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Contact Information:

Jerry Bannon

Publisher

Wonder Springs

36 Merkel Road

Kettle Falls, Washington 99141

phone: 509.496.5855

blog: www.wondersprings.org email:

jerryb@wondersprings.org

chronicle@wondersprings.org

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No Skin In The Game X

Monday, about midmorning there was a knock on my door. Opening the door, at first I didn't see anyone; then I felt this tugging on my pant leg, when I looked down I amazingly saw what looked like a kid's little stuffed purple dinosaur:

"Hi, my name is Barney and I am really miffed, because I am supposed to be the only real dinosaur in existence at this time, and not only do those financial dinosaurs and behemoths get more adult attention than I do, but their fossilized money rackets are cutting seriously into my sales.

"How can a little guy make any money, when those evolutionary vestiges of a bygone era seem to think that they have access to enough money to make the world turn on its axis. Furthermore they can't even dance and sing.

"I want you to do your best to tell the world and those troglodyte politicians that they need to create a new version of the depression era Glass-Steagall Act, which all real dinosaurs and a rapidly growing

list of repentant humans, know should have never been repealed. If humans don't break up these too big to fail mastodons, the whole world will soon become an economic Ice Age.

To which I responded: "It seems, you pretty much made the case yourself, Barney; I doubt those troglodyte politicians will listen to me, but since you made this special appearance here at Wonder Springs; maybe they will listen to you."

I looked down again, and this happy, smiling, purple, mini Tyrannosaurus rex, was disappearing into the bushes.

When you read last week's Skin IX synopsis of the development and the decline of American capitalism, you quickly and absolutely realized you had not read a similar description elsewhere, especially in anything related to economics. For good reason, I am not an economist, but rather an ecologist-engineer-entrepreneur, who has been fascinated by the development, or true lack thereof,



of the North American frontier.

Furthermore because of my scientific training, for most of my life I have considered economics, along with psychology, sociology and others, pseudoscience, which majors in abstract observations of either the obvious, or the unknowable, or the pedantic interactions of the two. Therefore I have created a totally empirical review of last week's article:

Whenever you create a totally theoretical reality, last week defined as the evolution of American economics and finance over the last fifty years or so, without any paradigms stating any absolute moral hazards, you have indeed absolutely created a true crisis destiny. To use the now popular economic and debt metaphor, no kicking the can down the road is going to change that reentry necessity—into a real world governed by created natural law. What part of “get a real life” don't you want to understand?

On Monday NYU economist Nouriel Roubini issued a “Perfect Storm” economic forecast that may occur as early as 2013, then again we might see slow growth, or we might see rapid economic growth. I have just finished an audio version of the book he wrote with Steven Mihm: *Crisis Economics: A Course in the Future of Finance*.

The book is somewhat dated, with most of the data from 2009 and before. It also shows the reality that America's substantial economic problems are in tune with what Barney had to say at the beginning of this article; that behemoths, dinosaurs and mastodons are controlling the economic world and unless significant changes are made, which his Monday report must assume are not happening, then we will face a (continuing: emphasis mine) world economic financial crisis.

As with the thinking of academics, the book has many great ideas to fix our economic ills, some of which I agree with, some I do not, and some I just don't know enough about the situation to have an opinion. The book, keeping within a paradigm of idea theory, runs a financial deficit on how to truly implement much, if anything.

What is very worthwhile is the understanding that all the “innovative financial products” that brought down the system in 2007 are really myopic illusions of risk aversion and leverage that are not available to the common man. As a result, out of the list of ten investments I mentioned at the close

of last week's episode, gains in the first eight (updated from seven last week) of them were essentially wiped out in the “saving the world from imminent financial collapse” and the following Great Recession; which may be heading into the “Perfect Storm Depression.”

So let us look at those ten historic investments as a simple continuum, starting from the most secure to the most risky, that you with a computer and a debt-credit card, a line of credit, or through personal networks and contacts can make investments with the hope of increasing your net worth and create wealth:

Bank Savings Account—Money Market Fund—Certificate of Deposit—Mutual Fund of Corporate Bonds—Mutual Fund of Blue Chip Stocks—Mutual Fund of Risky Growth Stocks—Real Estate—Direct Stock Investments—Gold and Precious Metals—Currency and Commodity Trading.

What is not included on that list because they have been virtually extinct since the 1980s is investments in startup companies. As we have pointed out (almost ad nauseam is that national statistics reported by the Kauffman Foundation show that all job creation in the United States is created by startups, in essentially their first two years, and that every other business enterprise summary statistic thereafter show net job losses! In other words after the end of the startup era, job changes are essentially rearranging deck chairs on the Titanic, throwing a few overboard, in the name of economies of scale, mergers and acquisitions, or other such keeping the ship from sinking spin.

Furthermore, the famous Bill Gates and others may have become billionaires when their company stocks went public, but all the wealth was really created in the issuance of founders' shares and early rounds of equity financing. None of the above top ten investments will create any wealth other than some type of compound interest. Microsoft being a compound interest exception, for when it split stock two for one, way back sometime in ancient history, it has since traded in the mid twenties thereafter (\$24.22 Tuesday close).

So the United States economy has been living off of compound interest, retained earnings, debt and leverage, simply because we have so permuted the monetary continuum towards giant banks, debt, leverage, and fiat money for so long, the nation has been made bankrupt, by whom our friend Barney will hope would permanently go extinct: Financial dinosaurs, behemoths, mastodons and other humungous Industrial Age corporate relics.

Back to our list of ten, the two that are left are investments in gold and gambling with puts and calls in commodities and currencies. It is pretty much a universal law, both historic and present, that precious metals are a hedge against economic turmoil in turbulent times. That is especially true today, because as a medium of financial exchange you really can't trade a few hundred milligrams of gold for a box of cereal, a loaf of bread, or a gallon of gas.

As far as commodities, you have much better odds in a high roller game of craps at the casino than playing with the big market makers, with access to oceans of debt-leverage-fiat money, and no other place to make their market trades.

I was in the Army stationed in Germany when Richard Nixon closed the gold window in 1971. Overnight the exchange rate took about a twenty percent hit, and by the time I rotated back to the states in early 1972, it was about thirty if I remember correctly.

When I had finally begun to get in touch with the American economy again, I adopted the worldview that the Germans could out engineer any other country in the world, the Japanese were the best manufacturers, and the Yanks were the world's entrepreneurs.

In today's new world order, the Germans still typically do the best consistent engineering in the world. Even with the earthquake, the Japanese still know how to manufacture high quality stuff with no equal. Today that engineering and manufacturing may be overseen anywhere in the world, but those two principals remain true.

The United States, in contrast, as become the dead-beat debtor to the world, which on a per capita basis puts us on par with Greece. Why has that happened?

Quite simply the United States sent her entrepreneurs to concentration-extinction camps and let loose a bunch a wantabe fascist-lites: bankers, financial innovators, crony capitalists, lobbyists and politicians who claimed to have all the answers to preserving American exceptionalism.

Is that too tough of a criticism? I suppose the jury is still out; for we are still feeding the living extinct, while the troglodyte politicians dither over debt reduction and redistribution of wealth, that

wealth too is extinct, while the mainstream media, lauds the commentators, talking heads, bimodal pundits, who are all well paid to make sure we keep that can moving down the road to a financial cliff.

Entrepreneurs must be recreated for our society, because through a culture of passive compliance, childlike natural wonder is suppressed as not economically rewarding. The first step to becoming a net job creator might be enhanced by a secure childhood which will help them understand risk, with less peril than their compatriots, but really all humans were designed by God to be entrepreneurs of our own destiny. An article in Tuesday's Wall Street Journal sheds some light on creatively raising future entrepreneurs.

In the first episode of "God in the Details" that precedes this No Skin series, I briefly recounted a late 1980s, Friday afternoon discussion I had with the president of a small securities brokerage firm for the Vancouver Stock Exchange. What I learned that afternoon changed the way I look at investing and investments, as well as pretty much set the stage for today, where I have no skin in the twentieth century game. That game disappeared for us all in 2007, so I don't need to look longingly at the past that was stolen by liars; or just people who are too simple minded to truly manage what they say—fields where they were the experts.

Regardless of where we were in those bygone days, all Americans and world citizens, except the financial innovators, are beginning again; trying to find a way to at least have enough to enjoy life, even if we may have to replace a leisurely retirement, with a more rewarding career opportunity.

That Friday trip probably began with either a meeting with a then Big 5 accounting firm, or a securities lawyer. After lunch, Robson Strasse (street) had the best German food outside of Germany; I met with a broker dealer of one of the smallest securities firms. For a few hours that afternoon, we when from office to office of small mining companies, most of which were just public shells, trying to find some firm to acquire, to rapidly bring my gold mining equipment company into financial reality, without needing to go through the time and regulatory supervision of a venture IPO.

After a few hours of this, as we were heading back to the broker's office, both very discouraged for the wasted afternoon, he bluntly stated: "You know there

are 2000 public companies listed on the VSE, 1980 are basically flight money public shells, invested with the vain hope of finding the mother lode, or something like that. About twenty companies really have potential, if you can develop one of those companies, you and we can all do very well.”

As we got back to the company offices, since it was after trading hours in the Eastern Time zone, he took me by the firm’s president’s office, just in case he didn’t go home after the markets closed. It just so happened that we were the only three people still in the company. For some reason the president wasn’t ready to leave just yet, so he told me he would explain how I could make a decent living with a company listed on the VSE.

For the next few hours, sharing cups of strong black coffee sweetened with Cointreau, he explained those details; those I can remember and are important I will share with you now.

The nature of the listing process basically gave the companies an initial cap rate of about \$2 million CAD. As time went on and the reasons for incorporating were improving or going the other way, most of the 1980 companies were for sale at a steep discount. At that time depending upon factors that might be from \$250-500 thousand. The major problem however was there was really no way to truly access these shell liabilities.

Brokers pretty much made their money by placement fees, but they did take equity positions as part of that, depending upon their own due diligence as well as the listing documentation, all of which was negotiated with the to be listed company.

The important reality of once the firm became public, was that it became its own market maker of its securities; that made sure that the people with skin in the game were actually in control somewhat of the stock price. A minor amount of long and short selling of shares was allowed, but because multiple brokerage houses had some equity in the company, that was monitored quite closely, not only for potential firm profits, but also it was a very closed network that was self policing, because while it was all right to be known as a wild west stock exchange, there were guidelines that were not crossed, to keep your good standing.

Towards the end of the discussion, I asked a question about the New York listings at the NYSE and NASDAQ. He then politely explained to me

that in the great USA, the market making brokers that pushed the stocks really had no significant position in the companies shares they were actively trading, hence it made no difference to them whether the stock went up or down, only that the more shares they could trade, the more money they made for themselves, and if the listed company prospered so much the better.

He then turned his big desk chair towards the east, made some other despairing remarks, and basically stated that it was all a big Ponzi Scheme and one day it would all come crashing down. In that context, Bernie Madoff was the then founder-principal of the NASDAQ, and eventually he decided to attempt it on his own, with lower overhead and a bigger profit potential.

The president then turned his chair back so that he was again facing me, made the gesture that it was time to go home for the weekend; and then remarked something to the effect:

“I don’t know if we will be able to work something out or not, but remember this, never make an investment in any company or any idea, unless you can actually go to the company itself, meet with the principals that run the company and make the decisions. If you don’t feel good about everything that transpired, just walk away. You will be happier, sleep better at night, and never make any mistake that you can truthfully regret.

Since that day, I have accepted that truth. Over the years I have made some small investments in other companies that really never made it; not so much because the ideas and the opportunities were not sound, with good honest participants; but rather it was impossible to attract capital; because essentially that money had all its skin invested in the regulated, secure, big Ponzi Scheme game in New York City.

“Ya, sure, you betcha!”

We are just through round one into a multi round match to see, “How’s that ‘innovative financial products’ Ponzi Scheme workin’ out for ‘ya!’”

After all when that doesn’t work out you can always, “Hope in change! Spare change!”