

PLUMB REPORT PLUMB PERSPECTIVE EDITORIAL

December, 2010

Weimar? Why More? Why Not?

As I was strolling through the Art Institute of Chicago the other day...

...Chip tosses out casually, as if this is a normal part of his refined, urbane lifestyle.

Truth be told, I only do this every decade or so. It rekindles Mary Kay's dying ember of hope that I may not be a complete cultural cretin. Plus, it gives me a chance to move my Art Institute membership card ahead of my health club membership card in the back of my wallet. It's kind of like rotating the tires on a junkyard car.

Anyway, during my recent decennial stroll, I was busy practicing my "looks." I was trying to affect the penetrating, contemplative look of the *esthète* absorbed in concentration. My "look" was meant to convey the impression that "I get it;" I am one with the inner angst that drove the artist to not paint anything at all on the canvas.

The work was entitled, "Ran Out of Paint."

It didn't occur to me to take a photo of the actual painting (or, non-painting, as it were), but it looked sort of like this. The plaque describing the piece said:



Ran Out of Paint -- Floyd "Smitty" Smith

*Floyd "Smitty" Smith
American, 1949-*

*Ran Out of Paint,
August 1988
Nothing on canvas*

Searching for meaning (and paint) after the unexpected closing of his inspirational milieu (Bert's Corner Tap), Floyd "Smitty" Smith was among the first generation of artists who sought to define art through the absence thereof. The complete lack of brushstrokes (which became a hallmark of what scholars later dubbed "The Lethargism [Non-J]Movement") forces the viewer to come face-to-face with the inherent discomfort of comprehending a painting devoid of paint. The subject-less non-image raises "eye-of-the-beholder" to a new plateau, causing the mind to rebel as realization dawns that there is nothing to juxtapose. In the final analysis, however, it is the very absence of paint that invites one to identify with "Smitty" as a modern day everyman, who, having come painfully close to finally finishing off that rumpus room, realizes he is going to come up one quart short, on a Sunday night, when every damn paint store in town is closed.

[Note: "Ran Out of Paint" foreshadows the expansive omnipresence of the artist's 1990 work, "Air." This "lung-of-the-beholder" chef-d'œuvre is an ever-changing, interactive composition on display throughout the gallery.]

Surreptitiously, I scanned the room with my peripheral vision to gauge the effectiveness of my "look." I spotted a woman staring at me. She was, perhaps, simultaneously appreciative and envious of my palpable art expertise. She studied my look of affected deep concentration and then whispered to her husband, "That reminds me, we need to buy diapers on the way home."

My "look" clearly needed more work before I could really blend with the art aficionados. In my quest to appear "in my element," on the Assimilation Scale, I had risen to somewhere between "Pope at a Panty Raid" and "Catherine Deneuve Buying Bait,"

I moved on from the blank canvas to try out another "look," softening the furrowed brow two notches so that I didn't look like I was making an art project in my pants. I saw this painting. I did a [spit take](#). It hit me like a really heavy, fast moving thing that would cause you to lose your balance and be startled if it unexpectedly collided with you when you were just standing there daydreaming about how old you would be the next time you had to go to the Art Institute and that you probably wouldn't live that long if you didn't start going to that damn health club:



This one's plaque said:

Conrad Felixmüller
German, 1897-1977

The Death of the Poet Walter Rheiner,
August 1925
Oil on canvas

Searching for meaning after World War I, Conrad Felixmüller was among the second generation of artists who looked to Expressionism to carry an ecstatic, near-spiritual sentiment in the Weimar Republic. Felixmüller painted this dramatic image after learning of the 1925 suicide of his friend the poet Walter Rheiner. Juxtaposing the falling man against a chaotic Berlin backdrop, the artist represented the struggle of the individual in the modern world. By inserting his face in place of Rheiner's, the artist related his own inner conflicts about postwar existence. In its subject, Felixmüller's tragic portrait vividly represents the Weimar Republic's political and social urgency, and with its inky nocturnal glow, it suggests the enduring romantic danger of the modern metropolis.

I was profoundly moved by the umlaut in the artist's name and, without really giving the decision the deliberation it deserved, I made a mental commitment to start spelling my name "Plümb" (the name with a smile in the middle). I wish I had taken the time to think through all of the ramifications, but what's done is done. To take my mind off of worrying about how much of my life I was now going to waste adding two stupid dots every time I signed my name, I turned back to the plaque.

I was immediately roused from my melancholy when I realized that this was the first time I had ever seen the Weimar Republic mentioned without the word "hyperinflation." I needed to take a closer look at the picture...

...and I saw the present day central banker pulling down the curtain on a vibrant economy after having injected it with too much liquidity (note the syringe in the left hand). Art can inspire, and this picture inspired me to write about the next phase of the financial crisis that's getting ready to create some serious "political and social urgency."

WEIMAR? WHY MORE? WHY NOT?

A PLÜMB PERSPECTIVE EDITORIAL

As I was sitting down to write this editorial, I heard a guest on CNBC eloquently sum up the way I'm feeling these days in light of the Fed's decision to plunge into a second round of quantitative easing:

It's historic. It's crazy. It's historic and it's crazy, and anyone who tells you they know what they're doing—run away from 'em. We've never had this kind of stuff. It's never happened before. And, they certainly didn't teach it in business school.

—Kevin Ferry talking to Joe Kernen on CNBC's Squawkbox 10/26/10

I started writing the **Plümb Performance Portfolio**® six years ago because I sensed that the average investor was unaware that things were changing. Fundamental shifts were taking place that would radically alter the investment landscape for at least a generation. The trend underlying all of these shifts was the inexorable march toward unsustainable debt levels at every level of the global economy.

Such a dramatic change in the investment environment required an equally dramatic change in investment philosophy. The more I studied the economy and markets, the less comfortable I felt about the conventional investing wisdom. I've read a great deal about debt bubbles. Nothing I've read ends with the phrase "happily ever after." I became convinced that a static portfolio allocation dominated by U.S. stocks and bonds was not going to provide anywhere near the returns it had in the past. I needed a much broader array of asset classes and I needed to adjust my allocations based on valuations and expected returns. That's the essence of the **Plümb Performance Portfolio**®. Now we're hurtling headlong into the next phase of this unfolding economic disaster—global quantitative easing.

As such, dear reader, our wait is over. The reason I've been encouraging you to buy precious metals is now here. We've purchased the flood insurance and, now, it's starting to rain. When I starting writing this letter in 2004, an ounce of gold insurance cost \$418 and an ounce of silver insurance cost \$7. Now, as the deluge of fiat currency inundates the global economy, the insurance of precious metals is paying off. Gold is trading at \$1388/oz. and silver is trading at \$28/oz.

[Side Note: This represents returns of 21% per year for gold and 26% per year for silver versus only 13% per year for commodities and 4% per year for PCRIX. My analyses are starting to show that PCRIX may be due for some catch-up with precious metals. As such, you can anticipate a shift from precious metals to commodities in future allocations. It's not that I'm that enthused about PCRIX, but in the low return environment I'm forecasting, it looks like it might be the leper with the most fingers.]

Jargon & Euphemisms

"Quantitative Easing" is a euphemistic term for printing money. "Monetizing the Debt" means the printed money is used to buy government debt. This is jargon we have been hearing a lot recently. Get used to it, but remember, these are just euphemisms for printing money. My fear of money printing is the main reason I changed my investment philosophy and started writing the **Plümb Report**®. Now it's playing out.

Borrowing is a way to buy something before you have generated the money to pay for it. Debt is the measure of this accelerated consumption. There's an "enduring romantic danger" to enjoying something now, but not having to pay for it until tomorrow, or the next election cycle. Like ice cream, plastic surgery or flatulence, it is so tempting that it can easily get out of hand. Typically, it's the lenders who rein in this desire for immediate gratification. As I've discussed at length ([This Changed Everything, Part II](#)), this system broke down when the Fed artificially lowered interest rates.

Now, we've come to the next act in this tragedy. The Fed has gone as low as it can go with interest rates. Despite all this traditional easing of monetary policy, it feels like the recession has never ended and, in fact, is getting worse. Having reached the interest rate basement, the Fed has decided to start digging. It's time for quantitative easing (let's just call it "Queasing")!

Default Through Inflation

When you or I take on too much debt, we face some pretty daunting options. We can get a second job to generate more income, or we can dramatically reduce our spending. If we're deep enough in debt, we go bankrupt and default. According to the latest survey results from The Federation of Genies & Fairy Godmothers ("FG Squared"), none of these alternatives appear on the list of "Top Ten Things People Wish For."

The same odious options apply, when a country (either directly or through promising future entitlements that it can't afford) takes on too much debt. It can generate more income by raising taxes, it can reduce spending or it can default on its debt and entitlement promises. Politicians are about as enthusiastic about these alternatives as my wife is about cockroaches in our bed.

Unlike for you and me, however, for many countries there is one more option. If a country prints the currency in which its debt is denominated (and that currency is not backed by gold), it can simply print some more of the currency to pay off its debt. This is the dreaded debt-monetization.

As it has for millennia, "The Power To Print Money" continues to jostle with "Being Invisible" and "The Ability to Fly" at the top of FG Squared's survey results. Given how tempting it is for politicians to resort to debt-monetization, it's not surprising that this has been tried many times in the past. It usually ends in disaster, but sometimes it's far worse. Sometimes, it brings down the entire country. For example, [coin clipping](#) played an important role in the fall of the Roman Empire. [John Law's money creation scheme](#) set the stage for the French Revolution. And, bringing us back to this editorial's title, in the [Weimar Republic](#) of post-World War I Germany, money printing caused the currency to lose so much value that it became cheaper to burn money for heat than to use the money to buy coal. The Weimar hyperinflation set the stage for the rise of Nazism.



Inspired By An Unblemished Record of Failure...

...the U.S. is rushing headlong over the cliff of money printing. This seems crazy to me, but I thought the same thing about TARP, Cash-for-Clunkers and the Home-Buyer Tax Credits. They all seemed like efforts to cure alcoholism with more drinking. Money printing, however, seems more like resigning yourself to the fact that you're going to die an alcoholic. It seems like our government stays awake nights coming up with new ways to worsen and extend this crisis. If that's their goal, this should be their crowning achievement.

As best I can tell, here's what they hope will happen:

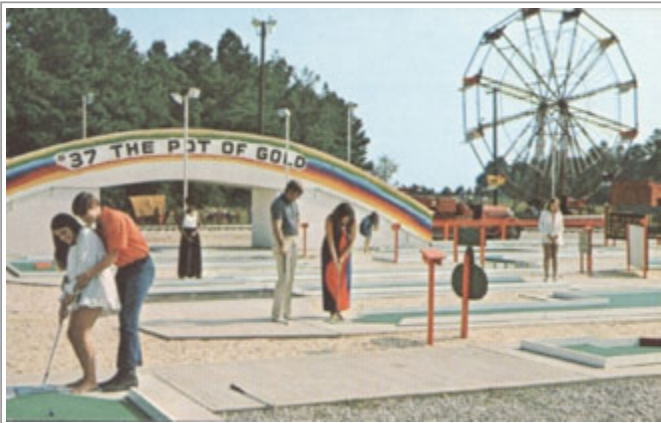
- » Printing more money will create another buyer for treasury bonds. This extra demand will drive down interest rates.
- » Lower interest rates will free up more borrowing capacity, encouraging consumers to shop and businesses to expand.
- » Creating more dollars will devalue the purchasing power of each dollar, generating just the right amount of just the right kind of inflation.
- » A lower dollar will spur U.S. exports and create jobs.
- » It will also make imports less attractive, reducing our trade deficit.
- » Rising prices will make consumers want to spend quickly, before prices go up more.
- » The increased demand from more spending will cause businesses to hire more workers, reducing unemployment.
- » Price inflation will force employers to raise wages to help their employees keep up with the rising cost of living.
- » Rising wages will help people pay off debts.
- » Wage and price inflation will cause house prices to rise.
- » Rising house prices will help underwater mortgage holders and reduce foreclosures.
- » Printing money will help the government to pay off debt, which is politically more palatable than raising taxes or cutting spending.

Right after all this happens, peace will break out in the Middle East, Congress will embrace the need for bipartisan cooperation and my Mom will finally buy me a mini-bike.

What's The Economy's Handicap?

If you're unclear on how this strategy will work, Ben (not Hogan or Crenshaw) Bernanke, has been kind enough to make things crystal clear with [this analogy](#):

Imagine that you are playing in a miniature golf tournament and are leading on the final hole. You expect to win the tournament so long as you can finish the hole in a moderate number of strokes. However, for reasons I won't try to explain, you find yourself playing with an unfamiliar putter and hence are uncertain about how far a stroke of given force will send the ball. How should you play to maximize your chances of winning the tournament?



Some reflection should convince you that the best strategy in this situation is to be conservative. In particular, your uncertainty about the response of the ball to your putter implies that you should strike the ball less firmly than you would if you knew precisely how the ball would react to the unfamiliar putter. This conservative approach may well lead your first shot to lie short of the hole. However, this cost is offset by the important benefit of guarding against the risk that the putter is livelier than you expect, so lively that your normal stroke could send the ball well past the cup. Since you expect to win the tournament if you avoid a disastrously bad shot, you approach the hole in a series of short putts (what golf aficionados tell me are called lagged putts). Gradualism in action!

Just for the record, the “lagged putt” that our Fed chairman is lining up amounts to \$600 billion, or over \$5,000 for every household in the U.S. I don’t know about you, but I shudder to think what the putt would have looked like if he had really decided to take a run at the hole. In the jargon of golf, this is not a “gimme.” What our miniature golfer fails to mention is that many people before him have tried to use this putter and not one of them has been able to hit the ball in the hole with it.

Less Is, Um, Less

My editor-in-wife, upon proofreading the original version of this editorial, said the same thing she always says:

It’s good, but it’s too long. You’ve got to leave them wanting more.

During the last six months, I’ve been part of the Lethargism School of editorial writing and, judging from the emails you’ve all been sending me, it has definitely left you wanting more...or at least something. So, I’ll stop here which will insure that I’ll also be able to get an editorial out next month (since it’s already written). I’ll make you wait until then to start reading about some of the reasons why queasing might not work out quite the way its advocates and lag putters hope it will.

In the meantime, I’ll leave you with this simple thought.

If money printing had ever worked, then we wouldn’t need taxes. The government could just print the money it needed rather than enduring the wrath of the electorate by taxing them.

That, in a nutshell, is **why not why more Weimar**.

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