



# *The* Wonder Springs Chronicle

11 March 2009; Volume 11, Number 10

## The Wonder Springs Chronicle

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## Trilogy: *Two-Headed Coins, The Dow's Hidden Reality, Sufficient Grace*

*Blame it on climate change. Mostly the economic climate, but also a March snowfall, and plunging temperatures that Tuesday night reached 8 degrees 13C, with so far 3 record cold nights in a row. This week we have a double length unity in diversity article, that looks in diverse ways at the economic climate, and leads one to still believe that spring always follows the winter, even if today winter looks all too real.*

Last Thursday evening was one of the most difficult times I can remember in a very long time. For the most part, I try to look at the world as a realistic optimist. After the Dow fell 300 points and played around 6500, I had to admit that things are getting seriously serious. That number was a thousand points lower than my somewhat flippant prediction of 7500 by Inauguration Day, which really didn't happen until Economic Stimulus Day. But it was also only a thousand points above the 5500 level predicted by a real financial planner I talked with during a holiday office thing. If things continue on this current path the Dow could be at 5500 by April Fools Day.

Times are serious, and it is time for the folks to get serious also, that I realized meant the pointing finger also had three pointing back at me.

Most of the economic news now uses the 1982 recession as sort of a benchmark for where we are now. In that light 1982 was a life changing period in my life, which basically has led me to where I am today. Considering all that has happened since that time, in the transcendent eternal sense, I am one of the more wealthy people in the world. Materially and economically things really are not all that much different than back then, maybe even quantitatively below that recessionary level.



In about the middle of the wonderful year of 1982, my folder of job rejection letters reached the thickness of maybe an inch and a half. In the year and a few months since I had been somewhat forcibly removed from corporate America, the only real potential opportunities had come from Long Beach, California, and Houston, Texas, both on my bottom ten places to live in the United States.

The amazing thing is just a few months before my trip to the unemployment office; my cute, corporate headhunter had told me, that with my qualifications I was probably one of the top six candidates in the country in my field. That all changed when new President Ronald Reagan, basically shut down the EPA and put all the new federal hazardous waste regulations on hold.

That pile of rejection letters changed my life; in conjunction with a phone call I received from one business manager, who instead of sending me another rejection letter decided to give me a call. The call came from a sales manager of a copier sales company where I had applied for an entry level sales position. At that time copier sales people were required to make at least forty external cold calls per day, as well as follow up on any other slim leads that may have been generated by some other means.

The reason that this manager decided to give me a call was because, as we determined, he had been in the class just before me at the Army Security Agency Officers Class at Ft. Devens, Massachusetts. He stated that he had taken that copier sales job perhaps in the 1973-75 recession and had just gotten to the point where he could relax a bit, and that there was no way he was ever going to hire anyone that might threaten that long sought security, which he could easily discern from my resume.

I had been in tuff choice positions a number of times in my life to that point, but this was the first true choice that seemed so in your face, with a totally unknown future. I would have to trust God to provide a path forward, as I continued to pursue what looked as they might be open doors before me. That was pretty much the decision I again made late last Thursday night. Since that

1982 day, I realize I have been trained for times like these, now is the time to see how the LORD will use these experiences of a quarter of a century to help other people.

So let us look at the world realistically, but with a sprinkling of imagination, or magic dust, to see how we might make some order out of all this noisy chaos. Let us begin with a brief symbiotic look at money and politics as they currently exist in the USA. Let us look at our two headed coin.

Coins in America anymore are not worth anything of tangible value. They are a sandwich, with some shiny silver looking alloy on the outside and a plug of copper in the middle. That center plug is basically the American people who have been squished together so they can't be seen individually, and are faced on both sides by the talking heads of both the political left and right.

If we are to believe the talking heads in the latest jabberwocky, from the left, we hear the right talking head is Rush Limbaugh. From the right talking heads we are told that the left talking head is the Obama Administration and their continual crisis creating minions.

We are told that the Rush Talking Head speaks for all of the Republican Party and he has a radio audience of some 20 million people. If we assume that number to be true, then there is in excess of 285 million people that either don't believe the Conservative Spokesman, or have something more profitable to do in the middle of their working day. That basically means Rush does not speak to, or for perhaps 94% of the American people.

While I know of no actual data of just what is the far left, radical component of the Democrat Party, that 6% number also seems like a pretty good estimate. That means the center copper sandwich of American coins contain 88% of the true value of our solid currency. That again varies with the spot price of the various metals involved, but in the pure analogy that seems pretty worthwhile also. Nobody currently speaks for 88% of the American people. Hence it is no wonder the future looks more like burnt toast, than sliced bread.

So to use another metaphor alert from ancient Rome, the talking heads bloviate about their fiddle playing, while the nation and the world burn.

Probably a better analogy would be, drown in private and government debt.

To change that scenario the logical thing to do would be for the talking heads to begin talking to one another, but that would leave a two tailed coin, and without some absolute external perspective it would be impossible to tell the difference between a mule and a horse.

Since I doubt radical coin heads will change dramatically without a miracle from the Almighty, it becomes essential that the center 88 of the population simply marginalize the radicals for the continuance of human civilization. Since the average citizen of the United States is somewhat politically right of center, it basically means that this solution will be more conservative than liberal.

It will mean that this center will understand limits to government and will generally favor free markets over centralized governmental planning. Since most of the people work in and use small businesses, they will also generally favor Main Street over Wall Street. That is especially true since this entire current crisis was caused by global financial boondoggles, represented solely in Wall Street, which stole the squished core people's financial future.

One hundred thirteen years ago the Dow Jones Industrial Average became the benchmark by which American economic growth has been measured. If you look at a graph over a century you will see until recently late 2007 that growth has generally been logarithmic. This means essentially that the Dow in 1900 was nominally 100. In 2000 it was nominally 10,000, or a growth of a thousand times in a hundred years.

Now if we just limit our understanding of the Dow as some sort of average of continued growth of some thirty chosen publicly traded Wall Street stocks, we are pretty much done. A Yawn would be in order. If we incorporate a little imagination after the nap, we might ask why is this growth logarithmic rather than linear? If we look at the companies that make up the Dow, again we will quickly drift off into dreamland. However the Dow was designed to be a measure of economic growth in the broader sense, not just some interesting numbers. In that respect

we should be able to back out some other empirical data that might give us a better idea of what is really going on.

As we look at serious American recessions for the last fifty years, a recession lasting from 1973 1975 and the previously mentioned recession of 1981 1982 rise to the top. Before we do that however, let us develop some empirical parameters that we might be able to say contribute to economic growth.

The first of these we will call the Natural Wealth Component. This is simply the general increase or decrease in the stuff we make, tangible, intangible, and as services. I suppose you could say that this is essentially the national GDP Gross Domestic Product with the money backed out.

The second we will call the Inflation Deflation Factor. This assumes that the Dow has market principles built in that somewhat automatically adjusts the Dow value relative to the current inflation or deflation index as it relates to specific Dow index companies. That again is quite similar to published inflation data, but assumes a unique component directly related to these public companies, which one would assume generally are more tied to global trade than the national average.

The third parameter we will call the Financial Liquidity River. This river can be broken down further into three sub criteria. Those three are especially since the 1980s: Supply Side Money Creation, Debt Leverage Freedom, and Retirement Planning Requirements.

As company sponsored retirement plans have been phased out, IRAs, 401K plans, similar plans, mutual funds, and just plain equity investments have driven Retirement Planning Requirements. Thus they have become the cash cow that really provided the liquidity to allow a Dow growth from about 1000 at the close of 1982 to over 14,000 in October 2007.

So let us begin with the 1973 1975 recession. On August 15, 1971, President Nixon imposed 90 day wage and price controls and "closed the gold window," thereby eliminating convertibility of dollars to gold. This signaled the end of the Bretton Woods Agreement that served the world of finance from the close of WWII. This unilateral move became known as the Nixon Shock.

If you look at Dow numbers from 1971 and forward you see a slight adjustment initially in bottoming at 790 in November 1971, but then the average grows slowly to a high of 1067 in January 1973. The Dow gradually then decreases over time bottoming with a low of 570 in December 1974, with that final quarter being the low point of the recession. By the end of 1975 the Dow was again mid 800s thereby putting the Dow back in the range of the 1971 numbers. So from this point we will use a 900 Dow average for our baseline comparisons.

The recession of 1981-1982 is used as the most comparable recession to the current opportunity because during that time GDP decreased by 3%. A Wall Street Journal link in Betting on a Depression Chronicle post from last week on the odds of a depression defined a depression as a GDP decrease of 10% and a 25% decrease for a severe depression.

Looking at the Dow in January of 1981 you find a value in the mid 900s, not all that much different than a decade earlier. The bottom came at 807 in September 1981, and by December 1982 the Dow was above the 1000 mark showing a slow but steady gain during that time which was only slightly better than the value of March 1981.

President Jimmy Carter appointed Paul Volcker Chairman of the Federal Reserve in August 1979 and he served as Fed Chairman under Ronald Reagan until 1987. Volcker is currently chairman of President Obama's Economic Advisory Board. Volcker is widely credited with getting high inflation and slow economic growth of the late 1970s under control, but he did so by greatly raising interest rates, which is also deemed a significant contributing factor to the following recession.

In the Dow from the end of the 1973 recession through the 1982 recession we can see fairly constant values with Dow averages generally between 800-900. So we can pretty much assume that growth in this era is pretty much a linear rather than a logarithmic function.

It should come as no great mystery then that both the Natural Wealth Component and the Inflation-Deflation Factors are linear and work together in some sort of symbiosis to create

the Dow value. When you look at growth in the natural world, the only growth that proceeds in a logarithmic function are basically bacteria, bugs, and similar critters. They live and reproduce for a period of hours to a season and then they rapidly die.

In Business Ecology we have developed a logarithmic Bug Growth Curve, which is contrasted with the linear Toil Growth Curve, which is definitely represented in the Dow generally up to around the 1980s. My unpublished book "The Garden of God" basically explains these curves along with the other principles and growth curves of Business Ecology in a concise unified format. That book predates both the "Wonder Springs Chronicle" and the "Chronicles of Diversity."

However most of that data is published in the year 2000 series of articles titled, "Enterprise Symbiosis" which are in html. I was looking for a more business friendly title. If you would like to do a site search also try "Business Ecology" and "Métis Phylogenesis" which are in pdf from 2006. We will continue to use, update, and expand upon this Natural Law wisdom as we continue through the year.

The economy from 1973-1982 contains a period of high inflation, the highest in modern American history. That means, if our theory is correct, the underlying Natural Wealth Component decreased during the period, probably similar but slightly a more significant decline than stagflation and a GDP decline would indicate. Put another way we had inflationary growth and Natural Wealth deflation.

This all changed with the introduction and application of Reaganomics, or supply side economics, as the means to spur economic growth. What is also relevant to this period is the fact, as within the stagflation and recession cycles, the concept disappeared in which you could work for a company for a long lifecycle and retire with a gold watch to a life of ease and golf. So did the concept that you only needed to do your job forty hours a week to get ahead. All this meant that in order to retire undefeated, unless you had a plush government or union job, you had to work long, hard, with gusto.

So we see Dow numbers grow from the 1000 threshold in 1982 to about 10,000 at the turn of the century and over 14,000 in late 2007. That is definitely logarithmic, Bug Curve growth. Contrary

to what your stock market salesman told you, that was not just a specifically a great Natural Wealth period, but also a flood of Financial Liquidity. Market forces on the Dow worked like all market forces always have, supply and demand. In short there was too much money chasing too little equity and not only stock prices but also P/E ratios soared to Bug Curve heights. During that time Natural Wealth grew rapidly through business innovation, but maintained its linear function during a period of productivity gains and low inflationary pressure.

Almost this entire wonder working miracle was done under auspices of Fed Chairman Alan Greenspan, who replaced Paul Volcker in 1987 and served under four presidents until January 2006. For all those stupendous years he was able to create the previously unheard of economic prosperity utopia, high Dow growth rates, with limited inflation. We were rich and it was going to continue forever. Let everyone forget the LORD, and praise Old Rancher Ron and his Great Foreman Al.

It is now all coming apart. We get to see that collapse unfolding daily, but how did it work so well for so long. In the perspective of this scenario, by taking pretty much everyone's retirement plan money invested either directly, or through IRAs, 401Ks, mutual funds, or other such plans, over the years that sound money was leveraged with supply side money creation remember at the time it was called by skeptics Voodoo Economics, and coupled with not so much direct bank leveraged debt, but with unregulated financial leverage, which were formed into all sorts of complex "financial securities." Many banks then bought these assets, either directly or indirectly through acquisitions, to increase their appearance of growth and prosperity.

The Federal Government Congress, the Bush Administration, and the Fed strongly encouraged all lenders to make loans so that everyone could live an American Dream redefined as just owning your own home. This is typical of government attempts to create equal results rather than equal opportunities. A more sound way to do this would be to create diverse incentives for everyone, so that they could then work more productively to afford the home of their dreams. Hence as this housing centered faux wealth was created, Foreman Al then used his great genius to peddle these cancerous financial bombs around the world.

So what has happened is there was a logarithmic security bubble created with your hard earned money. Hence while it was called wonderful prosperity for so long, what it really did was distort stock prices and earnings well beyond sustainable growth rates, and now, not only are Americans, but all nations around the world are paying the price, or losing the price.

Actually things really are not that bad in America compared to the rest of the world because this type of monetary manipulation has only a relatively short run in this country and the underlying natural wealth component in the United States is still much higher than any other country the world has ever known. This collapse also fulfills two of the seven principles of Business Ecology, "There is no free lunch" and "Everything eventually runs out of gas."

So what happens now?

When you make the conscious choice to not believe in hell, evil, or even risk, one day you will literally pay the price. We believed foolishly that everyone was impeccably honest, knew really what they were doing, and were looking out for our best interest.

During this recent quarter century we have seen substantial growth of the Natural Wealth Component, greatly overwhelming any Inflation Deflation Factor. However to assume that this Natural Wealth is now logarithmic is probably just wishful thinking, or marketing hype. Recovering from the deflation of the late 70s and early 80s, it would probably be safe to assume that the National Wealth Component is now somewhere in the Dow range of 2000 - 3000. That should be a baseline we should see more pronounced as we move forward.

It is in the Financial Liquidity River however, where the great unknowns are still to come. Especially in the last few months we have seen a disappearance of Retirement Planning gains and a coupled

retraction in Debt Leverage. However in order to keep shuffling the deck chairs on the Titanic, we have seen government Supply Side Money Creation soar to incomprehensible numbers. That greatly increases the variability in the Inflation Deflation Factors, but none of that variability can be seen as positive well out into an unknown future.

Common sense tells us the probability of high inflation, with perhaps a currency devaluation is somewhere out over the horizon. History from around the world over long periods of time verify that reality. On the real ocean that horizon is just 12 miles, probably it is not that much different on the Money Debt ocean.

The thing to keep in mind is that sunsets happen every evening and every morning we see a sunrise. Winters, especially cold natural winters, allow us to more fully appreciate the spring. That is especially true if you truly trust in God, to guide your pilgrimage.

Sometime in the late 1980s I was trying to fund my gold mining equipment company, by buying or creating a small public company on the then Vancouver Stock Exchange VSE . One day after making the rounds of shell companies for sale with a broker who worked for a small brokerage house, the broker introduced me to the CEO of the company.

The markets were closed and for some reason he didn't want to go home on this Friday afternoon, so the CEO decided to explain to me how to make money with small companies in Canada, where you had to serve as your own market maker for your common shares.

As the CEO's broker told me bluntly, "There were 2000 listed companies on the VSE of which 1980 were not worth a ! If you had one of those twenty, were honest, worked hard, and played by the rules you could do exceedingly well."

So overlooking much of the Vancouver Financial District, we both drinking strong black coffee sweeten with Cointreau, he told me how it was done. That was basically how to take a pretty much worthless company with a 2 million cap rate and turn it into a company worth 2 million and beyond.

At the end of this two hour plus priceless teaching session, I asked about taking that company into the US market. At that time he paused, breathed deeply, swung his overstuffed office chair to the east so that he was looking toward Wall Street and basically said, that one day, the Wall Street Stock Market would come crashing down because of graft, greed, and corruption and to not get involved, because you could very quickly lose everything you spent a lifetime developing.

I took his advice and decided that I would invest, only in companies I could control, or I could look the owner in the eye, look at his operations, and make all decisions based upon a common sense assessment of what I saw.

So far that has meant, "freedom means nothing left to lose." But looking back to that day in 1982, when I looked at that inch and a half pile of rejection letters, and prayed silently, "LORD, I have tried as diligently as possible to get a good job that uses my abilities and have found nothing. I will have to learn to trust you in everything." I have tried to my best to live by that goal. I don't think I am really any better at it today than I was back then, that is what God's grace is all about. Using a March Madness basketball analogy, "You can take the point guard out of the game, but you can't take the game out of the point guard."

Since 1982, I probably have lived better on less money than anyone in modern civilization. For over ten years I have pretty much written this Chronicle on a weekly basis. I consider my writing talent probably the fourth on the list of talent gifts I was blessed with my birth. Those other gifts however have allowed me to develop a pretty unique voice amid all this worldly noise.

This I have learned, just as the Jews learned on the pilgrimage to the Promised Land, manna is only good for the day, if you hoard it for yourself it spoils. I am assured there are a lot of people beginning to

understand that reality. To that, I would add a corollary, the only way you keep your gifts and develop new ones is to attempt to give them away. The paycheck eventually comes on the backside of that promise and commitment, not before you start.

In 2003 I had my ascending aorta and aortic valve replaced, with my own health insurance I could not afford from virtually all that time back to 1982. With a congenital heart valve defect I feel better and younger now than I did all my life. I also realize that if the point guard had been able to play as he desired, he would have been dead long ago. Through circumstances beyond my control, that dream never materialized, but we need the perspective of time to fully appreciate the miracle.

I'm not one of those "turn your scars into stars" cheerleaders, but choose to close with a verse from Psalm 37: 25: "*I have been young, and now am old; Yet I have not seen the righteous forsaken; Nor his children begging bread.*" That is a promise path I have walked, not necessarily by choice all the time, but in these very hard, difficult times, I can tell you that it is absolutely true. You might not be able to take that to the bank, but living by that promise, in these days you will surely outlive many a bank.

But this you should also remember, two headed coins will only give you spin. Giving them the benefit of the doubt, which may be an overreach, they may think that they are telling you the truth, but we are all limited by our human limitations. In the common grace arena, trust your common sense and listen to your conscience, those are gifts from God as part of your created nature. If you are a religious person pray, and trust in God's providence to take you through the impossible. Don't believe in hope, believe in Him who created hope, and love, and grace. For when your pilgrimage is over, the worries of this world are left behind, and then and only then will we truly begin to understand the wonder of life itself.