

# EQUIUS ASSET CLASS<sup>SM</sup>

Modern asset class investing principles, research, and perspectives for long-term investors

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## Basic Economics

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We've proven for over 20 years that there's opportunity in simplicity for investors.\* Our focus, naturally, has been on simplifying an *investing* and *communications* process that results in more optimal long-term outcomes (financial and otherwise) for our clients. But where does, or should, *economics* enter this picture?

There is so much that federal and state governments do that ultimately (and, sometimes, immediately) affect you as an investor. Economic policy affects corporate earnings, inflation, and interest rates—all of which influence your portfolio returns—as well as what remains of your portfolio after tax to spend on your retirement, your family, or your favorite charitable causes.

But the discussion of basic economics has become so politicized that we (Equius) actively avoid talking or writing about the subject to a large degree. In fact, many readers probably have noticed that when we talk about “markets,” we tend to limit the term to the trading of public securities and only occasionally stick our neck out and mention that these relatively unencumbered activities represent one of the best examples of *free markets* that the world has ever known—“free markets,” unfortunately, being a trigger warning for many of our clients.

Some clients reading this will think we're being overly sensitive. Surely people with our collective economics and finance educations and experience, enhanced almost daily by research we review from some of the world's most respected academics, can discuss basic economic principles without risk of reprobation, right?

After all, Wikipedia defines economics as a social science concerned with *factors that determine the production, distribution, and consumption of goods and services*. We know the factors that most influence your long-term investment returns. Why not talk about those economic factors?

Well, I challenge you to read that definition of economics at your next dinner party and ask all your guests to share what it means to them. But because most people think economics is pretty boring, begin

by asking about their views on the economic policies of the last six presidential administrations.

But first, *and this is really important*, put all your sharp knives away and make sure none of your guests has a concealed carry permit.

Seriously, I think you'll conclude a few things right off the bat. First, everyone's an expert on economics and especially economic policy, whether they're artists, school teachers, physicians, lawyers, soccer moms, or domestic engineers (i.e., my mom). Second, they most likely acquired their views by reading the *Huffington Post*, *The Wall Street Journal*, *The New York Times*, or *People* magazine (the celebrities, duh).

And finally, as the conversation enters its second five minutes, you'll notice how no one really talked about basic economic principles. It veered immediately into complaining about “the rich,” corporations, unions, high taxes, low taxes, and debating political philosophies, income and wealth inequality, and race and gender issues. If all or most of your guests are of the same political persuasion, there will be a lot of “hell yeah!,” high fives, and fist pumping. If the group is more mixed, you might end up with fist fights.

Fortunately, for us, there are people like John Tamny. John is the editor of RealClearMarkets and the political economy editor for Forbes magazine. He's written two books, *Popular Economics: What the Rolling Stones, Downton Abbey, and LeBron James Can Teach You about Economics* and, just recently, *Who Needs the Fed?: What Taylor Swift, Uber, and Robots Tell Us About Money, Credit, and Why We Should Abolish America's Central Bank*.

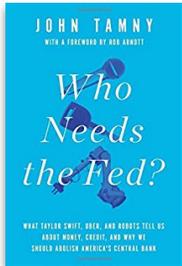
John is also a new client. What he likes about us is our focus and commitment to keeping successful investing relatively simple to understand and implement. What we like about him is his focus and commitment to making economics relatively simple to understand. Implementation of economic *policy*, fortunately or unfortunately, depending on who you ask, is in the hands of our politicians.

*Continued...*

One of John's mentors is Henry Hazlitt, the author of *Economics in One Lesson: The Shortest and Surest Way to Understand Basic Economics*. We share John's appreciation for Hazlitt and highly recommend all of the books I just mentioned.

In fact, this is our preferred method of discussing economics: letting someone else do it. Although you will no doubt detect a political leaning in John (he does, after all, work for Steve Forbes), the thing that attracted me to RealClearMarkets was the pro/con format of the articles he links to. And in his books he pretty much bashes both political parties equally.

## Hear John's views on the Federal Reserve



We are holding an event in our office on Pearl Harbor Day, December 7th, during which John will give a presentation and then answer questions on his views of The Federal Reserve and economics generally.

The topic of the Fed is particularly interesting to us because it's a great example of the "noise" we're all subjected to in the financial press every day. We know the market determines the general level of interest rates, not a small group of economic "experts" spread around the country in twelve regional Fed banks. So why all the attention on the Fed all the time?

There have been several great reviews of John's book, so I'm not inclined to provide another one here. Instead, here is a collection of quotes from others who have read *Who Needs the Fed?*

*John Tamny [is] a one-man antidote to economic obfuscation and mystification.*

—George Will

*It's not far into John Tamny's Who Needs the Fed? that you realize all of your preconceived notions about the Federal Reserve need to be tossed out the window and forgotten. Instead, markets rule over opaque Fed pronouncements and analysis of the scribbles in monthly Fed Minutes. All investors should read this book.*

—Andy Kessler, author of *Wall Street Meat* and *Eat People*

*Like a blazing sun melting away a dangerously thick fog, this delightfully written, well-argued, and insightful book clears away disastrous misconceptions about money, credit, and the operations of the Federal Reserve. It will become one*

*of the most enormously—and positively—influential treatises of our time.*

—Steve Forbes, Editor-in-Chief, Forbes Media

*In the best tradition of Henry Hazlitt and Robert Bartley, Tamny's book offers a provocative yet principled new look at the role of credit in today's economy. Properly equating "credit" with an economy's resources, Tamny systematically debunks the case for government or central bank efforts to increase credit.*

—David Resler, former chief economist, Nomura Securities

*John Tamny makes a strong case that the Fed never had as much influence as either its supporters hoped or its critics feared—and that what power it had in the past is today fast diminishing. In the process, he offers iconoclastic dismissals of popular macroeconomic constructs including money supply, the multiplier, the Phillips curve, the Laffer curve, banks, stimulus, and quantitative easing.*

—Cliff Asness, founding principal, AQR Capital Management

*John Tamny has written an easy-to-read and crucial-to-know overview of the Federal Reserve today, showing how the well-intentioned actions of central bankers in fact hurt our long-term economic potential. Who Needs the Fed? is an outstanding work of contrarian common sense—a must read.*

—Tom Adams, former CEO of Rosetta Stone

*"I don't agree with almost anything that John Tamny writes in Popular Economics."*

—Joshua Kim, PhD in demography and sociology from Brown University

Since the end of the global financial crisis, economic growth in the U.S. has been far below what one should expect after such a deep recession. Whether this trend continues, for how long, and with what effect on stock returns is anyone's guess. But one thing is clear: politics dominates virtually everything we read and hear—particularly in the area of economics. Through his books, John Tamny has offered perspectives that are worth thinking about, and they are generally politics-free. As direct beneficiaries of a vibrant, efficient, and relatively free private economy through our asset class investing approach, I encourage you to read John's perspectives with an open mind, while setting political partisanship aside.

This is certainly the spirit in which we present them.

\*Please see the [June](#) and [July](#) 2016 issues of *Asset Class*.

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