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Economics of Impoverishment

"The trifling economy of paper (fiat currency), as a cheaper medium, or its convenience for transmission, weighs nothing in opposition to the advantages of the precious metals... it is liable to be abused, has been, is, and forever will be abused, in every country in which it is permitted." Thomas Jefferson 1813

A. Investment Update - First Quarter of 2016

What a remarkable start to 2016! In the table below we have provided you with some of the major price changes during the first quarter along with the year over year changes based on the period ending March 31, 2016. Interestingly, these do not tell the whole story! Within the first month of this year our Canadian dollar continued its decline, which began in 2015, and touched 68 cents US before rebounding almost 12% to finish the quarter up 6.7% from the year-end. The volatility of our Canadian dollar reflected the wild ride in the price of oil, which dropped to a low of USD $26.68 per barrel (last seen in 2003) before closing the quarter at USD $38.34. It's important to mention the volatility because it underscores the massive swings that can take place within very short periods of time. As investors, we must be prepared for these swings, using them to our advantage, but not allowing them to derail a well-constructed plan rooted in a disciplined investment philosophy and the ownership of wonderful businesses.

	Mar. 31, 2015	Dec. 31, 2015	Mar. 31, 2016	3 Month	1 Year Return
CAD/USD	$0.7928	$0.7218	$0.7698	6.7%	-2.9%
Oil WTI (US $)	$47.72	$37.04	$38.34	3.51%	-19.66%
Gold (US $)	$1,187.00	$1,060.85	$1,237.00	16.60%	4.21%
Silver (US $)	$16.60	$14.13	$15.44	9.27%	-6.99%
TSX (Canada)	14,908	13,010	13,494	3.72%	-9.48%
S&P 500	2,068	2,044	2,060	0.77%	-0.40%

In terms of the market averages they have been quite weak and uninspiring! Over the last twelve months the TSX (Toronto Stock Market) was actually down by 9 percent with the broad based US market, adjusted to Canadian dollars down slightly. So far this year after a bungee cord drop in January and early February the market averages have been treading water. A large part of the volatility in late 2015 and early 2016 emanated from the interest rate hike in December by the US Federal Reserve (Fed), the first rate hike in 7 years. At the time the Fed indicated that they were looking at four rate hikes in 2016 but as market volatility increased and the economic data weakened, early in 2016, the Fed backed off their talk about lifting rates and the markets calmed down.

After four weak years, the precious metals sector came roaring back and provided the best returns for our investors during the quarter. Our holdings in this area increased by over 26% during the first quarter as gold and silver increased by 16.6% and 9.3% respectively. In this sector we continue to focus on the precious metals royalty and streaming businesses. Over the past two years they have been able to expand their respective streams and royalties as miners found it harder and harder to raise capital to shore up their weak balance sheets and were forced to use these companies to raise capital. All of our

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holdings in this sector are well positioned to grow their revenue and cash flows substantially for years to come. These businesses also provide us with tremendous leverage to the gold and silver prices in the event of a financial problem, which we see as inevitable, but are unable to predict the exact timing.

Two other notable sectors that provided outperformance for our investors were the infrastructure and real estate sectors. With the fear over increasing interest rates largely subsiding in late January and early February, companies with substantial dividend income bounced back. During the quarter our investments in infrastructure increased by 10%, while our real estate holdings jumped by 17%. The only lagging businesses by sector were our companies focused on the agricultural sector, but this was more company specific with Agrium and Input Capital's share prices struggling despite strong and enduring business models and financial progress during the quarter and last twelve months.

In terms of our ROCKLINC portfolios, in aggregate they increased by 2.6% and 3.0 respectively, over the first quarter and year over year. Our average asset mix was approximately 62% equities with the remainder invested in short-term cash and bonds. Just looking at our equity exposure our stocks increased by 7% and 5% respectively over the past 3 months and 12 months. Given the conservative nature of our portfolios, and the overall weak stock market performance, we are pleased with our progress, but never satisfied. We continue to ferret out unique opportunities for your investment portfolios, opportunities that should weather the impending debt challenges ahead.

B. Expansion of Debt Continues

With the massive build up of debt beginning in the 1980s and culminating in the 2008-2009 financial crisis, it was assumed that the world's economies would attempt to reduce their debt levels. Instead, the exact opposite occurred! Debt levels, post 2009, have escalated, throughout the world, both in absolute terms and relative to GDP. This creates fresh risks for investors looking for both investment returns and protection of their capital. For nations the greatest risk is lack of economic growth. Excessive debt continues to choke off economic growth, making it more difficult for national governments to service their debt, apart from money printing and the ongoing suppression of interest rates.

According to a recent McKinsey Report global debt between 2007 and the end of 2014 grew by over USD $57 trillion, raising the ratio of debt to GDP by 17 percentage points. This growth in debt continued at a similar pace throughout 2015 resulting in another USD $7-$8 trillion in new debt. With global economic growth of approximately 2.5% on a base of USD $80 trillion in global GDP we are adding at least 2-3 dollars in debt for every dollar in GDP increase! This does not include the ballooning unfunded liabilities such as pension and health care benefits that governments have promised to their citizens. It is also important to point out that in most countries private sector deleveraging has been virtually non-existent as consumers continue to add to their debt burden as they literally "mortgage" their futures!

Of particular note is the growing debt challenges in the world's second largest economy China. The rise in debt in China is without precedent! Fueled by real estate and shadow banking, China's total debt has more than quadrupled, rising from USD $7 trillion in 2007

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to over USD $30 trillion by the end of 2014. At over 300 percent of GDP, China's debt as a share of GDP, is far larger than that of the United States (105%) or Germany (80%). Several factors are troublesome: first, half of loans are linked directly or indirectly to China's real estate market, second, unregulated shadow banking accounts for nearly half of new lending, and third, the debt of many local governments is also increasing at an unsustainable rate. Any problem in China will have significant global repercussions.

It is clear that prudent deleveraging (reducing debt willingly) is rare and that solutions to the debt crisis are in short supply. The current policy initiatives for increasing economic growth to handle all this debt are not working. Central banks have lowered interest rates and printed records amounts of money. Governments have continued to run large deficits and promise their voters more and more goodies they cannot afford. All to no avail! Economic growth remains elusive, while the debt continues to pile higher. Should this be a concern to Canadians? How does Canada stack up? Let's turn our attention to our own country.

C. Canada is "Back Again" Leading the Debt Binge

Canada was recently known for its fiscally sound economics and was held in high regard around the world for making solid financial decisions, particularly at the Federal government level. But that was then and this is now! As we are now finding out reducing government debt and holding the line on spending is not easy and requires honest and tough leadership, something Canadians do not seem to appreciate or vote for when it comes to election time.

Today all levels of government with the majority support of their citizens are addicted to spending and deficit financing. Canadians witnessed this phenomenon recently with the election of the Trudeau government in October 2015. The choices were clear and Canadians voted for a government that was committed to significant spending increases, massive deficits, and a dramatically larger public service sector. All these policies are a clear reversal from years of frugality under the previous national government. Under the new regime, Canada's national/federal debt is expected to grow by an enormous Cdn $113 billion over the next four years, which we expect to be the tip of the debt iceberg!

For a moment consider the larger picture and the vulnerable position Canada is already in before this unleashing of economic voodoo on the part of Trudeau and his liberal "shamans". According to the Fraser Institute: "Canadian governments have racked up a considerable amount of new debt since 2007/08, despite the prudence of our former federal government. Eight years ago, combined federal and provincial government net debt (a measure of debt that adjusts for financial assets) stood at Cdn $834 billion. By 2015/16, it is expected to reach Cdn $1.3 trillion."

According to our new finance minister Bill Morneau, Canada's debt is the "lowest amongst the G7", but that does not include our growing provincial debts, which are massive. **The worst offender is liberal Ontario with the highest non-sovereign government debt as a percentage of provincial GDP in the world, at over 40%!**

"While both federal and provincial net debt is on the rise, the pace of debt accumulation

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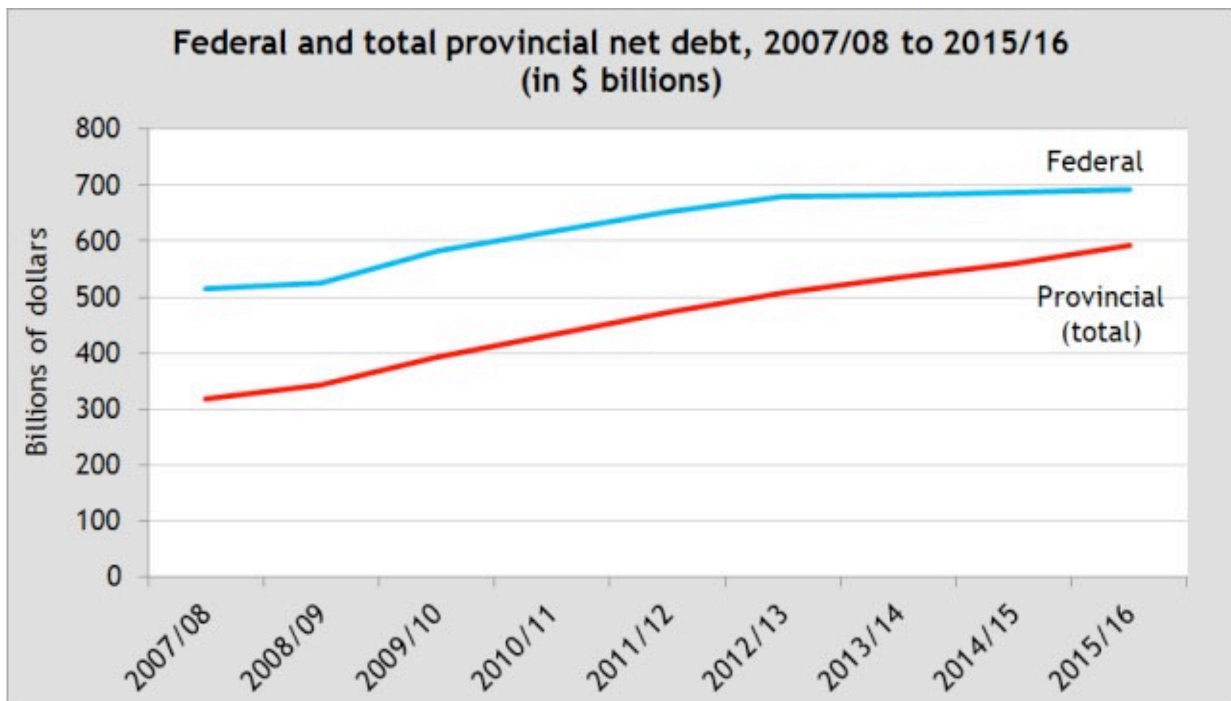
at the two levels of government has been markedly different in recent years. The chart below displays federal and total provincial net debt from 2007/08 to 2015/16. Although federal debt is 34 percent higher today than in 2007/08 (growing from $516 billion to $692 billion), the level began to stabilize in 2012/13. Total provincial debt, on the other hand, has steadily increased over the entire period, **growing by 87 percent** (from $318 billion to $592 billion). In other words, total provincial government debt is growing at a much faster pace than federal debt."[i]

"In terms of the Cdn $451 billion in new combined federal-provincial net debt since 2007/08, Cdn $275 billion (or 61 percent) is from the provinces. As a result, provincial government debt now represents a larger share of combined federal-provincial debt (46 percent of the total in 2015/16, up from 38 percent in 2007/08)."[ii]



The Equedia Letter, April 3, 2016

But this is only the beginning! What happens when you include the unfunded liabilities such as deferred pension obligations and healthcare costs, which are not included in the foregoing debt totals? Presently the unfunded liabilities in Canada are approximately Cdn $4.1 trillion or more than 200% of Canada's GDP!

Excluding our unfunded liabilities, the OECD puts our combined federal and provincial debt at well over 100% debt to GDP placing us in the top one third of indebted developed countries. When you add to this the fact that our household debt-to-income ratios are at record highs (170%) you can appreciate the seriousness of the debt situation in Canada. Who is going to pay for these debts? What is going to happen with the debt servicing costs when interest rates eventually increase?

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Using data provided by the Fraser Institute again, even with record low interest rates, we spent more than Cdn $61 billion on debt servicing costs in 2013/14! This is more than Canada's public spending by all Canadian governments on primary and secondary education (Cdn $61.0 billion in 2011/12, the latest year of available data) and more than the three major federal-to-provincial government transfer programs comprising Equalization, the Canada Health Transfer and Canada Social Transfer that when combined total Cdn $58.6 billion.

These comparisons provide a sense of the magnitude of the interest payments for which Canadian governments are responsible and the extent to which growing government debt can displace scarce resources from important priorities. Canada is "back again" but not for the right reasons!

D. Key Stats - Post Financial Crisis 2008-2009

It is clear that we are approaching a "debt tipping point". Although we cannot predict the exact time when we reach that point we are getting close. Consider for a moment five data points that lay out some truly amazing financial changes over the past 7-8 years.[iii]

1. We have witnessed over 640 interest rate cuts around the world since the demise of Bear Stearns in March 2008.

2. USD $12.4 trillion plus in "asset purchases" (otherwise known as printing money) by the global central banks has taken place over the past 8 years. This number is currently growing by over USD $100 billion every month!

3. At the time of writing there are approximately USD $8.3 trillion of global bonds yielding less than 0%.

4. Approximately 500 million people are living in countries with official negative interest rate policies (i.e. Japan, Eurozone, Switzerland, Denmark) representing approximately 33% of the world's GDP.

5. A leading economist at JP Morgan (February 2016) is predicting that the European Central Bank, the Bank of Japan and the US Federal Reserve could cut interest rates to -4.5%, -3.45% and -1.3% respectively.[iv]

Despite the massive monetary stimulus over the past 8 years the global economy is "in the tank." It is experiencing little to no real economic growth. It is this sluggish economic growth coupled with low inflation that is now "building the case" for even further monetary stimulus, including what is now famously called the "helicopter drop." This refers to printing money and then dropping it (metaphorically) from helicopters on the "unwashed masses." The hope is that they would then take this money and spend it, and thereby stimulate the economy! You can interpret the helicopter drop as large government programs funded by increasing deficits!

How much monetary stimulus can the global economies take without detonating the system? How negative can rates go before we destroy significant amounts of savings and capital that underpin the global economy? How much money can be printed before consumers lose confidence in their currency and see it for what it is, a giant Ponzi system? How large can the deficits become before the bond markets say no to any more issues, and all the new debt has to be monetized by the central banks?

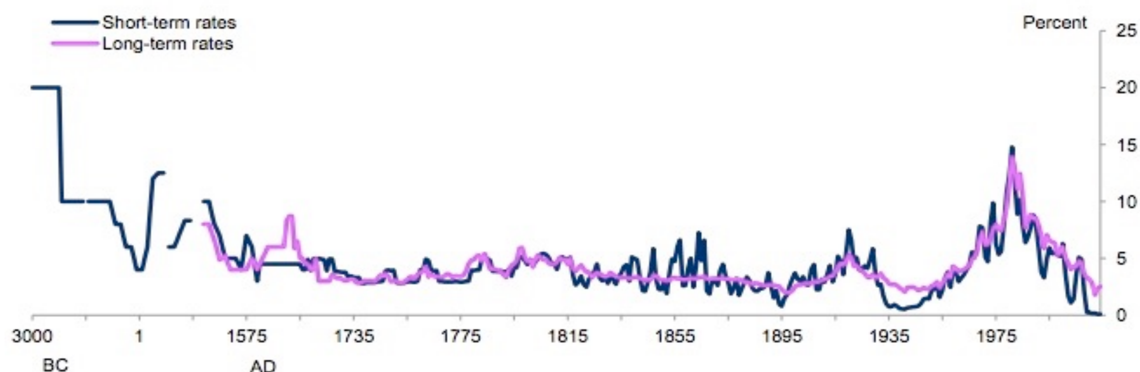
E. Lowest Interest Rates in 5,000 years

In a recent article published in the Washington Post, Matt O'Brien[v] noted that **interest rates are lower today than at any time in history**. He based his comments on research conducted by Bank of England chief economist Andy Haldane. In the article O'Brien noted that:

> *"Interest rates are lower today than they were when FDR or Napoleon or Henry VIII or Genghis Khan or Charlemagne or Julius Caesar or Alexander the Great or even Hammurabi were around. Or, if you want to put a year on it, lower than at any time since the ancient Sumerian made the first loans payable in either silver or grain, back in 3000 B.C."*

As we have pointed out for several years now, interest rates have been moving towards zero, as the debt binge continues, and more recently negative in an increasing number of countries. In Japan rates have been virtually zero for almost two decades and in early 2016 have gone negative. To think that rates could move this low and stay this low for so long was unthinkable only 8 years ago. (Note the history of both short term and long term rates pictorially displayed in the chart below.)

Chart 5: Short and long-term interest rates



If you are a saver or investor you know that the global central banks are doing everything they can to minimize the income you earn on your investments in order to prop up all the debt! All you have to do is look at your bank statement to see that you earn virtually nothing on your deposit accounts, while the fees charged by the banks continue to climb.

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This ongoing expropriation of wealth by the central bankers is getting worse as interest rates go negative.

Think about this for a moment. Central banks in Europe and in Japan have lowered the interest they charge "member banks" to below zero! Did you get that? **Banks in these regions are PAID to borrow money!** While this may be good for banks and indebted governments, who are paid to borrow, this is devastating for savers and investors.

Take Japan for example. Japan is the latest to "go negative". Haruhiko Kuroda, head of the central bank of Japan, told the *Financial Times*, that there was "no limit" to monetary easing on his watch, as he vowed to slash Japanese interest rates deeper into negative territory if necessary. Just to reiterate, negative rates means that the central banks will loan short-term money to their member banks and then require them to pay back less then they borrowed to satisfy the loan. Yes you read that correctly!

The Bank of Japan, similar to the ECB are paying their member banks to borrow money! Although this has not yet come to Canada or the US, Janet Yellen, the head of the Federal Reserve announced on February 12th that negative interest rates would be considered in view of the latest dismal economic numbers coming from the US. According to Yellen, negative rates are not "off the table".

Let's go back to Japan for a moment and their negative interest rates. Today, Japan's banks can borrow short-term money from the Bank of Japan and **receive** interest on the money they borrow. At the same time they can take this money and buy longer term US or Japanese bonds that pay a small but significantly larger rate of return. In essence they can lock in an "interest rate spread" for doing nothing, but shuffling money around.

Here's another example. Currently a US 5-year Treasury note pays an annual return of 1.20%, while banks can borrow funds for one month at a time at .26% per year. This leaves a spread of approximately .94% per year. As a result, a bank such as JP Morgan, can earn almost 1% a year, (about $10 million on every $1billion it borrows) from the Federal Reserve by buying 5-year notes. Why would banks risk making loans to customers, which may default on a loan, when they can game a spread of almost 1% simply by borrowing short-term from the Federal Reserve and then buying longer-term US Treasury notes? You know the answer! The more central banks "monetize" or print money, the less banks tend to lend to businesses! In our previous example we can see that Japanese banks have it even better, since their cost of borrowing, is less than zero. Astonishingly, this same situation now exists in several European countries, including Germany, Netherlands, Sweden and Switzerland.

This scheme that exists for banks is not available to investors! For the average investor who has watched interest rates plummet, their options are not as attractive! They are told by the experts to spend all their money! If you do decide to invest, you have no choice but to buy more speculative or risky investments, including real estate, equities and long-term bonds. Unfortunately many of these asset classes are not cheap and are trading at lofty valuations!

On March 3, there was a very interesting article in the Financial Times, entitled "No Limit to Japan Easing", Japan's central bank president Kuroda describes the Japanese plan, stating: *"The constraint of the 'zero lower bound' on a nominal interest rate, which was*

believed to be impossible to conquer, has been almost overcome by the wisdom and practice of central banks, including those of the Bank of Japan. It is no exaggeration that [ours] is the most powerful monetary policy framework in the history of modern central banking."

The Financial Times in commenting on this arrogant statement said:

"The Bank of Japan policy now combines negative short-term interest rates with annual asset purchases of Y80tn, equivalent to 16 per cent of gross domestic product, driving down interest rates across the yield curve."

The Japanese central bank is currently purchasing financial assets equal to 16% of the GDP of Japan! If the Federal Reserve were to match this amount adjusted for the different size of the US economy it would amount to about USD $3 trillion per year of "stimulus" or about three times Ben Bernanke's enormous USD $80 billion per month purchase of government paper and various other securities including mortgage-backed securities.

If this all sounds like financial insanity to you, it is! Negative interest rates are a symptom of profound economic dysfunction, they are not sustainable and they are immoral. They provide us with the best evidence possible that we are in the final innings of this grand debt experiment and must proceed with caution.

F. Economics of Impoverishment - Financialization

Michael Betancourt in a newly released book entitled "The Critique of Digital Capitalism" makes a number of important observations concerning the digital world in contradistinction to the physical world. Importantly he defines digital capitalism "as the fantasy that the physical world no longer matters. The only things that matter are the virtual financialized digital processes that create the illusion that physical resources, financial capital and labour markets are irrelevant."[vi] This is very appropriate to the era of negative interest rates and the push towards a cashless society. The central planners appear to be deluded by the appeal that they can endlessly manipulate the money supply and go even further by taxing cash, without an adverse impact in the real physical world, the economy and human decision making! They are seriously mistaken. Eventually the physical world will decide the fate of the digital illusion. When the gold leverage ratio reaches 300 to 1 on the COMEX, you know that moment is much closer! How can 300 people all believe they own that same once of gold? Confidence in the system is the answer. But when confidence fades, the physical realities will be all that matter!

James Rickards in this latest book "The New Case for Gold" touches briefly on this same topic when he discusses the topic of "financialization."

> "The past 30 years have witnessed the extreme financialization of the economy. This refers to the tendency to generate wealth from financial transactions rather than from manufacturing, construction, agriculture, and other forms of production. Traditionally finance facilitated trade, production, and commerce. It supported other activities, but was not an end in itself. Finance was a little bit like grease on the gears, a necessary ingredient but not the engine itself. But in the last thirty

years, finance has metastasized: it has become like a cancer. It acts as a parasite on productive activity."[vii]

As Rickards points out, the financial sector at the time of the financial crisis in 2008 represented approximately 17% of the US GDP and 17% of the total market capitalization of the US stock market. One can debate how large it should be, but as Rickards points out, prior to the past few decades it was much closer to 5% of the economy! More recently finance has become an end in itself, driven by short-term greed and "the bankers' ability to devise arcane ways to extract wealth from this complex society… bankers use this to extract wealth add complexity without adding value."[viii]

The bottom line is that financialization, with the addition of all these new financial instruments, from credit default swaps, futures, options, collateralized debt obligations, securitizations, synthetic derivatives etc. do not in themselves create wealth. When they are abused, they actually end up extracting wealth from other sectors in the economy and often do this with inside information and government subsides. The behaviour of our central banks is no different. They are using financialization to manipulate interest rates and destroy the value of our money all in the hopes of prompting consumers to go further and further into debt!

G. The Economics of Impoverishment - Negative Interest Rates

We now lay out some major challenges facing our economy and financial system as we continue down this path of "digital capitalism/financialization" highlighted by the endless printing of money, the monetizing of both public and private debt, and the push into negative interest rates.

The emerging policy of negative interest rates (NIRP) on the part of central bankers is the last kick at the can, and it is a reckless kick! The basic idea of NIRP is to punish savers so severely that households and businesses will be compelled to spend whatever money they have on something, anything! Central bankers seem to care little about what you purchase as long as you spend all your digital currency, and if you don't, they will tax it as its losing value! Incredulously, the greatest financial evil today is to preserve and grow your savings! If you do, you are the major target, for an overreaching State.

The insanity of NIRP should be self-evident. If an economy is dependent on front loading it's spending, and must go further and further into debt in order to grow there is something terribly wrong with the structure of the economy. If central banks and governments attack savers/investors through onerous taxation and negative interest rates the economy will eventually be brought to its knees.

As a number of thoughtful folks have pointed out, NIRP will never be successful since people do not behave as anticipated by the central banks. The paradox is that negative interest rates do not force people to spend more, rather they encourage savers to hoard more of their savings. This is exactly what we witness in the areas flirting with negative interest rates. Japan provides the best evidence of this. When people lose confidence in a system they become more conservative and spend less, not more! The average person

begins to figure out that negative interest rates are really projecting low-to-no growth and zero-profit environments for the broader economy sometime in the future.

If investment returns continue to trend lower and lower and in the case of cash and short-term bonds, (both private and public) returns go negative, investors will need a much larger amount of capital to retire since they will be forced to live off a shrinking principal with little to no income. In addition, consider the fact that most government pension plans, along with many private pension schemes will have to be dramatically restructured in size, and in some cases forced out of existence in a negative interest rate environment. The impact on the economy will be significant! On top of this, households will be incentivized to keep working and not to spend as they delay retirement.

Here are a number of important factors to consider when thinking about the impact of negative interest rates on our economy.

1. If banks start to charge savers interest on their cash, savers will have to save more income to offset the additional costs imposed by the banking system on their savings. Many households will do everything they can to invest money in assets that are secure and will not decrease in value. Precious metals, such as silver and gold will be increasingly attractive for savers in a negative interest rate environment. We suggest that all investors maintain a significant weighting in the precious metals sector.

2. What do negative interest rates reveal about the stability of the global financial system? For how long can negative rates mask the fundamental problems? If central banks believe that the only way to salvage the current system is to force households to spend their savings and pay member banks to borrow money, there is a problem. The policy of negative interest rates, will eventually signal in an unambiguous manner that central banks have run out of options. Confidence, which is essential to any financial system, will be at risk.

3. Any economic system that not only encourages households, corporations and governments to go further and further into debt but also requires it, is an immoral economic system. Immoral systems are not stable and eventually fail. A capitalist system that devours its capital will perish. Prosperity and economic growth require the building up of private savings and capital that can only result from delayed gratification, long-term thinking and a stable currency/monetary unit.

   Negative interest rates make clear, what is not obvious, to most people, and that is our money is not money anymore it is currency! True money is both a medium of exchange and store of value. Today our currency is not a store of value. In a negative rate environment this dichotomy becomes obvious, since your cash will be taxed and lose value everyday, right in front of your nose! But what kind of economic system relies on a unit of exchange that evaporates in value as you hold it? If the value of our labour cannot be held and protected for reasonable periods of time by holding currency our money has become an unjust weight and measure.

   In Matthew 25:14-30 and Luke 19:11-27 we have recorded for us the “Parable of the Talents”. In this parable Jesus describes a master who gives money to three

different servants under his care. To the first he gives five talents (unit of money), to the second he gives two and to the third person he gives one talent. Based on their different gifts and abilities they were responsible to grow the capital they were given. In the case of the first two individuals they double their original capital and receive commendation from their master. In the case of the third person he does nothing with the one talent he received and he is severely rebuked and judged for his laziness. The interesting note is that the master tells this servant he should have in the very least "invested the money with the bankers, and at my coming I should have received what was my own with interest" (Matthew 25:27). Today in our financial system, in more and more countries investing your money with the bankers will guarantee a loss in value! Surely Jesus would have something to say about this theft! Welcome to negative interest rates and a corrupt financial system.

4. Negative rates increase the citizen's dependence on government assistance. For example, senior citizens are forced into accepting more government assistance because their savings and investments will be depleted more quickly. They will also be more likely to vote for a larger welfare state. Statistically, we know that increasing dependence on government aid results in an electorate that accepts and votes for big government. As government expands there is an increasing loss of individual liberties and freedoms that lead to a further weakening of the economy. This is a true negative loop brought on by negative rates! Additionally, a population without savings is more vulnerable to any economic downturn.

5. Negative rates lead to a smaller middleclass and poorer populations. With fewer resources it makes it harder for people to contribute to private causes and charities that help in the retraining of citizens and the moral instruction and care of the vulnerable in society. A poorer population is less able to contribute to churches, to mission programs, to private charity, or to organizations that promote responsible government. These factors result in an increasing desire and "need" for more government programs.

6. Negative interest rates reduce the incentive to save or invest. Why save money if the principle and interest combined buys less next year than it does today? I am much better off by converting my shrinking dollar into goods and services now instead of delaying the purchase to a future time when these dollars will buy measurably less. This loss of purchasing power and the resultant decline of savings and investment reduce capital accumulation and compromise future productivity growth. This is reflected in the sharp drop off in capital spending on the part of businesses and the preoccupation with share repurchases in order to increase earnings per share without driving top line revenue growth.

7. Negative rates that impose economic difficulty on families will result in more dual-income households. This results in a reduction of family stability and the need for more third-party childcare. Any policies that weaken the traditional family unit are damaging to the next generation and future economic prosperity. Policies that minimize the involvement of parents in the training and educating of their own children lead to the inculcation of State propaganda and the undermining of the moral fabric of the next generation. Our public education system is a disaster,

> making it even more important that parents are involved in the rearing and educating of their own children.

If someone wanted to weaken the overall economy, reduce economic growth, expand the size and scope of government, increase dependence on public aid programs, reduce giving to churches and charities, destabilize the family unit, and foster the conditions that feed crime and undermine the morality of a nation, there is no better strategy than to impoverish the people, debase the currency and grow the State. All citizens that care about their country and are concerned about the encroachment of the State need to wake up and realize that our public economic issues are in fact moral issues.

Warren Brookes summarizes this issue in the following quote that we would do well to consider,

> "A national economy, like an individual business or a specific product, is the sum of the spiritual and mental qualities of its people, and its output of value will be only as strong as the values of society. There are many examples of barbaric societies, which practiced the "free market" of the jungle and finally perished in the poverty of hedonism. Without the civilizing force of universal moral standards, particularly honesty, trust, self-respect, integrity and loyalty, the marketplace quickly degenerates. A society that has no values will not produce much value; a nation whose values are declining should not be surprised at a declining economy. As Ralph Waldo Emerson postulates, "A dollar is not value, but representative of value, and, at last, of moral values."”[ix]

Our ultimate challenge is not financial it is moral. Until we are willing to ask the tough questions and return to a framework of moral absolutes and truth concerning all reality, and the intellectual holding of that truth, and then living in light of that truth, we will continue to wallow in the swamp and tyranny of moral relativism, lies and the economics of impoverishment.

Despite the challenges ahead we press on. We continue to invest in strong companies, operating in solid long-term industries and are prepared to take advantage of market swings! As we have stated before, the best offence is a good defense, and we have some great companies to provide us cover in the midst of this financial chicanery. We also own a number of companies that should perform strongly in this challenged environment, companies that operate as a hedge to the loose monetary policies. On top of this, we maintain significant cash positions that can be put to work expeditiously!

If you have any questions pertaining to your account please call or email for an appointment.

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[i] The Equedia Letter, April 3, 2016.
[ii] The Equedia Letter, April 3, 2016.
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