

## >: The Million Dollar Article...

Tuesday, December 18, 2007 / Jason Jovine

If last week taught you or reinforced anything in your mind, it should have been that:

- 1) The risk from your not being invested in the stock market is greater than your risk from being invested in the stock market.
- 2) You must act now and get serious.
- 3) You must be in the market - no ifs, ands or buts!

Why do I say this? Let me explain...

### INFLATION!

Last week, folks, the CPI (Consumer Price Index) was released for November, and prices jumped 4.3% from a year earlier, the highest jump since 2006. The historical arithmetic average for inflation from 1926 until today has been over 3%.

What this means in layman's terms is that one dollar today will get you approximately what ten cents would get you in 1926. Do you remember when your father or grandfather used to tell you that a dollar isn't what it used to be? He was talking about inflation.

Now, last time I checked, here is what a bank is paying you in some basic "Average Joe" accounts (this is courtesy of [www.bankrate.com](http://www.bankrate.com)):



National Checking & Savings Rates			
Select a product to compare rates: MMA/Savings <input type="button" value="GO"/>			
NATIONAL OVERNIGHT AVERAGES	TODAY	+-	LAST WEEK
<a href="#">Interest checking</a>	2.22%	▼	2.24%
<a href="#">MMA</a>	3.45%	▼	3.49%
<a href="#">\$10K MMA</a>	3.72%	▼	3.77%
<a href="#">IRA MMA</a>	3.54%	—	3.54%
<a href="#">\$10K IRA MMA</a>	3.68%	—	3.68%

About this index Rates may include points

Now, as you can see, the banks are paying you, on average, a little over 3% on all of these types of accounts. The bottom line is that you are effectively breaking even by keeping your money in a bank, and it is likely to get even worse.

### Why?

Because we are in a global economy, folks, and as countries such as China and India continue to develop, and many millions of their people join the middle class, they will want middle class things. They will want foods like meat and milk over rice alone. They will want nice cars that require oil. Just to name a few.

Remember that China has about 1.3 billion people, and India has over 1 billion. Those two countries alone account for about a third of the entire world's population. Since it is the holiday season, look at where the toys that you are buying for your children are made, and chances are, it will say China.

We have outsourced roughly all of our manufacturing to this part of the world, and we are primarily a service economy now.

Inflation was kept at bay for a very long time in the 1990s and the first several years of this decade, as well. It was kept at bay because the labor there was very cheap, and the people were very poor. Our corporations were able to produce goods there for a fraction of the cost that it would cost them to pay Americans here.

They passed some of these savings on to the American people, but, in my opinion, much of it went into the pockets of many a greedy executive.

Now things are changing. The people in these countries are starting to demand higher salaries for their work. They are entering the middle class, and the bottom line is now they are competing for goods and services with everyone else. (Americans are no exception.)

This results in inflation. It is simple supply and demand. The demand for goods is far outstripping the supply, and it is likely to continue.

You must, I repeat, must be invested in the market as a hedge, at the very least. Because while these countries send the prices of the goods higher, our corporations will sell our goods to them which they will buy (comparative advantage), and this will come back as profits and dividends to the owners of these corporations; hence, their stock prices should appreciate.

Trade is good; unfettered trade is not.

(D), is the stronger of the two and has an absolute advantage over the other person that he is stuck on the island with. Call the other guy Clay (C).

Say that Dick can chop down 10 trees an hour and capture 5 lobsters per hour. Say Clay can chop down 5 trees per hour and capture 5 lobsters per hour.

Of course, each person must choose one activity or the other at any given time. In other words, if Dick chops down 10 trees in an hour, he can't collect lobsters and vice versa, etc.

Now, would it make sense for Dick to be a loner and go to his own side of the island and for Clay to do the same? Or would it make sense for them to trade with one another?

**Here is what would happen in the space of two hours if they did not trade with one another:**

	A	B	C
1	Production before trade		
2		Trees	Lobsters
3	Clay	5	5
4	Dick	10	5
5	Total	15	10

As you can see, the total production of trees is 15, and the total production of lobsters is 10.

**Now let's see what happens when they trade with one another (e.g. comparative advantage):**

9	Production after trade		
10		Trees	Lobsters
11	Clay	0	10
12	Dick	20	0
13	Total	20	10

As you can see, they are both better off. They are now producing 20 trees and 10 lobsters. When they each focus on what they are better at doing, or when at least one focuses on what he is better off doing, they are both, as a whole, better off.

Of course, the assumption here is that they don't absolutely despise each other. If they did, then they may not care about the increase in goods because it bothers them to deal with the other person so much.

Now the aforementioned example is just a basic one. It lets you know that holding all other factors, or, as they say in Latin, "ceteris paribus", trade is good for all parties involved.

Trade is good with the exceptions of certain externalities that this increased economic activity brings about such as pollution, global warming, and what will certainly be inevitable conflicts over the world's scarce resources. The conflicts in the Middle East are just the beginning.

### **The stock market?**

The stock market as represented by the S&P has averaged approximately 12% per year. This means that, *ceteris paribus*, if you invest, for example, \$100,000 to **the market**, it should be worth almost \$1,000,000 in about twenty years. This is if you just passively invest your money in **the market**.

If you want better returns than 12%, then you must get committed and motivated to do so. You cannot make excuses like, "Learning about the market is too difficult", or "It is too time consuming."

Don't be your own worst enemy...

**Until the next time, folks, spend your hard-earned money wisely.**



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