

January 2013



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## Unhappy Birthday

In December of 2013, the Federal Reserve will turn 100. They gave it the fancy name "Federal Reserve" because the bankers don't want you to know that it is technically the Third Bank of the United States. If they didn't change the name, the populous might be more keen to learn why Andrew "Old Hickory" Jackson fought so hard during his presidency to dismantle the Second Bank of the United States. In 1834, Jackson said:

Gentlemen! I too have been a close observer of the doings of the Bank of the United States. I have had men watching you for a long time, and am convinced that you have used the funds of the bank to speculate in the breadstuffs of the country. When you won, you divided the profits amongst you, and when you lost, you charged it to the bank. You tell me that if I take the deposits from the bank and annul its charter I shall ruin ten thousand families. That may be true, gentlemen, but that is your sin! Should I let you go on, you will ruin fifty thousand families, and that would be my sin! You are a den of vipers and thieves. I have determined to rout you out, and by the Eternal, (bringing his fist down on the table) I will rout you out!<sup>1</sup>

The secretive bankers who wrote the Federal Reserve Act at JP Morgan's private retreat on Jekyll Island, GA were clever enough to come up with a new name. The worker drones of America who have been force-fed Statist propaganda for 13 years in their compulsory schools must not be allowed to realize the bankers are their masters. The writers of the act were wise. Third Bank of the United States doesn't sound very permanent and begs the question of why two other generations of Americans were smart enough to take away the charter of their central banks.

Do we need a central bank? If you want to pursue Marxism you do. Marx and Engels made having a central bank one of their 10 planks of the Communist Manifesto.<sup>2</sup> Please look this up and don't take my word for it. Consider reading Murray Rothbard's, *The Case Against the Fed* or G. Edward Griffin's *The Creature from Jekyll Island*. You can download Rothbard's book for free here:

<http://mises.org/books/fed.pdf>

The competition of a free market causes businesses, restaurants, and private schools to fail if they are not delivering a product to consumers at a price that consumers will pay. Allowing millions of people to do as they please, start businesses, and choose what they purchase seems chaotic. It is impossible to predict which services and products will prevail and how the economy will change. Through the chaos of free markets, we get price discovery and invention. As Adam Smith observed

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<sup>1</sup> [http://en.wikiquote.org/wiki/Andrew\\_Jackson](http://en.wikiquote.org/wiki/Andrew_Jackson)

<sup>2</sup> <http://www.libertyzone.com/Communist-Manifesto-Planks.html>

in *The Wealth of Nations*, "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self interest.<sup>3</sup> Allowing free people to compete against one another to bring the best products, invent the greatest inventions, and dream up the best services is the most proven method of raising the standard of living for the most people.

Sure, it is sad to see a hardworking businessman lose his business or watch an entire industry disappear and see its workers have to retrain to develop skills to work in more productive industries. It feels harsh and is painful for a time for the individuals, but on the other side, we all get better products and services and a healthy and more sustainable economy.

Competition and the endless search for profit continually drives prices down and forces businesses to find the best use for their land and resources. A free market is also the most democratic institution that I can think of. Our wacky Electoral College process has made it where your vote for the President doesn't really count unless you happen to live in a state like Ohio or Florida. In a free market economy, you constantly get to vote with your wallet and you do have the power to shape the world around you.

If you don't like the local restaurant, stop going there and tell your friends about your bad experiences. If you don't like how a company treats animals or their labor force, create a website to expose them or start a boycott of their products. If enough people agree with you, the company will be forced to change practices or will be put out of business by another company that is more socially responsible.

When the government uses force to grant a monopoly or special privileges to a public school, the post office, or a special bank, the consumer has little ability to put the bad institution out of business and get a product or service that meets their needs. Let's face it, I am not going to be granted a charter to start a competing Federal Reserve system where I also determine the nation's interest rates and dream up magic tricks like Quantitative Easing while I sit in my bathtub. (This is your financial advisor's attempt at being funny. Fed Head, Alan Greenspan, said that he did his best work while soaking in a bathtub.)<sup>4</sup> Look it up and let me know if I should not quit my day job.

In the 1970s the Federal Reserve Act was amended to "promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates."<sup>5</sup> I agree with Howard Segermark, when he said, "The only numbers that I believe coming out of Washington are the mile markers on I-95." I have already gone over this in detail in my report entitled *Cooked Books*, but need to remind you of how badly the Fed has failed at their "mission" during the 30s, 70s, and 2000s.

If a restaurant consistently serves lousy food at bad prices it will go out of business and creative, hard-working entrepreneurs will take its place. Unfortunately for the world, the government has kept the failing institution known as the Fed alive long past its usefulness (if it was *ever* useful).

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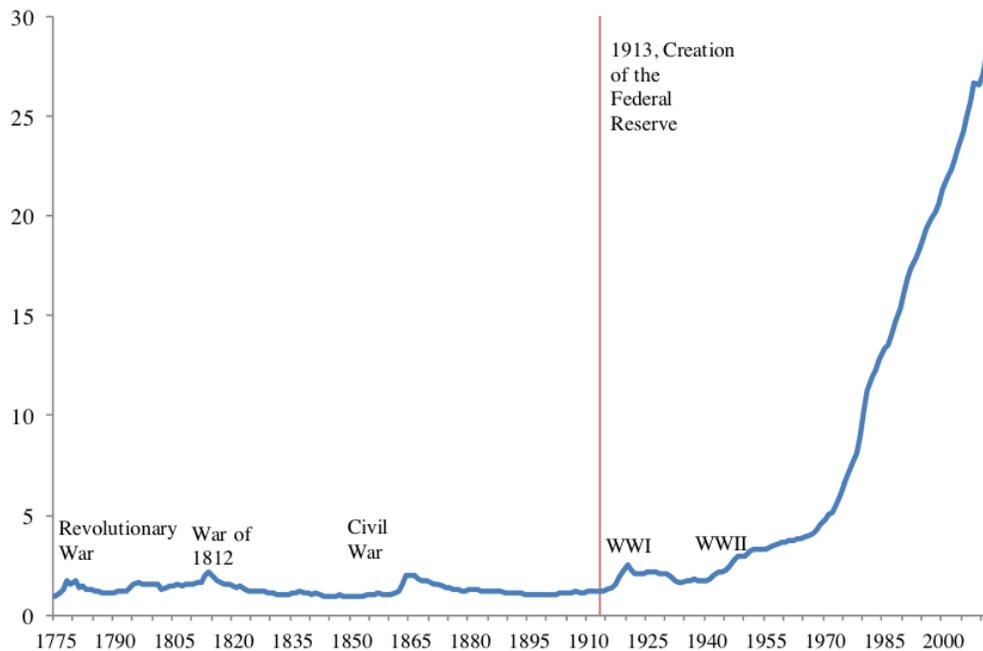
<sup>3</sup> [http://www.brainyquote.com/quotes/authors/a/adam\\_smith.html](http://www.brainyquote.com/quotes/authors/a/adam_smith.html)

<sup>4</sup> <http://www.investingvalue.com/investment-leaders/alan-greenspan/index.htm>

<sup>5</sup> [http://en.wikipedia.org/wiki/Federal\\_Reserve\\_Act](http://en.wikipedia.org/wiki/Federal_Reserve_Act)

Below is a chart showing the Consumer Price Index for the history of this country. As you can see, prices started to rise modestly after 1913 and went parabolic when Nixon took us off the gold standard on August 15, 1971. How is that for stable prices?

Figure 1. Consumer Price Index, United States, 1775-2012  
(level, 1775=1)



Sources: Bureau of Labor Statistics, Historical Statistics of the United States, and Reinhart and Rogoff (2009).

[Can we please admit Central Banking doesn't work?](#) Source BLS, Michael Kreiger, Libertyblitzkrieg.com

A free society and free market in banking would not tolerate such a system that consistently fails its mission and purpose. The Fed's failure does not come from it being understaffed or not having enough bright people working for it. The Fed will always fail because there will never be a computer, person, or committee that is smart enough to correctly set the price of milk, soy, or money (setting interest rates). Central planning always puts nations on the road to serfdom. History has taught us this lesson over and over and I believe that our nation has been more than patient by allowing the Federal Reserve to fail at its mission for 100 years.

If a retail store's mission was to provide the *lowest* prices and they were one of the most expensive places to shop, would you keep shopping there? If your child's private school was consistently teaching your child to misspell words, would you continue to send your kid there? If your car only started half of the time, would you buy the same brand next time? It is only by government aggression that citizens of the United States are forced to live under the oppression and failure of the Federal Reserve.

I submit that we must fight as Andrew Jackson did to end the Third Bank of the United States. Many people will be uncomfortable not having a priest-like figure sitting in the cockpit with his hands on the controls of the economy. They will struggle to liberate themselves from the propaganda they have been fed since they were a child. These same people want to believe in their mythological religion of government. They want to believe that if they fail, lose their job, or get sick that they can use the authority of the government to take resources from others for themselves and be taken care of. "If we can just get the right person in government, we will be able to make socialism work," they say.

The last 100 years have been very prosperous for many people and an incredible amount of things have been invented despite the intrusions from governments into markets. The Federal Reserve continues to believe that counterfeiting money will make our economy stronger. From a humanitarian standpoint, I wish these quack pot theories worked. Wouldn't it be wonderful if the government of Argentina or Zimbabwe could print money and everyone could be clothed and well fed? I am serious. This would truly be the most humane thing to do.

Unfortunately hundreds of years of human history has proven that counterfeiting is not a magic elixir. There is no major difference between what the Fed is doing and what mafia counterfeiters do. Both institutions cause inflation and both are stealing from you. Hopefully the Federal Reserve doesn't have too many more birthdays as the public recognizes it for what it really is.

## Markets

Speaking of crazy central banks. Let's turn to the first central bank that I know of to officially engage in quantitative easing--Japan. Japan recently elected Shinzo Abe to Prime Minister on his promise to persuade the central bank to counterfeit Yen till the Kobe-Cows come home. Only in text books are Central Banks not tools of the politicians. The Japanese Central Bank has been given an ultimatum of print or get replaced. Below you can see how week the Japanese Yen has been recently as participants anticipated the Abe election.



**Hooray, our currency is getting debased and we get to pay more for all the of the energy, food, and materials we have to import! Source: StockCharts.com**

Congratulations to the little yellow metal that could. Gold finished has now gone up for 12 years in a row. In US dollars it went up 7% and thanks to Abe it went up 20.5% in terms of Yen in 2012.<sup>6</sup> We are in the midst of a currency war as every country erroneously believes they can debase their currency against their trading partners to "boost exports." By definition every country can not be a net exporter. The global race to the bottom should continue to provide support for gold around these levels.

I can't think of an asset class that has gone up 12 years in a row that is so underowned. It didn't take very long for people to latch on to the technology mania or fall head-over-heels in love with their homes. From where I sit, I don't see a public infatuation with Gold in the United States. I was a kid in the 1970s and don't remember the Gold Fever that swept the country. Current conditions and sentiment appear to be very different from the blow off top of late 1979. Until a euphoria for gold sweeps the country and your lawnman begins giving you investment advice on gold, it is hard to imagine that we have obtained a long term peak. Have a great month.



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<sup>6</sup> [http://www.goldmoney.com/gold-research/james-turk/gold-rises-for-the-12th-consecutive-year.html?utm\\_source=twitterfeed&utm\\_medium=twitter](http://www.goldmoney.com/gold-research/james-turk/gold-rises-for-the-12th-consecutive-year.html?utm_source=twitterfeed&utm_medium=twitter)