



CMEFS WEEKLY INVESTMENT NEWS

07 08 2020

Hello and welcome to this week's edition of Investment News.

Before we go into this week's discussion, let's see how the CMEFS Flexible fund has done for the year thus far as compared to the All Share Index (ALSI)

Fund	Last week Thursday	This week Thursday
ALSI	-0.66%	+1.56%
CMEFS Flexible Fund	-0.17%	+0.28%

For too many years now the world economy has been on the bodily equivalent of steroids to keep it alive.

This bodily equivalent of steroids is what is euphemistically known as "quantitative easing" otherwise known as "the printing of money that does not actually exist" in the hopes that no one really notices and spoils the party by bringing it to everyone's attention.

REAL money cannot simply be printed.

REAL money in the economy is the sum total of the effort each and every one of us either has or will put into serving one another in some way or another.

For example, imagine that we are at the very beginning and there is no money at all. There is also an environment of absolute trust and zero criminality or fraud. (Well at this point we know we're not in SA anyway)

You and I need to figure out a way to keep track of "who owes whom" in so far as goods and services provided to each other (and to and by others) are concerned.

So we hit upon the idea of signing bits of paper saying that seeing as I provided "x" number of hours of my TIME to you in respect of services rendered to you, you, in turn, owe me "x" amount of TIME in so far as services yet to be provided to me, by you, are concerned.

So given that in this instance I provided you with the service first, you are indebted to me for "x" number of hours of your TIME.

That little IOU note that I am holding that you signed off on saying that you are indebted to me in so far as providing me with “x” hours of your time is what REAL money is.

It is the materialization (by putting the idea of the debt down onto paper) of a debt owed by someone to someone else for services rendered and/or goods provided.

That little IOU note is what has over very many years now become what is known as “currency in circulation”, whether it be denominated in Rands, Dollars, Pounds, Euros, or whatever.

The idea is the same no matter what it is called.

They are all little IOU’s that have been passed between us so that we can buy ALL of the various goods and services we require to live in this modern age, for services that either have been or will be provided by us, to others, in turn.

However, getting back to that very first IOU, you might ask the question, “How real is it?”

Well, if you decided NOT to fulfill your end of the obligation that you signed off on; because the obligation has been materialized, I can take this piece of paper to an arbiter of sorts (remember this is still the beginning) which arbiter through tribal law or whatever will be able to force you to fulfill your end of the bargain, failing which (by way of motivation) you will in all likelihood die a very horrible death. (Again remember this was “back in the day”)

Now let’s “fast-forward” and call each of these little IOU’s you are holding, Rands.

Each Rand that you are holding means that you have given up so much of your TIME (now measured in Rands instead of hours) to someone else to provide such persons with goods and/or services that you can provide, and in return, they are obligated to provide you with an equal amount of their TIME to satisfy this debt.

Of course, over time, you may well accumulate more Rands than you can actually spend, so a need arose for some kind of institution to be created to hold these excess IOU’s.

And so the banking industry was born.

However, not all banks were run along sound lines, some lending money recklessly, resulting in their becoming insolvent and not able to meet their depositors debt obligations.

And so the need arose for the creation of a “Bank for Banks”.

These “Banks for Banks” are what are known as “Central Banks” or more locally, the SA Reserve Bank” or in the United States, the Federal Reserve Bank.

Their original main and only job was to ensure the safety of deposits made with individual banks and to keep a track of this “money in circulation” through the banking system.

By keeping a track of this “money in circulation” through the banking system, they can ensure (in a perfect world) that only the exact amount of hours worked by each of us is circulating through the economy in the forms of Rands, so as to protect the integrity of the system.

What you do not want to happen is for your neighbor to set up a printing press that fraudulently prints IOU's for services they HAVE NOT, DID NOT, AND WILL NOT render and then exchange these fraudulent IOU's for real ones taken from you.

Let's look at this transaction in the microcosm.

You perform real work for your neighbor thus giving up a chunk of your time.

Your neighbour now owes you the same amount of time back OR s/he can provide you with equivalent value IOU's for work s/he performed for someone else, and you can now use these IOU's signed by this someone else to provide goods and services that you need from this someone else.

So you trundle off to this someone else's home and present them with these IOU's asking that they satisfy their debt to you (as you now own their IOU's) in respect of the specific service they can provide you with.

This someone else takes one look at them and is able to prove to your satisfaction that they were not signed by them and that they thus have no obligation to you in terms of the services now requested.

Now unless you can find your neighbour (who by now is no doubt long gone) you will have suffered a very real loss as you will have given up a huge chunk of your TIME for no reciprocal reward at all.

And for TIME here, substitute the word for LIFE.

And each of us has a finite amount of life in us, so to lose some of it through the fraudulent activity of another person is a very big deal indeed.

They have not simply “stolen our money” what they have done is stolen a part of our very life, a part which we will never be able to get back as you cannot go back in time to “do it over again”, and this is perhaps why we all feel so deeply about suffering any kind of loss of wealth, of whatever kind.

And now we return to the Central Banks.

When they print money that is not REAL money, they are merely creating the ILLUSION of wealth, and this ILLUSION can be perpetuated for a very long time indeed, as we have seen over the last number of years.

You might ask “Well why no one has stopped them?”

Their answer would be “We are not actually printing money, we are just borrowing money from the future, all of which money will be repaid by future generations, so you see, we are not committing fraud.”

Well, yes, but just how MUCH can realistically be borrowed from the future, as it seems right now that it is without limit, and we all know that there is no debt in the world that does not reach a limit beyond which it cannot be repaid.

I think they would be hard-pressed to answer that question as my personal belief is that they have long ago exceeded that limit.

Further to this, we all know that debt is a drag on growth (think of when you found yourself in debt – it works exactly the same whether at national or global level), so what they also are in effect saying is that growth in generations to come is going to be severely constrained as these future generations work their way through a mountainous debt obligation forced on them by us, yes us, without either their consent or knowing.

Further to this, the only hope these future generations might have of repaying this debt is by way of interest rates being kept at as close to zero as possible, or even going negative as is happening in some cases, which in effect penalizes those who are disciplined enough to save, and rewards those with no savings discipline and who are happy to continue to spend other people’s money (‘a la’ your neighbour with his/her printing press) with gay abandon.

Such a system is unsustainable over the fullness of time and will implode.

It has no other option.

Please understand though when I say this I am not saying it will be the end of the world.

What I am saying is that the world will go on simply because it must.

It will just be a very different one to the one we might have imagined.

If you take your mind back to 2008, this will give you some idea of what it might look like.

And it is in these times that those who did not have an overexposure to seriously over-valued equity will be very happy that they did not go down this road, as whatever losses it is they might have to face, it is certainly not going to be anything near those losses yet to be experienced by those holding this over-valued equity in the hopes of “beating the system”.

To give you some idea of what this “money borrowed from the future” looks like, in 2008 total US national debt (backed by the US Federal Reserve) stood at US\$6.369 trillion.

Right now it is sitting at US\$26.6 trillion and growing.

This is a bucket load of money that will need to be repaid. Not by us, but by future generations.

Alternatively, they can simply print more if they can get away with it like we did, and are doing.

If so, good luck to them.

Incidentally, if you understand the IOU concept, then you will understand why gold, in and of itself is not “money”, but merely a “back-up” (because of its rarity) to the real IOU’s that exist out there as gold cannot simply be printed.

This also explains why the price of gold has run up to the levels it now has.

As the currency is diluted (any currency) it requires more of it to purchase the same value of gold.

Much like if a glass of milk is diluted by 50%, to enjoy the health benefits offered by a glass of REAL milk, you would need to drink two glasses of the diluted milk.

And so the price of a glass of milk (gold) doubles.

This might also explain why all crypto-currencies (yes even Bitcoin) are not currencies at all, as they in no way keep track of ANY, let alone ALL, IOU’s that are being generated worldwide daily through the process of the exchange of goods and services between people.

The fact that certain people BELIEVE they have value is what is GIVING them value.

But this value is propped up by BELIEF only and has no basis in reality.

At some point, this bubble too, will burst.

Sadly, it is the betrayal of the Central Banks to preserve the integrity of REAL money in circulation that is giving them the space they need to thrive.

Were it not for this, they would not have ever gotten off the ground.

I hope you enjoyed the read.

Until next time then, do take good care of yourselves.

Kind regards, Nine, Charles, and all of us at CMEFS.