

SPEAKEASY



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In Search of Truth

The current environment of uncertainty gives rise to speculation, where actions are taken without regard for all of the facts. While many will continue to regard the future with pessimism, there are those that will behave in the same calculated manner as they have always done.

Speakeasy

IN SEARCH OF TRUTH

THE CHIRP OF THE GOLD BUG

MANY PEOPLE FEEL UNCERTAINTY ABOUT THE FUTURE

Many would rather the security of believing in something, even if that something is no more certain than the uncertainty they were facing. I think we are all inclined to be searching for the truth but when we can't find it with certainty; we are vulnerable to the false comfort of a good story. False precision with numbers, especially where it concerns variables and time, does more harm than good.

Our penchant for the sensational creates demand for noisy headlines, and dramatic outcomes. The barrage of information makes it challenging to separate the wheat from the chaff. Most people do not have the time, interest, or skills to develop true understanding. Some will choose to straddle a fence when faced with such discomfort. It's awkward not knowing.

In the face of uncertainty, our belief in our ability to self-determine the future is challenged. Dreams are slipping away. Yet the choices we make will continue to have a significant impact on our outcomes.

When it comes to stock markets, most people approach it as though it were some form of gambling. Even *before* the wakeup call of 2008, the vagaries of the stock market gave rise to a casino like mentality which is perfectly suited for turning ordinary citizens into speculators. Now, in the aftermath of no business is, "too big to fail", there is a sense that no business is predictable. So the inclination is to resign from the idea of trying to figure out what an enduring business looks like because no one knows for sure if any business will endure, right?

As if on cue, the crowd chants, "It's different this time," and this is a, "new normal". When there are seeds of doubt, gold bugs chirp, "Gold! Gold!" Putting money in the mattress would be another equally as productive alternative, but the story telling of the gold bug has a lot more appeal than a lumpy mattress full of cash. Gold took 27 years to get back to the highs set in 1980 and to keep pace with inflation it would have to sell for \$2,000 an ounce! So in contrast, I'm going to pass along a different story that I heard along the yellow brick road from Omaha, Nebraska.

The Story of Gold

Back in 1848, just before the big gold rush, a merchant named Samuel Brannan sought after and bought out all the prospecting supplies he could find. Stepping out onto the streets of San Francisco the tireless self-promoter, shop keeper, and newspaper publisher began shouting, "Gold! Gold!" Waiving a vial of gold dust in his hand, Brannon quickly energized local residents to go off in search of the precious metal. Stampedes of people raced off for the new American dream of sudden riches, enduring incredible hardships while the real winners were the merchants selling pick axes and mining pans.

Oh sure, it's different this time. The original American Dream described by Ben Franklin back in the day promoted men and women content to accumulate their modest fortunes a little at a time, year by year by year. The new dream of the gold rush was the dream of instant wealth, won in a twinkling by audacity and good luck. Today our dreams have been replaced with buy gold, bend over and kiss your butt good-bye because the sky is falling!

Here is the story that Buffett told shareholders in Omaha in May of this year. For the record, Buffett has come across as a pessimist when others were wildly optimistic, like just prior to the tech wreck in the early part of this century. Today he stands out as an optimist, continuing to believe in the resuscitative powers of capitalism, the innovation and entrepreneurialism of Americans, and the enduring strength of the businesses he owns.

If you were to take all the gold in the world and melt it down into a cube, it would be about 67-68 feet on a side, and it would be worth about \$8 trillion. You could touch it, fondle it if you like, climb up a ladder and sit on it, but it isn't going to do anything. In contrast, you could take all of the farm land in the US and it would be worth about \$2 trillion. The farm land is feeding a nation and sustaining a way of life for families in small communities all across the country. You could also add in about 27 Chevron Oil companies to supply the necessary energy to families and businesses all across the country.

Cash flow generating businesses are bought for their ability to generate predictable cash flow. Commodities that don't offer utility are worse than those that do, but neither are particularly productive assets. Anything that doesn't produce anything is really only valued on the basis of what someone else will offer to pay for it. Before the needle on the price can budge, there is the liquidity hurdle of new production. Each year there is about \$500 million of new gold production to absorb before the price can budge.

Any currency related investment, such as stocks, bonds, or certificates of deposit, are a bet on the future ability of the government that is backing the currency. Gold is seen by many to be a more reliable store of value because it is currency neutral, it has its own price irrespective of government, institutional, or business related activities. Typically there is higher demand for gold during periods of uncertainty. In order for the price to move higher, a seller must convince a buyer that doom will prevail destroying the value of a currency.

Great civilizations have a lot of ruin in them, but the world muddles through.

This conflict of selling an ominous story of doom in order to profit is eerily familiar. It reminds me of the much maligned life insurance salesman backing the hearse up to the door to frighten a poor family into buying an insufficient amount of expensive insurance they can't afford. Self-serving

defeatism is not part of a solution, its part of a problem and it will be corrected! When belief in the system is restored, finding a greater fool to buy the gloomy story will be like trying to catch a falling knife.

We have enjoyed a six fold increase in the standard of living in the past 100 years and the system of meritocracy used to get us here is still intact. Great civilizations have a lot of ruin in them, but the world muddles through! In North America we have shown a marvelous resilience in enduring two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced American president. Yet the Dow rose from 66 to 11,497. This time is not different!

Tame the Beast

Inflation has reduced the value of a dollar to 6 cents since the time of our grandfathers. Make no mistake, inflation is the dragon like beast we need to be aware of. However, over the past 20 years inflation has been dormant at less than half of its long term cost. Today the spread of a long term bond compared to inflation is currently so thin that on an after tax basis an investor could be losing money by owning bonds.

Of course we don't know for sure what is going to happen next, although the false precision of the story tellers betrays otherwise. Printing money on such an unprecedented scale has never been done before. We don't know how soon we can withdrawal the printed money from the system, the impact of inflation or when interest rates will start rising. We don't know about the sovereign debt issues in Europe. We don't know about the slow growth in employment, or about the loss of manufacturing jobs, and many other factors on the crisis du jour menu.

By contrast, we do know for sure that many businesses have been recapitalized since 2008 and are now holding generous amounts of cash. Most businesses have been picking up with the exception of housing related businesses. The housing market is continuing to absorb the existing surplus and the supply that remains will not take long to use up before new home construction picks up again. Once housing is back on track, there are large numbers of jobs connected to construction of everything from bricks to carpets. Along with rising employment, confidence will be restored and investors will be handsomely rewarded for taking ownership of stocks in great businesses, purchased today at good prices.

	Price 1965 \$US	Price 2000 \$US	Price 2011 \$US	Average Annual Compound Return 1965-2000	Average Annual Compound Return 2000-2011
Berkshire Hathaway per "A" share	14.86	55,100	115,230	26.5 %	6.9%
Gold per ounce	35.12	279.11	1500	6.1%	16.5%

David owns Berkshire "B" shares in his personal account and a small amount of gold within his mutual fund portfolio. These foregoing comments are for information purposes and not intended as a recommendation to buy or sell securities.

David Atwood has provided financial services for the past 25 years, and he is the President of Talisman Investment Planning, which provides mutual funds through FundEX Investments Inc. The above noted thoughts and opinions are those of David Atwood and not necessarily shared by FundEX Investments Inc. David can be reached on the web at www.talismanip.com, by E-Mail using david@talismanip.com, or by phone at 519-434-8807.

Talisman Investment Planning
1522 Sunningdale Road East,
London, Ontario
N5X 3Y6

