Beijing, Washington and Wall Street Impacting Stocks, Bonds and Gold: or

The Wizard of Oz Moment

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This talk will make predictions about future events

- The information is not intended to be used as the only basis for investment decisions, nor should today's talk be construed as advice designed to meet the particular needs of an individual investors.
- For specific portfolio actions, please talk with Thomas H. Wilkins about your individual concerns, needs and risk profile.

Who Was Joseph Jekyll and What Does He Have to Do with The Wizard of Oz Moment ?

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Jekyll Island, Georgia was named after Joseph Jekyll

- He never came to Georgia, but without his help in Parliament, the struggling Colony of Georgia, starting without slave labor, could easily have failed.
- He was on a House of Commons committee to investigate the atrocious crimes inflicted on debtors who rotten in prison. We will be talking about debtors today.
- Joseph Jekyll Advisers LLC honors this 18th century Englishman, the unsung hero for the founding of the Colony of Georgia
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The Idea of the Federal Reserve

- In 1907 several banking firms in New York collapsed as depositors make a “run on these banks.”
- One hundred and one years ago this month (November, 1910) Wall Street representatives met secretly in the secluded, private resort of J. P. Morgan on Jekyll Island thrashed out the intellectual foundations of a U.S. central bank.

The Discussion Begins with Debt:

Is it good or is it bad?

REVIEW OF
<u>HAMILTON'S BLESSINGS</u>

BY JOHN STEELE GORDON

FOR PROFESSOR FRED BATEMAN

BY
THOMAS HART WILKINS

ECONOMIC DEVELOPMENT OF THE UNITED STATES

THE UNIVERSITY OF GEORGIA

WINTER, 1998

Alexander Hamilton Convinced President Washington and Congress to pay interest on the debt.

Once interest was paid on U.S. bonds, banks used these bonds as reserves and issued their own bank rates.

Bonds were used to pay debts and expenses

By 1801, European capital was flowing into the U.S. Treasury.

Hamilton argued that wars are not won on the battlefield but

“Victory in the long haul of war almost always goes to the side better able to turn the national wealth to military purposes. That usually means the ability to borrow.”

It is different today

In Hamilton’s time, our national debt was a very small fraction of our Gross Domestic Product, whereas today our debt is about equal or great than our Gross Domestic Product, depending on how you calculate it.

How does the Greek Headlines Pertain to a Big Problem Facing the Investment World?

The U.S. government is a large debtor
U.S. creditors hold no collateral. Hence, there are no court house foreclosures on U.S. government debt.

What do creditors of U.S. government debt want?

Keep inflation low. Recall when interest go down, bond values go up.

Easy Money polices by the central bank. Don’t throw widows onto the street.

Lobbies for free trade policies so creditors can ship its products to debtor country

Stabilize exchange exchanges.

He who Has the Gold Makes the Rules

ChinaStakes

March 31,2009

[He Who Has the Gold Makes the Rules]

By Thomas Wilkins

Chinese central bank Governor Zhou Xiaochuan has a point when he said in a white paper only days before the G-20 meeting in London: "Issuing countries of reserve currencies are constantly confronted with the dilemma between achieving their domestic monetary policy goals and meeting other countries demand for reserve currencies.

He has captured the attention of the world, especially the US stock market which does not know how far China will push on this white paper at the London G-20 meeting. Does he want to downgrade the US dollar from the international monetary system? Can he really have a reserve asset which is stable? Can he really have a flexible asset that can expand when needed without expanding too much? Can he really get other nations to walk away from "credit-based" national currencies as reserves?

How Do Creditors Get Paid?

- Debtors Pay on Time

  Everyone Happy

- Debtors Not Paying

  Foreclosure on security held by the creditor

  Creditors make "happy day" with revised payment schedule

Domestic Loans can be backed by collateral but creditors have to seek other remedies when lending to governments

1. Slow down the country's trade
2. Take foreign assets held abroad.
3. Reduce access to capital markets
4. Attack its reputation and weaken its standing among other nations.

Assumption

Since the U.S. government debt is so large and since the deficits are still an open-ended question, our debts should play a major role in future economic policy decisions in Washington.

China has the funds

China makes the rules

The U.S. will do what it has to do to keep funds coming in from China and other surplus countries.

The music stops in Washington if China does not lend, as long as Washington has large deficits.

Why is this assumption important?

U.S. government spending is a large part of the U.S. economy.

Creditors are concerned about U.S. government's credit rating because of high debt to Gross Domestic Product.

Opposite of Hamilton's Blessings.

Wizard of Oz environment

Whereas the Wizard of Oz is one of the world's great fairytales with Judy Garland in the MGM movie, it is also an economic allegory.

Why?

Economic Message in Wizard of Oz and Why it is Applicable in 2011?

Foreclosures of farms in late 1900’s because of depressed farm prices.

High Unemployment

Panic in Stock Market of 1893 due to bubble in railroad stocks

Until the Great Depression in the 1930’s, the Panic of 1893 was the worst U.S. depression

Symbolism in Wizard of Oz

Silver slippers as the wish of the farmer for Minted Coins in silver

Gold Brick Road as Gold Standard

Lion as William Jennings Bryan who gave his “Cross of Gold” speech to the 1896 Democratic National Convention.

Scarecrow as Farmer

Why Relevant Today?

Demands for More Money Creation by the Federal Reserve.

The parallels are similar to William Jennings Bryan speech in1896 re: “Cross of Gold.”

The Federal Reserve is

Sympathetic to Money Creation. It is core to Ben Bernanke's critique of the Great Depression

Federal Reserve Activity is

Mainly helping banks with liquidity in boosting their reserves.

We are in a Japanese-like readjustment

These reserves will one day hit the money supply and is expected to have a positive [upward] effect on the price of gold and silver

Impossible to predict when this will happen but it seems most likely.

For more on this matter, go on the internet to:

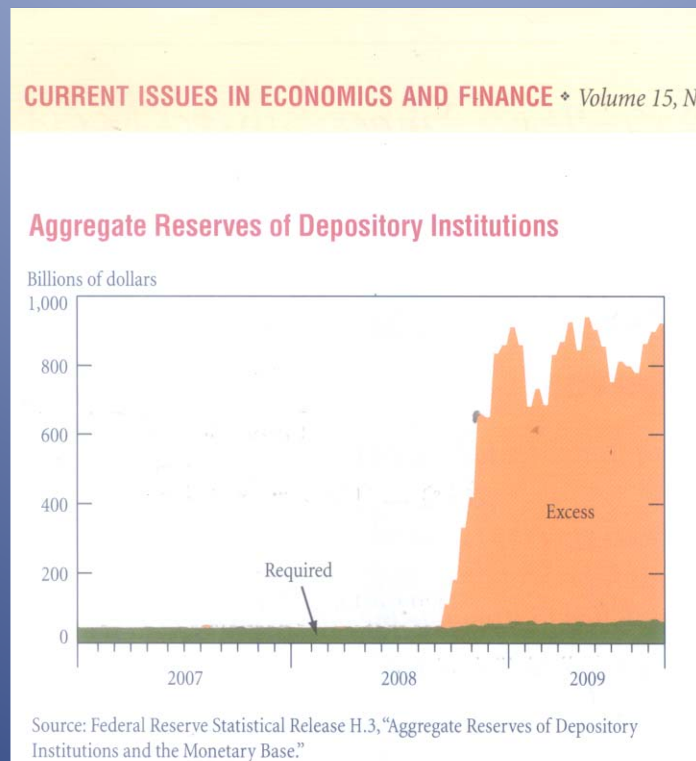
http://www.jekylladvisers.com/files/What_does_QE_2_mean_for_US_Treasury_Investors.pdf

What Does Quantitative Easing 2 Mean for U.S. Treasury Investors & Traders?

By Thomas H. Wilkins, CFA
Joseph Jekyll Advisers LLC

- Tuesday, November 9, 2010, 9:30 AM -11 A.M
- At The University Club, at the corner of 5th Avenue and 54th Street, 7th Floor, New York City

What Does Excess Reserves Tell You?



Why is the assumption important? …the assumption about debts determining future policy issues

U.S. Government spending is a large factor in U.S. Economy

U.S. Government credit rating is being scrutinized by lenders

Because of high debt to Gross National Product ratio, lenders are concerned that new debt may be too heavy.

The U.S. consumer is also considering this matter as it does just the opposite of the U.S. Government….consumer is borrowing less while the U.S. Government is borrowing more

Whereas Federal Reserve activity has stabilized the economy from the financial crisis, the pump priming has helped mostly the banks from distress rather than increase Gross National Product or lower unemployment.

THE BIG BANG à la Paris

The ghost of the U.S. TARP (Troubled Asset Relief Program) program is hovering over Paris, France. The white sheets may be covering up a much larger program than the U.S. $700 billion program legislated in 2008. The TARP-like designers in Paris want to beat us in size with a truly massive injection of liquidity into European banks and institutions, especially French banks. The TARP program evolved from the Emergency Economic Stabilization Act of 2008 signed into law on October 3, 2008. The original intent was for the U.S. Treasury to buy mortgage-back securities. Later, the original intent of the program was revised by Treasury Secretary Paulson, who argued that the “facts have changed” and a sizeable amount of money went deployed as equity investments of major banks.

By year end 2010

The build up bank reserves and liquidity and easy money policies worldwide should spill over into financial markets and raise prices from current levels.

What then are the best kinds of stocks to hold?

Remember the curve grading system in college? A grade of 40 might have been an A. The grades for investors has a lot to do with relative performance.

Apple is a good example of being another of the curve

New products

Large capital spending

No long term debt

Has $82 billion of cash, more than U.S. government

Consumer acceptance of new iPhone

The company could earn $30 per share for fiscal September, 2012 and the stock is cheap on a price earnings ratio

If the economy is growing subpar because of debt constraints, then

Remember the curve and find investments that are doing better than the pack or are well financed with better dividends returns than bond yields.

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