

October 2010



## Fed Up

"Give me control of a nation's money and I care not who makes the laws."

-Mayer Amschel Rothschild<sup>1</sup>

No history of banking is complete without an explanation of the role of the central bank. My goal in last month's letter was to leave my readers wondering why more banks don't fail if they are only required to keep 10% of deposits on reserve. Without the Federal Reserve (Fed) this system would be too risky. Here is a quick example. Let's say that I open up the Bank of Damon and you are my very first customer and deposit \$100,000 into a checking account. If I immediately lend out \$90,000 and you write a check for \$11,000, I am immediately put out of business. If we had honest laws and a free market for banks, I would rightfully be prosecuted for fraud as well.

In time, banks found that capitalism was too dangerous for their profit margins and they successfully lobbied Washington to create a "legal" cartel so that they could expand their loans together without the constant threat of the dreaded "bank run." You may be surprised to know that the Federal Reserve board is our nation's third central bank. Alexander Hamilton created the First Bank of the United States in 1791.<sup>2</sup> Its charter expired in 1811 and the ravenous inflation caused by the war of 1812 helped Congress get the political support for the Second Bank of the United States in 1816.<sup>3</sup> By 1836, Andrew Jackson had won a hard fought battle against the Eastern establishment and closed the Second Bank. He had this to say:

Gentlemen, I have had men watching you for a long time and I 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.<sup>4</sup>

Compared to Jackson, our modern presidents are cowards when it comes to standing up to the ruling class. The images in the Zapruder film may have something to do with that.

History has taught us that the ruling elite are patient and can wait decades for the right circumstances to seize power. To quote Ed Crane from last month, "...the ruling class relies on academics, scholars, and 'experts' to legitimize and provide moral authority for its hegemony over the masses." By 1906, the unrelenting bankers had their propaganda machine touting the benefits

<sup>1</sup> G. Edward Griffin, *The Creature from Jekyll Island* (West Lake Village, CA: American Media, 1994), 218.

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

<sup>3</sup> Ron Paul, *End the Fed* (New York, NY: Grand Central Publishing, 2009),

<sup>4</sup> [http://quotes.liberty-tree.ca/quote/andrew\\_jackson\\_quote\\_4f92](http://quotes.liberty-tree.ca/quote/andrew_jackson_quote_4f92)

of a third attempt at central banking. They gave speeches, set up commissions run by their friends, and even ran an anonymous editorial series in the *Wall Street Journal* that appeared on the front page of fourteen separate editions.<sup>5</sup> The Panic of 1907 was just what they needed to get Americans to trade more of their liberties for “security.”

After almost four years of campaigning, it was time to write up the tyrannous Federal Reserve Act; also known as the *Creature from Jekyll Island*. Bills get written by your elected congressmen out in the open in Washington, right? Not exactly, according to Rothbard’s *The Case Against the Fed*. On November 22, 1910, two Rockefellers, two Morgans, one Kuhn, Loeb (an investment bank) man, and a professor boarded a private railcar from New Jersey using assumed names to go “duck hunting.”<sup>6</sup> Once they arrived at J.P. Morgan’s private retreat on Jekyll Island, Georgia, they went to work on writing the bill. After a week of hammering out the bill, the six men returned to Washington and New York to sell it to the bankers and then the proletariat.

The Federal Reserve Act of 1913 was originally called the Aldrich Bill, named after the very partisan Republican Senator, Nelson Aldrich. He was one of the men Rockefeller sent to Jekyll Island to represent him. Aldrich’s daughter, Abby, was married to John D. Rockefeller, Jr. The bill was presented to Congress in 1911, but unfortunately for the banking elite, the Democrats had gained control of the House in 1910 and were set to gain even more political influence in the 1912 election. That wasn’t too much of a setback, because Wall Street owned Washington even back then. Aldrich’s name was dropped from the bill and it was “rebranded” as a Democrat bill to be thrust on the American people by Carter Glass of Virginia (of Glass-Steagall fame).<sup>7</sup>

The passing of the Federal Reserve Act reminds me of the passing of the USA “Patriot” Act of 2001. Does anyone really believe that so many pages were written across several bills within weeks after September 11? The final 241-page bill was introduced to the House on October 23 (30 business days after 9-11) and passed on the 24<sup>th</sup> and 25<sup>th</sup> by the House and Senate respectively. It makes you wonder how many other harmful bills are sitting on the shelves of the lobbyists on K Street just waiting for the next Ramh Emanuel-style “crisis opportunity.”

The Federal Reserve System was billed to the people as a panacea for depressions and panics by the economists and academics that worked for the ruling elite. The Comptroller of the Currency even said in 1914 “**...under the operation of this law such financial and commercial crises, or ‘panics,’ as this country experienced in 1873, in 1893, and again in 1907... seem to be mathematically impossible.**”<sup>8</sup> By the late 1920s, it appears that prominent economists actually believed the Fed’s propaganda as evidenced by the following two statements:

We will not have any more crashes in our time.  
-John Maynard Keynes, 1927

Stock prices have reached what looks like a permanently high plateau.  
-Irving Fisher, October 17, 1929<sup>9</sup>

Clearly, the Great Depression, the stagflation of the seventies, and our current depression have refuted the argument that the Fed is some sort of savior that can fix the economy. Unfortunately,

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<sup>5</sup> Murray N. Rothbard, *The Case Against the Fed* (Auburn, AL: Ludwig von Mises Inst., 1994) 106-112.

<sup>6</sup> Murray N. Rothbard, *The Case Against the Fed* (Auburn, AL: Ludwig von Mises Inst., 1994) 116.

<sup>7</sup> Murray N. Rothbard, *The Case Against the Fed* (Auburn, AL: Ludwig von Mises Inst., 1994) 116-117.

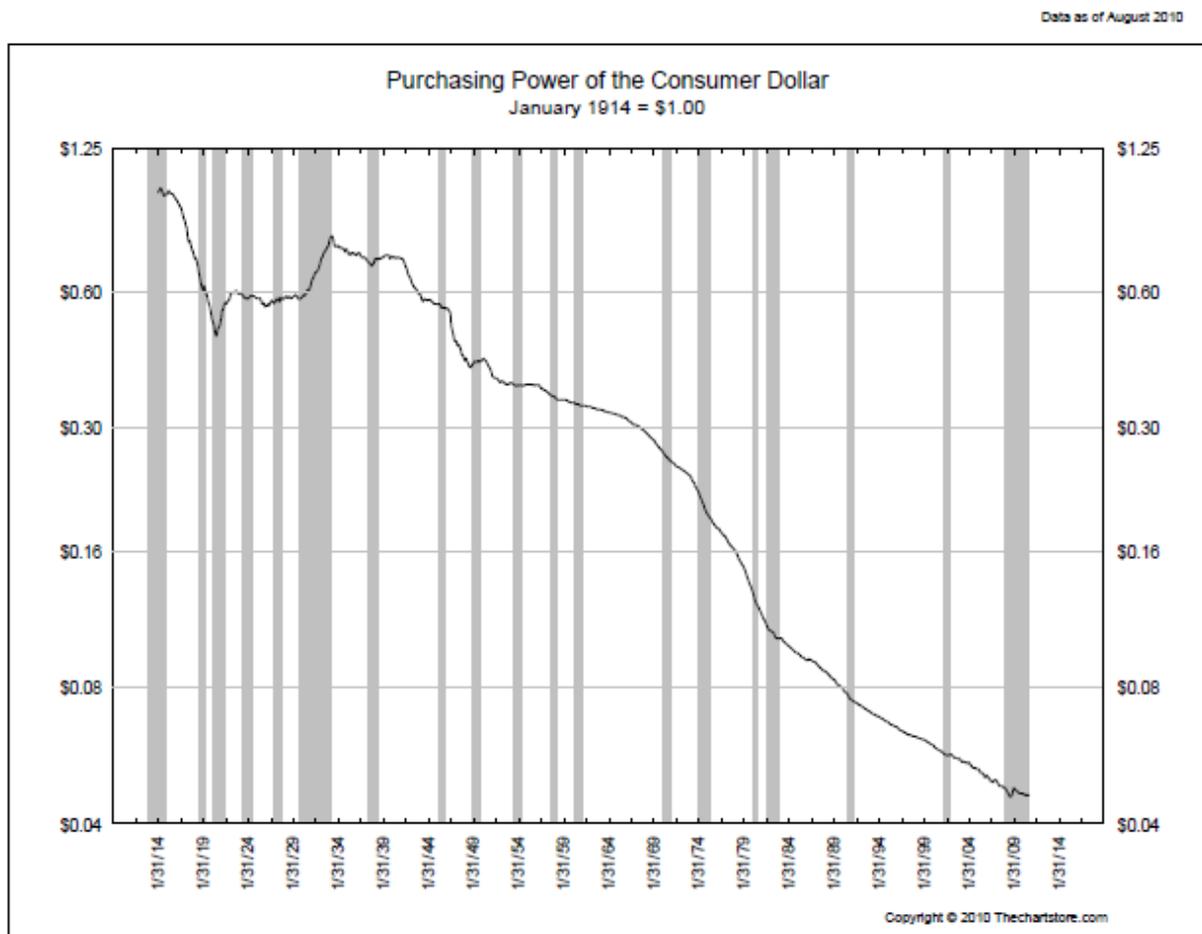
<sup>8</sup> Elgin Groseclose, *America’s Money Machine* (Westport, CT: Arlington House, 1996) 85.

<sup>9</sup> [http://www.gold-eagle.com/editorials\\_01/seymour062001.html](http://www.gold-eagle.com/editorials_01/seymour062001.html)

today, we still have political shills that try to brain-wash us that the Fed is needed and important. The Federal Reserve is not a benevolent organization that works to manage the economy; it is a cancer that works to enrich bankers and allows politicians to grab even more power.

Let's take a look at what the Federal Reserve is supposed to be doing for us. Section 2a of the Federal Reserve Act states, "[The Fed] shall maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates."<sup>10</sup>

Let's first tackle the Fed's mandate to keep prices stable. Below is a chart that shows the purchasing power of one dollar since we were "blessed" with a central bank. Almost immediately after the Federal Reserve was established, the dollar began to lose 50% of its purchasing power.



Most people don't realize how destructive the Federal Reserve has been to our currency because it destroys it so slowly. It took about 100 years for the currency to lose 95% of its purchasing power. How long will it take "Helicopter Ben" to destroy another 95% of the dollar's purchasing power? Here is how he explained the Fed's power in a 2002 speech:

<sup>10</sup> <http://www.federalreserve.gov/aboutthefed/section2a.htm>



July and are only trying to predict 6 more months of data. I have bolded the years that Greenspan's Fed was actually correct.

July Report	Forecast Range (%)	Actual (%)
1994	3 to 3 ½	4.1
1995	<b>1 ¾ to 3</b>	<b>2.0</b>
1996	2 ½ to 3	4.4
1997	3 to 3 ½	4.3
1998	2 ¾ to 3 ¼	4.5
1999	3 ¼ to 4	4.7
2000	3 ¾ to 5	2.2
2001	1 to 2	.2
2002	3 to 4	1.9
2003	2 ¼ to 3	4.0
2004	4 to 4 ¾	3.8
2005	<b>3 to 3 ¾</b>	<b>3.2</b>

Source: *Econospinning*<sup>12</sup> "Monetary Policy Report to Congress"

During Greenspan's years at the Fed, the stock market did very well in large part because he never saw a banker that he couldn't bail out (this became known as the "Greenspan Put"). The bourgeois now understands that the stock market boom was not due to the Maestro's magic, but built on a foundation of debt (pulled forward demand) and continuous bailouts. If we don't stop the bailouts soon, this will eventually lead to what economist, Ludwig Von Mises, called a "Crack-up Boom" hyper-inflationary destruction of our currency. Is it any wonder that the stock market is at the same level that it was in 1998 and gold is up over 400% since 2001?

In addition to completely destroying the currency and doing a poor job of monitoring the amount of debt in our system, here is a brief list of why an open society should fight the power of a central bank:

1. The fifth plank in the *Communist Manifesto* states that you should have "Centralization of credit in the hands of the state, by means of a national bank with State capital and an exclusive monopoly"—Check. Thanks Woodrow Wilson!
2. There was never a "Great" Depression until we had a credit fueled bubble blown by a central bank.
3. The Fed has been given a monopoly over our money. Reread the Rothschild quote from the beginning of this letter. This matters and no one should have the right to create currency out of thin air without having to work for it.
4. Even honest people who want to start a bank are forced to be part of this cartel because of our current laws.
5. The Fed allows fractional reserve banking to create massive distortions in the economy that a free market would never allow.
6. Having an "elastic" money supply allows greater deficits, more welfare spending, and makes it easier to fight needless wars for longer. Have you ever thought about how Bush Jr. could lower taxes and send troops to Iraq and Afghanistan at the same time?
7. No group of Federal Reserve Governors will ever be smart enough to set the price of money (determine interest rates). Only thousands of lenders in a free market are capable of

<sup>12</sup> Gene Epstein *Econospinning* (Hoboken, NJ., John Wiley and Sons, Inc. 2006)160-161.

determining this. If we didn't have a Fed, I bet you would be getting a lot more than .5% on your savings account.

If you are irritated what you learned about the Federal Reserve and would like to stop its monopoly of our money and interest rates, I ask you to join Representatives, Ron Paul, Alan Grayson, and Jim DeMint in their effort to audit the Federal Reserve. It has been around since 1914 and has never been audited. The Fed has even hired a former Enron PR person to help them fight this audit and Bloomberg News has sued them under the Freedom of Information Act to disclose the collateral they accepted from banks in 2008.<sup>13</sup> This suit was filed in November of 2008 and the Fed lost the suit in an appeal in March of 2010. Somehow they have managed to delay revealing all of the information to this day.

Once we have a real audit of the Fed, I am confident that the American people will no longer tolerate this cartel and we can then work towards free banking. If you have a further interest in learning more about the Fed, I highly recommend downloading Murray Rothbard's "The Case Against the Fed," for free here: <http://mises.org/books/fed.pdf> and watching the following short videos of Rep. Alan Grayson discussing the Federal Reserve. The first video demonstrates that Inspector General Coleman is totally out to lunch. You will be surprised to learn in the second video that "You own the Red Roof Inn" as part of the bailouts of 2008.

<http://www.youtube.com/watch?v=PXlxBeAvsB8>

<http://www.youtube.com/watch?v=pE3oiKuU8UI>

## Markets

We are a month away from the big mid-term elections and history says that could be very good for the stock market no matter who wins. According to the Leuthold Group Research, "Stock market performance during the favorable 15 months [November of mid-term year through January of the presidential election year] has been impressive, with the S&P 500 generating an annualized total return of +18% in this period since 1926. Average annual returns for the remaining 33 months of the four-year election cycle have been only +6.1%."<sup>14</sup> In fact, in the last 17 mid-term elections, the S&P 500 has **never** experienced a loss after 200 trading days from the election.<sup>15</sup>

I believe that the famous "Presidential Election Cycle" (aka 4 Year Cycle) has a lot to do with the theories of economist, John Maynard Keynes. He is most known for writing *The General Theory of Employment, Interest and Money* in 1936. In this watershed book, Keynes gave two generations of politicians the moral authority to head full speed towards a command and control economy. Wielding even more power is exactly what every politician wants to do. Even the supposedly "conservative" Richard Nixon said, "We are all Keynesians now," in 1971 to justify closing the "gold window" and to implement wage and price controls.<sup>16</sup>

The Leuthold Group also ran an analysis from 1800 to 1935 to see if the "favorable 15 month period" applied before Keynes wrote *The General Theory* and found that the Presidential Election

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<sup>13</sup> <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aKr.oY2YKc2g>

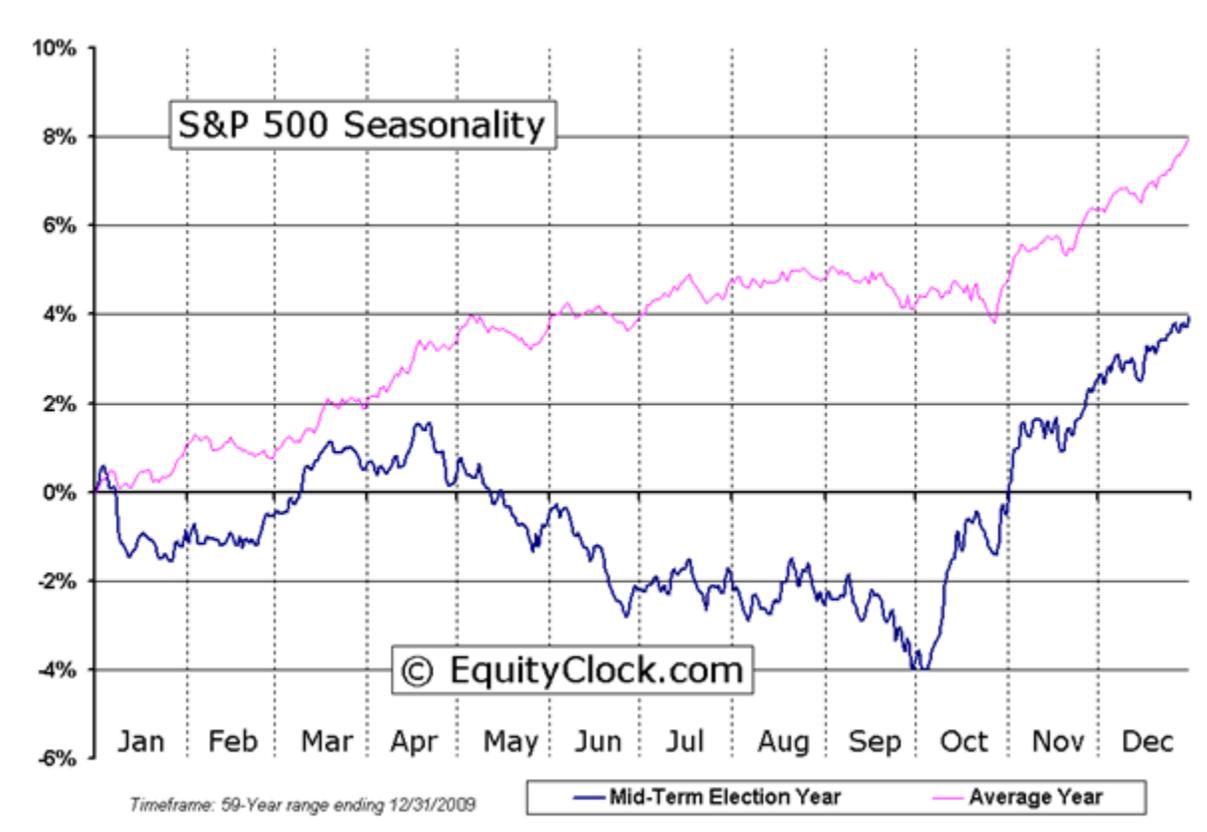
<sup>14</sup> Doug Ramsey, *Will the Fabled Election Cycle Work Again?*, [Perception for the Professional](#) Sept 4, 2010: 7.

<sup>15</sup> Eric Bjorgen, *A Mid Term Exam*, [Perception for the Professional](#) Sept 4, 2010:40

<sup>16</sup> <http://www.economist.com/research/economics/alphabetic.cfm?letter=K>

Cycle was not in place before 1936.<sup>17</sup> As most of you know, Keynes is my least favorite economist in the history of the world. I strongly disagree with his theories that advocate government intervention, especially the way current economists interpret his work (ala the stimulus and bailouts of 2008-2009). To read an exceptional article by Eric Sprott and David Franklin that discusses the problems with Keynesian Theory and predicts the demise of its practice, click here [Fooled by Stimulus](#).

The chart below shows the average year (pink) for the S&P 500 compared to the average mid-term election year (blue) since 1950. If we follow the normal Presidential Election Cycle, the stock market should find a bottom in October and finish strong in November and December. Of course this is not guaranteed. I think this is the most likely outcome for the stock market for the remainder of this year and I will be looking for a good opportunity to invest some of my cash into stocks in October and November.



Source: [EquityClock.com](#)

<sup>17</sup> Doug Ramsey, *Will the Fabled Election Cycle Work Again?*, [Perception for the Professional](#) Sept 4, 2010: 10.



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