

THE RAND REPORT #222

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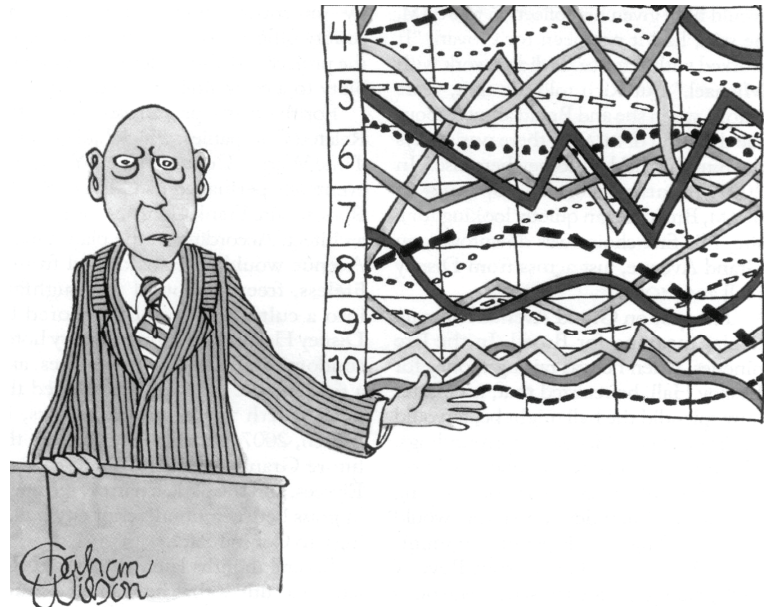
March 9, 2003, President George W. Bush: ***“American and coalition forces are in the early stages of military operations to disarm Iraq, to free its people and to defend the world from grave danger.”***

March 19, 2011, President Barack Hussein Obama: ***“Today, we are a part of a broad coalition. We are answering the calls of a threatened people. And we are acting in the interests of the United States and the world.”***

And now for a dose of reality: The global economy is emerging from a shocking first quarter, yet still on the path of a slow worldwide recovery. The growing momentum is in the US and Europe, which more than offsets the slowing in China, some other emerging-market economies, and Japan. The shock waves have been significant, and in my opinion, the most serious problems are here in our country where Democrats are demonizing Republicans for proposing small inadequate token budget cuts. Democrats seem to ignore the debt problem. Our national debt grows unfettered and now way over \$14 trillion. Democrats are using extortion and blackmail to not consider any real proposed tax cuts. Democrats will even allow the government to shut down so they can blame Republicans for not extending the government budget rather than Democrats even attempting to cut back deficit spending. The Democrats could have completed the budget a year ago when they were in complete power. Does any of this make sense?

Meanwhile while we dither over how fast we can bankrupt our country, war planes from NATO (including US planes and missiles) and Arab League countries are flying missions over Libya, and protests of varying strength are occurring across the Middle East and North African (MENA) region, toppling governments in Egypt and Tunisia and threatening governments on the doorstep of the key oil producer, Saudi Arabia. The price of oil has surged 40% above its mid-2010 level. The Japanese are still counting the tragic loss of human lives and the huge expected costs of reconstruction following a record earthquake and tsunami, while trying to resolve the dangerous situation in their damaged nuclear power plants. A destructive earthquake also hit New Zealand, while Australia had to cope with widespread flooding. I repeat, in spite of all of these natural disasters and Muslim up-risings, I still believe the biggest problem facing the world and all investors is Islam. If Islam did not exist today, there would be world peace. And I think George Soros is a serious problem, and ranks right up there with obesity. **Investors beware!**

We do anticipate that the earthquake, tsunami, and nuclear plant crisis in Japan, the third largest economy in the world, will have a negative effect on the global economy; but that effect will be short-lived, falling mainly in the second quarter. In the second half, reconstruction spending will take hold; and that, together with the resolute nature of the Japanese people, monetary and fiscal policies that are highly stimulative, and a weakening yen, should combine to put the Japanese economy back on a positive track. It should be kept in mind that the losses to capital stock that have occurred in Japan are not included in GDP statistics, but the outlays for reconstruction and higher government spending will be included. (1) I am bullish on the world economy and in spite of Obama, I believe the US will reverse the liberal socialistic deficit spending that accomplishes nothing. **Investors beware?** Yeah, I am cautious, but I am inundated with negative information and have a harder time assimilating everything. Accompanying the Internet news and the general media is more bias and propaganda. But, as I mention every month regarding investing, there are new investment contracts available. You can choose your sectors and international markets. Actually there are investment contracts that don't require prospectuses; they resemble giant certificates of deposits (CDs) that will advance you 15% of



“I'll pause for a moment so you can let this information sink in.”

your investment and grow your account 6% annually. You can take taxable income and have that income guaranteed for life at 5% or 6% annually depending on your age. And you can still leave the contract to your heirs. Remember, there is no such investment that guarantees high rates of return and at the same time, liquidity. Yet, there are so many good deals that do not involve the stock market. Many investors feel the market has recovered to the point where caution is in order and these new investment contracts with large insurance companies that are not securities are a safer haven. I can't predict the future, but I'd sure investigate these new investment contracts.

With all the new insured investment contracts there is no excuse for owning a retirement plan that does not guarantee lifetime income regardless of stock market performance. Investor, investigate!

Europe should be a positive contributor to the global economy this year. While the region's sovereign debt problems in the weaker members of the Eurozone have not been eliminated, important steps have been taken with agreement on a new permanent crisis-resolution mechanism, the European Stability Mechanism (ESM), to start in 2013. In the meantime the European Financial Stability Facility (EFSF) has had its effective lending capacity increased from 250 billion to 440 billion euros. There has also been agreement on reforms designed to strengthen fiscal discipline within the Eurozone and the competitiveness of its members. The weaker member countries (Greece, Ireland, and Portugal) still face years of painful austerity and financial challenges, but the risks of contagion to the larger economies of Spain and Italy appear to have been substantially reduced. (1)

European countries have commenced new programs to offset multiculturalism.

There is a concerted effort to deal with Muslim enclaves in Germany, France and the UK, which never assimilated, rather have formed ghettos and appear to challenge the local governments for excessive rights that might be considered treasonous or revolutionary. It appears that Muslims want to overthrow the democracies and impose Sharia law. There does not seem to be enough concern and certainly the news media still promotes Islam as just another religion that has the freedom to practice their religion even if it offends all others. I am surprised that free world women's movements are not reacting more to Islam's enslavement and brutalities to women.

Germany has been leading the economic recovery in Europe, and its equity market

as measured by the MSCI Germany Index is up 5.75%, outperforming the EAFE's advance, noted above. The equity markets of France (+9.72%), Netherlands (+9.79%), Italy (+14.25%), and Spain (+15.38), as measured by their respective MSCI Indices, have all significantly outperformed thus far this year. Outside the Eurozone the performance of the other major European economies has been weaker – UK (+3.95%), Switzerland (+1.80%), and Sweden (+3.69%). (1). These numbers are not comparable to the USA because while our economy is larger than all of Europe combined, our smaller 3% average annual growth numbers are for an economy considerably larger than Europe. Then notice the US stock market, which grows with the understanding that the US is exceptional and righteous. **US investors are investing in a future without Obama.** Too many countries have little to export and are called “third world” until they develop products. Free enterprise is a positive sum game. The act of buying and selling benefits both buyer and seller, otherwise they wouldn't trade with each other. Unfortunately, this simple fact of economic life is misunderstood by liberal economists who cling to the discredited notion that one person gains in business at the expense of someone else. **Money earned is certification of performance. Mankind earns wages or profits when the goods or services he provides is valued more than the cost.**

Investors are certainly aware of that. If only Democrats could understand economics. They have made their ideology a religion and refuse to acknowledge any contrary facts or historical events. Remember, consumer spending drives seventy percent of our US economy, and 70% of new jobs are created by new businesses. Forty million new jobs were created between 1980 and 2005 by businesses having been in business less than 5 years. **What a strange economy we have (spectacular capitalism) when 1% of American taxpayers pay more than half of all Federal tax revenues, more than the bottom 5% pay combined, while half of Americans pay no taxes at all.** Is the solution to increase taxes on the 1% or cause the 99% to earn more income? (Jobs, jobs, jobs!)

“Too often the intellectual classes are second hand dealers in ideas. These second hand dealers include journalists, public school teachers, ministers, priests, radio and television personalities, novelists, cartoonists, artists, columnists, editors, and many others. These people decide what opinions about capitalism reach the public, which ones are to be presented, which ones are important, and how they are to be presented.” (2)

“Schools need to teach students how to think, not what to think.” (3)

“The biggest problem with President Obama isn't his insistent partisanship; it's his reliance on advice from people who don't understand the real world that you and I live in. Obama has overloaded his administration with policy wonks and Ivy League professors because he speaks their language. Virtually no one on his team has had experience running anything; they probably couldn't even run a lemonade stand. Their abstract theories, airy platitudes, and unrealistic promises may sound good on paper or in a debate, but in reality, these politicians are just trying to cover up their own ignorance.” (3)

The biggest risk that concerns we investors most is the evolving situation in the Mid-East region (Islam) and its effect on global energy markets. The US economy and global economy should be able to remain on their recovery tracks with an oil price in the current \$100 to \$110 per barrel range, or \$4 per gallon gas. But should events in the Mid-East region lead to a major oil supply shock, sending the price of oil up to \$150 or higher, the negative economic effects would likely be severe. The other risk that concerns us is that monetary authorities outside the US might tighten credit conditions earlier than warranted by inflation risks and slow their economies prematurely. (1)

“People want their trash picked up on time, smooth roads and safe streets, good schools, a fire truck to show up promptly when needed, and secure borders to keep bad people from getting in and disturbing our peace (selling illegal drugs). People want veterans to be cared for, sick people, children, and elderly to be treated decently and laws to be enforced. That's about it. We don't need a “super nanny” telling them what to wear, what to eat, and how many hours of sleep we need. People don't want to work hard and then get penalized for their productivity so that the government can reward slackers and the failures. Americans simply don't buy into the socialist nonsense that has become all too pervasive in our culture of political correctness.” (3)

If you investors have fears about State unions taking control or influencing your investments, you are correct. Why do you suppose so many States like California, Wisconsin and New York, to name but a few, are going bankrupt? Actually all States run by Democrats are in trouble. In 1960 there were 15 million workers in the USA working in manufacturing jobs and 8.7 million collecting wages from State and Federal governments. Today, there are 22.5 million government workers and only 11.5 million in manufacturing jobs. The State workers are unionized and have extorted higher wages and more benefits than the average wage earner in the private sector. Today Democrats have labeled union workers as the “middle class,” and all attempts to get them to lower their demands is a propaganda tool as opposing the entire middle class. (4)

What do you think happened to the middle class jobs, the majority of the middle class that decreased? The machine operating jobs went overseas, but our manufacturing jobs were replaced by modern technology jobs that pay higher wages. The development and marketing of computers, software, and cell phone business comes to mind. I once heard an economist asked why it was such a big loss to Americans to have these low paying jobs shipped overseas. The answer was, “how many of you want to send your kids to college so they can get a job stamping out underwear at some machine?” The point being is that we seek more intellectual jobs with a promising future. So what if the new job market in the USA is less labor intensive. And the government collects \$billions from the new industries. Do you know how many new jobs were created by the evolution of technology? It is not so measurable or prevalent because it is an affront to socialists and liberals. People who do not develop their skills are making demands against the more successful people to share the wealth. When this happens, the successful people lose their incentives. We become stagnant. Our country is the greatest because of free enterprise and the freedom to apply yourself, to excel, to work hard and gain the benefits for hard work and for creating technology.

Today, nearly half of the expense of running the government, about \$2.2 Trillion annually, of that amount, a goodly sum of \$1 Trillion pays government wages and better benefits for government employees. For example, West Virginia is the mining capital of the world. West Virginia has three times more government employees than miners. New York is the financial capital of the world. That sector employs 670,000 workers, while the State has 1.48 million government employees. Where do you think the money comes from to pay all these government employees? It is borrowed by the State and taxed to the 670,000 private investment workers. Does this seem fair? Yet the Democrats demonize and abuse the private sector workers as if they are causing the problems by opposing government spending. The same goes for my home state, Wisconsin. Wisconsin has a hard working middle class supporting government union demands that create deficits. **“Don't tax me, I won't tax thee, let's tax that person behind the tree.”** (An old quote from 1790) The Government workers insist the spending cuts are necessary, but not at the unions expense. Everybody must pay the debts but not the unions?

“In government employment, tenure for teachers and near lifetime employment for other civil servants shields workers from this basic system of reward and punishment. It is a system that breeds mediocrity, which is what we have gotten.” (4)

“President Obama says we have to tool our economy to win the future. The only way to do that is to grow the economy that makes things, not the sector that takes things!” (4)

Please allow me a moment to refresh your memory. Example 1. September 7th, 2008. I quote Obama when asked about his putting his hand over his heart during the National Anthem: **“As I have said about the flag thing. I don't want to be perceived as taking sides. There are a lot of people in the world to whom the American flag is a symbol of oppression. The Anthem itself conveys a warlike message, you know, the bombs bursting in air and all that sort of thing.”**

Think about what we did know and did not know about Obama when he ran for President. He was supported big time by a liberal news media that simply wanted a black man to be President. Obama had no previous executive experience, no military leadership, and certainly no business experience. He was primarily raised and influenced by liberal professors, communists, socialists and racists; and little was said about that. In the news media. Obama has spent more deficit spending in a few years than our first 40 Presidents combined. He spent 20 years listening to a hateful preacher (“God damn America”) Wright. The liberal media asked no questions about Obama's passport when he illegally went to Pakistan. Other Presidents revealed their college grades and courses and important writings...not Obama. Why doesn't Obama settle the birth certificate controversy by simply disclosing a copy? Why is his birth information sealed and not for public disclosure? Why isn't the news media chasing this subject that should be controversial. Why can't Obama make a foreign affairs decision? Why does he grant so many wonderful benefits to all of us yet there is no follow up reporting as to results? I remember when one of my investors came to me and invested in a large cement company that Obama promised highway paving contracts using stimulus money. The company never got the money and went bankrupt laying off thousands of workers. There was no news coverage regarding the non-delivery of the benefits. Why? Because the news media is biased and tend to be socialists because that benevolent wonderful goodness has such a nice ring to it. Obama says wonderful things, but there is no action. It makes Democrats feel so good to give money to the less successful. They are so wonderful, aren't they? God forbid they would have to work to earn the money they spend. **Investors beware? Unfortunately, yes. We must band together to save our economy, our country and our retirement plans.**

Footnotes: (1) these world statistics are provided by Bill Witherell, Chief Global Economist at Cumberland Advisors, 3-29-2011. (2) “How Capitalism Saved America,” Thomas J. DiLorenzo. (3) “A Simple Government,” Mike Huckabee. (4) “We've Become a Nation of Takers, not Makers,” WSJ 4-1-11.