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Redux Rendezvous V

In Monday's "The Chaos of American Energy" we used a Vietnam era construction that said: We the unwilling, led by the incompetent, to do the impossible, for the ungrateful, have struggled so long, with so little, we are now able to create anything out of nothing.

Sticking with the Vietnam motif, today we use another term from those bygone days that pretty much describes what is happening to the Obama Administration. That historic expression is Buzzard Luck, Can't kill nothing, nothing will die. Perhaps a more contemporary definition of the term brings fuller meaning. Everything that happens turns into a disaster.

My personal take on the subject is that there is no such thing as luck, even Buzzard Luck, and everything happens for a reason, including disasters. Since there is no such thing as a previous state of existence, karma does not apply either.

However Tuesday before noon Pacific time, we heard of a soon to be published article in Rolling Stone in which Afghanistan commander Gen. Stanley McChrystal and his staff made comments that were not all that flattering to the President, his staff, and related support in theater. As a consequence the general is being summoned today, Wednesday, to Washington to explain his actions and maybe get the opportunity to retire early.

Then shortly thereafter a federal judge in New Orleans blocked the President's off shore drilling moratorium. U. S. District Court Judge Martin Feldman stated that the moratorium was arbitrarily and capriciously imposed because continued drilling posed no imminent danger. Arbitrary and capricious are two wonderful legal terms, which are almost impossible to prove in the negative and sadly the basis for many if not most environmental regulations. It is just that most of the time the affected parties don't have the resources to



sue. Outstanding, and today is just a wonderful new day!

Who would have believed that just eighteen months into his Administration it seems like the Obama team continues to shoot itself in the foot. It kind of makes you nostalgic for the good old days of George W. Bush and even perhaps Bill Clinton. But alas, that is just ancient history.

We should however ask ourselves the question, "Is all this Obama's fault, or is he just the man who volunteered to be the messenger?"

If he is just the messenger, then we may question his understanding of reality, and perhaps is intelligence and common sense, but it is not that hard to see the growing fruit of irresponsible governance going back, thirty, fifty, or even one hundred years. We want our results as quick as sprouts; God grows a forest and gives us life with seasons.

All this is to say that what is going on in the United States and the world is much more profound than just our perceptions. What is happening is more akin to the Reformation or the Industrial Revolution than it is to anything that has happened in the last century or so.

We the unwilling, would rather go back to the good old days, maybe the go-go eighties, rather than deal with the present. "We were happy then, life was good, taxes were low, we could buy anything we wanted, and we were told it could last forever, if we just had faith."

Before this recent mess all began in intensity, seventy percent of the American economy was based upon consumer spending. To make matters worse most of that debt driven consumerism was used to buy stuff made somewhere else. As long as there was money to buy more, we just figured it could last forever. The fallacious assumption behind all of this was the fable that money was really wealth.

Hence because we believed that to be true, we could just create more money, leverage it to create more, and so by the time Barack Obama came to the scene he and many Americans believed that there was enough to redistribute to those who had less. All that was what made it all seem to make the New World Order look so promising.

Just like many believed that global warming would raise ocean levels, we believed these economic liquidity oceans would raise all people out of poverty. In reality it is drowning the whole world in debt. And even if man induced global warming were true, which it isn't, excessive debt linked with gross consumption have frozen this big collective scam forever in a twentieth century glacier.

In the 1990s we began the Information Age that was touted to replace all the stuff with complex information. With all the hype of individual empowerment, for the most part all we did was graft information on to the existing Industrial Age and twentieth century infrastructure. As a result you, the individual, had to be able to process more information, in less time, for substantially less money, and work longer hours to boot.

So globalism really is not a symbiotic relationship with the individual unless the individual is treated like a serf. And in the industrial age genre, a serf really is just a required distribution machine, to get the goods to the consumption machines. Cheap, really cheap, oil based petroleum was both the grease and the energetics to make the con work. As reported in Monday's "Chaos in American Energy," we really don't know what the real free market price of oil is today, and even less assurance of what it will be in the future. That is no way to build a materialistic culture or civilization.

However, as it seems the old common beliefs in big business, big government, big finance, mainstream media, and global governance crumbles around us, what if the Information Age is about to empower individuals to replace the old soon to be extinct dinosaurs. When you look seriously at the world of big everything, as it exists today, what you really see is the fact that it is all propped up because of advertising.

If advertising no longer gets a true return on the invested capital, perhaps there is a better way to run a railroad, or a newspaper, or an insurance company. The whole system, as we know it today, falls apart because consumers don't consume, or get their information directly off the Internet, even bypassing local media for local consumption.

Just as in gardening, to grow a viable enterprise you need four symbiotic or synergistic inputs. For the garden soil you need a seed, water, sunlight, and a favorable season or climate. In the human enterprise world you need and informational seed,

financial liquidity, a market niche to provide lasting energetics, and a favorable startup business climate. In 2010, definitely in the United States and probably elsewhere, two of the four requirements are not available. Those two are financial liquidity and a favorable startup business climate.

So is it that difficult to see if you want to produce new wealth in a new-new world order, you need some process to move some wealth from the old dinosaurs and put it into startup business liquidity and a greenhouse to get the seeds to the point where they can be transplanted into the real world economic jungle.

Until last fall I didn't know much about Warren Buffet, other than he was a rich old dude who was good friends with Bill Gates. Then I heard he bought the railroad Burlington Northern (BNSF). In any type of economy with high energy costs, railroads are so much superior in hauling goods than trucking that there is really no contest.

Furthermore railroads do it with far less government interference, and no highway gasoline tax roads subsidy. Shortly thereafter the railroad that crosses the creek just upstream and was scheduled to shut down, decided to keep operating. BNSF owns the track and leases it to some regional line. If I had twenty-five billion bucks and I would like to invest in something with a real tangible future, I would have bought Burlington Northern also.

In the United States to start a company or other enterprise you either need to have made that money yourself, or you need a rich relative. Bill Gates became the richest American, by being there at the beginning of Microsoft and as that company grew, so did the wealth in the founders and early round stock offerings. In the process several thousand early Puget Sound area Microsoft employees were able to start their own companies and repeat the phenomena.

There is a strong venture capital market in the United States that functions from business evaluations of say the million-five million dollar entry, up through public offerings and the big time. There is not however, any place without a stint in a Microsoft type position or a rich relative to get that early funding to get the next Microsoft or Apple beyond the idea through the greenhouse

stage. The development of this liquidity niche is going to be required if the full utilization of the individual empowerment of the Internet is going to take place, as the ancient behemoths of the past centuries pass away.

Government regulations will suck out all the life, so attempting to raise these funds through public sources is impossible, at least in the United States at this time. However if you look at the corporate governance model of Buffet's Berkshire Hathaway you can begin to see an emerging model. Even though Berkshire Hathaway is a public company, it truly treats its shareholders like real partners. Furthermore the twenty-some person company headquarters is located in Omaha, Nebraska, far from the bright lights of New York City and Wall Street.

So if we were to use our PREFER Ltd corporate structure as a model for one of these new individually oriented companies, we really have a stock issuing partnership. This is in reality more like an investment club than a typical business organization, because every member of the club is also a member of the board of directors, each voting share commensurate with the PREFER holdings. They communicate regularly through emails, each investor providing their individual input to synergistically grow the wealth. In this example those shares were issued in \$10,000 increments and related to BRK-A which closed on Tuesday at \$118,775.

Berkshire Hathaway also has BRK-B, which closed at \$75.53 and is designed to be generally valued at 1/1500 of BRK-A. The PREFER model equivalent is called Deep Woods Moola or just Moola for short and is valued at 1/100 of the PREFER stock. Both Moola and PREFER stocks are convertible but to keep it simple only PREFER stock has voting privileges. PREFER stock may pay dividends, but Moola may only pay interest.

This two stage stock model accomplishes two objectives. First of all it allows a member of the club to make small investments in \$100 increments in Moola, which can be converted to PREFER when the \$10,000 threshold is reached. The Moola shares, which pay interest can also be used to fund essentially a standard debit or cash card, for purchases of the necessities of life and makes your company investments available to pay for all those emergencies that are so much of life, really just cashing out only what you need to pay the bills.

What really makes the Berkshire Hathaway model work is its heavy investments in insurance and reinsurance. These investments provide present cash flow that needs to be wisely invested against future liabilities, which is a relatively simple business model that generally follows statistical trends. The PREFER model uses precious metals as somewhat a de facto gold standard, except the technology allows for producing gold in many instances at 1/100 of current spot prices.

This PREFER example is just a theoretical design using actual enterprise entities. It is not a prospectus, nor is it any type of advertising of stock sales. It does not meet any state, or federal securities regulations. It only serves to illustrate certain opportunities that I see in the current world of stupendous change and gives us an illustration on how that way forward may produce new wealth in a world that genuinely needs that wealth infusion.

In the broader enterprise perspective, it really makes no sense to heavily regulate entrepreneurs and at the same time let virtually anyone with a checkbook or a credit card invest in Wall Street "regulated" firms. All those SEC filings do a great deal of good; protecting investors, just look at the history of the last couple of years for verification of what that security buys.

One other great idea would be to make that stock issued for those first round(s) of financing, say to a low million dollar cap rate, forever free from capital gains taxes. Better yet is a tax system that is generally called a Flat Tax that more and more countries are adopting every year, to decrease the tax fraud, scams, and special interest giveaways.

So to summarize, we graphed the Information Age to an out of date model of a world in which the individual was really just a specialized cog in a wheel of industrial production. The experiment didn't work and Buzzard Luck had nothing to do with it. Therefore in the grand design of human development the founding of the United States was really over 200 years ahead of its time. So rather than the Declaration of Independence and the Constitution being out of date documents, along with the concept of the Redux Rendezvous, they are about to show their worth in futuristic wealth production.