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COMMENTS AND CRUSADES - CREATIVE THINKING AND RESEARCH

It has been some time since I wrote about this topic. The last two times I did write about it, I received enough negative feedback that I felt that perhaps I stepped over the line and entered the political realm. Certainly, that was not my intention. Now, I am going to take another try at this topic and this time, focus on some very interesting and, I think, credible research. Included in this Investment Letter, is an attachment: an Outside The Box offering by John Mauldin, dated April 16, 2012, titled - Hoisington First-Quarter Review and Outlook

The subject of this article I would like each of you to consider and take personally. My strong belief is that government - Federal and State - has grown to a point of negative efficiency. Specifically, this means that government expenditures are a "drag" on the economy, and not a stimulant multiplier. Hoisington and Mauldin target the Debt: GDP ratio and the dramatic increase in that ratio beginning in the late 1990's. The focus is on the debt service aspect of debt growth. I believe that, in addition to this problem, is the sinking multiplier effect caused by government inefficiencies. Hoisington briefly reflects on this by saying that there is no multiplier additive to government spending as there is in private investment spending. The problem with government spending is the cost of servicing the debt, as that cost grows, and eventually this reduces the availability of private funds for investment. My thesis is that government spending today, actually has a negative multiplier that is probably in the area of $M = 0.80$ versus that of private investment that is perhaps $M = 1.3$ to 1.4 - it hasn't always been this way, as when government money was targeted toward infrastructure and other development projects (think the recent GSA disclosure of extravagant spending).

My purpose in writing this letter is to spread the word to our politicians, during this election season, that if we don't stop borrowing money to run the US Government, we will very soon find ourselves in the middle of an economic disaster, the equal of which, you and I have never known.

Read this Mauldin Outside The Box piece and appreciate the nature of the analysis and work that preceded its publishing. Then take this to all of your politicians, demanding that each act to find a solution to this debt problem. I might add: demand that each join with the other members of Congress and find a solution that all can support and that will reduce both the size of the government debt, and also the size of the government itself!

Sorry.... I apologize for my drifting into this topic. It is just that the consequences of inaction are so severe.

Sincerely,

Dick Brackett
High Desert Investment Advisors

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