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Reflections on doing the right thing

Frequent observation of the wild movements in prices would lead one to think that this is caused by nothing more sophisticated than the rolling of dice at some casino table. There is much truth in such observation. However, for those of us seeking to own what is substantive rather than to rent whatever happens to be going up in price, there is little to fear. We would do well to remember that the fluctuation in the price of an asset does not in any way add to or subtract from the value we assign to such asset or its purpose in ownership. If you are doubtful, consider the following.

In the small French town of Grasse, several generations of the Maubert family have built an outstanding company that makes flavors and fragrances: Robertet, S.A. The family's 51% stake along with that of three other real owners amounts to 94% of the outstanding shares of the company. And so, even as the shares are listed on the Paris Euronext exchange, little and infrequent trading takes place. One day a few weeks ago, someone sold 16 shares, the only trade of the day, on the bid, and the price of the stock closed down 5% from the previous day. It occured to me that the Maubert family had suddenly been rendered poorer by nearly $6 million—just on account of this $2'500 trade. Or had they? Did they feel any poorer? Did their real assets change? Did they discuss this darned volatility at the dinner table?

I bet not. To the Mauberts and by extension to us, such fluctuation ('volatility', they falsely label it) has nothing whatsoever to do with the value of their stake or their purpose in ownership. They do not consider a decline in stock prices to be a threat to their wealth. They are not waiting for the price to go up so that they can sell and get rich quick. Their focus, and ours too, is on the substance that they own. Thus it follows that such fluctuations (or 'volatility') do not mean much to us.

Frankly, volatility is an emotional matter that mostly concerns those who don't quite know what they are doing but are still hoping that somehow they have guessed correctly. People welcome a 10% move up but dread a 10% move down. In their minds, the former is normal while the latter is 'volatility', which they have been told is risk. That idea has been discredited long ago, but people just love to hang on to it as if it were holy writ. Volatility "is only a good measure of risk," someone said, "if you feel that being rich and then being poor is the same as being poor and then rich." But old habits die hard. After decades of money delusions, we often talk the talk of being owners or investors but we keep a wishful eye on the wrong things. We regret not anticipating a huge profit in the Caracas stock market and we feel that we missed out by not anticipating what we would have made by following along with those who found safety in the ownership of US government bonds. By seeking profit in terms of prices, we become atrophic in recognizing what is real and what is not.

"If modernity is characterized by a loss of the sense of the real," writes Paul Cantor, "this fact is connected to what has happened to money in the twentieth century. Everything threatens to become unreal once money ceases to be real."

A lot of people might suggest we own a big chunk of government paper or inflation-adjusted bonds in lieu of so much gold. These are precisely the kinds of instruments they now find attractive, either as a refuge or as a way to minimize the dreaded volatility. The third and more subtle reason is that customers feel more comfortable owning a big chunk of government debt than a big chunk of gold. But in reality, there is

In this issue

no comparison between the two. The first is a piece of paper or, indeed, not even that—a mere electronic entry. It is subject to conditions, rules and the whim of the state—it is hardly an asset and merely an illusion. The second is real.

For such reason alone, purposeful ownership is financially and emotionally incompatible with stock exchanges and financial markets in general. It is also irreconcilable with seeking to please the pathetic ignorance of clueless investors. The year just ended was a fine reminder of this important nuance.

On doing the right thing

Intellectually, 2011 was also unusual in that the investment setting was dominated by two distinct, and quite opposite, calls to action. Our left ear was inundated by a deluge of signs pointing to an impending doom, the endless and cacophonous debates on inflation versus deflation, and the destructive consequences that are likely to be visited on anything financial. To hear many of my friends talk, one would sell all his material possessions, quit his job, and head for the hills with a few bars of gold, a gun and some dried food. Some want to escape by buying a farm in Tuscany or Uruguay to grow chickens and vegetables. Others rationalize that they should just load up on 10-year US government bonds since this seems to be the last place of refuge. And some, the more aggressive types, seem happy to be short this and long that in the expectation that the unfolding crisis will make them rich if they just make the right moves. Our left ear was quite busy, as you can imagine.

The right ear heard an different tune altogether, but the voices were as loud and equally persuasive. "Equities are cheap," they told us. Great companies are undervalued. Investment 'value' is just oozing like Gruyère cheese out of a freshly-made veal cordon bleu. That's where the focus should be. Come what may, we should follow Buffett. Buy value stocks and just forget about it.

There were even more calls to action beyond these two prominent ones. As certain assets soared in price while others plunged (to be followed by the reverse only a few days later), we heard eminent calls for buying commodities, gold, silver, real estate, swaps, bonds, emerging markets, mortgage loans and other things people peddle from time to time. They were all followed invariably by calls to sell commodities, gold, silver, real estate, swaps, bonds, emerging markets, mortgage loans and so forth, by people who sell things after they soar when other things plunge, and so on. Thanks to the wonderful and low-cost world of the internet, the number of advisers and opinion peddlers has boomed in recent years. Their unsolicited and free opinions come with supporting charts and graphs seeking to prove the merit of their pitch. The search for what is to go up in price or what others think will go up in price has become a circus of frantic gibberish and feverish peddling.

Amidst such ruckus, only the the first two calls to action demanded our attention. To the voices in the left ear, I respond: no, I don't believe that the world is coming to an end. In fact, if it were, all the gold in the world couldn't possibly help us. We own gold only as a tool and not as a means to wealth. Having to choose between what goes for money, whether in cash or in the perceived safety of a government obligation with a negative real yield, and gold, we have chosen the latter. We have made the case clear many times in past writings and it so happens that the unfolding events have justified our old decisions. The largest and most visible component of our portfolio is composed of the only kind of money that comes without promises. Some think we have been lucky over the years. They think of 'prices', while we think of independence, scarcity and substance. And that is precisely the distinction at which we aim, since we are uninterested in impressing anyone by anticipating which prices will soar and which will plunge and when.

As to the idea of having a farm in Uruguay, I sense that it is born out of a desire to find economic independence and substance rather than as a means of physical escape. The ideas of economic independence and substance (any entrepreneur will readily admit) make for a wonderful motivation. But again, I doubt that the world will come to an end since it has survived far greater and unspeakable calamities. Yet, it is no consolation that what may indeed be coming to an end is the way of living and thinking to which we have become accustomed. In other words, the financial and economic world as we have experienced it in the last hundred years or so, will not last much longer.

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From the right ear, the idea of investing in 'equities' on account of apparent 'value' alone is equally as distasteful to me. In the years to come, as the financialization of our world crumbles, it will become apparent that 'value' seen from the perspective of past results is misleading. For a hint, witness the legendary Eastman Kodak, a 130-year old company which

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over the years went from being George Eastman's entrepreneurial crucible to a growth stock to a blue chip to a value stock, but now teeters on unavoidable bankruptcy. It is a sad story of value destruction, mismanagement and institutional stupidity replete with lessons that generally remain unlearnt. 'Value' as seen through the prism of past earnings—the nature of which may have been influenced by credit creation and thus illusory demand or false price inputs—is not only inadequate but also deceptive.

One of the unassailable consequences of the series of crises through which we navigate is the certain but permanent change in the structure of production from a state reliant upon continuous credit creation to one which demands economic viability on its own. And while it is human and sensible to see 'value' as we have been used to measuring it in years past, its financial antecedents force us to re-examine it, not only in price but also in terms of desirability.

Both of these distinct but opposing voices to which I alluded offer many useful and practical applications, but only to the extent that we can come to our own conclusions about what is valuable and what is merely cheap by the standard of others.

How do we know what is the right thing to do? Indeed, how do we know that we know? How do we know that what we know is not just an illusion? The problem of money suffocates us.

"In a telephone conversation," writes Paul Cantor, "one does not see the person one is talking to, but has the illusion of being in his presence. Similarly, in a paper money economy, one does not see gold anymore, but the currency gives the illusion of the presence of wealth." He also reminds us that "as Mises has shown, the whole of inflationary policy depends on the confusion in any system of indirect exchange between money and capital—the illusion that pieces of paper are somehow wealth." If so, seeking to find 'value' while defining it by using the very illusory paper in which it is expressed, is sheer nonsense.

This is not to say that I am against the idea of investing in the securities of exceptional companies. On the contrary, I have greater trust in the ability and character of some entrepreneurs than in the promises of the state and its bankers. My point is that we must define what is exceptional without relying solely on the existing yardsticks of 'value' since they are generally based on money price inputs that are plain false. Investing in the securities of companies demands a complete re-thinking of what is value—to us. In time, over the years to come, many more people will re-think this issue, particularly after their customers' money is gone. And if, as I alluded earlier, the financial and economic world as we have experienced it in the past is to end (and it will), it follows that the idea of what is 'value' in an economic world of zero-GDP and zero–credit growth will be undoubtedly revisited. But as it happens in the long history of man, real economic enlightenment must be preceded by the pain of the economic and intellectual bankruptcy of the old era.

Falsehood

It comes as no surprise to anyone that the setting in which we employ our capital is utterly corrupt. The hopes and dreams of a new era have been destroyed. There is no faster GDP growth, no technology miracles, no peace dividend and no greater productivity. The official statistics are all phony. All we have is ever-increasing intervention and manipulation by central planners around the world. This is a daily observation and a frequent topic of conversation among colleagues. If dishonest money begets dishonest accounting, it also begets dishonesty and corruption in every aspect of life—from the boardrooms of the big bankers down to the lowest economic agent.

Even mainstream authors are beginning to see the state as the author of all this malaise. The 2012 Index of Economic Freedom published by the Heritage Foundation and the *Wall Street Journal* castigates government but does not see the corrupt nature of our economic system. It says: "Rapid expansion of government, more than any market factor, appears to be responsible for flagging economic dynamism. Government spending has not only failed to arrest the economic crisis, but also—in many countries—seems to be prolonging it. The big-government approach has led to bloated public debt, turning an economic slowdown into a fiscal crisis with economic stagnation fueling long-term unemployment." Accurate but inadequate. It does not address the lawlessness that defines our modern world, and thus fails to note that our system of inflationary finance has brought about increased levels of deception, fraud and unreality.

In his recent book *Extreme Money*, Satyajit Das explains, "money changed from a mechanism of exchange into something important in its own right. It ceased to be a claim on real things, becoming instead a way of to create wealth, increase economic activity, and promote growth." About the value of money he writes that "modern money is inherently worthless but everyone accepts it as real," and that "paper money is an abstraction or, as most of it does not even exist physically, the abstraction of an abstraction." You now understand why I am convinced that prices are just meaningless and traditional value-seeking futile.

It is in the authorities' best interest to maintain the system of inflationary finance even as it is exploding out of control. As a result, in addition to the distortions brought about by the credit deluge, governments are encroaching into more and more areas of the world economy. This is not just through political farce (witness the Euro area melodrama), nor even through the conventional mechanisms of intervention in foreign exchange. What we see are direct and indirect interventions and manipulations in the money markets, bond markets, stock markets, precious metals, oil and so forth. Furthermore, extreme leverage, high-frequency trading, rampant insider trading, expert networks, the Permanent Open Market Operations (aka POMOs) and so forth, all magnify the intensely political problem. The combined effect results in extraordinary movements in prices that serve no purpose other than to conceal reality, prolong the inevitable clearing and continue to give false signals to all participants. Pumping the Dow Jones Average so as to create the impression that the economy is alive and well is just plain irrational and stupid. The brutal discipline that is imposed by the market has merit and is indeed a necessary ingredient in the functioning of a free market, in that it ensures both the right to succeed and the right to fail. Alternatively, price discovery in a system where prices are manipulated is not price discovery at all. It is a condition that sows discord, distrust and the seeds of another cycle that ends badly. The mischievous end of manipulation is to encourage speculation which ultimately disintegrates the real economy even further.

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The shape of things to come

The most critical result of inflationism is not financial at its root. Cantor explains it as follows: "inflation is that moment when as a result of government action the distinction between real money and fake money begins to dissolve. ... Money is one of the primary measures of value in any society, perhaps the primary one, the principal repository of value. As such, money is a central source of stability, continuity, and coherence in any community. Hence to tamper with the basic money supply is to tamper with a community's sense of value." This is precisely the reason for the underlying moral crisis of our times. The weight of history bears witness to this statement and it is a far greater concern than the dreaded volatility we seem to fear.

It is no wonder that sensible and learned forecasters paint a very dismal picture of our world to come. I am hardly ever impressed with talk of doom and gloom as I am with the promises of government employees that things will get better. Yet, one cannot escape the consequences of so much misbehavior nor dismiss the inescapable impact. From country to country and region to region, in small or large measure, and sooner or later, we consider the eventual consequences. The list is daunting: political instability, stagnation, rebellion, social unrest, hunger, protectionism, nationalism, more intervention, regulation, confiscatory taxes, oppression, joblessness, insecurity, class warfare, limits to competition, greater government control in more aspects of daily life, the bankruptcy of pensions and the impoverishment of billions. Perhaps even revolution and war. On a recent trip to Greece to see things for myself, I witnessed a microcosm of an imploding world.

It is quite natural that most people find it difficult to even imagine, if not accept, the miserable consequences of folly. It is perhaps that for so long, we have been forced to live for the moment, invest for the moment, plan for the moment and measure for the moment. Nonetheless, virtually everyone agrees that something is terribly wrong, that the 'system' is out of control, that the politicians, bankers and investment professionals are confused and that all the old assumptions and promises have failed. Things are not working as they should. For the moment, much of the morass is focused on Europe but the situation in America is, at its root, far worse. I have a feeling that when the fear over sovereign debt moves across the Atlantic (as it will), all hell will break loose. But that may take time.

On a recent trip to Dublin, as I was exiting the airport I saw this sign in Gaelic: "Cosc Ar Fhilleadh." It simply means "No Return," but it impressed me for being analogous to our times: mystic, incomprehensible and leaving no room for doubt about the possibility of going back. I would like to think that after the smoke clears, the world of tomorrow (perhaps even in my own lifetime) will be a better one.

I can imagine a massive shift of perceptions toward thrift and honest work, toward a culture of postponement of consumption in favor of production, one of self-reliance and contracting political power, and a new renaissance in the productive economy as against the financial one. Between now and then, whether in politics, economies or in the investment process, this dreaded volatility will remain a reminder as to what is real and what is an illusion.

Capital preservation

For those of us who are intent on protecting our capital, this is not the time to be either doubtful or irresolute as to the right thing to do. Furthermore, it makes no sense to rely on financial assets, markets, consensus opinion, the promises of well-meaning folks or the wishful expectations of the many. On the contrary, this is a time for conviction and boldness. Our overriding aim, as I have described earlier, is to focus exclusively and fiercely on independence, scarcity and substance. To do so, we need to make a wholesale change in how we think about everything.

The crisis everyone is talking about—yes, the one that is about to unsettle the world we have known for so long—is one that starts and ends with leverage, unsustainable debts, insolvent governments and insolvent banks. It is a crisis of money, money substitutes and money-related activity and assets. Consequently, the destruction of credit, the 'deleveraging' everyone talks about, and the ensuing impoverishment in terms of money, need not in any way destroy the physical capital employed. Some of this capital is useful and sustaining; in other words, it has economic value.

Most financial and investment professionals fail to make the crucial distinction between what is economic and what is purely financial. In fact, everything is measured by the same ruler and counts as if it were the same. We have become accustomed to seeing higher asset prices, more money and greater financial activity and counting it all it as desirable growth. As a consequence, we have long been used to viewing our investments as a means of 'making money' rather than with the eyes of owners intent on accumulating capital and productive assets.

For the sake of conviction and boldness, I see our investment practice forward having just two simple and distinct pillars: first, ample liquidity, and second, a collection of permanent and productive assets to which we can add opportunistically.

The wonderful world of cash...

If we are going to have cash or liquid assets for the purpose of waiting out the uncertainty or as a means of acquiring more productive assets, we cannot afford to have the kind of cash that is merely the promise of an insolvent government—thus lacking value of its own—no matter how popular it may be and no matter the relative trust people assign to it from time to time. I don't know anyone who anticipated the popularity of the New Guinea Kinas or anyone who can correctly guess what any one money will do as against another. Besides, this is not the kind of activity suited to the accumulation of capital. Owning "an abstraction of an abstraction" and calling it "cash" is a terribly dumb idea no matter how acceptable others find it. As it is, nearly all our liquidity is in precious metals, but it is not a matter of price against another kind of money and it is not for the purpose of 'making money.'

Viewed as cash, precious metals provide us freedom from the immoral banking system that envelops us. Most people have cash in some variety of paper. That's fine, but in reality, they don't quite have it. They think

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it is in the bank because it says so in their monthly statement, but the bank doesn't really have it either. I don't see the merit in having money that requires me to trust someone. Others keep their liquidity in government bonds—but exactly what is a government bond? Let's not go there. Suffice to note that it is not money either, despite the fact that one can often 'make money' by owning them. Our own liquidity is not subject to credit risk, liquidity risk, counterparty risk, rating risk, interest rate risk or duration risk. Furthermore, it is not subject to political risk. Yes, we pay something to store it in a secure place, and yes, (as also is with paper money) it does not earn anything. Wonderful. That's the whole point about cash. Lastly, with gold, there is no possibility for betrayal.

… and that of Rudolf Pazeller

The rest of our assets are stakes in the ownership of a few corporations. Their shares may trade on a stock exchange, but liquidity is not a factor in our ownership. Each of our holdings, whether we value it on account of scarcity in resources or because it carries physical or operational substance, contributes to our aim of independence from our financialized world.

The bulk of this letter was written during a brief Christmas holiday in a small village in the mountains of the lower Engadin valley in east Switzerland. I stayed at the 17-room but utterly splendid Schlosshotel Chastè, and was served by the owner, Rudolf Pazeller and his family. I was astounded to learn that the business had been in the same family for 22 generations. They were incredibly proud and quite exceptional as hosts. Had it been possible, I would have bought shares in this business right on the spot without even as much as looking at their financial statements. But it also occurred to me that despite the hard work involved and the occasional desire this family must have surely had over the centuries to sell and diversify their assets into some nice government bonds, they valued the simplicity, genuineness and honesty of independence, scarcity and substance.

There are many Rudolf Pazellers and Philippe Mauberts left in our world. I rejoice when I find them and grieve when they sell out. But on the other hand, I am often amazed to see the transformation of so many intelligent men who after years of building a successful business (read: hard work, illiquidity, lack of knowing what it is worth at any one time, and lack of any diversification), sell it for a pile of money (their life savings, really) and then, suddenly, become valued high-net-worth clients to clueless bankers, fund managers and other advice peddlers, none of whom has the slightest inkling of how to create such capital in the first place. It is astonishing to see the change that takes place in people once their capital is financialized. It need not be so.

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Real economic activity, the kind in which we own participations, is not suited to the mentality of investing for the moment or measuring for the moment. This is not to say there are no business risks. This is precisely why the human factor is of principal importance. By placing a portion of our capital in a business that is involved in genuine economic activity—which we can understand; which possesses either physical, technical or intellectual substance; and whose ownership and management is comprised of persons of character having priorities and motivation similar to ours—we can be quite confident that the idea of capital preservation is not merely an empty promise. (TD)

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We read

"In a capitalist economy, the wealth of the rich is in the form of capital, i.e., wealth employed in the production of goods and services for sale." So starts an open letter by Professor Reisman to some idiot who suggested that the rich do not create jobs.

"This wealth," he continues, "is the foundation both of the supply of products that people buy and of the demand for the labor that people sell." Two short sentences pregnant with the essence of the marvel that is capitalism. Should these words sound strange in our modern financial world, it is only because we have all become financialized and bambozzled with credit, money and inflating asset prices as the source of wealth and prosperity. Furthermore, for those who insist that consumption is the path to economic prosperity (a recurring nonsense that is now taken as holy writ), Reisman intimates the opposite: "Consumers are not responsible for the industrial development of any country. Consumers have myriad needs and desires, which go unmet except to the extent that businessmen and capitalists find ways of supplying them through the development of new and improved products and more efficient, lower-cost methods of production."

Read more: http://tinyurl.com/ej-reisman. George Reisman is Professor Emeritus of Economics at Pepperdine University, a Senior Fellow at the Goldwater Institute, and the author of Capitalism: A Treatise on Economics *(Ottawa, Illinois: Jameson Books, 1996).*

Urging citizens to repatriate money they have stashed abroad, the Greek Finance Minister said, "I have called for a patriotic campaign for bank deposits to be repatriated. The Greek banking system is totally guaranteed under the agreements we have made." Sure.

While on the subject, here are some breathtaking photos of the old place: http://tinyurl.com/ej-greece.

"In the course of this work, I have clearly expressed my opinions as to the final fatal effect of the paper money: those opinions are in direct opposition to those of the Ministers and the Parliament. Time, the trier of all things, must now decide between us; and if I be wrong, I have, at least, taken effectual means to make my error as conspicuous and as notorious as possible; while, on the other hand, if I be right, I have laid the sure foundation of complete triumph over my haughty, supercilious, unjust and insolent foes."

—*William Cobbett,* Paper Against Gold; or The history and Mystery of the Bank of England, of the Debt, of the Stocks, of the Sinking Fund, and of all the other tricks and contrivances, carried on by the means of paper money (*London: self-published, 1928) p. 331.*

The MF Global scandal (See the now-famous Reuters article by Christopher Elias that exposed the massive fraud of re-hypothecation) is but a small example of the grand fraud that permeates our financial world. Fred Sheehan writes that it is "a revelation in financial leverage." He draws five lessons:

"First, if not for the money stolen from MF Global's customers, Reuters probably would not have set Elias on the trail to re-hypothecation. Second, it is when good credit is receding that such scandals come to light. (Madoff.) If not for the slide in European sovereign bond prices (the route by which MF Global's CEO leveraged and bet the solvency of his firm), MF Global would not have disappeared. Third, and very much related to the previous point, the world's good collateral shrinks by the hour. Fourth, the supposed bond 'guarantees' that authorities bray about are a chimera. Quoting Elias: 'Backed by the European Financial Stability Facility (EFSF), it was a clever bet (at least in theory) that certain Eurozone bonds would remain default free whilst yields would continue to grow.' The EFSF is backed by words, not assets. The more that governments and international bodies vote to back spiraling guarantees, the less their guarantees are worth. Thus: good collateral as a percentage of paper and paper promises shrinks. Fifth, and very much related to points two through five, it is only the spiraling of financial leverage that prevents the financial economy from collapsing."

Christopher Elias' article can be found at: http://tinyurl.com/ej-elias. Frederick J. Sheehan is the author of Panderer to Power: The Untold Story of How Alan Greenspan Enriched Wall Street and Left a Legacy of Recession *(McGraw-Hill, 2009). His website is http://www.aucontrarian.com.*

Murray Pollitt is a tough guy. An engineer by profession, he's better known as the head of the eponymous Pollitt & Co in Toronto (www.pollitt.com). A dozen years ago, he convinced me beyond doubt about the brilliant substance that was (and is) behind Imperial Oil Company and other investments. But of all things, he knows mining. His opinions are often far from consensus or the glossy promises of the stock merchandisers on Bay Street. In his January 18 memo to customers, he contends what many do not accept—that is, that the mine supply of gold will "soon enter a long-term decline." He argues that despite higher prices, economic reserves are being depleted. He talks about how the old business of prospecting has been supplanted by "slick promoters," and about the bull market in the politics of regulation and tax. But finally, he talks about cost—not the kind that can be summarized in an income statement but the necessary and real one.

"Over and above the usual complement of engineers, geologists and surveyors," he writes, "UG mines need all sorts of skill sets: raise miners, drift miners, longhole miners, shrinkage miners, shaft sinkers, ventilation experts, mechanics (a million dollar jumbo drill has a diesel engine plus mechanical, electrical, hydraulic and compressed air systems), rock mechanics experts, blasting experts…, knowledge of cementing, pumping, compressing and, if a mine is deep, a knowledge of seismic activity." Indeed, you don't find these folks on Wall Street or among the millions of investment advisers and bankers. "There may be a glut of lawyers, accountants and public sector employees," he writes, "and there may soon be a glut of traders who churn away in a zero sum game with their counterparts in one acre trading rooms, but there is no glut of the above mining skills. It will take many years to rebuild the UG mining business. And it will be costly. Anybody who believes operating costs as expressed by many mining companies today presumably believes in the tooth fairy, but future costs will dwarf today's."

Very frequently in recent times, the quest for what is right is the main subject of your editor's private correspondence. Fortune has it that he has several like-minded partners in thought. In one recent exchange with a friend, the matter being discussed was our mutual reflections on the future of the "financial industry" and the nature of our role as fiduciaries. Following are some random thoughts that he shared with me:

"I believe the savings industry is a fundamentally noble endeavor. The protection of capital and its efficient allocation rewards today's savers and improves their material well-being. But since technology, knowledge and know-how grow cumulatively, each generation of scientists and entrepreneurs rely on those preceding them. Thus, a more efficient allocation of today's savings lays a more solid and plentiful foundation for the generations of tomorrow.

"However, I also believe that the industry has been corrupted by what I consider an intellectual fraud which has fostered a thirty-year credit inflation. Industry leaders today earn dominance not by outsmarting their competitors' technology, productivity or design (as in other industries) but by telling more plausible lies. The asset gatherers promise unsuspecting savers a mathematical impossibility: that they can all outperform the market. The brokers lie to the asset gatherers: they promise they can all help.

"Our industry has few 'satisfied customers' because few in the industry care about the ultimate end-customer (the saver) upon whose wealth tomorrow's prosperity depends.

"Brokers, banks and asset gatherers are kleptocracies not only in function but in form. Division heads are there because they are the most ruthless politickers. They are the hungriest for power and status. Their only aim is to make money. Every day they ask 'are we making money? ... Does he make money? Does she make money? Do they make money? ... Will we make money next year? ... How can we make more money?'

"There is nothing wrong with making money, of course. But the way money is made is more important to me than that it happens to be made. Rarely in my career have I heard the question 'Are we doing the right thing by our customers? Are we providing them with a world class service? Are we improving their well being? Are we delivering what we promised?'

"The foundation of any industry is the systematic exploitation of its expertise: expertise in crafting furniture, engines, bridges or clothes. But in the savings industry, expertise is of a perverse kind. It is the heightened ability to bamboozle and fudge with nonsensical linguistics ... What makes a successful investment business is a greater ability to hide the truth, than to expose it.

"But I believe savers are beginning to understand that they are being lied to. I've had a few friends ask me what they should do with their money. They don't know much about investing but they know that leaving money in the bank at rates below CPI inflation doesn't work, that paying a mutual fund to basically track the index doesn't work, that the index itself doesn't work, that ten-year 'risk free' bonds don't work, that 'structured products' don't work, that hedge funds charging two and twenty don't work, etc. They feel they are beset by phonies, liars and con-men at every turn, and intuitively sense that all such 'products' are little more than sophisticated clandestine wealth siphoning vehicles, allowing the advisor to take a cut of their wealth. And they are right."

Perhaps one can't quite appreciate the quest for doing what is 'right' until after he has come to conclude, on his own and without doubt, the nature of what is 'wrong.' More correspondence to come.