



## Social inSecurity

You have been lied to. Bernie Madoff is a thief, a liar, and a cheat. Unfortunately for U.S. citizens, his lies are about to be overshadowed by the biggest Ponzi scheme in the history of the world—Social Security.

On August 14, 1935, Franklin Roosevelt signed the Social Security Act of 1935. It began as a very modest program. Through the years, like most bureaucracies, it morphed into the unmanageable monster that it is today. Here are some of the add-ons that we have been strapped with:

- 1965 Social Security Act of 1965 creates Medicaid
- 1972 Cost of living increases were added to Social Security<sup>1</sup>
- 1980 Medicare Secondary Payer Act adds prescription drug coverage
- 2003 Medicare Prescription Drug, Improvement, and Modernization Act<sup>2</sup>

Many people are unaware that there were three cases brought to the Supreme Court that challenged the constitutionality of Social Security and unemployment insurance. On May 24, 1937 the Supreme Court denied these three cases. The decision came only two months after Roosevelt tried to illegally pack the courts with his New Deal puppets as he tired of the Four Horseman upholding the constitution.<sup>3</sup> I can only imagine what went on behind closed doors to get this decision passed when it was so clearly a violation of our 10<sup>th</sup> Amendment. The “checks and balances” that are taught in elementary school seem so quaint.

With the constitution out of the way, Ida May Fuller became the first person to receive monthly benefits in 1940. She paid a total of \$24.75 into Social Security and collected a total of \$22,888.92.<sup>4</sup> I don't think the actuaries counted on her living to 100. The life expectancy at birth in 1935 was only 61.7 and the retirement age started at 65. More than half of recipients were not expected to live to receive social security. By 2001, the life expectancy in the United States at birth had increased to 77.2.<sup>5</sup> If there was any chance of saving the system, normal retirement age should have been moved to 80 a long time ago.

By 1982, the social security system was almost insolvent. Alan Greenspan was brought in to create a commission to fix it. His commission resulted in increasing the withholding tax that workers and

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<sup>1</sup> [http://en.wikipedia.org/wiki/Social\\_Security\\_Administration](http://en.wikipedia.org/wiki/Social_Security_Administration)

<sup>2</sup> [http://en.wikipedia.org/wiki/Medicare\\_\(United\\_States\)](http://en.wikipedia.org/wiki/Medicare_(United_States))

<sup>3</sup> <http://www.ssa.gov/history/court.html>

<sup>4</sup> [http://en.wikipedia.org/wiki/Ida\\_May\\_Fuller](http://en.wikipedia.org/wiki/Ida_May_Fuller)

<sup>5</sup> [http://www.cdc.gov/nchs/data/dvs/nvsr52\\_14t12.pdf](http://www.cdc.gov/nchs/data/dvs/nvsr52_14t12.pdf)

companies pay. These surpluses have been saved into the Social Security “Trust” funds.<sup>6</sup> According to the Social Security Administration, there is about \$2.5 trillion in said trust.<sup>7</sup>

Let’s take a look at how our “Trust” funds are “invested.” Social Security’s website says:

By law, income to the trust funds must be invested, on a daily basis, in securities guaranteed as to both principal and interest by the Federal government. All securities held by the trust funds are "special issues" of the United States Treasury. Such securities are available only to the trust funds.<sup>8</sup>

Did you catch that? The money paid into the “trust” funds that is supposed to provide for Social Security has already been spent. When the government “invests” in special issue (non-marketable) government bonds, all it is doing is raiding the reserves and blowing it on current expenses. A Treasury bond is after all, just a loan to the U.S. Government—an IOU. Obama has already told us that he plans to borrow \$9 trillion more than the government will take in for taxes until 2019.<sup>9</sup> Just as the Germans won’t lend the Greeks money to retire at 61 so that they can drink wine and eat feta cheese all day, the Chinese will not be lending you money so that you can live a lifestyle that is ten times better than theirs.

For years, actuaries have predicted that 2017 would be the first year that Social Security would pay out more than it took in. Many saw that as a problem for a future date. Well, 2017 came seven years early. According to Stephen Goss, Chief Actuary of SSA, the “trust” funds will have a \$29 billion shortfall **this** year. “The problem, he said, is that payments have risen more than expected during the downturn, because jobs disappeared and people applied for benefits sooner than they had planned. At the same time, the program’s revenue has fallen sharply, because there are fewer paychecks to tax.”<sup>10</sup>

According to usdebtclock.org, the unfunded liabilities of Social Security, Medicare, and Medicare Part D are approaching \$109 trillion dollars or \$351,636 per citizen. That is an astounding number considering the fact that the U.S. government only took in \$2.1 trillion dollars in taxes during fiscal year 2009.<sup>11</sup> All we need to do to keep this system going as promised is for each of our citizens to write a check for \$351,636 and problem solved. It is impossible to raise taxes high enough to keep the Ponzi going.

I have been watching the forced austerity measures and riots in the “Club Med” countries rather closely. It is sickening to see how entitled they are. It is sickening to see how entitled some Americans are. I don’t know anyone who likes being around entitled people. Entitlement is the opposite of thankfulness and humility. It is not a becoming trait. When forced austerity measures hit our shores, I hope we have a better attitude about it.

Unfortunately we have come up with the derogatory term PIIGS (Portugal, Italy, Ireland, Greece, Spain) to make us feel better about ourselves. Has the United States not been piggish, too? Is there really much difference between the financial conditions in Greece and California or Spain and

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<sup>6</sup> [http://en.wikipedia.org/wiki/Social\\_Security\\_Trust\\_Fund](http://en.wikipedia.org/wiki/Social_Security_Trust_Fund)

<sup>7</sup> <http://www.ssa.gov/OACT/STATS/table4a3.html>

<sup>8</sup> <http://www.socialsecurity.gov/OACT/ProgData/fundFAQ.html>

<sup>9</sup> <http://www.nytimes.com/2009/08/26/business/economy/26deficit.html>

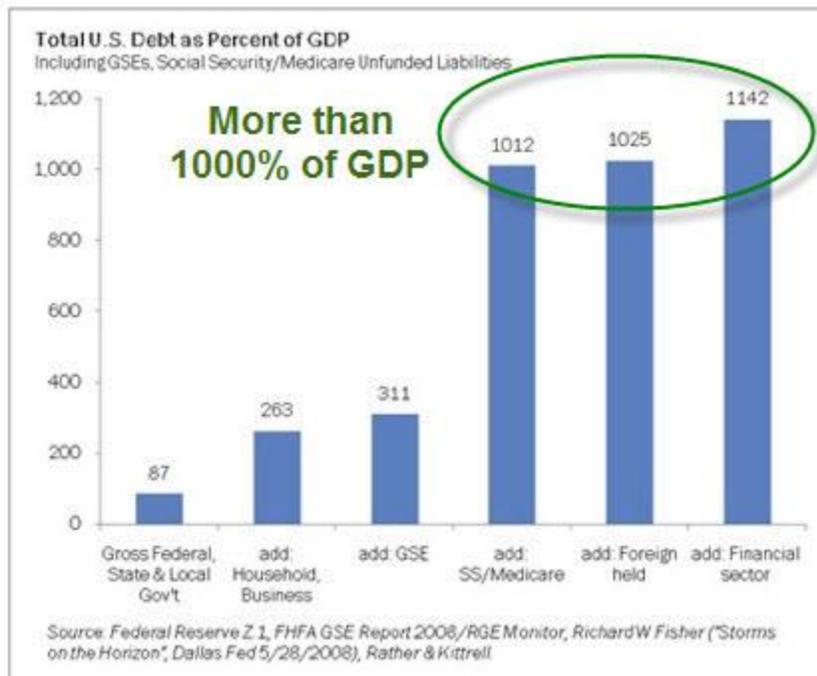
<sup>10</sup> <http://www.nytimes.com/2010/03/25/business/economy/25social.html>

<sup>11</sup> <http://www.whitehouse.gov/omb/budget/fy2011/assets/tables.pdf>

Illinois? California currently has a \$19 billion dollar budget deficit.<sup>12</sup> It will be interesting to see how they react to their new budget in July.

Greece has a current debt to GDP ratio of about 115% and they are currently spending about 14% more per year than they take in for taxes.<sup>13</sup> This is unsustainable and there is no way they will be able to pay off their debt. They have just hired the restructuring firm, Lazard, to help them with a plan. I believe that they will either default and pay back only 50-80% of every Euro owed or leave the European Union and debase their new Drachmas through the printing press.

Are we really more controlled in our spending? Consider the chart below. We currently have a



debt to GDP ratio of 87%. Not good, but not Greece. When you add in all of the entitlements and private debt, you get an amazing 1000% percent of GDP. It is impossible to "grow" our way out of this.

One of my favorite hedge fund managers recently brought a US Government Accountability Office (GAO) report to my attention.

In the report, we find that in fiscal year 2009, the U.S. had a budget deficit of 9.9% which is the largest since 1945! Using very reasonable assumptions,

<http://www.chrismartenson.com/blog/financial-crisis-far-over/39379>

they predict that **"93 cents of every dollar of federal revenue will be spent on the major entitlement programs and net interest costs by 2020."** That leaves very little room for "national defense, homeland security, investment in highways and mass transit and alternative energy sources, plus smaller entitlement programs such as Supplemental Security Income, Temporary Assistance for Needy Families, and farm price supports."<sup>14</sup>

Please reread that last paragraph. This is a government agency using reasonable assumptions telling us that the end game for our unsustainable debt load is less than ten years off. Folks, the game of "kick the can" is about to end. Stop the talk about burdening our children and grandchildren with debt. It is no longer possible to extend the pain to the future. Forced austerity will tarnish the Boomers "golden years."

<sup>12</sup> <http://www.caivn.org/article/2010/04/22/further-tax-increases-unlikely-despite-californias-19-billion-budget-deficit>

<sup>13</sup> <http://www.marketwatch.com/story/greece-hires-lazard-for-financial-advice-2010-05-04-81300>

<sup>14</sup> <http://www.gao.gov/new.items/d10468sp.pdf>

If you are 60 years old today and you think that you are going to collect Social Security in its current form for the next 30-40 years, it is time to take your head out of the sand. Turn off *Dancing with the Stars* and brush off your copy of *Atlas Shrugged* and reread it. Unlike politicians, math doesn't lie. We have elected a bunch of cowards that have not had the decency to tell you the truth. Their primary concern has been to get reelected by bribing the public with the public's money. Alexis de Tocqueville predicted this would happen in the 1700s when he was only in his 20s.

It is only a matter of time before the austerity measures of Europe come over here. It is already the elephant in the room that no one in CONgress wants to have a serious discussion about. I see three possible outcomes in the next ten years:

1. The government apologizes for lying and stops their Keynesian experiments. I think option 2 and 3 are much more likely to happen.
2. Means testing. Once our foreign creditors come to the conclusion that they have been throwing good money after bad, a funding crisis will hit. People who have savings [means] for retirement will not get a dime. Social Security will be reserved for those who did not save and can no longer work. This will require many Boomers and their kids to save much more than they were anticipating. The first step is denial. Once you break through denial you can move towards the peace that comes from acceptance.
3. Ben Bernanke proves himself to be the reincarnation of Rudolph Havenstein. Dr. Havenstein presided over the Reichsbank during the hyperinflation of the 20s in the Weimer Republic. As I stated in [The Case for a Gold Standard](#), inflation is a dishonest government's way of taxing people without raising taxes. Destroying people's life savings by debauching the currency is not a good way to keep the Ponzi going. Who is going to want a \$1,800 Social Security check if it doesn't even pay their electric bill?

It is already too late for a pain-free solution to our problems, but not too late to save the country. I was extremely encouraged to see B.J. Lawson and Rand Paul win their primaries. I am also hopeful that Peter Schiff will win his Connecticut primary on August 10. The Republicans and Democrats created these problems and they are not going to fix them. We need to find honest candidates that are not part of the establishment and get them into office. Here are two simple ideas:

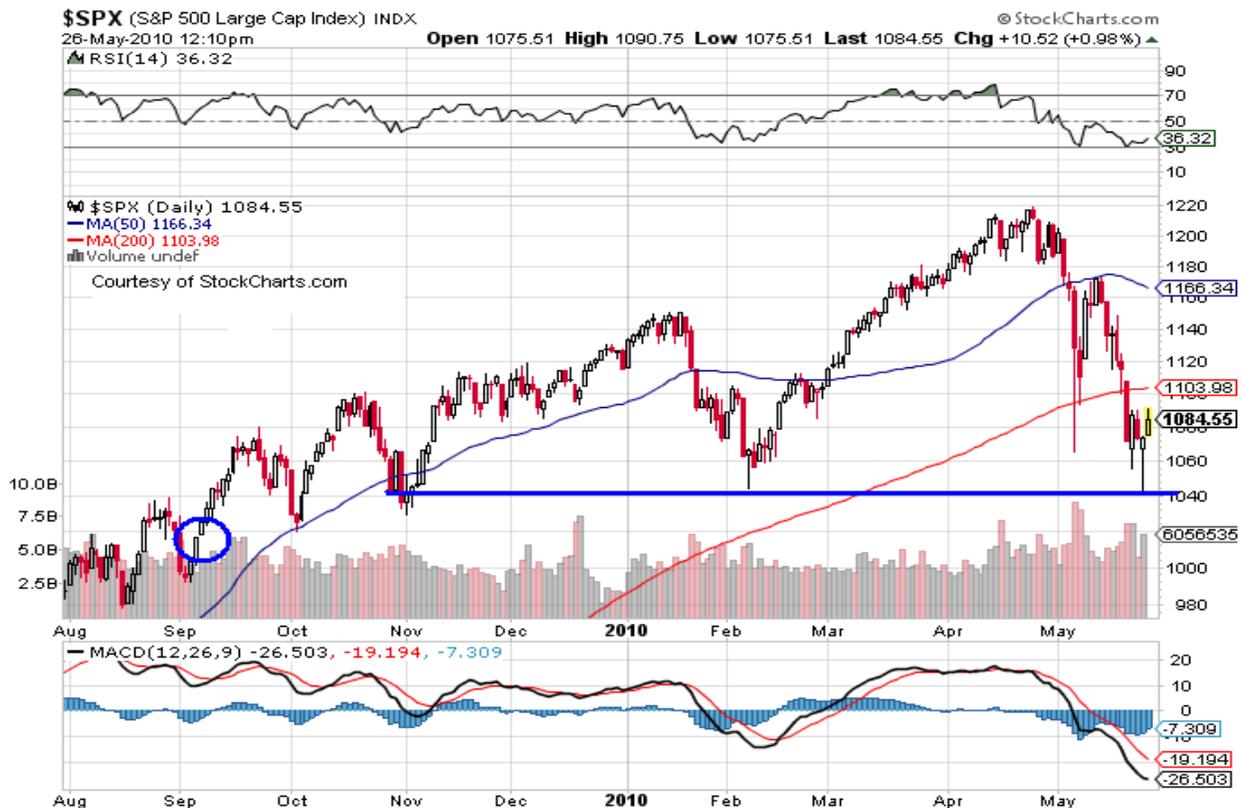
1. Vote in the primaries because hardly anyone does. If we become active in the primaries, we will not be stuck with voting for the "lesser of two evils" every November.
2. If all of the candidates running in your district are on the take from the banksters, consider making political contributions to good candidates in other states. In 2009, I went to a fund raiser in Dallas for Rand Paul. Over 200 other Texans were there to support an outsider running in Kentucky. There are only 100 Senators and they each serve six year terms.

**The price of apathy towards public affairs is to be ruled by evil men.**

**-Plato**

## Markets

According to Bespoke Investment Group, on March 25, 89.80% of stocks in the S&P 500 were trading at least on standard deviation below their 50 day moving averages.<sup>15</sup> The last time that we had a reading like that was at the March 9, 2009 low. History shows that we should get a bounce from such oversold levels and I have put money back into equities. There is very strong support at the 1040 level on the S&P 500 as indicated by the blue line below. This is the level where the November and February corrections ended. If we break this level of support, the technicians at the Marketfield fund believe that the September Gap (circled) could be filled at 1016. The United States continues to be my favorite stock market and I doubt many foreign stock markets will exceed their recent highs during the remainder of 2010. As always, I still think the bull market in gold is far from over.



<sup>15</sup> <http://www.bespokeinvest.com/thinkbig/2010/5/25/nearly-90-of-sp-500-stocks-oversold.html>



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