

December 2011



## Gratitude

I must confess that I tried to start writing about the latest developments in Europe this month and couldn't bring myself to do it. I spent virtually no time or emotional energy analyzing the US debt ceiling debates. It was easy to see that the Democrats and Republicans were using it as a platform to raise funds for the next election. Of course, they raised the self-imposed debt ceiling like they always do and it didn't take a Nostradamus to see that the Super Committee was not going to come to an agreement.

I *have* spent more time than I care to admit pondering Europe, which I think is a much bigger deal to world finance than anything else right now. Reading rumors everyday about how big or small the European Financial Stability Facility (EFSF) and when Germany will finally allow the European Central Bank to engage in Quantitative Easing (money printing) like the U.S. and England have done is trying my patience. My brain hurts from watching the spread between German Bunds and French Bonds widen each day. I am sick of tracking 5-year Collateralized Debt Swap (CDS) on the PIIGS countries and I have finally lost count of how many emergency summits the EU has convened in the last three months. WILL THEY EVER COME TO A RESOLUTION???

The reality is that Europe, Japan, and the U.S. have all created more debt than can possibly be paid back. Europe will either print massive amounts of Euros and default through inflation or hundreds of banks will fail and the European Union will break up and throw the world into chaos. Leverage, can kicking, and fractional reserve banking have literally brought us to this binary possibility. Once the problems in Europe have some kind of solution, the bond vigilantes will then turn their attention to Japan, England, and eventually to municipal bonds in the U.S. It doesn't take a genius to see that the whole world is awash in debt that cannot possibly be paid. We are past the point of painless solutions. The only certainty is that massive amounts of money will be lost in the coming years and volatility and extreme changes we can't fathom are on the horizon.

Consider the amount of upheaval that has taken place around the Mediterranean Sea this year.



Who could have predicted that the five rulers in red would have been removed from office via a peaceful or violent revolution all in 2011! Next to their names, I have the years that they held office. The rulers in blue have yet to be removed, but I am quite positive that the tide of anger towards corrupt politicians has not run its course.

In mid December, we can put Zapatero's name in red, as he just lost power to the People's Party candidate, Mariano Rajoy.<sup>1</sup> It is not surprising that Zapatero didn't even run again with Spain's economy in such shambles. The unemployment rate for <25 year olds in Spain is almost 49%, the highest in all of Europe.<sup>2</sup> Hopefully their population connects this statistic to Zapatero's Spanish *Socialist Worker's Party*. As Margaret Thatcher observed "...Socialist governments traditionally do make a financial mess. They always run out of other people's money."<sup>3</sup>

The next person that is likely to have their name changed to red is Bashar al-Assad of Syria. On November 27, 2011, the Arab League took the bold step of imposing sanctions on Syria and on December 2 the United Nations Human Rights Council will hold a special session on Syria. Over 3,500 protestors have been murdered by his government this year.<sup>4</sup> So far the United States has only pepper sprayed an 84 year old woman, been accused of causing a 19 year-old's miscarriage,<sup>5</sup> and shot a veteran in the face with a rubber bullet.<sup>6</sup> So far.

The rate of major changes in our world is truly mind boggling. I expect the world to look very different than it does today in just ten years time. For what it's worth, my best guess about Europe is that they soon come to an agreement where the ECB prints money to the IMF and then the IMF lends it to the struggling counties to keep their bond yields lower. Most Americans don't appreciate how truly bad their banks are and as Richard Russell has said many times, it is either print or die for the politicians in office right now. Discussing Europe further will surely put me on the suicide watch list, so let's talk about something positive this month--insects.

At a recent conference I attended, I heard a most fascinating story of a monument in downtown Enterprise, Alabama dedicated to a Boll Weevil. It supposedly the only statue in the world of an insect. The story goes like this. In



The Boll Weevil Monument in Enterprise, Al

<sup>1</sup> <http://www.bloomberg.com/news/2011-11-20/spain-s-rajoy-winning-majority-in-spain-vote-as-crisis-punishes-socialists.html#>

<sup>2</sup> [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Unemployment\\_statistics](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Unemployment_statistics)

<sup>3</sup> <http://www.margaretthatcher.org/speeches/displaydocument.asp?docid=102953>

<sup>4</sup> <http://www.bloomberg.com/news/2011-11-30/un-human-rights-council-plans-special-session-on-syria-on-dec-2.html>

<sup>5</sup> <http://www.kplu.org/post/update-seattle-pd-investigating-occupy-protesters-claims-miscarriage>

<sup>6</sup> [veteran-shot-in-the-face-by-rubber-bullet-at-occupy-oakland-protests](http://www.kplu.org/post/update-seattle-pd-investigating-occupy-protesters-claims-miscarriage)

the late 1800s Mexican Boll Weevils wanted to experience life in the United states and migrated to the Southern States. By 1915, they found the delicious cotton fields of Coffee County, Alabama and feasted to their heart's content. Over the next three years these little insects devastated the region and many farmers were in deep trouble. Instead of turning to welfare or asking for a bailout, some farmers put their heads together and decided to start growing peanuts instead of cotton. It was a big risk, but what did they have to lose?<sup>7</sup>



The boll weevil eating its favorite food--cotton.

By 1917, Coffee County produced and harvested more peanuts than any other county in the nation and the economy began to prosper.<sup>8</sup> In 1919, Bon Fleming, a resident of Enterprise, decided to make a monument to the little critter that created so many wealthy peanut farmers. The plaque near the monument says, "In proud appreciation of the boll weevil and what it has done as the herald of prosperity this monument was erected by the citizens of Enterprise, Coffee County, Alabama."<sup>9</sup>

Don't you just love that story? We all love the words "thank you" and "I appreciate you." There is something that attracts us to people who have a heart of gratitude and thankfulness. What I don't want anyone to miss about the story is how bad things were for these farmers. Imagine the risk farmers take when their whole income is tied to one or two harvests each year. They plant their seeds and do everything they can to produce the best crop each year. Think about working for almost an entire year and when it is finally time to get paid, you have no cotton to sell and have a big zero in your income column. These people must have wanted to give up, but they kept trying and eventually came to an even better life than they thought possible.

The story of Enterprise reminds me of my favorite quote in the Bible found in James 1:2-4:

Consider it pure joy, my brothers, whenever you face trials of many kinds, because you know that testing of your faith develops perseverance. Perseverance must finish its work so that you may be mature and complete, not lacking anything.

---

<sup>7</sup> [http://en.wikipedia.org/wiki/Boll\\_Weevil\\_Monument](http://en.wikipedia.org/wiki/Boll_Weevil_Monument)

<sup>8</sup> <http://www.cityofenterprise.net/default.asp?ID=91>

<sup>9</sup> <http://www.cityofenterprise.net/default.asp?ID=91>

When you look back on your life, isn't it the hard times that had the biggest impact on you? Sure they are not fun, but that is typically when you grow the most and become a better person. The sweetest and most empathetic person I have ever met developed those traits through the pain of her friends deserting her in elementary school.

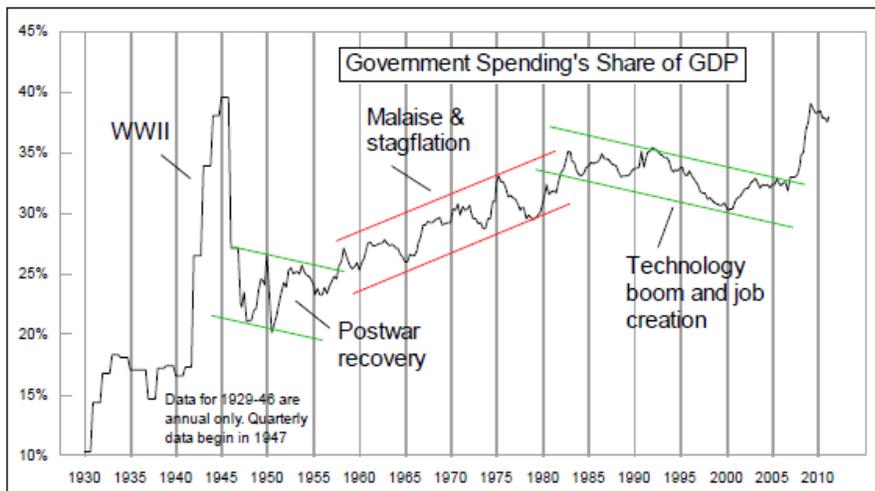
Truett Cathy, the founder of Chick-Fil-A, had just lost a business partner, one of his two stores burned down, and an operation forced him to bed rest for a few months. While out on disability, he ended up inventing the chicken sandwich.<sup>10</sup>

Mary Kay Ash had just put her life savings into starting a business with her husband. One month before they were to begin selling make-up, he died of a heart attack at their kitchen table.<sup>11</sup> There are hundreds of stories about bad times bringing about the very best in people and producing character that a trust fund baby will most likely never have the opportunity to develop. Unfortunately, tough times and hardship have also created wars and more strife. It all depends on our attitude.

Let's face it. Nobody has any idea how the world is going to turn out in ten years time. It is probable that the unsustainable debt problem is resolved this decade and the world is about to go through some very hard times. My best advice is to work on getting to the acceptance phase of the Kubler-Ross Model to the best of your ability. As famed investor, Kyle Bass, has said, "I think this is something we need to go through. It's atonement. It's atonement for the sins of the past."

What will *our* hard times look like? Maybe you don't get all of the pension or social security that you were promised. It is possible that massive inflation causes the next president to pass an executive order making the "hoarding" of gold illegal again or puts a "wind fall" profits tax on precious metals. Maybe family members need to move in with you one day. We can't possibly prepare for all of the possible events that are coming. We can, however; prepare ourselves for how

we will *deal* with hard times.



Courtesy of Tom McClellan of [www.mcoscillator.com](http://www.mcoscillator.com)

that governments don't create, they just redistribute from the productive class. As the chart above

My sincere hope for the world is that some Bon Flemings emerge from the ashes with attitudes of thanksgiving and gratitude. A more simple and less materialistic world could be a much happier place for all of us. Hopefully our society learns that socialism is the road to serfdom and

<sup>10</sup> Maxwell, John C., *Failing Forward* (Nashville, TN: Thomas Nelson, Inc., 2000), 20-21.

<sup>11</sup> Maxwell, John C., *Failing Forward* (Nashville, TN: Thomas Nelson, Inc., 2000), 6.

shows, government spending as a percent of GDP is the highest it has been since WWII. This is not a healthy situation to be in.

As a money manager, I hope to get to a place where government statics are honest again. I hope that I can focus on dull things like earnings growth and p/e ratios rather than having to go to zero hedge.com every few hours to see what wild stimulus rumor just moved the market another 10 points. I hope the other side of this brings us safe banks and sound money. I also have low regulations and a more free and open society like the America of our history books on my wish list.

We can't control what will happen to the world, but we can control how we act and our attitudes. Through the chaos we can come out with a moral and grateful society. I hope to be there with you as we erect a statue to Bernanke or Lord Keynes in our town center in gratitude of showing us once and for all that central planning does not bring about prosperity.

## Markets

After a fantastic rally from the October 4 lows, the S&P 500 rallied until October 27. We then experienced the worst Thanksgiving week since 1932 (usually a very good week to own stocks).<sup>12</sup>



Courtesy StockCharts.com

November's correction was frustrating to go through and I didn't alter client's allocations because I believed Europe would continue to print and a large-scale European bailout was in the works that would limit the stock market's downside. Another European summit is scheduled to meet on December 9th and the Fed meets on the 13th.<sup>13</sup> Perhaps this is where the "bazooka" comes out and they can kick the can for a year or so with renewed money printing. In the meantime, I think we

<sup>12</sup> <http://www.businessweek.com/news/2011-11-28/s-p-500-has-worst-thanksgiving-week-since-32-amid-europe-crisis.html>

<sup>13</sup> <http://www.bloomberg.com/news/2011-11-30/euro-ministers-seek-greater-imf-role-as-bailout-fund-expansion-falls-short.html>

need to try our very best to get used to this extreme volatility. It appears to me that we continue with the rather large trading range of 1100 to 1300 for the foreseeable future. It will be very interesting to see how the market behaves if we can get into that 1270 to 1300 range again.

Many of my clients have exposure to gold and the companies that dig gold out of the ground. It has been a painful year for investors in the precious metals mining sector. We have watched gold do exactly what it is supposed to do and go up almost 25%. Meanwhile the large gold miners (GDX) and the junior gold miner (GDXJ) ETFs are down about 2% and 25% respectively.



Courtesy StockCharts.com

It appears that investors are buying gold for the fear trade and avoiding the miners as a greed trade. Maybe investors just want to preserve their wealth from the ravages of government intervention. Even though their business is gold, the miners are stocks first and this sector is not in favor right now. If gold prices can just stay where they are, eventually institutions will be forced to recognize the value in these shares. I highly encourage anyone who is interested to read:

### [Gold Producers Poised Like 'Coiled Spring' to Rally: Commodities](#)

According to the article, the shares are cheaper than they have been since 2002. David Einhorn of Greenlight Capital, who is famous for shorting Lehman Brothers and more recently Green Mountain Coffee Roasters, sold some of his gold in exchange for gold miners last quarter. He is quoted as having said a "substantial disconnect has developed between the price of gold and the mining companies." Fading Einhorn can be hazardous to your wealth. As I survey the landscape of things to invest in, I continue to believe this sector has one of the best potentials for returns of any asset class available.



Domestique Capital LLC  
4601 Old Shepard Place  
Ste. 117  
Plano, TX 75093  
214.556.8904 phone  
[www.domestiquecap.com](http://www.domestiquecap.com)

The views expressed are not necessarily those of Cambridge Investment Research and should not be construed directly or indirectly as an offer to buy or sell securities. Any securities or investments mentioned are for informational purposes only. Domestique Capital LLC is not liable for any losses on investments mentioned in this letter. Investing in capital markets inherently carries risk. Indices are unmanaged and cannot be invested in directly. Past performance is no guarantee of future performance. When you link to any of the websites provided here, you are leaving this newsletter. We make no representation as to the completeness or accuracy of information provided at these web sites. Nor is the company liable for any direct or indirect technical or system issues or any consequences arising out of your access to or your use of third-party technologies, web sites, information and programs made available through this web site.

Registered Representative, Securities offered through Cambridge Investment Research, Inc., a Broker/Dealer, Member FINRA/SIPC. Investment Advisor Representative, Cambridge Investment Research Advisors, Inc., a Registered Investment Advisor. Cambridge and Domestique Capital LLC are not affiliated.