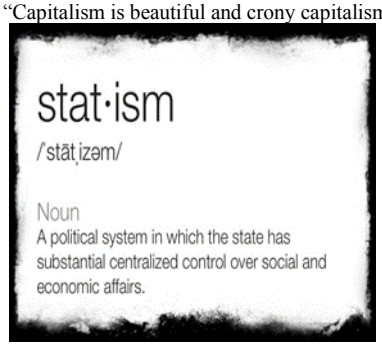
Ted Cruz drops out; investment implications of doubling down on statism & cronyism over constitutionalism
T.W. US$ Index: 89.07; US 10-yr: 1.76%; S&P 500: 2076; Oil: $44.33; Gold: $1,276; Silver: $17.45 5/11/16

"Capitalism is beautiful and crony capitalism is the end product of politicians who prostitute the laws." Statism and cronyism are tied at the hip.



Introduction:
After a crushing defeat in the "make or break" Indiana GOP primary last week, US Senator Ted Cruz suspended his campaign for the GOP nomination for president. Meanwhile, leading GOP presidential candidate, Donald Trump, added another 57 delegates to his towering lead of 1,053 candidates (out of 1,237 needed for the nomination) over his main rival, constitutionalist Ted Cruz, who, with only 563 delegates, bowed out. Cruz was the rule of law candidate. In other words, the separation of powers candidate, the federalism candidate, the Bill of Rights ("We the People") candidate, the American republic candidate. Relatively young, constantly learning Cruz was also the American heritage candidate, the American sovereignty candidate, the free market capitalism candidate, and the "consistency candidate:" he, a constitutional scholar, consistently "walked his conservative, constitutional talk." "Indiana" could well prove, in hindsight, to have been a watershed event for strategic investors' allocation decisions going forward. In short, it looks like Obama and Trudeau statism/cronyism, revisited dead ahead for the embattled American republic. Needless to say, this needs to be "dialed in" to strategic allocation decisions, in our view.

A closer look at the "fiat government, fiat money" political calculus that will likely be "doubled down" on:

The essence of crony-capitalism is the merger of state and corporate power -- the definition of fascism.

When it comes to the real world, the difference between fascism, communism and crony-capitalism is semantic. Let's start with everyone's favorite hot-word, fascism, which Italian dictator Benito Mussolini defined as "the merger of state and corporate power." In other words, the state and corporate cartels are one system.

Real-world communism, for example as practiced in the People's Republic of China, boils down to protecting a thoroughly corrupt elite and state-owned enterprises (SOEs). The state prohibits anything that threatens the profits (and bribes) of SOEs -- for example, taxi-apps that enable consumers to bypass the SOE cab companies.

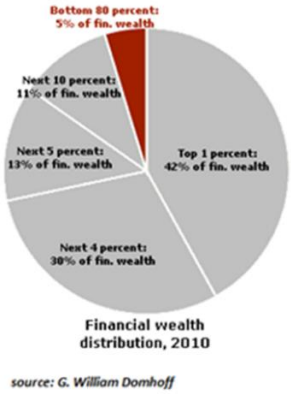
Much has been made of China's embrace of capitalism, but — along with transportation — the government still dominates key sectors, including energy, telecommunications and banking. Wang says vested government interests won't give them up easily. How else to describe this other than the merger of state and corporate power? Any company the state doesn't own operates at the whim of the state.

Now let's turn to the crony-capitalist model of the U.S., Japan, the European Union and various kleptocracies around the globe. For PR purposes, the economies of these nations claim to be capitalist, as in free-market capitalism. Nothing could be further from the truth: these economies are crony-capitalist systems that protect and enrich elites, insiders and vested interests who the state shields from competition and the law.

The essence of crony-capitalism is of course the merger of state and corporate power. There are two sets of laws, one for the non-elites and one for cronies, and two kinds of capitalism: the free-market variety for small businesses that are unprotected by the state and the crony variety for corporations, cartels and state fiefdoms protected by the state.

Since crony-capitalism is set up to benefit parasitic politicos and their private-sector cartel benefactors, reform is impossible. Even the most obviously beneficial variety of reform -- for example, simplifying the 4 million-word U.S. tax code -- is politically impossible, regardless of who wins the electoral equivalent of a game show (i.e. Demopublicans vs. Republicrats).

In a related manner, a closer look at just how financially entrenched the US statists and their crony pals are is warranted:



Back to the US presidential race, which, based on current Republican and Democratic delegate counts, will likely be between two categorical liars, Donald Trump and Hillary Clinton. The same two charlatans are also proven statists and enormously successful cronies. Where does this leave us as investors? It leaves us with a likely acceleration of statism/cronyism, arguably regardless of who wins the White House.

In other words, we will likely be moving even faster and even further away from representative government, from property right protections, from sound money, and from the rule of law. As a key rule of law/separation of powers evisceration example, consider that constitutionally-based regulatory policies -- de facto legislation -- would have to emanate from a "functional," *representative* Congress, yet over 90% of new decrees continue to emanate from an increasingly despotic executive branch! To add insult to injury, an "activist" SCOTUS has been increasingly bent on "legislating" from the bench instead of assuring fidelity to the Constitution. Based on either eminent domain-abusing Trump's career or scandal-plagued Clinton's career, investors could be forgiven for assuming more of the same lawlessness/unconstitutional behavior -- and patently unethical behavior -- will be in the cards at the very highest level of the US government.

As such, our society will also very likely be moving even further and faster away from a wealth of nations' trajectory/healthy productivity gains, from "the Invisible Hand of Adam Smith," from meritocracy, from stout incentives to invest and employ people, from healthy real economic growth -- in short from "what historically worked" for the vast majority of American citizens and allowed for an unparalleled rise in prosperity. As regards sound money, consider the assertions below, which are arguably well worth citing, especially given their authorship, namely Alan Greenspan in 1966, which was well prior to his Fed chairmanship-based QE capers. Noteworthy is the fact that his 1966 insights are strikingly similar to his return to "sound money terra firma" statements made recently and quite frequently; perhaps this is Sir Alan's effort to soothe his conscience or to rescue his "legacy?" Back to those timeless, eternally true '66 proclamations:

> In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value. If there were, the government would have to make its holding illegal, as was done in the case of gold ... The financial policy of the welfare state requires that there be no way for the owners of wealth to protect themselves. This is the shabby secret of the welfare statists' tirades against gold. Deficit spending is simply a scheme for the confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the statists' antagonism toward the gold standard.
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> An almost hysterical antagonism toward the gold standard is one issue which unites statists of all persuasions. They seem to sense -- perhaps more clearly and subtly than many consistent defenders of laissez-faire -- that gold and economic freedom are inseparable, that the gold standard is an instrument of laissez-faire and that each implies and requires the other.
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> The existence of such a commodity is a precondition of a division of labor economy. If men did not have some commodity of objective value which was generally acceptable as money, they would have to resort to primitive barter or be forced to live on self-sufficient farms and forgo the inestimable advantages of specialization. If men had no means to store value, i.e., to save, neither long-range planning nor exchange would be possible.
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> What medium of exchange will be acceptable to all participants in an economy is not determined arbitrarily. First, the medium of exchange should be durable. In a primitive society of meager wealth, wheat might be sufficiently durable to serve as a medium, since all exchanges would occur only during and immediately after the harvest, leaving no value-surplus to store. But where store-of-value considerations are important, as they are in richer, more civilized societies, the medium of exchange must be a durable commodity, usually a metal. A metal is generally chosen because it is homogeneous and divisible: every unit is the same as every other and it can be blended or formed in any quantity. Precious jewels, for example, are neither homogeneous nor divisible. More important, the commodity chosen as a medium must be a luxury. Human desires for luxuries are unlimited and, therefore, luxury goods are always in demand and will always be acceptable.

> Wheat is a luxury in underfed civilizations, but not in a prosperous society. Cigarettes ordinarily would not serve as money, but they did in post-World War II Europe where they were considered a luxury. The term "luxury good" implies scarcity and high unit value. Having a high unit value, such a good is easily portable; for instance, an ounce of gold is worth a half-ton of pig iron.

Moreover, sharply supply-limited money, i.e., gold and silver-backed, was a vital part of the constitutional compact also known as the rule of law:

> We have replaced the rule of law -- both constitutional and economic -- with the rule of men; that is just as damaging with regard to money as with any other aspect of life.
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> The Founders understood that the new nation would not prosper under an unstable, readily manipulated monetary system and they drafted the Constitution accordingly. Article I, Section 8 gives Congress the power "to coin money and regulate the value thereof" and Article I, Section 10 provides that state governments may not "coin money, emit bills of credit, or make any thing but gold and silver coin a legal tender in the payment of debts." Also pertinent is the Tenth Amendment, which says that the federal government is only to have those powers expressly granted to it.
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> Using the power under Article I, in 1792 Congress defined the dollar as a coin containing 24.74 grains of pure gold, and also a coin containing 371.25 grains of pure silver, reflecting the (then) current market values of the two metals (this was a 1:15 gold silver ratio, which approximates how much gold can be extracted from the earth relative to silver).
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> Sound, constitutional money does not prevent the government from enacting a lot of harmful policies, but it impedes the political class from debasing the dollar through unlimited inflation to cover a gusher of federal spending.

Donald Trump vs. Hillary Clinton: pick your elitist establishment poison, Main Street

Donald Trump, in many ways, is the ultimate establishment figure, "having astutely played both sides of the aisle for years, and having been especially cozy -- financially and politically -- with Hillary Clinton," whose decades' old, interlaced with scandals political career is already well known. Trump, on the other hand, is more of a fresh "political face" in terms of running for public office, thus we will devote more bytes to him to in effect show that they are both elitists wholly unmoored from the Constitution.

Trump is also a self-proclaimed king of debt: "Don't forget, I'm the king of debt, I love debt," he recently boasted. Upshot: Trump is an expert on stiffing creditors/filing for bankruptcy protection, and he wants to use his experience in this realm, as president, to help America get out from under its huge debt incumberance. While such a creditor hostile policy may work well at an individual or a business level, such a policy is ill-advised at the national level. This is particularly true for a nation -- the US -- that a) perennially runs $400 - $500bn annual trade deficits (is dependent on foreign goods and foreign financing), b) has spread some 16trn in dollars overseas that could "come home," and c) is dependent upon a somewhat stable dollar to avoid a potential surge in inflation. Such a surge would be triggered should the dollar's value plummet on the back of substantial greenback, i.e., Treasury bond, sales by the rest of the world. (Speaking of selling US government bonds, reflect on what happened when Bernanke hinted in April 2013 that the Fed might sell off some of its utterly bloated balance sheet: Treasury yields bolted higher.) If massive overseas dollar sales occurred, the Fed would arguably have to "mop up such Treasury sales"/further expand its balance sheet in order to avoid a sharp rise in the benchmark interest rate (10-year Treasuries) that the debt-laced US economy couldn't afford. This, in turn, would elevate domestic monetary inflation risks to an even higher level. Not exactly a "virtuous circle." For the trade-weighted dollar trend, please see below:

Said differently, making more use of the very policies that have benefited the elites at the expense of Main Street savers, pensioners, and taxpayers -- be it shafting creditors/bondholders overtly, as Trump implies may be an apt national policy, or

more taxpayer bailouts or further monetary debasement, which is debt restructuring's kissing cousin, or a covert, "slower-burn default" -- doesn't auger well for the non-crony majority. Such "doubling down," ladies and gentlemen, would be adding insult to bail in-law injury that is already looming on the horizon for bank depositors. (Needless to say, Wall Street-backed Clinton's elitist track record here mirrors Trump's.)

Furthermore, Trump, who has numerous attorneys on his payroll, has a record of acting condescendingly toward various contractors that have been instrumental in constructing his properties. This is thanks to his selective penchant for paying working Americans/smaller business people a fraction of what was contractually agreed to and thus de facto forcing them to seek expensive legal restitution, which he knew they could often ill afford. Plus, Trump has also consistently shown a stout preference for hiring non-American workers, which doesn't line up well with his oft-repeated "Americans first" mantra. Yet this is just part and parcel of his business modus operandi and his ethics, or there lack of. Which begs the question: would such a man, as president, be suited to preserve, defend, and uphold the US Constitution for the benefit of Americans? (And once again, the same question applies, in spades, to statist/crony par excellence, Hillary Clinton, who adds the very worrisome dimension of appearing to having acted in a highly treasonous manner during her career as a "public servant.")

And what about Trump's nationalism or populism? Isn't this just another form of "progressivism" or statism? In a related manner, does Trump believe in privatizing the Obamacare train wreck and returning to free market capitalist incentives, in reinstating policy holder property rights, and in pursuing litigation reform? Not a word on this. Instead, he aims to "tweak" Obamacare as president. Canada has "national healthcare" coverage, but Canadians until recently could and did flee to the States when their insurance coverage failed to get them the timely medical solution(s) they sought. Brits, long "armed" with national healthcare coverage, have long had tremendous issues with dental care/dental health. So just having coverage can mean little if rationing is widespread and/or healthcare providors lack either the incentives or the means to provide good healthcare services.

And what about Trump's "populist" promise to erect huge tariffs instead of focusing on alleviating the regulatory, litigation, and/or tax insanity that is driving US businesses overseas and/or keeping US profits overseas? Huge tariffs on a broad range of imported goods would a) line the very government's pockets that implements them while b) reducing consumers' purchasing power and choice (in some cases, there are no US vendors and no industrial base left to relocalize production, as with iPhones). Just how would such a statist policy lead to greater private sector wealth? And how would a GOP-based Smoot-Hawley Tariff Act, revisted (import duties on over 20,000 imported goods raised to record levels) prevent a global escalation in tariffs any different than those that helped fuel the Great Depression?

Our bigger point: the parallels between Hillary Clinton's naked statism and sustained amoral/illicit behavior and Donald Trump's decades of cronyism coupled with his Hoover-like penchant for tariffs -- Hoover, like Trump, was a well-known, successful businessman prior to becoming president, yet he embraced a disastrous trade policy -- are as significant as they are disconcerting.

Finally, can any investor logically assume that either Trump or Clinton would be in favor of "monetary tough love," i.e., appointing a Fed chairman that would seek to reward savers instead of debtors, be it via normalizing interest rates, a cessation of QE, and an eventual reduction in the Fed's balance sheet of Treasuries and Government Sponsored Enterprise (GES) securities? Don't both statism and cronyism rely on Keynesianism financed by fiat money, lest a progressively more debt-laden economy fully collapses? Doesn't real estate magnate Trump's real estate empire boom on the back of cheap money and monetary debasement/QE on the one hand and recover, balance sheet wise, during economic weakness thanks to shafting creditors via complex, large scale bankruptcy reorganizations that are typically available to the elitist statist/crony class on the other hand? And don't Clinton's boundless redistribution (at the expense of meritocracy and small business) schemes and "class warfarism" also depend on fiat money (when Clinton was asked in the 90s how a small business mom and pop was going to pay for her healthcare scheme, she snapped, "if they cannot afford it, they should not be in business")?

In a nutshell, don't unvarnished statism and cronyism depend on sustaining the very financial repression that creates traditional asset bubbles which underpin a false "the economy is doing well" narrative even as ZIRP and QE underwrite the asphyxiation of free market capitalism/liberty and, by extension, a sound wealth of nations' trajectory?

Conclusion: strategic portfolio allocation thoughts

Wanton neglect of the oath taken by public officials, including the highest office holders, both the elected and appointed variety, to preserve, defend, and uphold the US Constitution, has become the rule rather than the exception. More explicitly,

less and less insistence a) on separation of powers' checks and balances, b) on federalism (or on expansive, constitutionally defined state sovereignty), and c) on rights which are not specifically enumerated in the Constitution are retained by the people *collectively* set the stage for an increasingly corrosive loss of a federalist republic, of representative government. This is all the more troubling on the heels of the passing away of "constitutional originalist" SCOTUS Justice Anthony Scalia, and the possibility of multiple "activist" Supreme Court appointments occurring during the next four to year years:

> As liberals and conservatives alike would agree, through his powerful and persuasive opinions, Justice Scalia fundamentally changed how courts interpret the Constitution and statutes, returning the focus to the original meaning of the text after decades of judicial activism. And he authored some of the most important decisions ever, including District of Columbia v. Heller, which recognized our fundamental right under the Second Amendment to keep and bear arms. He was an unrelenting defender of religious liberty, free speech, federalism, the constitutional separation of powers, and private property rights. All liberty-loving Americans should be in mourning.

Our trajectory "greenlights" further expansion of statism and its chum, cronyism, very much including the counterfeit, "electronic money out of thin air" QE policies of the Fed and other leading central banks, which widen the rising wealth and income gaps between the people and the statist elites and their hangers-on (witness the trajectories of Cuba, Venuzuela, Brazil, North Korea, the former USSR, and, sadly, today's America) that these fiat money doctrines sprout in the first place! Moreover, statism and cronyism will further push down productivity and thus real economic growth. Eventually, as history repeatedly shows, one or another form of stagflation (weak economic growth accompanied by inflation of varying severity) will result. Said will also often threaten or trigger political instability, as is currently increasingly the case in Latin America. Three strategic allocation ideas readily come to mind as we appear set to accelerate our trajectory away from the rule of law and representative government:

- First, investors should sell overvalued stocks and bonds; with the S&P 500 selling for nearly 24x trailing 12 months GAAP earnings and global "investment grade" bonds offering negative real yields, rich pickings abound. Be very careful about where you park your cash, however. Consider one-to-three month Treasury Bills; unlike bank deposits, you can't get bailed in. Plus, you don't run "breaking the buck" risks with money market funds or potential counterparty risks with CDs. By the way, sufficient sales of overvalued assets is the best overall capital preservation and enhancement strategy.
- Second, when the price is right, and big, crony Blue Chips once again sport 5 – 7% dividend yields (stocks that are marked down 50% plus), "back up the truck." Given the "stacked deck" against meritocracy and small caps, ride the crony capitalists' coattails. Our price sensitive, "inside track" grandfatherly crony capitalist par excellence "poster boy," Warren Buffett, has done this to great return success effect. In so doing, he has effectively wrapped himself/Berkshire up in baseball, apple pie, and the American flag. Never mind that his Potemkin village show has successfully masked his meritocracy-denting, upwards mobility-stifling, misallocation furthering, and societally-malignant success.
- Third, invest in attractively valued scarcity assets that the statism/cronyism-engineered, productivity-withering misallocations promise to make scarcer still. Once again, fossil fuel and ag assets come to mind. And so does real money, namely physical gold and silver held outside of the banking system. Said assets, thanks to financial repression-engineered asset bubbles as well as fiat money-entrenching manipulations targeting non-paper assets, are attractively priced. Moreover, the economic growth-eviscerating nature of statism virtually guarantees that even more money will be printed to sustain unsustainable policies. Said differently, fiat government and fiat money virtually assure, over time, rising fiat currency valuations of key scarcity assets, of vital real assets, as same can't be printed electronically.
- Fourth, use ETFs to tactically short overvalued stocks and bonds.

As a parting thought, lest you don't think our global statist/crony elites mean business, consider what they are doing with bank notes (all to battle terrorism and money laundering, of course!) and what they are doing to property rights/financial privacy. Or, consider how the megabanks, in cahoots with leading politicians, are positioning themselves to shield themselves from prosecution by cheated investors. What a racket! You could call it statism/cronyism on steroids. You could also call it fascism. Or, you could just call it a return to feudalism in "broad daylight." Appalingly, our despotic trajectory (throughout the West) continues to elicit yawns by too many "indoctrinated," instead of educated, people. People seemingly more consumed with new iPhone apps, "selfies," uploading Instagram photos, The American Idol, National Enquirer proclamations (Trump frequently and shamelessly touts them!), and the Kardashians' latest "escapades" rather than people interested in sustaining/revitalizing an invaluable political system that assured them and their progeny inalienable rights. Caveat emptor, dear strategic investor, caveat emptor.

Greetings,

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