck is what happens when preparation meets opportunity."  
- Seneca (5 BC - 65 AD)*

Energy, precious metals, commodities (agricultural, water, etc.) and "flexible" investment managers; that's my story and I'm sticking to it! I've beaten these themes to death over the years so I will move on. Suffice it to say that we will remain cautious.

### **Gold**

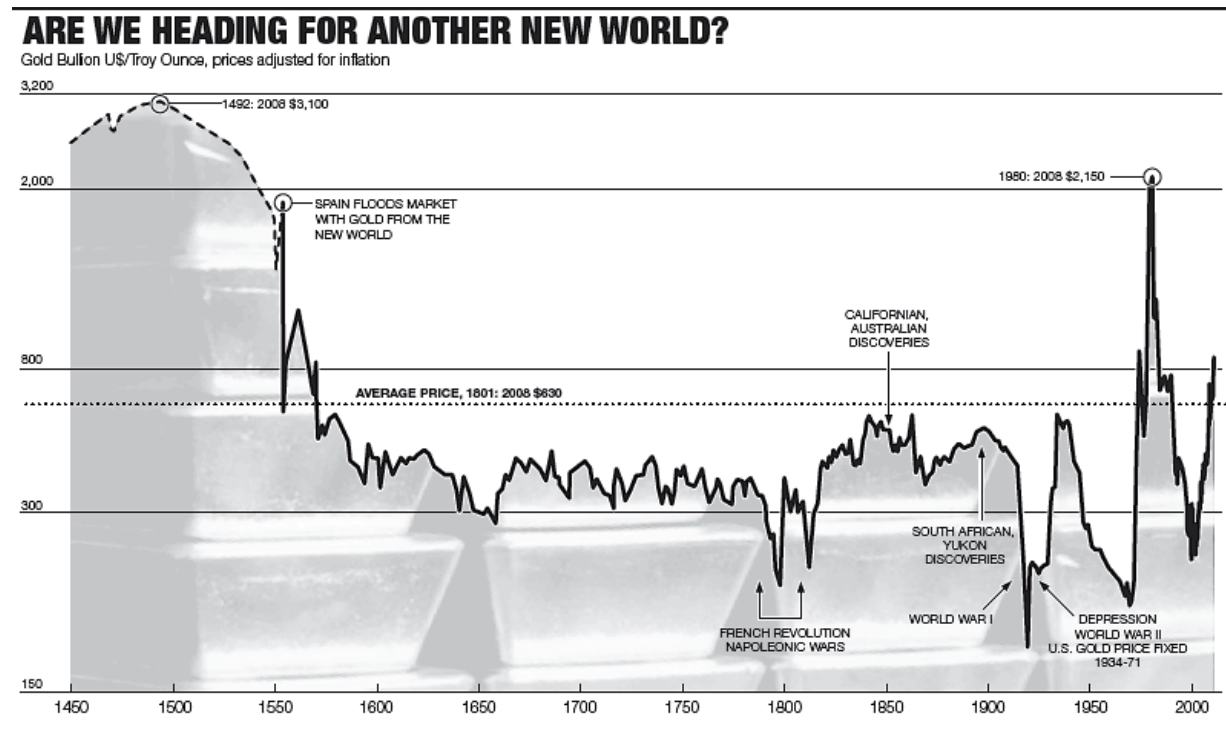
I would like to comment again on gold, as it seems to be getting more attention lately:

*“At some point, you have to choose between trusting the natural stability of Gold, and the honesty and intelligence of members of the government. With due respect for these gentlemen, I advise you, as long as the capitalist system lasts, to vote for Gold,”*

George Bernard Shaw in 1928

I must say that of all investments that I’ve been involved in, gold (and silver as well) is by far the most controversial. Heck, many don’t even consider it an investment because it pays no dividend, nor has earnings. It is just an element found in the first few layers of the earth’s crust. But it is its scarcity, malleability, difficulty in mining, and everlasting shine that have attracted men and women for thousands of years. The Egyptians, Mayans and Aztecs did not coat their statues of their gods in tin, pirates did not risk their lives for a *booty* of wooden nickels, Cornelius—of Rudolph fame—was not searching the Yukon for *cold cash* and according to Charlie Daniels, the devil didn’t offer Johnny a fiddle of *porcelain* if he outfiddled him. No, there is no substitute, as gold is not an investment, but a store of wealth itself.

Gold is getting more press these days as it recently breached its record 1980 high, but most articles throw pins at it, proclaiming it just another bubble waiting to pop. But is it really? As you can see by this graph, courtesy of the London Daily Telegraph, gold is nowhere near its *inflation* adjusted high; it would need to get above \$2,000 for that to occur.



Now, this doesn’t mean it will, but it gives us some perspective in the matter. Many buy gold as a hedge these days, as it has held its own in both deflationary and inflationary times. I bought gold and silver as an insurance policy against what I thought was an increasingly risky world built upon a pyramid of credit (debt). It is this deterioration of our “credit system” that is transforming gold into yet another one of its states; money. It’s happened several times over several hundreds of years of paper currency systems. Whenever man has cut loose his currency from the mooring of gold, the temptation to inflate has been too great. It concerned our founding fathers so much that they put it in our constitution—*No State shall enter into any Treaty,*

*Alliance, or Confederation; grant Letters of Marque and Reprisal; coin Money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debt.*

So, too, has the reaction in the investment community changed over the past several years. Where once my friends snickered at me, now they ask how high I think it will go. To that, I have no idea, but I feel the price will go much higher than most believed possible. It won't be without some vicious steps backwards, yet I don't plan on selling any in the near future. Our government has a history of inflating its problems away, and the words "*strongly committed to a strong dollar*" leave Henry Paulson's lips as easily as "*strongly committed to losing five pounds*" leave mine. Both are meaningless and backed by no evidence.

I don't proclaim to be clairvoyant, and I am confident that the future will not be exactly as I envision it—it may not even be close. I don't wish to see others suffer, nor go through hard times. However, as I peer around, it sure looks like rain is coming and no one will be able to state that I just sat back and hoped we kept dry. As one of our investment managers, Rick Rule, likes to say, "*You are either a contrarian, or you are a victim.*"

I choose not to be a victim.